Solvency and financial condition report 2018

The Standard Life Assurance Company 2006

Standard Life Aberdeen

This Solvency and financial condition report is available on our website **www.standardlifeaberdeen.com/sfcr**

The Standard Life Aberdeen plc group Annual report and accounts 2018 is also available on our website **www.standardlifeaberdeen.com/annualreport**

This document may contain certain 'forward-looking statements' with respect to the Company's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. For example, statements containing words such as 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'pursues', 'seeks', 'targets' and 'anticipates', and words of similar meaning, may be forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they are based on information available at the time they are made, including current expectations and assumptions, and relate to future events and circumstances which may be or are beyond the Company's control, including among other things: UK domestic and global political, economic and business conditions (such as the UK's exit from the EU); market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the impact of inflation and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the impact of competition; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; default by counterparties; information technology or data security breaches; natural or man-made catastrophic events; the failure to attract or retain necessary key personnel; the policies and actions of regulatory authorities; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which the Company and its affiliates operate as well as other factors described in the Risk management section of this report. These may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, the Company's actual future financial condition, performance and results may differ materially from the plans, goals, strategy and expectations set forth in the forward-looking statements. Persons receiving this document should not place undue reliance on forward-looking statements and the Company accepts no liability for any losses suffered by persons utilising and relying upon the information contained herein. The Company undertakes no obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make. Past performance is not an indicator of future results and the results of the Company in this document may not be indicative of, and are not an estimate, forecast or projection of the Company's future results.

Summary

This document sets out a Solvency and financial condition report for The Standard Life Assurance Company 2006 (SLAC 2006 or the Company) for 2018 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 SLAC 2006 as at 31 December 2018.

In 2016, the Solvency II regulatory regime came into force for insurers across the European Union (EU). Under Solvency II, every insurer is required to identify its key risks – 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’, 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’.

The main purpose of holding capital is to provide security to policyholders and other customers. The Board considers that the Company is strongly capitalised under Solvency II, as own funds are significantly 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 the Company 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 our policyholder, which is Standard Life Aberdeen plc (SLA plc), and the Prudential Regulation Authority (PRA). The Company adopts the capital management policies and risk objectives of the Group (Standard Life Aberdeen Group).

The primary capital management objective of the Company is to provide security to the policyholder, SLA plc.

SLAC 2006 is a relatively small entity within the Group and is exposed to a limited range of risks.

b) Regulatory capital

The Company’s capital position under Solvency II is determined by aggregating the assets and liabilities of the Company recognised and measured on a Solvency II basis and comparing this to the Company’s Solvency II SCR to determine surplus capital.

The Company’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 (MCR). The MCR represents an absolute floor to the level of eligible own funds that the insurance undertaking is required to hold under Solvency II. The MCR for SLAC 2006 is based on the minimum amount of €3.7m.

The calculation of the Company’s SCR has changed from an internal model to a standard formula basis during 2018, following the sale of Standard Life Assurance Limited by Standard Life Aberdeen plc to Phoenix Group Holdings (Phoenix) (‘the Sale’) on 31 August 2018. The Sale did not include the disposal of SLAC 2006. This methodology change has been approved by the PRA. The impact of this change is not material (estimated impact of moving to standard formula is an increase in SCR of c£30k). This is covered in more detail in Section E.

c) Capital surplus

The capital surplus is the amount of capital resources (referred to as own funds) that the Company holds in excess of its capital requirement.

The Company is well capitalised under Solvency II with eligible own funds of £4,565k (2017: £5,012k) and an SCR of £158k (2017: £72k) representing solvency cover of 2,891% (2017: 6,977%).

The Company’s MCR, based on the minimum amount applicable to EEA-based insurance undertakings is £3,288k (2017: £3,251k) representing cover of 139% (2017: 154%). Eligible own funds to meet MCR are £4,565k (2017: £5,012k) and are Tier 1 unrestricted. The Company has no own fund items subjection to transitional arrangements.

d) Format of the report and material changes

This report is prepared following the structure and headings set out in the Solvency II regulations. A brief outline of each section and details of any material changes in the year to 31 December 2018 are given below. None of these sections are audited.

Section A Business and performance – this section gives details on how the Company's performance is reported and managed, including details of current year performance. There have been no material changes in the year.

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. The roles of Chief Actuary and With-profits Actuary have been outsourced to Barnett Waddingham LLP during 2018, following the Sale.

Section C Risk profile – this section sets out the material risks to which SLAC 2006 is exposed and the techniques used to monitor and manage them. There have been no material changes.

Section D Valuation for solvency purposes – provides information on the valuation of assets and liabilities for the Company's Solvency II balance sheet, with particular focus on how technical provisions are valued. There have been no material changes.

Section E Capital management – this section gives details on SLAC 2006's approach to Capital Management, the composition of Solvency II capital and details of the SCR and MCR. The PRA approved the Company's application to revert from internal model to standard formula to calculate the SCR (effective from 5th November 2018), following the Sale. However, this model change does not materially impact capital requirements.

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

This SFCR (including the QRTs in Appendix 1) is not subject to external audit. This audit exemption was introduced by PRA Policy Statement PS25/18 from 15 November 2018, and is applicable to certain small Solvency II firms which meet the specified requirements. The Company meets these specified requirements.

All information provided in this document relates to the position at 31 December 2018, unless otherwise stated. The directors plan, in the near future, to take the necessary steps to allow an application to the Financial Conduct Authority / Prudential Regulation Authority for de-authorisation of the company to be made.

A. Business and performance

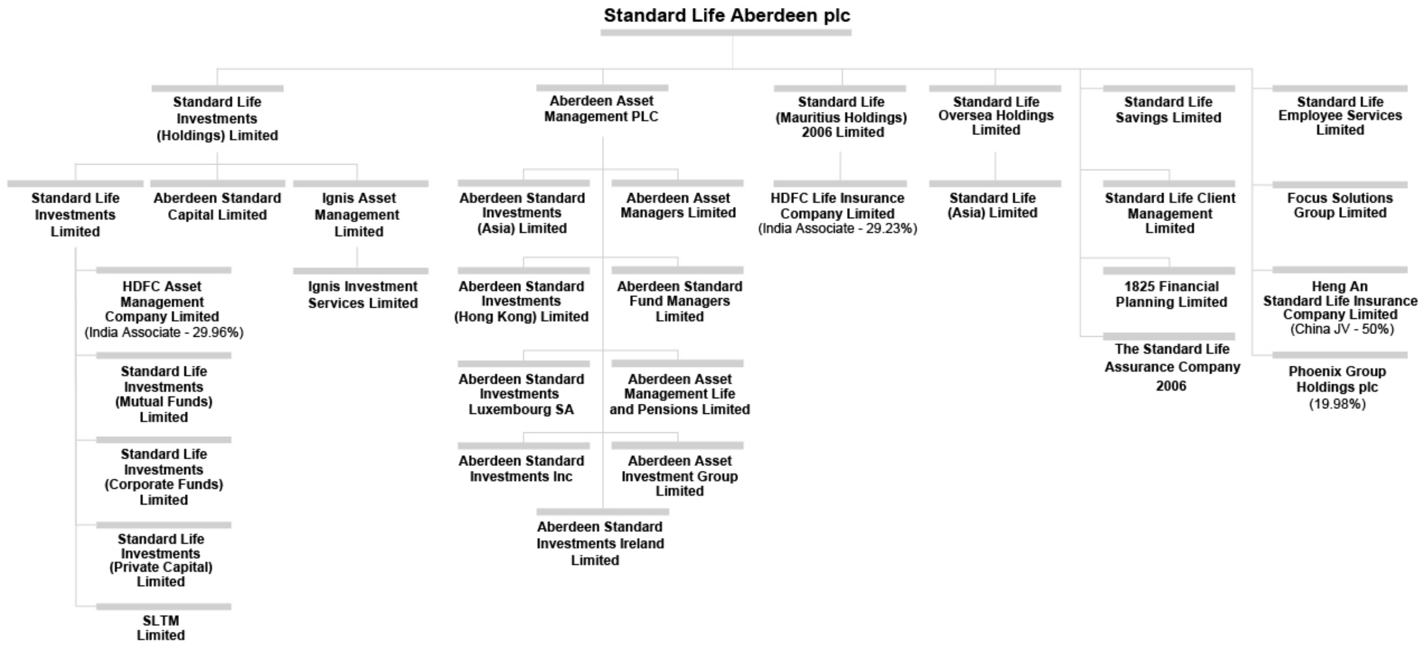
A.1 Business

The Company is registered in Scotland (Registered number: SZ000004) and subject to UK legislation (e.g. the Companies Act 2006). As a provider of financial services, SLAC 2006 is regulated by the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), and is authorised by the PRA.

The Company writes long-term insurance business. The only contract remaining in the Company is a with-profits Capital Redemption Policy ('sole member policy').

The Company's parent, controlling party and sole policyholder is Standard Life Aberdeen plc, which is registered in Scotland (SC286832) and is listed on the London Stock Exchange.

See below for a summary of the Company's position within the legal structure of the Group ('the Group' hereafter refers to Standard Life Aberdeen plc and its subsidiaries):



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

The Company's external auditor is KPMG LLP, 20 Castle Terrace, Edinburgh EH1 2EG. KPMG was appointed on 29 March 2018 for the year ended 31 December 2018. KPMG was also the external auditor for the year ended 31 December 2017.

A.1.1 Significant business events

On 31 August 2018, the Group sold the majority of the business within the Standard Life Pensions and Savings reportable segment to Phoenix Group Holdings (Phoenix) (the Sale), following shareholder, regulatory and other necessary approvals. The Sale did not include the disposal of SLAC 2006. However, the Sale did require the termination of SLAC 2006's previous sole member policy (whose policyholder Standard Life Assurance Limited (SLAL) was transferred to Phoenix as part of the Sale), and the issue of a new sole member policy to Standard Life Aberdeen plc, the parent company of SLAC 2006. The policy terms remained materially unchanged. As a result of the Sale, SLAL also assigned rights to receive the residual assets of the Company to SLA plc.

The Sale also resulted in SLAC 2006 reverting from internal model to standard formula for the calculation of its Solvency II regulatory capital requirements. The impact of this change is not material (estimated impact of moving to Standard Formula is an increase in SCR of c£30k). This is covered in more detail in Section E.

Finally, the Sale has resulted in some organisational changes, with the Chief Actuary and With-Profit Actuary functions (which were previously carried out within SLAL) now outsourced to Barnett Waddingham LLP ('Barnett Waddingham' or 'BW'). The Sale also resulted in an increase in technical provisions (i.e. best estimate liabilities) and capital requirements due to higher assumed future expenses. However, these increases are not material in size.

A.1.2 Material lines of business

On a Solvency II line of business basis, as set out in the Delegated Acts, all the business written by the Company is categorised as Other life insurance.

A.1.3 Material geographical areas

The Company operates within the UK.

A.2 Underwriting performance

The Company's underwriting performance in 2018 was £nil (2017: nil).

Appendix 1 sets out the Company's QRT S.05.01.02 Premiums, claims and expenses by line of business. The following table shows the Company's underwriting performance:

	2018 £'000s	2017 £'000s
Net earned premium	1	–
Net insurance benefits and claims	(1)	–
Underwriting performance	–	–
Net investment return	26	16
Profit before tax	26	16

A.3 Investment performance

The Company uses investment return as a measure of investment performance.

The following table shows the Company's investment return by asset class, including income and expense components:

	2018 £'000s	2017 £'000s
Dividend income	26	16
Total net Investment return	26	16

Investment return relates to dividend income received from holding in the Aberdeen Standard liquidity fund – Seabury Sterling Liquidity 2 Fund, a short-term money market fund. No gains or losses have been recognised directly in equity.

The Company has no investments in securitisations.

A.4 Performance of other activities

The tax expense for the year ended 31 December 2018 was £5k (2017: £3k).

The Company has no material leasing arrangements.

A.5 Any other information

None

B. System of governance

B.1 General Information on the system of governance

B.1.1 Overview

Standard Life Aberdeen'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 business. It includes the methods and processes we use to manage risks consistently across Standard Life Aberdeen. 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.

The Standard Life Assurance Company 2006 (SLAC 2006 or the Company) is a wholly owned subsidiary of SLA plc and as such it adopts the Group System of Governance.

B.1.2 Governance framework

The Company is an insurance entity and holds the assets remaining after demutualisation in 2006. The Company is operated in accordance with its Board Charter.

The Company's risks are managed in accordance with the Group's ERM framework; details of the framework can be found in Section B.3.1.

The function of the SLAC 2006 Board

The role of the SLAC 2006 Board is to organise and direct the affairs of the Company in a manner that seeks to maximise the value of the Company for the benefit of its Members as a whole, while complying with relevant regulatory requirements, the constitution, and relevant corporate governance standards.

The SLAC 2006 Board takes collective responsibility for:

- Determining, within the constraints imposed by the Group Holding Company, SLAC 2006's objectives and strategy
- Ensuring, within the constraints imposed by the Group Holding Company, the necessary financial and human resources are in place to allow SLAC 2006 to achieve its objectives
- Ensuring, within the constraints imposed by the Group Holding Company, that the necessary corporate and management structures are in place to allow SLAC 2006 to achieve its objectives
- Establishing and maintaining a framework of internal controls that enable the strategic financial and operational risks of SLAC 2006 to be assessed and monitored
- Monitoring progress towards the achievement of objectives and compliance with approved plans and policies
- Reporting to relevant stakeholders
- Appointing Board Committees to meet SLAC 2006's requirements and relevant corporate governance standards; and
- Delegating clearly defined responsibilities and authorities to the Chief Executive and Board committees and otherwise as the Board may determine from time to time

The SLAC 2006 Board has not established any permanent Board committees.

The Remuneration, Nomination, Governance, Risk and Audit Committees of the Group Holding Company have oversight of the Company.

Code of Business Conduct

Good governance within the Company is predicated on the ethical behaviour of the organisation's staff. In recognition of this, the Standard Life Aberdeen 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 Aberdeen's people and other stakeholders. The code is aligned to the Group's values and is refreshed and approved by the Standard Life Aberdeen plc Board on a regular basis.

Prudent Person Principle

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

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

- Market Risk Management policy
- Credit Risk Management policy
- Demographic and Expense Risk Management policy
- Liquidity and Capital Management policy

Business policy compliance reporting on our internal risk management system, called ORAC, demonstrates whether business units have been compliant with the relevant policy standards and, as a consequence, with the requirements of the Prudent Person Principle.

Further details on Prudent Person Principle compliance can be found in Section C.7.2 of this report.

Senior Managers and Certification Regime (SMCR)

On 10 December 2018 the SMCR was extended to Insurers and replaces the Senior Insurance Managers Regime (SIMR) and approved persons regime.

The SMCR consists of 3 parts:

- The Senior Managers Regime (SMR), which focuses on individuals who hold key roles or have overall responsibilities for whole areas of relevant firms
- The Certification Regime, which applies to other staff who could pose a risk of significant harm to the firm or any of its customers
- The Conduct Rules, which are high level requirements that hold individuals to account

SLAC 2006 has implemented SMCR and identified additional individuals who fall into the Certification Regime.

Group Supervision

A waiver was received from the PRA on 3rd September 2018 which allows SLAC 2006 to modify the financial conglomerate assessment to include off-balance sheet assets in respect of other group entities, when assessing group supervision arrangements. Given the predominance of asset management activity in the Group following the sale of the insurance business to Phoenix, the Group now falls under the remit of the Capital Requirements Directive IV (CRD IV), not Solvency II, for group supervision.

Remuneration

The SLA Group has an overarching Remuneration Policy that applies to all entities in the SLA Group. The SLA Group considers that the Remuneration Policy:

- Is consistent with Article 275 of the Delegated Regulation
- Is consistent with, and promotes sound and effective risk management
- Does not encourage risk-taking which is inconsistent with the risk profiles or the instruments constituting the internal linked funds
- Does not impair compliance with its duty to act in the best interests of each of the internal linked funds and its shareholder
- Recognises that different remuneration requirements may be applied within the SLA Group and achieves a high degree of consistency between different regimes and allows for day to day arrangements to be controlled at a group level

The Board delegates decision making for remuneration matters to the Group Remuneration Committee in accordance with Group Governance arrangements. The Chair of the Group Remuneration Committee holds the Senior Management Function Chair of the Remuneration Committee (SMF7) for the Company.

The Group's overarching principles and practice for remuneration is detailed in the Remuneration disclosure:
www.standardlifeaberdeen.com/who-we-are/remuneration-disclosure

B.1.3 Overview of organisational and operational structure

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

Each business within the Group 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 Aberdeen's governance functions include Internal Audit, Risk and Compliance, and Actuarial, with responsibility for monitoring, reviewing, challenging and reporting on the status of the Company's risks on an ongoing basis. Fit and proper checks are carried out on applicable staff from key functions to ensure that they possess the competency, expertise and integrity necessary for the performance of their duties. It should be noted that the Company's Actuarial function is outsourced to Barnett Waddingham.

Details of the Risk and Compliance function can be found in Section B.4.2, details of the Internal Audit function can be found in Section B.5 and details of the Company's Actuarial function can be found in Section B.6.

Three lines of defence

The Company operates a 'three lines of defence' model in the management of risk so that there are clearly defined roles and responsibilities within our ERM framework:

First line	Second line	Third line
Day-to-day risk management, including identification and mitigation of risks and maintaining appropriate controls, is delegated from the Board to the Chief Executive.	Risk oversight is provided by the Chief Risk Officer. The Risk and Compliance function is organised so that there is a consistent view across all of our principal risks, especially conduct, regulatory and strategic risks working closely with the first and third lines of defence.	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 Aberdeen carries out initial 'fit and proper' checks before appointing new Directors (including non-executive Directors), Executives, Heads of Function or other SMCR role and Key Function Holders (KFHs) (who are certified under SMCR). These individuals are subject to fit and proper checks requiring them to meet the standards expected of a 'fit and proper' person. This includes proving and maintaining certain standards of:

- Honesty, integrity and reputation
- Competence and capability
- Financial soundness

An assessment is carried out on initial appointment and then repeated annually to ensure they continue to meet the fitness and propriety standards.

This assessment:

- Reviews competence, capability and experience to carry out the documented responsibilities of the role effectively
- Ensures the KFHs have the relevant qualifications to perform the role
- Ensures training to perform the function is undertaken
- Checks current behaviour and past business conduct meets the required standard
- Considers whether the KFHs have the appropriate personal characteristics to meet their responsibilities

B.3 Risk management system

Standard Life Aberdeen's risk management system includes the ERM framework. The Company has adopted the ERM framework and an Own Risk and Solvency Assessment (ORSA) is produced annually for SLAC 2006.

B.3.1 Enterprise Risk Management framework

As part of our corporate transformation, we have taken the opportunity to refresh our ERM framework. This also ensures that we continue to raise standards in risk management as we build a world-class investment company. Specifically, we have made changes across all the key building blocks of our framework so that they better support the management of risk in our transformed business.

The ERM framework ensures that risk is assessed, monitored, controlled and appropriately governed based on a common taxonomy and methodology. The major components of the ERM framework can be grouped into four areas related to how we govern, assess, monitor and control risks. Most risks arise in the business (first line); that is where they should be managed. The second line oversees business risk assessments and provides advice and challenge where necessary.

- **Risk governance:** Our governance drives how we make decisions on current and future risks drawing on our assessment, monitoring and control processes. We seek to ensure that risk decisions are taken at the right level. Most risk decisions are taken in our business units but certain decisions will be taken in senior executive committees or at Board level.
- **Risk assessment:** All three lines of defence have their own processes for assessing risk thoroughly in line with their respective roles. There are well developed processes for coordinating viewpoints, challenging specific assessments and escalating points of difference that might warrant action.
- **Risk monitoring:** The ongoing monitoring of risks and the performance of key controls is a critical activity to allow us to keep track of developments, drive action and ensure appropriate capital allocation
- **Risk control:** We operate processes so that risk is mitigated using controls with clearly identified control-owners. The effectiveness of controls is reviewed on a regular basis.

B.3.2 Own Risk and Solvency Assessment

The ORSA is a set of processes that underpin the ERM framework for the Company. The purpose of the ORSA is to inform and develop:

- Our understanding of the current and potential risks to the business over the product lifecycles. This includes both financial and non-financial risks including environmental, social and governance risks and their potential to affect both the long-term and short-term value of the business
- Our appetite for these risks and how we manage them
- Our own assessment of current solvency and capital requirements with respect to the risks
- A forward-looking assessment of the risk and solvency needs of the Company over a multi-year time horizon in light of the business plans
- The ORSA plays a key role in supporting decision making and strategy development at our boards and risk committees.

The SLAC 2006 ORSA makes proportionate use of the processes that exist within the Group ERM framework and it is how we identify, assess, control and monitor risks that inform our capital modelling.

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.

The key processes in the ERM framework are as follows:

- The strategy, capital and business planning process
- Business risk reviews
- The emerging risk process
- Validation processes for internal risk models
- The customer proposition development process
- Stress and scenario programme
- Reverse stress testing
- The liquidity risk management process
- The identification of risk to inform our capital modelling
- 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 or in the event that the ORSA triggers are met for example; material change in risk appetites or a material change to risk exposures.

Solvency needs are determined based on an understanding of the quantifiable and non-quantifiable risk profile and how this is managed. The ERM framework covers both quantifiable and non-quantifiable risks. A risk is quantifiable where measurable and objective data exists. The standard formula calculation is deemed to capture all material quantifiable risks for which it is appropriate to hold capital such that the standard formula SCR materially reflects the risk profile of the business.

The risk management system interacts with our capital management activities by ensuring that well informed risk-reward decisions are taken in pursuit of our business plan objectives, allowing capital to be delivered to areas where most value can be created from the risks taken. Our consistent application of effective and pre-emptive risk management across our business protects our short-term value while encouraging the development of long-term value. Oversight of risk within the business is delivered through the ORSA processes.

B.4 Internal control system

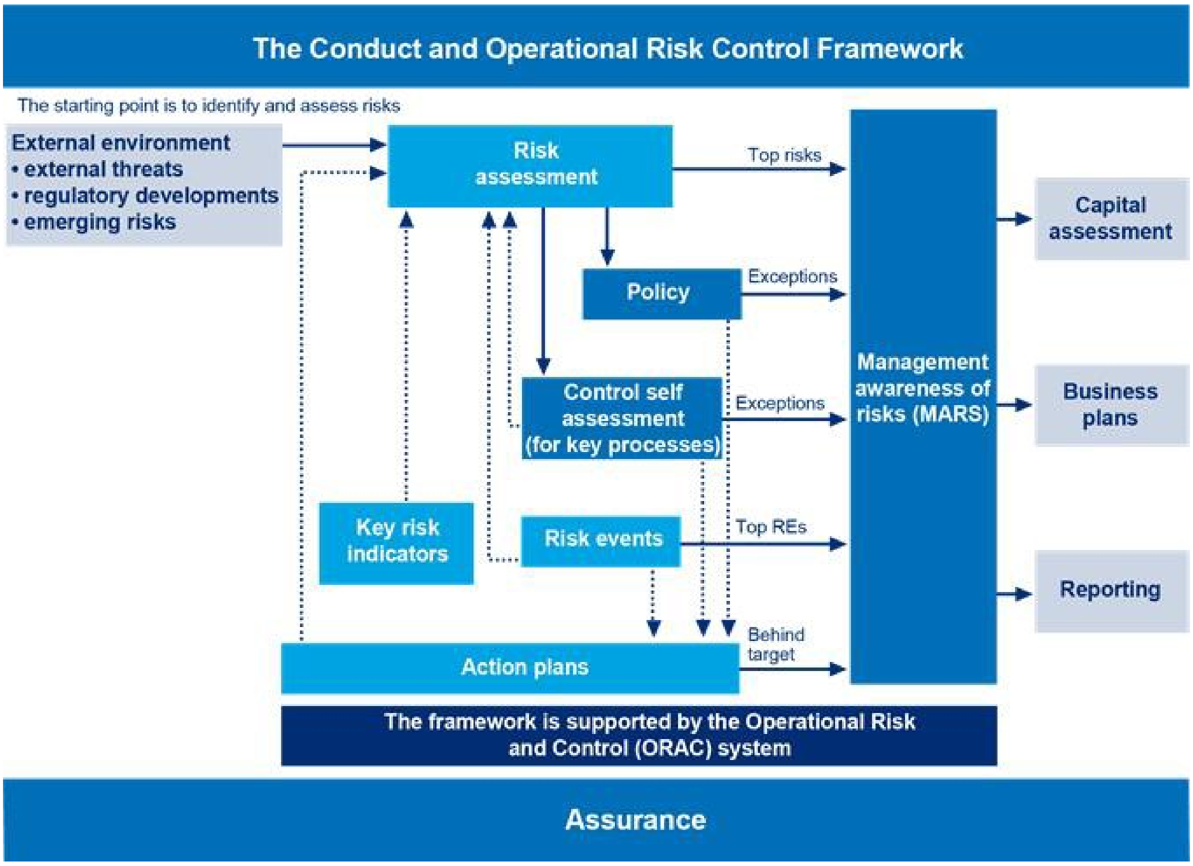
Our internal control system contains a range of processes which are captured under our Conduct and Operational Risk framework. We position the Conduct and Operational Risk framework under the risk control process element of the ERM framework.

B.4.1 Conduct and Operational Risk Framework

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

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

The diagram below explains how the Conduct and Operational Risk Control 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 ORAC system and the underlying processes and framework mentioned below to provide senior management with a holistic picture of their conduct and operational risk control environment. The risk teams have discussions with business unit managers and challenge the MARs information. MARs is a forward looking proactive risk management process and is used at senior risk committees such as the ERMC.

Policy framework

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

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

This framework provides a structured process for developing and implementing policies consistently across Standard Life Aberdeen. It operates on multiple 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 have 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 and 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 conduct and operational risk control framework. Its purpose is to:

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

Key risk indicators

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

KRIs are a blend of 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 conduct and operational risk control framework flow through to the other stages of the ERM framework, such as the risks being reflected in our risk and capital models.

B.4.2 Risk and Compliance function

The Risk and Compliance function is a second line of defence function and is embedded into our strategic and operational decision making.

The Risk and Compliance Function is responsible for ensuring that:

- Our key business functions have dedicated compliance and risk support
- Our monitoring and review activities are well co-ordinated and focused (aligned to the respective priorities of the second and third lines of defence)
- There is an integrated approach to the provision of advice on compliance matters and operational risks
- A consistent, company-wide approach is taken to the operation of our key systems (ORAC and My Compliance Office (MCO)) and the application of Risk Policies and Risk & Compliance Frameworks in the business
- There is continued focus on key areas such as investment risk, regulatory risk, conduct risk, prudential and corporate risks.

The compliance team responsibilities are articulated in the Compliance Charter, which is owned by the Chief Risk Officer for the UK regulated entities, apart from platform /advisory business. This sets out the objectives and scope of the Compliance team.

Compliance Monitoring is undertaken on a Global basis with the individual responsible reporting directly into the Risk and Compliance Chief Operating Officer.

The Risk and Compliance function is led by the Standard Life Aberdeen Chief Risk Officer, who reports to the Standard Life Aberdeen Chief Executive Officer.

B.4.3 Regulatory Compliance

The assessment of the adequacy of the measures adopted to prevent non-compliance is a continuous process and follows an annual cycle. The assessment includes:

- Group Board review and approval of the policy standards (with benchmarks approved by the Chief Risk Officer) to apply in the following year
- A quarterly self assessment of compliance with the Board approved policy by the business units. Where this highlights areas of non-compliance, action plans are set up to ensure compliance (along with appropriate timescales).
- A review of the above assessment by the Group policy implementation manager. This review will consider the evidence provided to show compliance, the action plans and other information already reported in the ORAC system.
- A review of the policy standards and benchmarks by the Group policy implementation manager. This review takes into account the cases of non-compliance (or near misses) reported over the year and the adequacy of the current standards and benchmarks in reducing the numbers and controlling the impact of these cases.
- Group Board review and approval of the revised policy standards resulting from the above review

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 Management to protect the assets, reputation and sustainability of Standard Life Aberdeen Group. It also supports the Company in accomplishing its goals and objectives by bringing a professional and constructive approach to evaluate and improve the adequacy and effectiveness of its internal control system.

The Company 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 stakeholders. GIA provides independent verification of the adequacy and effectiveness of the internal risk and control management systems.

To deliver this assurance, GIA undertake a risk assessed programme of audits across the Group. This audit plan, which reflects their view of the organisation formed through business intelligence gathering and relationship management activities, is approved by the Audit Committee of Standard Life Aberdeen plc and is reviewed on an ongoing basis and formally updated every six months.

The Group Chief Internal Auditor reports functionally to the Chairman of the Audit Committee and administratively to the Chief Executive of Standard Life Aberdeen plc. The Internal Audit team is made up of general auditors and specialist auditors in accountancy and investment 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 Aberdeen and therefore the Company, including matters of audit selection, scope, procedures, frequency, timing and reporting. This maintains an independent and objective attitude necessary in rendering engagement conclusions.

B.6 Actuarial function

The Actuarial function is outsourced to Barnett Waddingham. The roles of Chief Actuary and With-profits Actuary are held by appropriately qualified and experienced individuals, each of whom is a Barnett Waddingham partner. The Company retains overall oversight of the outsourced actuarial services and assesses the performance of the arrangement. The Company has final approval of all SLAC 2006 results, external disclosures and Solvency II regulatory submissions.

B.7 Outsourcing

The Group's Outsourcing policy sets out detailed standards that business units must comply with for outsourcing arrangements.

SLAC 2006 must obtain Board approval where:

- There is a proposed change to re-classify an existing non-outsourcing arrangement as outsourcing
- There is a proposed change to the materiality of an existing outsourcing arrangement
- There is a significant change to the risk profile and/or contractual terms of a current material outsourcing arrangement
- Existing outsourcing arrangements are terminated
- Material outsourced arrangements are added through acquisition (non-material arrangements will require noting by the relevant BU Risk Committee and/or Board).

For each material outsourcing arrangement, the paper to the Board must also name the appointed Executive Sponsor (ES), Accountable Authority (AA) and Supplier Relationship Manager (SRM).

The Standard Life Aberdeen ERMC is responsible for reviewing all proposed outsourcing arrangements that are identified by the SLAC2006 Chief Risk Officer (or nominated deputy) as potentially having a material impact on the Company's risk profile

Key material intra-group outsourcing arrangements include the provision of investment management services, investment administration and fund accounting services from Aberdeen Standard Investments to various members of the Group, and the provision of Information Technology and Information Systems support from Group Operations to various members of the Group.

B.8 Any other information

None

C. Risk profile

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

Please see QRT S.25.01.21 SCR – for undertakings on standard formula, a copy of which is included in Appendix 1, to see the split of the solvency capital requirement (SCR) by risk category.

There have been no material changes to measures used to assess the risks, or the nature of the risks to which the Company is exposed over the reporting period.

C.1 Underwriting risk

The only underwriting risk to which the Company is exposed is expense risk. Expense risk captures both internal and external expenses, where internal expenses relate to internal staff costs and external expenses relate to both audit fees and the outsourcing of the Company actuarial function and with-profits actuary to Barnett Waddingham.

The primary reason for the increase in best estimate liabilities and life underwriting risk during 2018 has been this outsourcing arrangement which commenced in September 2018 following the Sale. The percentage increase in liabilities and SCR from 31 December 2017 is significant, but the amounts themselves are not material.

The Company has no material underwriting risk.

C.2 Market risk

The market risks to which the Company is exposed are concentration risk and spread risk. These exposures relate to the look-through assets (mainly Certificates of Deposit and Commercial Paper instruments) of the money market collective investment scheme (the Seabury Sterling Liquidity 2 Fund) in which the Company is invested. The Company's share of this fund is minimal (under 1%).

The Company has no material market risk.

C.3 Credit risk

The Company has holdings in unsecured cash - both direct bank account exposure and indirect bank account and accrued interest exposure through its investment in the Seabury Sterling Liquidity 2 Fund - where the Company is exposed to the risk that the counterparties default.

The Company has no material credit risk.

C.4 Liquidity risk

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

The Company has no material liquidity risk (all investments are either in cash or liquid assets).

C.4.1 The total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2)

No future premiums are anticipated in the Company.

C.5 Operational risk

Operational risk includes conduct risk.

The Company 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.

The latest review of the operational risks in the Company concluded that no material operational risks were deemed to arise in the Company.

Note: the operational risk SCR was set to zero at 31 December 2017 based on the group internal model assessment at that time.

C.6 Other material risks

There are no other material risks in the Company.

C.7 Any other information

C.7.1 Risk sensitivity

The Group performs a sensitivity analysis, stress and scenario testing, and reverse stress testing to provide insight into the uncertainties that can put business plan objectives at risk and to support the management of these uncertainties before they materialise.

The business planning process projects the performance, regulatory capital and liquidity of the Group over a three-year period, and considers different scenarios including a severe downside.

Stress testing and scenario analysis looks at plausible, adverse individual and combined stresses that could adversely impact profits, capital and liquidity. A broad range of stresses were performed during the year including to yields, market levels, business volumes and expenses.

Reverse stress testing gives a quantitative and qualitative understanding of plausible but severe risk scenarios which could threaten business model viability.

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.

Due to the non-materiality of exposures in SLAC 2006, these stresses are not quantified for SLAC 2006. This is based on a qualitative assessment of the materiality, rather than a quantitative materiality threshold. The exposures are not expected to change significantly over time and SLAC 2006 continues to be capitalised to a level well in excess of its SCR. In the absence of any additional change in investment strategy or any further capital release, we would not anticipate any other material change in capital requirements or resources over time.

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.

SLAC 2006’s capital is entirely invested in a short-term money market fund (the Seabury Sterling Liquidity 2 Fund) or cash. This is to ensure the preservation of capital and liquidity by investing in a diversified portfolio of high quality money market instruments.

C.7.3 Use of special purpose vehicles

Throughout 2018 the Company has not owned any special purpose vehicles.

D. Valuation for solvency purposes

In accordance with Solvency II valuation rules and unless expressly stated below, the Company has valued its assets and liabilities at fair value. In order to establish the fair value of assets and 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
- 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 except that no adjustment is made to take account of the own credit standing of the Company after initial recognition

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.

The Company's Solvency II balance sheet is reported via QRT S.02.01.02 Balance sheet, a copy of which is included in Appendix 1. The balance sheet QRT shows assets and liabilities valued under Solvency II rules using Solvency II scope and balance sheet classifications. Valuation differences between Solvency II and the statutory accounts values for assets, technical provisions and other liabilities are explained in Sections D.1, D.2 and D.3 respectively. The statutory accounts are prepared in accordance with FRS 101 Reduced Disclosure Framework, and apply the recognition and measurement requirements of IFRS.

The structure of the Solvency II balance sheet is different to the structure of the statement of financial position in the Company's statutory accounts, and therefore reallocation adjustments are required between the two balance sheets.

The table below sets out adjustments which have been applied to assets and liabilities in the Company's statutory accounts at 31 December 2018. These presentation adjustments move other balances from the balance sheet line items used in the statutory accounts to the appropriate balance sheet line items used in the Solvency II balance sheet.

In addition to the above reallocations, some line items in the statutory accounts are named differently in the Solvency II balance sheet. The mappings from the statutory accounts to Solvency II balance sheet lines are also shown in the table below.

31 December 2018 Statutory accounts balance sheet headings	Statutory accounts £'000	Presentation adjustments £'000	Statutory accounts balance based on Solvency II presentation and scope £'000	Solvency II balance sheet headings
Assets				**Assets**
Investments – other financial investments	4,728	–	4,728	Collective Investments Undertakings
Prepayments and accrued income – accrued interest and rent	3	–	3	Receivables (trade, not insurance)
Other assets - cash at bank and in hand	474	–	474	Cash and cash equivalents
Total assets	**5,205**	**–**	**5,205**	**Total assets**
Liabilities				**Liabilities**
Fund for future appropriations	5,198	1	5,199	Technical provisions – life (excluding health and indexed-linked and unit- linked)
Technical provisions – long-term business provision	1	(1)	–	
Creditors – other creditors including tax and social security	6	–	6	Payables (trade, not insurance)
Total liabilities	**5,205**	**–**	**5,205**	**Total liabilities**
Total equity	**–**	**–**	**–**	**Excess of assets over liabilities**

The following table summarises valuation adjustments at 31 December 2018 between the statutory accounts and Solvency II for assets, technical provisions and other liabilities that are explained in subsequent sections.

31 December 2018 **Solvency II balance sheet headings**	**Statutory accounts balance based on Solvency II presentation and scope £'000**	**SII balance sheet £'000**	**Valuation adjustments £'000**
Assets			
Collective Investments Undertakings	4,728	4,728	–
Receivables (trade, not insurance)	3	3	–
Cash and cash equivalents	474	474	–
Total assets	**5,205**	**5,205**	**–**
Liabilities			
Technical provisions – life (excluding health and indexed-linked and unit-linked)	5,199	634	(4,565)
Payables (trade, not insurance)	6	6	–
Total liabilities	**5,205**	**640**	**(4,565)**
Excess of assets over liabilities	**–**	**4,565**	**4,565**

D.1 Assets

The total value of assets in the Company's Solvency II balance sheet at 31 December 2018 was £5,205k (2017: £5,186k). An analysis of the Solvency II balance sheet by type of asset is provided in QRT S.02.01.02 Balance sheet, a copy of which is included in Appendix 1.

Solvency II rules require that assets of insurers be valued on a basis that reflects their fair value, described as an 'economic valuation'.

The following table gives the valuation bases used at 31 December 2018, along with a comparison between Solvency II and statutory accounts values. The statutory accounts values below reflect the statutory accounting values using Solvency II balance sheet presentation as set out earlier in the introduction to Section D. There have been no material changes to the recognition or valuation basis during the period.

Balance sheet caption	**Description of basis and method of valuation**
Investments **(other than assets held for index-linked and unit-linked contracts)**	*Collective Investments Undertakings* In the Company's statutory accounts, Investments – other financial investments (classified as Collective Investments Undertakings under Solvency II) are held at fair value. There are no valuation differences between the Solvency II balance sheet and the statutory accounts. **£'000** Collective Investments Undertakings as per Solvency II balance sheet: 4,728 The above balance is entirely invested in the Seabury Sterling Liquidity 2 Fund, a short-term money market fund. See Section D.4 for further information on alternative valuation methods.
Receivables (trade, not insurance)	In the Company's statutory accounts, trade receivables (reported under Prepayments and accrued income) are recorded at amortised cost. This approximates the fair value valuation basis under Solvency II for these assets. Accordingly, there are no valuation differences between the statutory accounts and the Solvency II balance sheet. **£'000** Receivables (trade, not insurance) as per Solvency II balance sheet: 3
Cash and cash equivalents	Cash and cash equivalents comprise cash balances and demand deposits directly usable for making payments. In the Company's statutory accounts, cash at bank and in hand is recorded at amortised cost. This approximates the fair value valuation basis for the Solvency II for these assets. Accordingly, there are no valuation differences between the statutory accounts and the Solvency II balance sheet. **£'000** Cash and cash equivalents as per Solvency II balance sheet: 474

The Company has no material leasing arrangements.

The Company does not have any liabilities for employee benefits.

D.2 Technical provisions

This section provides information on the valuation of technical provisions.

D.2.1 Overview

The value of technical provisions corresponds to an estimate of the amount to be paid if the Company's insurance obligations were immediately transferred to another insurance undertaking, making use of and consistent with information provided by the financial markets and generally available data on underwriting risks.

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

The best estimate is the value of the single capital redemption policy and future expenses, 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 intended to be an estimate of the additional amount required to ensure that the value of the technical provisions is equivalent to the amount that another insurance undertaking would be expected to require in order to take-over and meet the insurance obligations.

The best estimate and the risk margin are calculated separately. The valuation approach is summarised in subsequent sections.

D.2.1.1 Nature of the business

The only contract written by the Company is a sole member policy which has been issued to Standard Life Aberdeen plc (SLA plc). It is a capital redemption policy with a term of 10 years and sum assured of £1.1k. The policy is reported in the 'Other life insurance' line of business under Solvency II. The technical provisions at 31 December 2018 are shown in the following table.

Line of business	Best estimate liability £'000	Risk margin £'000	Total technical provisions £'000
Other life insurance	605	29	634
Total	**605**	**29**	**634**

This business is written in the UK only, with all cash flows denominated in Sterling.

D.2.1.2 Valuation approach

A best estimate liability has been set up equal to the value of future expenses together with a benefit liability of £1.1k payable at maturity of the sole member policy, both discounted using the Solvency II Sterling yield curve. The boundary of the contract is given by the expiry date of the contract. The Solvency II yield curve and other best estimate assumptions are described within Sections D.2.1.4 and D.2.1.5 respectively.

D.2.1.3 Risk margin

The risk margin has been assessed in accordance with the methodology set out in the Delegated Regulation as the cost of holding an adjusted SCR over the projected run-off of the business.

The involves calculating the adjusted SCR at the valuation date, estimating the adjusted SCR in future time periods, applying a 6% 'cost' to each SCR, and discounting the resulting amounts to a present-day value using the EIOPA UK risk-free rates.

The adjusted SCR at the valuation date is taken to be the SCR at the valuation date but with the market risk SCR and counterparty SCR on cash exposures set equal to zero on the assumption that market risk and cash exposures could be hedged and/or diversified to reduce risks to non-material levels if required. The adjusted SCR allows for expense risk, counterparty risk on non-cash exposures, and operational risk.

The adjusted SCR in future time periods is estimated by:

- Assuming counterparty default risk on non-cash exposures remains constant
- Assuming experience (such as projected expenses) is in line with the valuation projection assumptions
- Calculating the adjusted SCR in each time period using the projected experience and the same methodology as used to determine the adjusted SCR at the valuation date.

D.2.1.4 Non-economic basis

Non-economic assumptions are determined from annual experience investigations, are subject to detailed internal review and are approved by the Board. These assumptions reflect the Company's best estimates of likely future experience, based on recent experience and relevant industry data as appropriate. The approach is to treat the best estimate assumptions as the median of the range of possible assumptions.

The only non-economic assumptions are expenses and expense inflation. The Company's best estimate liabilities assume no decrements, due to the nature of these liabilities – as such, lapse, mortality and morbidity assumptions are not required.

The best estimate of internal expenses for the Company is based on the expected amount of staff resource and an assumed average salary, with allowance for inflation and overheads. The best estimate of external expenses is based on the most recent level of costs agreed with external outsourcers and auditors. The modelled expenses increased during 2018 primarily due to the outsourcing of the Actuarial function to Barnett Waddingham (as per section B.6) as well as making full allowance for auditor costs.

D.2.1.5 Economic basis

The valuation of future policyholder liabilities requires best estimate economic assumptions, and in particular a future interest rate assumption (i.e. yield curve). The basic risk free yield curve for the UK is based on swap rates, includes an adjustment for credit risk and is specified by EIOPA on a monthly basis. The UK curve specified by EIOPA is based on market data for terms of up to 50 years after which it converges to the ultimate forward rate which is set by EIOPA (4.05% at the valuation date).

D.2.2 The level of uncertainty associated with the value of technical provisions

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 expenses and economic conditions, which are inevitably the source of some uncertainty. Given the nature of the business, future expenses are not expected to vary significantly from the current levels used to determine technical provisions. There are no significant simplifications used in the calculation of technical provisions.

D.2.3 Differences between the valuation of technical provisions for solvency purposes and that for financial statements

The liability for the benefit provided under the single policy is £1.1k in the statutory accounts which is the value of the sum assured under the capital redemption policy with no allowance for the time value of money. The equivalent Solvency II value allows for the time value of money and is £0.968k. The difference is minimal and has not been included in the table below. The statutory accounts liabilities include the fund for future appropriations. Solvency II technical provisions also include an allowance for future expenses and the risk margin. This is shown as at 31 December 2018 in the following table:

	Total £'000
Statutory accounts value	5,199
Remove fund for future appropriations	(5,198)
Include additional expenses	604
Include risk margin	29
Solvency II technical provisions	**634**

D.2.4 Long-term guarantees package and transitional measures

The Company does not apply a matching adjustment, volatility adjustment or transitional measures when calculating technical provisions.

D.2.5 Reinsurance recoverables and special purpose vehicles

The Company does not have any reinsurance arrangements or special purpose vehicle arrangements.

D.2.6 Material changes

The only material change in the assumptions used in the calculation of the technical provisions compared to the previous reporting period is an increase in the expense assumption as described in section D.2.1.4.

D.3 Other liabilities

This section provides information on the types and values of other liabilities in the Company's Solvency II balance sheet and a quantitative and qualitative explanation of any material differences with their statutory accounting valuation.

The total value of other liabilities in the Company's Solvency II balance sheet at 31 December 2018 was £6k (2017: £8k). An analysis of the Solvency II balance sheet by type of other liability is provided in QRT S.02.01.02 Balance sheet, a copy of which included in Appendix 1.

Solvency II rules 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 of the Company after initial recognition.

The following table gives the valuation bases and methods used at 31 December 2018 in valuing other liabilities for Solvency II balance sheet purposes along with a comparison between Solvency II and statutory accounts accounting values.

Balance sheet caption	Description of basis and method of valuation
Payables (trade, not insurance)	In the Company's statutory accounts, trade payables (reported under Creditors) are recorded at amortised cost. This approximates the fair value valuation basis under Solvency II for these liabilities. Accordingly, there are no valuation differences between the statutory accounts and the Solvency II balance sheet.

	£'000
Payables (trade, not insurance) as per Solvency II balance sheet	6

D.4 Alternative methods for valuation

The assets held in SLAC 2006 are cash and a holding in the Seabury Sterling Liquidity 2 Fund. Cash is not valued using an alternative method for valuation (AVM). The holding of £4,728k in the Seabury Sterling Liquidity 2 Fund is classified as AVM. This AVM classification is due to this investment fund not being traded on a platform meeting the multilateral trading facility definition of Directive 2014/65/EU, meaning that this investment fund does not comply with Article 10(4) of the Delegated Regulation.

However, we consider the valuation uncertainty to be negligible given the very short-term nature of the assets held and the active monitoring performed.

An active market exists where transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

D.5 Any other information

The directors plan, in the near future, to take the necessary steps to allow an application to the Financial Conduct Authority/ Prudential Regulation Authority for de-authorisation of the Company to be made. Solvency II rules require that assets, liabilities and capital requirements are prepared on a going concern basis. An EIOPA Q&A states that, where a firm is closed to new business, the specific situation of the firm should be taken into account. In the case of the Company, the expenses incurred in running the business will be lower when closed to new business and de-authorised and thus the preparation of technical provisions and capital requirements on a going concern basis is considered appropriate by the Company.

E. Capital management

The Standard Life Assurance Company 2006's approach to capital management

The Company adopts the Capital Management policy and objectives of the Group.

The Group's capital management approach seeks to ensure that the Group is appropriately capitalised under base and stress scenarios. There have been no changes to objectives or policies over the reporting period.

SLAC 2006 is a relatively small insurance entity within the Group and is exposed to a limited range of risks, so in practice the capital management of SLAC 2006 is less involved than for other companies in the Group.

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 of 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) and certain subordinated liabilities, all of which must be valued in accordance with Solvency II regulations and guidance.

Ancillary own funds are subject to prior supervisory approval. The Company has not sought approval for any ancillary own funds as at 31 December 2018.

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

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 quality (i.e. their ability to absorb losses), with Tier 1 being of the highest quality and Tier 3 the lowest. All the Company's own funds are categorised as Tier 1 unrestricted and are considered to be suitably resourced.

The following table sets out the values of own funds of the Company as at 31 December 2018, shown after application of the tiering limits:

Description	Tier 1 unrestricted £'000	Tier 1 restricted £'000	Tier 2 £'000	Tier 3 £'000	Total £'000
Reconciliation reserve	4,565	–	–	–	**4,565**
Own funds	**4,565**	**–**	**–**	**–**	**4,565**
Eligible own funds to meet the SCR	**4,565**	**–**	**–**	**–**	**4,565**
Eligible own funds to meet the MCR	**4,565**	**–**	**–**	**–**	**4,565**

There was no ordinary share capital, share premium, surplus funds or subordinated liabilities at 1 January 2018 or 31 December 2018. More detail on the reconciliation reserve included in the previous table is provided in the following sections. A copy of the QRT S.23.01.01 Own funds is included in Appendix 1.

E.1.3 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 reconciliation reserve as at 31 December 2018:

	£'000
Excess of assets over liabilities	4,565
Reconciliation reserve total	**4,565**

E.1.4 Reconciliation of statutory accounting equity to own funds

The own funds position is different from the equity stated in the statutory accounts. The table below reconciles the financial statements to the Solvency II own funds position as at 31 December 2018:

	£'000	£'000
Equity attributable to equity holders per the financial statements		–
Valuation differences:	4,565	
In respect of technical provisions		4,565
Own funds after adjustments		**4,565**

There is no equity attributable to equity holders in the statutory accounts. In the statutory accounts, the fund for future appropriations (FFA) represents the difference between assets and all other recognised liabilities in the Company's with profits funds and is presented as a liability. The FFA is not recognised as a liability under Solvency II.

The reconciliation reserve is therefore the fund for future appropriations plus the long-term business provision shown in the statutory accounts minus the Solvency II technical provisions (see Section D.2.3).

E.1.5 Movements in own funds during the reporting period

The following table sets out the movements on the Company's own funds, analysed by tier, during 2018:

Description	Tier 1 £'000	Tier 2 £'000	Tier 3 £'000	Total £'000
Opening own funds	5,012	–	–	**5,012**
Opening eligibility restrictions	–	–	–	**–**
Opening eligible own funds to meet the SCR	**5,012**	**–**	**–**	**5,012**
Movements in period:				
Own funds	(447)	–	–	**(447)**
Eligibility restrictions	–	–	–	
Total movements in eligible own funds				
Closing eligible own funds to meet the SCR	**4,565**	**–**	**–**	**4,565**

There were no ancillary own funds at 1 January 2018 or 31 December 2018. There were no eligibility restrictions at 1 January 2018 or 31 December 2018.

The fall in Tier 1 funds during 2018 primarily reflects the increase in Solvency II technical provisions related to the increase in modelled expenses (as per section D.2.1.4). The Company has no subordinated liabilities or other own fund items subject to transitional arrangements.

There were no material issues or redemptions of own fund items during the period.

E.2 Solvency capital requirement and minimum capital requirement

E.2.1 Solvency capital requirement

The Company uses the Solvency II Standard Formula to calculate the SCR. This is a material change compared to 31 December 2017 when the SCR was calculated using the Standard Life Group internal model – although it should be noted that the impact of this change on the calculated SCR results is not material in monetary terms (an estimated increase of c£30k). The calculated SCR at YE18 (on standard formula) is £158k; this compares to the SCR at YE17 (on internal model) of £72k. The £86k increase in the SCR is primarily due to an increase in the expense assumption, as described in section D.2.1.4.

Please see QRT S.25.01.21 SCR – for undertakings on standard formula, for the split of the SCR by risk module, a copy of which is included in Appendix 1.

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

E.2.2 Minimum capital requirement

The Company's SCR at the end of 2018 calculated using standard formula was £158k. However, the biting capital requirement is the MCR, which is equal to £3.29m (€3.7m) at 31 December 2018.

The MCR applies to EEA-based insurance undertakings. The MCR represents an absolute floor to the level of eligible own funds that the insurance undertaking is required to hold under Solvency II. If the level of own funds falls below the MCR, the 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%. The MCR is a function of the best estimate liability, where this is bound between 25% and 45% of the insurance undertaking's SCR, but subject to an absolute floor. The MCR for the Company is the absolute floor (minimum) amount of €3.7m.

The non-life insurance element of the MCR calculation is zero for the Company, as the Company has no non- life insurance business.

There have been no material changes to the MCR over the reporting period.

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

The Company is not using the duration-based equity risk sub-module for the calculation of its SCR.

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

The Company is not using an internal model.

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

Throughout 2018 own funds have at all times exceeded both the MCR and the SCR.

E.6 Any other information

None

Statement of Directors' responsibilities

The Directors acknowledge their responsibility for the preparation of the Solvency and financial condition report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under Section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed in the PRA approvals and determinations section of this document.

The Board is satisfied that to the best of its knowledge and belief:

(a) throughout the financial year to 31 December 2018, the Company has complied in all material respects with the requirements of the PRA rules, including Solvency II regulations as applicable to the Company; and

(b) it is reasonable to believe that in respect of the period from 31 December 2018 to the date of publication of the SFCR the Company has continued so to comply, and will continue so to comply for the remainder of the financial year to 31 December 2019.

The SFCR was approved by the Board and signed on its behalf by the following Director.

Patrick Bartlett

Director
17 April 2019

Prudential Regulation Authority waivers and discretions

The waivers and discretions in the table below apply to The Standard Life Assurance Company 2006 (firm reference number 110464):

Description	Reference	Date of approval	Applicable from
COBS modifications (sole member policyholder SLAL) *[superseded by ref. 5083309 below]*	4732335	1 September 2017	1 September 2017
Modifies financial conglomerate assessment for group supervision	4960068	3 September 2018	3 September 2018
Approval to revert to the use of standard formula to calculate the SCR	4994533	5 November 2018	5 November 2018
Updated COBS modifications to reflect the change in sole member policyholder from SLAL to SLA plc	5083309	14 November 2018	14 November 2018
Modification for Solvency II quarterly reporting requirements	5134181	19 December 2018	19 December 2018

Appendix 1 – Quantitative reporting templates (QRTs)

S.02.01.02 Balance sheet

Assets		Solvency II value C0010 £000s
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	4,728
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	
Government Bonds	R0140	
Corporate Bonds	R0150	
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	4,728
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
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 and 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	
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	3
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	474
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	**5,205**

Liabilities		Solvency II value C0010 £000s
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	634
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	634
TP calculated as a whole	R0660	
Best Estimate	R0670	605
Risk margin	R0680	29
Technical provisions – index-linked and unit-linked	R0690	
TP calculated as a whole	R0700	
Best Estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	6
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	**640**
Excess of assets over liabilities	R1000	**4,565**

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

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance C0210 £000s	Insurance with profit participation C0220 £000s	Index-linked and unit-linked insurance C0230 £000s	Other life insurance C0240 £000s	Annuities stemming from non-life insurance contracts and relating to health insurance obligations C0250 £000s	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations C0260 £000s	Health reinsurance C0270 £000s	Life reinsurance C0280 £000s	Total C0300 £000s
Premiums written										
Gross	R1410	–	–	–	1	–	–	–	–	1
Reinsurers' share	R1420	–	–	–	–	–	–	–	–	–
Net	R1500	–	–	–	1	–	–	–	–	1
Premiums earned										
Gross	R1510	–	–	–	1	–	–	–	–	1
Reinsurers' share	R1520	–	–	–	–	–	–	–	–	–
Net	R1600	–	–	–	1	–	–	–	–	1
Claims incurred										
Gross	R1610	–	–	–	1	–	–	–	–	1
Reinsurers' share	R1620	–	–	–	–	–	–	–	–	–
Net	R1700	–	–	–	1	–	–	–	–	1
Changes in other technical provisions										
Gross	R1710	–	–	–	0	–	–	–	–	0
Reinsurers' share	R1720	–	–	–	–	–	–	–	–	–
Net	R1800	–	–	–	0	–	–	–	–	0
Expenses incurred		–	–	–	0	–	–	–	–	0
Other expenses	R1900									–
Total expenses	R2500									0

S.12.01.02 Life and health SLT technical provisions

			Index-linked and unit-linked insurance			Other life insurance					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options and guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Accepted reinsurance	Total (life other than health insurance, incl. unit-linked)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Technical provisions calculated as a whole	R0010										
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for the expected losses due to counterparty default associated to TP as a whole	R0020										
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	R0030						605				605
Total Recoverables from reinsurance/SPV and Finite Re after adjustment for expected losses due to counterparty default	R0080										
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090						605				605
Risk Margin	R0100					29					29
Amount of the transitional on Technical Provisions											
Technical provisions calculated as a whole	R0110										
Best estimate	R0120										
Risk margin	R0130										
Technical provisions - total	R0200					634					634

S.23.01.01 Own funds

		Total C0010 £000s	Tier 1 – unrestricted C0020 £000s	Tier 1 – restricted C0030 £000s	Tier 2 C0040 £000s	Tier 3 C0050 £000s	
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35							
Ordinary share capital (gross of own shares)	R0010						
Share premium account related to ordinary share capital	R0030						
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	4,565	4,565				
Subordinated liabilities	R0140						
An amount equal to the value of net deferred tax assets	R0160						
Other items approved by supervisory authority as basic own funds not specified above	R0180						
Own funds 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 deductions	R0290	4,565	4,565	–	–	–	
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 subordinate 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	4,565	4,565	–	–	–	–
Total available own funds to meet the MCR	R0510	4,565	4,565	–	–		
Total eligible own funds to meet the SCR	R0540	4,565	4,565	–	–	–	–
Total eligible own funds to meet the MCR	R0550	4,565	4,565	–	–		
SCR	R0580	158					
MCR	R0600	3,288					
Ratio of eligible own funds to SCR	R0620	2,891%					
Ratio of eligible own funds to MCR	R0640	139%					

		C0060 £000s
Reconciliation reserve		
Excess of assets over liabilities	R0700	4,565
Own shares (held directly and indirectly)	R0710	–
Foreseeable dividends, distributions and charges	R0720	–
Other basic own fund items	R0730	–
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	–
Reconciliation reserve	R0760	4,565
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 C0110 £000s	USP C0080 £000s	Simplifications C0090 £000s
Market risk	**R0010**	93		–
Counterparty default risk	**R0020**	15		
Life underwriting risk	**R0030**	97	None	–
Health underwriting risk	**R0040**	–	None	–
Non-life underwriting risk	**R0050**	–	None	–
Diversification	**R0060**	(49)		
Intangible asset risk	**R0070**	–		
Basic Solvency Capital Requirement	**R0100**	**155**		

Calculation of solvency capital requirement

		C0100 £000s
Operational risk	**R0130**	3
Loss-absorbing capacity of technical provisions	**R0140**	–
Loss-absorbing capacity of deferred taxes	**R0150**	–
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	–
Solvency capital requirement excluding capital add-on	**R0200**	158
Capital add-ons already set	**R0210**	–
Solvency capital requirement	**R0220**	158
Other information on SCR		
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	–
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	–
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	**R0430**	–
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	–

S.28.01.01 Minimum capital requirement – only life or only non-life insurance or reinsurance activity

Linear formula component for life insurance and reinsurance obligations		C0040 £000s	
MCR_L Result	R0200	13	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0050 £000s	Net (of reinsurance/SPV) total capital at risk C0060 £000s
Obligation with profit participation – guaranteed benefits	R0210	–	
Obligation with profit participation – future discretionary benefits	R0220	–	
Index-linked and unit-linked insurance obligations	R0230	–	
Other life (re)insurance and health (re)insurance obligations	R0240	605	
Total capital at risk for all life (re)insurance obligation	R0250		–

Overall MCR calculation		C0070 £000s	
Linear MCR	R0300	13	
SCR	R0310	158	
MCR cap	R0320	71	
MCR floor	R0330	39	
Combined MCR	R0340	39	
Absolute floor of the MCR	R0350	3,288	
Minimum capital requirement	R0400	**3,288**	

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 The Standard Life Assurance Company 2006 (the Company).

Capital resources
Capital resources include the assets in excess of liabilities, valued on a Solvency II basis, and certain other components of capital.

Company
The Standard Life Assurance Company 2006.

Director
A Director of the Company.

Discounting
The reduction to present value at a given date of a future cash transaction at an assumed rate, using a discount factor reflecting the time value of money. The choice of a discount rate will usually greatly influence the value of insurance provisions, and may give indications on the conservatism of provisioning methods.

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

EIOPA
European Insurance and Occupational Pensions Authority.

Executive management
The executive management team is responsible for the day-to-day running of the business of the Group and the Company.

FCA
Financial Conduct Authority.

Group Board
The Board of Directors of Standard Life Aberdeen plc.

Group, Standard Life Aberdeen Group, Group Holding Company or Standard Life Aberdeen
Relates to Standard Life Aberdeen plc and its subsidiaries.

International Financial Reporting Standards (IFRS)
International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB).

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 extend that the assets are expected to be held long term.

Minimum capital requirement (MCR)
The MCR represents an absolute floor to the level of eligible own funds that the insurance undertaking is required to hold under Solvency II.

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

Non-profit policy
A policy, including a unit-linked policy, which is not a with profits policy.

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.

Own funds
Under Solvency II, the capital resources available to meet solvency capital requirements are called own funds.

PRA
Prudential Regulation Authority.

Quantitative Reporting Template (QRT)
Templates used for the supervisory reporting and public disclosure of quantitative data under Solvency II.

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.

Sale
On 31 August 2018, the Standard Life Aberdeen plc sold Standard Life Assurance Limited to Phoenix Group Holdings (Phoenix), following shareholder, regulatory and other necessary approvals. The Sale did not include the disposal of SLAC 2006.

Scheme of Demutualisation or the Scheme
The scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000, under which substantially all of the long-term business of SLAC was transferred to Standard Life Assurance Limited on 10 July 2006.

SLAC 2006
The Standard Life Assurance Company 2006.

Solvency II
Solvency II is an EU-wide initiative that brings consistency to how EU insurers manage capital and risk. Solvency II was implemented on 1 January 2016.

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 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).

Solvency cover
Solvency II Own funds divided by the Solvency capital requirement.

Technical provisions
The best estimate market consistent value of our policyholder liabilities is referred to as technical provisions. The calculation is discounted to recognise the time value of money and includes a risk margin, calculated in accordance with Solvency II regulations.

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.

With profits policy
A policy where, in addition to guaranteed benefits specified in the policy, additional bonuses may also be payable.