

Scottish Equitable plc

Solvency and Financial Condition Report 2020

Table of contents

- Scope of the Report..... 4**
- Basis of Preparation 4**
- Summary 5**
 - Introduction..... 5
 - A. Business and Performance..... 5
 - B. System of Governance 6
 - C. Risk Profile 7
 - D. Valuation for Solvency Purposes 9
 - E. Capital Management.....10
- A. Business and Performance.....12**
 - A.1 Business.....12
 - A.2 Underwriting performance.....15
 - A.3 Investment performance18
 - A.4 Performance of other activities20
 - A.5 Any other information21
- B. System of Governance22**
 - B.1 General Information on the System of Governance22
 - B.2 Fit and proper requirements28
 - B.3 Risk management system including the Own Risk and Solvency Assessment30
 - B.4 Internal Control system.....35
 - B.5 Internal Audit function.....38
 - B.6 Actuarial Function39
 - B.7 Outsourcing40
 - B.8 Any other information41
- C. Risk Profile42**
 - C.1 Underwriting risk.....45
 - C.2 Market risk.....47
 - C.3 Credit risk.....50
 - C.4 Liquidity risk.....54
 - C.5 Operational risk.....56
 - C.6 Other material risk.....58
 - C.7 Any other information58
- D. Valuation for Solvency Purposes.....59**
 - D.1 Assets.....60
 - D.2 Technical provisions65
 - D.3 Other liabilities.....73
 - D.4 Alternative methods for valuation79
 - D.5 Any other information79
- E. Capital Management80**

General80

E.1 Own Funds82

E.2 Solvency Capital Requirement and Minimum Capital Requirement85

E.3 Use of the duration-based equity risk sum-module87

E.4 Differences between standard formula and partial internal model used87

E.5 Non-compliance with capital requirements89

E.6 Any other information89

F. Governing Body Certification91

G. Report of the External Independent Auditors to the Directors of Scottish Equitable plc93

Appendix A: Acronyms99

Appendix B: Glossary101

Appendix C: Quantitative Reporting Templates104

Scope of the Report

Solvency II (SII) Pillar 3 regulatory reporting requires firms to produce two key reports containing both qualitative and quantitative information:

- the **Solvency and Financial Condition Report (SFCR)** – Firms are required to disclose this report publicly and to the Prudential Regulation Authority (PRA) on an annual basis; and
- the **Regular Supervisory Report (RSR)** – This is a private report to the supervisor and is not disclosed publicly. Firms submit this report to the PRA in full at least every three years and in summary every year. The Company has voluntarily produced a full RSR annually since 2017.

This report is Scottish Equitable plc's ('SE plc') SFCR for the year ending December 31, 2020. This report informs SE plc's stakeholders about SE plc's:

- Business and performance;
- System of governance;
- Risk profile;
- Valuation for solvency purposes; and
- Capital management.

Basis of Preparation

This report is prepared in accordance with the requirements of Solvency II Directive and Delegated Regulation (in particular article 51 of the Solvency II Directive and articles 290-298 of the Delegated Regulation, and relevant European Insurance and Occupational Pensions Authority (EIOPA) Guidelines, in particular 'Guidelines on reporting and public disclosure' (EIOPA-BoS-15/109) as issued by EIOPA).

Scottish Equitable plc is referred to in this document as 'SE plc' or 'the Company'. A set of acronyms and glossary of terms can be found in appendix A and B of this document.

The figures reflecting monetary amounts in the SFCR are presented in pounds sterling, and rounded to the nearest £0.1 million, unless otherwise stated. All ratios and variances are calculated using the underlying amount rather than the rounded amount.

In cases where IFRS figures are disclosed, the figures are prepared in accordance with the International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The 2020 SFCR of SE plc has been prepared and disclosed under the responsibility of the SE plc Board. The Company is required to ensure that its SFCR is subject to approval by its governing body and that the governing body takes responsibility for ensuring that the SFCR has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations.

Other Information

In line with PRA requirements, Chapters D. Valuation for Solvency Purposes and E. Capital Management of the Solvency and Financial Condition Report (SFCR) have been subject to audit by the external auditor, excluding those tables marked "unaudited". Chapters A. Business and Performance, B. System of Governance, and C. Risk Profile are unaudited.

Summary

Introduction

SE plc, which primarily operates under the brand Aegon, is one of the UK's leading insurance and pension providers. Founded in Edinburgh, the Company has been serving the UK for over 180 years. During that time we have evolved our brand, while staying steadfastly committed to helping people take responsibility for their financial future in order to achieve a lifetime of financial security.

The Company is a subsidiary of Aegon UK plc and is a core business of the Aegon Group, one of the world's leading providers of life insurance, pensions, and asset management.

Aegon Global facts and figures:

- Helping people to achieve a lifetime of financial security
- Global savings and investment provider serving 30.4 million customers across Europe, Asia and the Americas
- SE plc became part of Aegon in 1994
- Over 22,300 employees, with over 2,300 based in the UK
- Manages over EUR 921 billion in assets on behalf of savers and investors worldwide
- Global brands are Aegon and Transamerica

A. Business and Performance

Company overview

SE plc's principal activity is the provision of corporate and individual pensions, protection products, and savings products in the UK. The Company is actively supporting customers who are retired or saving for their retirement and are increasingly utilising Platform technology to best enable advisors and customers. Products are increasingly sold through its web portals, which enable advisors, employers, and individuals to buy and manage investments online and to have a single view of their investments.

Strategic overview

The ongoing COVID-19 pandemic is giving rise to a range of economic, demographic, and operational risks. It is having a direct impact on global mortality and morbidity rates, and has resulted in market volatility and increased uncertainty.

The Company is continuously monitoring the risks presented by the COVID-19 pandemic in line with our existing risk management framework. The most significant risks the Company faces are related to financial markets (particularly credit, equity, and interest rates), and underwriting risks (particularly related to mortality, morbidity, and policyholder behaviour). The Company continues to monitor claim activity, including mortality and morbidity claims, and policyholder behaviour. The impact of the COVID-19 crisis on the Company's underwriting results can be seen in Section A.2, and the Company's long-term underwriting and economic assumptions in Section C.

Aegon invoked its business continuity plans in response to COVID-19 to help ensure the safety of and well-being of its staff, as well as its capacity to support its customers and maintain its business operations, while maintaining our financial and operational resilience. As part of the immediate response, Aegon implemented wholesale working from home whilst minimising as far as possible any disruption to its service to customers.

The Directors consider that the Company has the plans and resources to manage its business risks successfully despite this economic and regulatory uncertainty. The Directors have clear plans to continue to deliver solutions for its customers and will continue to focus and invest in its digital

proposition. The Company's business strategy is focused on developing the business as the leading platform savings, investments, and pensions provider in the market.

A key element of the Company's strategy is to maintain capital at an appropriate level as protection for policyholders. The key performance indicator for Solvency II is the SII ratio which at 31 December 2020 is 155% (2019: 147%). The key drivers for the increase in ratio are ongoing capital generation, and an update to expense assumptions reflecting the benefit of cost reduction initiatives. This was partially offset by a reduction in the level of equity hedging.

Full details on SE plc's business and performance are described in Chapter A. Business and Performance.

B. System of Governance

Corporate governance

The Company is a fully regulated entity within Aegon Group (see A.1.4 Ownership Structure). Our corporate governance structure is in place to ensure the safe and efficient management of the Company, its operations, and to protect the interests of its customers.

The SE plc Board is the statutory board of SE plc. It has oversight of the Company and assumes overall management responsibilities for the Company. The SE plc Board has delegated responsibilities to committees of the Board, and the Board and its committees form the Administrative, Management, or Supervisory Body (AMSB). Specifically the AMSB includes:

- SE plc Board
- Aegon UK plc Group (AUKG) Executive Committee
- AUKG Audit Committee
- SE plc Risk Committee
- AUKG Remuneration Committee ("REMCO")
- AUKG Nomination Committee
- With-Profits Forum (WPF)

In addition, the SE plc Board has input and challenge from two governance forums, Scottish Equitable Policyholders' Trust (SEPT) in relation to with-profits and the Independent Governance Committee in relation to the value for money of workplace pensions. The Aegon Master Trust Board may also escalate issues to the SE plc Board in relation to its purpose of performing the functions given to the Trustees of the Aegon Master Trust.

Risk management

SE plc's Enterprise Risk Management (ERM) framework is aligned to the Aegon Group ERM framework. This framework is designed to identify and manage potential events and risks that may affect the Company. It involves:

- Understanding which risks the Company is facing
- Establishing risk tolerances for the level of exposure to a particular risk
- Utilising risk policies to set minimum standards to be met
- Monitoring risk exposure and actively maintaining oversight over the Company's overall risk and solvency positions.

Control environment

In addition to risk management, SE plc's Solvency II control environment consists of an internal control system, which includes the compliance function, an actuarial function and an internal audit function. The internal control system serves to facilitate compliance with applicable laws, regulation, and

administrative processes and it provides for an adequate control environment including appropriate control activities for key processes. The actuarial function has end-to-end accountability for the adequacy and reliability of reported technical provisions, including policy setting and monitoring of compliance regarding actuarial risk tolerances. SE plc's internal audit function is independent and objective in performing its duties in evaluating the effectiveness of SE plc's internal control system.

Full details on SE plc's system of governance are described in Chapter B. System of Governance.

C. Risk Profile

Key risks

As an insurance provider, SE plc is exposed to a variety of risks. Some of the Company's largest exposures are to changes in financial markets (e.g. interest rate, and equity market risks) that affect the value of the investments held (either directly or indirectly through fees on policyholder funds), and the liabilities from products that the Company sells. Other risks include insurance related (underwriting) risks, such as changes in mortality and the persistency rates as well as the operating expenses for the business.

The Company continues to monitor the market and economic turbulence that has arisen as a consequence of the COVID-19 outbreak. The most significant risks the Company faces are related to financial markets (particularly credit, equity and interest rates), and underwriting risks (particularly related to mortality, morbidity and policyholder behaviour).

The key risks as reflected in the Company's Partial Internal Model (PIM) Solvency Capital Requirement (SCR) are:

Solvency Capital Requirement for SE plc (Unaudited)

Amounts in GBP Millions		2020	2019
C.2 Market risk	Market Risk (SF)	44.8	39.7
	Market Risk (IM)	1,362.2	1,170.1
C.3 Credit risk*	Counterparty default risk (SF)	91.3	102.9
C.1 Underwriting risk	Life underwriting risk (SF)	35.5	26.7
	Life underwriting risk (IM)	1,473.3	1,331.4
	Health underwriting risk (SF)	18.1	9.2
C.5 Operational risk	Operational risk (IM)	325.9	287.6
	LAC-TP **	(155.4)	(158.0)
C.6 Other material risk	LAC-DT	(284.3)	(239.5)
Total undiversified components		2,911.5	2,570.1
Diversification ***		(1,325.9)	(1,107.7)
PIM SCR*		1,585.6	1,462.4

* In this summary presentation, the credit risk values represent counterparty exposure only, with other credit risk relating to financial investments (spread risk, migration risk and default risk) included within Market Risk IM.

** Loss absorbing capacity of technical provisions (LAC-TP) refers to the management actions available to the With-Profits Sub Fund (WPSF) to reduce the impact of stressed scenarios. These are a combination of regular management actions such as change of investment strategy and other management actions that may be implemented in more extreme conditions to maintain the solvency of the WPSF.

*** Diversification reflects diversification between Standard Formula and Internal Model components and between risk modules / components.

“SF” Standard Formula, “IM” Partial Internal Model

Market Risk

The market risks (excluding Credit risk, which is considered separately) that are most material to SE plc are Equity and Interest Rate risks.

- Equity falls result in a reduction in Own Funds, as the value of future profits falls.
- The SCR increases when interest rates fall, primarily due to increases in longevity and credit capital.

SE plc continues to run an active Unit Matching programme as a means of hedging the equity market risk exposure that arises through the value of future fee income. We continue to supplement this hedging with equity put options.

SE plc also continues to hold a portfolio of centrally cleared swaps to hedge interest rates and inflation.

Credit Risk

There were no significant changes in the composition of credit risk during the course of the year. Our main exposures remain through reinsurance counterparty exposure on our Protection business and through our External Fund Links (EFLs).

Underwriting Risk

SE plc writes primarily unit-linked retirement savings contracts. The Company’s principal underwriting risk exposures therefore arise from risks that could adversely affect the value of future charge income in excess of costs relating to those contracts, namely persistency risk and expense risk. With an update to our year end best estimate expense assumptions, we have seen a reduction in expense risk exposure and an increase in persistency risk in 2020.

The Company no longer writes new annuity business, with an arrangement in place under which annuities from vesting policies are placed with a third-party provider. However, it has some residual exposure to longevity risk through inward reinsurance of a closed book of annuity business in addition to the longevity risk associated with the DB Pension Scheme exposure.

Some policies in With-Profits Sub-Fund provide Guaranteed Minimum Pensions and Guaranteed Annuity Options which results in exposure to longevity risk and changes in Guaranteed Annuity Option take-up rates within the fund.

Operational Risk

The operational risk capital requirement increased over 2020, primarily reflecting an increase in the assessed exposure of risk to hacking.

Brexit

On 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union and formally left the EU on 31 January 2020. Following this, trade deal negotiations continued to within days of the scheduled end of the transition period on 31 December 2020. Through the Brexit deal negotiated by the UK Government, a planned Memorandum of Understanding on financial services is due to be in place by the end of the first quarter of 2021. This will set the future direction of travel for cooperation between the UK and other European countries. Although the Company only writes business in the UK, the Company could be adversely impacted by related market developments

such as higher financial market volatility in general due to increased uncertainty, which could reduce the value or results of the Company.

Risk Management

The Company manages risk based on risk appetite and policies established across the Aegon Group with appropriate local application. Aegon's integrated approach to risk management involves common measurement of risk and scope of risk coverage to allow for aggregation of the overall Aegon Group's risk position.

Risk mitigation techniques are employed within the business. Techniques are adopted to reduce risk exposures within risk appetite. Examples include reinsurance and derivative hedging programmes.

Sensitivity and scenario analysis is utilised to test the overall financial strength of the business and the exposure to specified risk exposures. Sensitivities and scenario analysis is a core part of the risk framework in allowing the business to measure, monitor and manage risk exposures at any time.

Climate change risk

Climate change is a long-term risk associated with high uncertainty regarding timing, scope and severity of potential impacts. The risks for the Company can be grouped into physical risks and transition risks. Physical risks relate to losses from overall climate changes (i.e. changing weather patterns and sea level rise) and acute climate events (i.e. extreme weather and natural disasters). These physical risks can affect life insurance, for instance through higher than expected mortality rates. Beyond insured losses, climate change may have disrupting and cascading effects on the wider economy. These risks are a function of policy and regulatory uncertainty, including political, social and market dynamics and technological innovations. Transition risks can affect the value of assets and investments portfolios of the Company. Furthermore, it cannot be ruled out that the Company is unable to adjust to environmental and sustainability goals. Linked to both the physical and the transition risks, there could also be litigation and reputational risks following from not fully considering or responding to the impacts of climate change, or not providing appropriate disclosure of current and future risks. The risks can relate both to the Company and the companies in which it invests. Given the significant uncertainties related to climate change impacts and the long-term nature of the issue, it cannot be ruled out that climate change may lead to losses to the Company's businesses, the investment portfolios it manages and to its corporate reputation.

The Company believes governments, companies, and investors have a responsibility to mitigate the impacts of a changing climate and facilitate a transition to a climate-resilient economy. The Company incorporates climate considerations across its business and takes steps to mitigate the environmental impact of our direct operations, for example by minimizing our energy consumption and using renewable electricity. Climate change is a fundamental consideration within the Company's responsible business strategy and the Company is committed to a responsible way of doing business, which includes making a lasting contribution to a healthy environment.

Full details on SE plc's risk profile are described in Chapter C. Risk Profile.

D. Valuation for Solvency Purposes

Valuation

The valuation of assets and technical provisions for Solvency II purposes are derived predominantly from the same data and models as used in preparation of the Statutory Accounts, and a key internal process control is to reconcile from the audited Statutory Accounts to the valuation of assets and technical provisions for Solvency II reporting. Full details on the reconciliation between SE plc's International Accounting Standards in conformity with the requirements of the Companies Act 2006

balance sheet and its Solvency II balance sheet are described in Chapter D. Valuation for Solvency Purposes.

E. Capital Management

Overview of 2020 and key results

For SE plc, the Own Funds is the excess of assets over liabilities of the Company valued on a Solvency II basis, subject to adjustment for non-available assets. The Company holds capital to protect the interests of its policyholders, investors and other stakeholders. Under Solvency II, the Solvency Capital Requirement ('SCR') represents the amount of capital that the Company must hold, in addition to the assets backing the technical provisions, in order to ensure that it will still be in a position, with a probability of at least 99.5%, to meet its obligations to policyholders and beneficiaries over the following 12 months. The minimum level and composition of an insurer's Own Funds is then determined by reference to its SCR. For SE plc, a Partial Internal Model has been approved by the Regulator for the measurement of the SCR.

The UK and EU signed a Trade and Cooperation Agreement (TCA) on 24 December 2020, but it does not cover financial services. Therefore, following the end of the Brexit transition period at 23:00 on 31 December 2021, UK financial services undertakings are subject to the relevant regulations under UK statute; EU regulations no longer directly apply.

Existing approvals of Internal Models and Internal Model Change Policies issued by an EEA supervisor have been grandfathered by the PRA. Therefore, SE plc can continue to use the Internal Model as it stood at the point of transition to calculate its Solvency II SCR.

Amounts in GBP millions	2020	2019	%
Solvency Capital Requirement (SCR)			
Eligible own funds to meet the SCR *	2,462.2	2,142.5	15%
SCR**	1,585.6	1,462.4	8%
Solvency II ratio	155%	147%	
Minimum Capital Requirement (MCR)			
Eligible own funds to meet the MCR *	2,462.2	2,142.5	15%
MCR	600.7	559.6	7%

*the Own Funds are all unrestricted Tier 1 capital

**unaudited

The year-end Solvency II ratio is 155% (2019: 147%) for the Company representing the Own Funds as a ratio of the SCR.

The SII ratio (Own Funds/SCR) is a key performance indicator for the business.

This is a strong capital position evidencing our ability to meet policyholder obligations when they fall due, even under stressed conditions. Furthermore, this level of capital is within our target capital zone per the Capital Management Policy and the Company is projected to maintain a healthy capital position. This allows the business to make further investment in the business, provide dividend payments to its shareholder, whilst ensuring a strong level of protection to its policyholders. There have not been any instances during 2020 where the estimated SE plc Solvency II ratio was below the SCR, nor the MCR level.

In accordance with the Solvency II rules, the Regulator allows companies to apply certain adjustments to calculation of their Own Funds and capital requirements. The Company applies adjustments under these rules. The impact of these adjustments on the Company’s Solvency II ratio is set out below.

Solvency II ratio - impact of adjustments

	2020	2019
Actual Solvency II ratio	155%	147%
Solvency II ratio without volatility adjustment	155%	146%
Solvency II ratio without volatility and matching adjustments	150%	142%

Use of transitional measures

Article 308b of the Solvency II Directive also allows for companies to use transitional measures to phase in the effect of changes arising from the implementation of Solvency II. SE plc does not currently use these transitional measures.

Full details on SE plc’s Own Funds and SCR are provided in Chapter E. Capital Management.

A. Business and Performance

A.1 Business

A.1.1 Overview

SE plc is a public limited company domiciled and incorporated in Scotland and operates under the laws of Scotland and the laws of England and Wales. The Company is not directly listed but, as a UK-based subsidiary of a listed company based in the Netherlands, its governance aims to adhere to the principles of both the UK and Dutch Corporate Governance Codes. The subsidiaries to SE plc are outlined in Section A.1.5.

The Company's principal activity is the provision of corporate and individual pensions, protection products, and savings products in the UK. SE plc is predominantly a long-term savings and protection business, supporting customers who are retired or saving for their retirement.

A.1.2 Regulators and auditor

The authorities responsible for regulatory supervision of SE plc are:

- Prudential Regulation Authority (or PRA)
Address : 20 Moorgate, London, EC2R 6DA
Telephone : +44 (0)20 7601 4444
- Financial Conduct Authority (or FCA)
Address : 12 Endeavour Square, London, E20 1JN
Telephone : +44 (0)20 7066 1000

The authority responsible for Solvency II group supervision of the Aegon N.V. Group is:

- De Nederlandsche Bank (or DNB) - the Dutch Central Bank
Address : Westeinde 1, 1017 ZN, Amsterdam
Telephone : +31 (0)20 524 9111

PricewaterhouseCoopers LLP is the external auditor of SE plc who can be contacted as follows:

Address : Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
Telephone : +44 (0)131 226 4488

A.1.3 Solvency II key figures

For SE plc, the Own Funds is the excess of assets over liabilities of the Company valued on a Solvency II basis, subject to adjustment for non-available assets. The Company holds capital to protect the interests of its policyholders, investors and other stakeholders. Under Solvency II, the Solvency Capital Requirement ('SCR') represents the amount of capital that the Company must hold, in addition to the assets backing the technical provisions, in order to ensure that it will still be in a position, with a probability of at least 99.5%, to meet its obligations to policyholders and beneficiaries over the following 12 months. The minimum level and composition of an insurer's Own Funds is then determined by reference to its SCR. For SE plc, a Partial Internal Model has been approved by the Regulator for the measurement of the SCR.

In the following table the Solvency II key figures for SE plc are presented:

Solvency II key figures

Amounts in GBP millions	2020	2019	%
Own Funds	2,462.2	2,142.5	15%
SCR*	1,585.6	1,462.4	8%
Solvency II ratio	155%	147%	

*unaudited

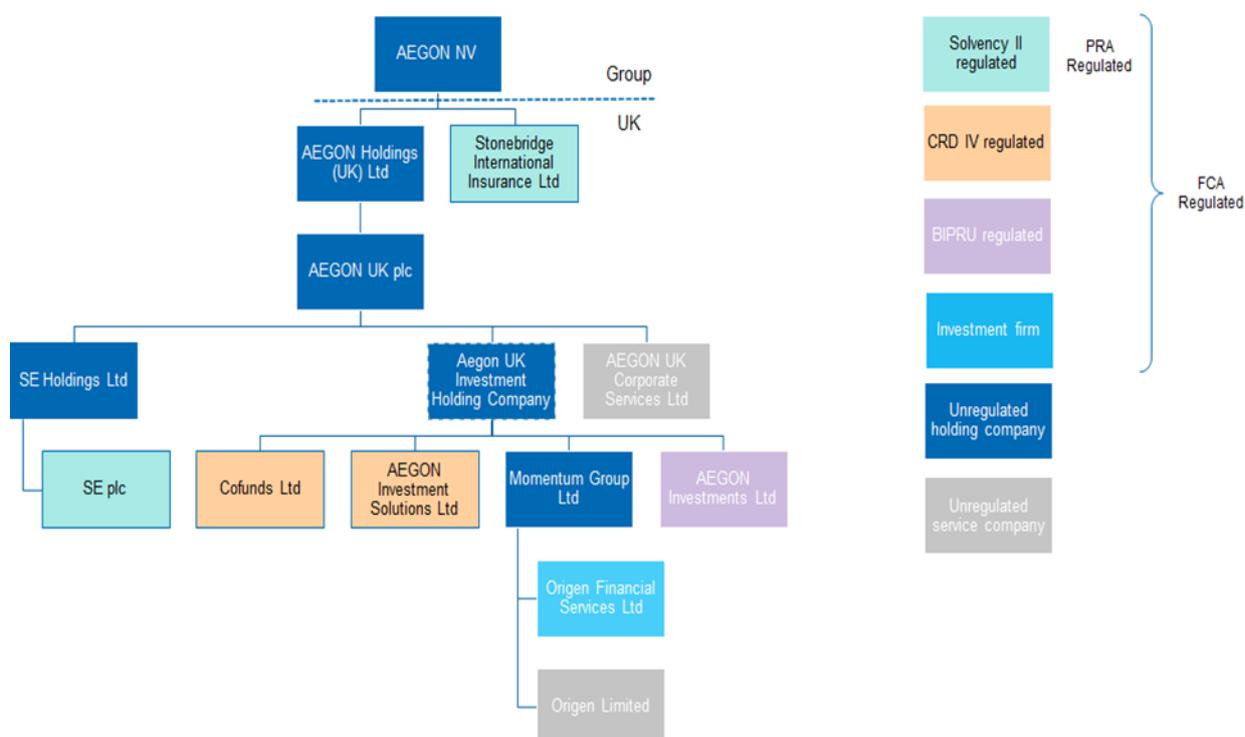
The 2020 Solvency II ratio is 155% (2019: 147%) which is within our target capital range. The composition of the Company's Own Funds is discussed in more detail in Section E.1 of this report.

The Solvency II ratio (Own Funds/SCR) is a key performance indicator for the business. A higher Solvency II ratio provides a strong indication of the level of excess assets in the Company and hence the ability to utilise those assets to invest further in the business or to make dividend payments to the Aegon shareholder.

Capital generation is an indicator of the Company's ability to generate a surplus of assets over liabilities as well as releasing risk capital over time. In combination with the SII ratio we can derive and forecast the ability to generate future surpluses. Later in Section A, the underwriting and investment performance for the Company are set out which act as drivers of the overall business performance.

A.1.4 Ownership Structure

SE plc is a wholly owned subsidiary of Aegon N.V. The following structure chart illustrates the Company within the wider Aegon UK and Aegon Group structure (simplified):



The following changes have taken place since 31 December 2020:

- A holding company was added to the legal entity structure with effect from 1 January 2021, Aegon UK Investments Group Limited (AUKIG), which is a subsidiary to Aegon UK plc. Cofunds Limited, Aegon Investment Solutions Limited, Aegon Investments Limited, and Momentum Group Limited (holding company for Origen Limited) are subsidiaries to AUKIG.

- The legal sale of Stonebridge International Insurance Ltd to Global Premium Holdings group, part of Embignell group, was completed on 28 February 2021.

A.1.4.1 Immediate parent undertaking

Except for one share held in the name of Aegon UK plc, all the issued share capital of SE plc is held by SE plc Holdings Limited, which is registered in Scotland.

Except for one special share (see below), all the share capital of Scottish Equitable Holdings Limited is held by Aegon UK plc which is a wholly owned subsidiary of Aegon Holdings (UK) Ltd.

Aegon Holdings (UK) Ltd is a wholly owned subsidiary of Aegon Europe Holding B.V., which is a wholly owned subsidiary of Aegon N.V., the ultimate parent company of the Aegon Group. Aegon Holdings (UK) Ltd and Aegon N.V. are public limited liability companies, Aegon Europe Holding B.V. is a private limited liability company. Aegon N.V. and Aegon Europe Holding B.V. are located in The Hague, Netherlands.

The special share in Scottish Equitable Holdings Ltd is held by SEPT, a limited company established for the protection of the members of the Scottish Equitable Life Assurance Society at 31 December 1993 and future with-profits policyholders of the Insurer. SEPT is contracted by the Company to undertake the role of the independent With-Profits Committee of the Company as defined in the rules of the Financial Conduct Authority (FCA). As holder of the special share, SEPT is entitled to receive notice of and attend meetings of members of Scottish Equitable Holdings Ltd and to vote on a show of hands. On a poll, however, the voting rights attaching to the special share have now reduced to nil, a direct consequence, under the Constitution, of policyholders' interests in the non-participating business falling to zero.

A.1.4.2 Ultimate parent undertaking

The results of SE plc are consolidated in the accounts of Aegon N.V., the ultimate parent undertaking, which is incorporated in the Netherlands. Copies of the consolidated accounts of Aegon N.V. are available to the public and may be obtained from The Company Secretary, Aegon UK plc, Aegon Lochside Crescent, Edinburgh Park, Edinburgh, EH12 9SE, or from its website www.aegon.com.

A.1.5 List of principal subsidiaries, joint ventures and investments in associates

SE plc has the following two wholly owned subsidiaries:

- Aegon UK IT Services Ltd
- Scottish Equitable (Managed Funds) Ltd

Both companies are registered in Scotland, and both are dormant.

A.1.6 Material lines of business and material geographical areas.

The Company is a company incorporated in Scotland based in Edinburgh, selling to UK residents.

The Company's material lines of business are:

- Unit-Linked Savings ("Unit-Linked")
- With-Profits ("Insurance with-profit participation/Other Life")
- Protection ("Health and Other Life")
- Annuities ("Other Life")

(Note: Solvency II classifications of business shown in brackets for consistency with SFCR and Quantitative Reporting Templates (QRTs)).

The Unit-Linked savings portfolio includes c. £72bn (2019 c. £67bn) of policyholder savings which are invested in a range of funds offered to our customers. The portfolio includes unit-linked savings on both traditional systems as well as our digital systems.

With-Profits is a pooled investment arrangement whereby all profits and losses of the With-Profits Sub-Fund (WPSF) are shared fairly amongst the participating investors. Typically these investments offer a minimum guaranteed return plus some stability in pay-outs through smoothing out the effects caused by short-term movements in investment markets. The WPSF is also liable to meet certain guarantee costs relating to unit-linked business.

The Company has historically offered three types of with-profits investment, which are now closed to new business.

- Traditional With-Profits (TWP) - offers a level of guaranteed benefit in return for the payment of a premium or a series of premiums.
- Unitised With-Profits (UWP) - offers a level of guaranteed benefit linked to the payment of each individual premium, expressed in terms of a unit value.
- New Generation With-Profits (NGWP) – here there is no concept of guaranteed benefits, with benefits being determined by reference to a smoothed unit price that normally changes on a daily basis.

The Company offers a range of protection products including life insurance, critical illness, and income protection.

A.2 Underwriting performance

This section provides an overview of the underwriting performance of the Company. All premium income arises in the United Kingdom.

Since the Company prepares its financial statements in accordance with IFRS, the underwriting performance information given in this section is on an IFRS basis. The table below shows the Company's premiums, claims, and expenses as included in the statutory accounts:

Amounts in GBP millions	2020	2019 *	%
Premium income *	4,306.3	5,444.1	(21%)
Premiums paid to reinsurers	163.9	166.4	(2%)
Claims and benefits paid to policyholders *	10,183.3	16,661.8	(39%)
Income from reinsurance ceded	181.0	176.5	3%
Commissions and expenses			
Commissions	64.9	73.6	(12%)
Investment management expenses	37.0	35.6	4%
Administration expenses	334.5	356.2	(6%)
Depreciation - right of use asset	4.7	4.7	0%
Deferred expenses	(52.3)	(60.4)	13%
Amortisation of deferred expenses	89.9	95.1	(5%)
Total Commissions and expenses	478.7	504.8	(5%)

* re-stated

* The prior year comparatives have been restated following the identification in 2020 of a historic misclassification of a portfolio of investment contracts. These were accounted for as investment

contracts with discretionary participation features under IFRS 4 Insurance Contracts and should have been accounted for as investment contracts without discretionary participation features under IAS 39 Financial Instruments: Recognition and Measurement. This restatement has had no impact on the Net Income / (loss) or the face of the statement of financial position in the prior or current year. The effect on the 2019 underwriting figures presented above is, Premium income decreased £66.4m, Claims and benefits paid to policyholders decreased £64.7m and in Section A.4.1 below, fee income increased £1.7m.

Premium income is specified in the table below by material line of business. On a Statutory Accounts basis, gross premiums, including recurring and single premiums, from insurance contracts and from investment contracts with discretionary participation features are recognised as revenue when they become receivable. For investment contracts without discretionary participation features where deposit accounting is required, the deposits are not reflected as premium income, but are recognised as part of the financial liability.

Primarily as a result of the effect of COVID-19, premium income reported on both a Statutory Accounts and SII basis has decreased in the period, albeit investment without discretionary participation increased from c.£4.1bn in 2019 to c.£4.4bn in 2020. A reconciliation from the Statutory Accounts to SII values is shown further below.

The Company utilises reinsurance in respect of the Protection portfolio which increased due to increased protection activity.

Claims and benefits paid to policyholders include changes in technical provisions as well as claims. The change in technical provisions includes new premiums in excess of claims and the impact of markets and methodology changes. The change in technical provisions in 2020 included considerably lower market returns relative to 2019 (see results from financial transactions in A3.1).

Commissions paid were £8.7m lower than 2019 as older policy commission runs off. Following the Retail Distribution Review put in place at end of 2012, commission paid on new policy sales was replaced by fees charged directly between advisor and customer. Administration expenses were £21.8m lower than 2019, resulting from lower contributions to the staff pension scheme and lower project and restructuring costs in 2020. Net deferral and amortisation of expenses is marginally higher in 2020.

The table below shows the Company's premiums, claims, and expenses split by SII lines of business. A reconciliation from the Statutory Accounts to these SII values is then shown further below. Materially, there is no timing difference between premiums written and premiums earned.

Underwriting performance by material line of business (net of reinsurance)

2020	Premium written	Claims incurred	Expenses incurred
Amounts in GBP millions			
Life			
Health insurance	9.4	2.1	6.9
Insurance with profit participation	24.2	449.0	5.9
Index-linked and unit-linked insurance	8,364.7	8,587.3	360.0
Other life insurance	91.2	70.1	68.2
Total	8,489.5	9,108.5	441.0

2019			
Amounts in GBP millions	Premium written	Claims incurred	Expenses incurred
Life			
Health insurance	9.1	2.0	8.3
Insurance with profit participation	30.3	487.1	6.7
Index-linked and unit-linked insurance	9,243.2	8,664.4	380.3
Other life insurance	87.0	71.5	81.4
Total	9,369.6	9,225.0	476.7

More analysis can be found in Quantitative Reporting Templates S.05.01.02 Premiums, claims and expenses by line of business and S.05.02.01 Premiums, claims and expenses by country.

Disclosure requirements differ between Statutory Accounts Income Statement and Solvency II Premiums, Claims and Expenses, whereby the Solvency II requirement is to exclude movements in technical provisions and deferred acquisition costs to generate premium income, claims expense, and commission and expenses. A reconciliation is provided below.

2020							
Amounts in GBP millions	Premium income	Premiums paid to reinsurers	Net Premiums	Claims and benefits paid to policyholders	Income from reinsurance ceded	Net Claims	Commission and expenses
Statutory Accounts - Income Statement (Extract)	4,306.3	163.9	4,142.4	10,183.3	181.0	10,002.3	478.7
Include Deposit Accounting Premiums/Claims	4,350.6		4,350.6	3,667.1		3,667.1	
Remove Change in Reinsurance Technical Provisions					(47.3)	47.3	
Remove Change in Technical Provisions		3.5	(3.5)	(4,608.2)		(4,608.2)	
Reallocate Claims Handling Expenses				-		-	
Remove DAC Movement							(37.7)
Solvency II - S.05.01 (Extract)	8,656.9	167.4	8,489.5	9,242.2	133.7	9,108.5	441.0

2019							
Amounts in GBP millions	Premium income *	Premiums paid to reinsurers	Net Premiums	Claims and benefits paid to policyholders *	Income from reinsurance ceded	Net Claims	Commission and expenses
Statutory Accounts - Income Statement (Extract)	5,444.1	166.4	5,277.7	16,661.8	176.5	16,485.3	504.8
Include Deposit Accounting Premiums/Claims *	4,092.0		4,092.0	2,675.8		2,675.8	
Remove Change in Reinsurance Technical Provisions					(31.9)	31.9	
Remove Change in Technical Provisions				(9,961.4)		(9,961.4)	
Reallocate Claims Handling Expenses				(6.6)		(6.6)	6.6
Remove DAC Movement							(34.7)
Solvency II - S.05.01 (Extract)	9,536.1	166.4	9,369.6	9,369.6	144.6	9,225.0	476.7

* prior year figures have been restated as noted on page 15

A.3 Investment performance

A.3.1 Investment income and expenses

This section provides an overview of the investment performance of the Company. The investment performance is specified by income and charges, and by type. The income can relate to the shareholder (or 'general account') or the policyholder, according to who bears the financial risks.

Investment performance

Amounts in GBP millions	2020	2019	%
Investment income	1,608.5	1,586.7	1%
Results from financial transactions	4,747.3	10,031.9	(53%)
Total investment income	6,355.8	11,618.6	(45%)
Other investment charges	5.4	5.1	6%
Total investment charges	5.4	5.1	6%
Total investment performance	6,350.4	11,613.5	(45%)

The investment income relates to income on policyholder and shareholder held investments in the period such as bond coupons and dividends. The movement is described in A.3.2 below.

The results from financial transactions relate to investment performance on investments held by policyholder and shareholder. The movement is described in A.3.2 below.

A.3.2 Overall investment performance

A breakdown of the investment income is outlined in the following table:

Investment income

Amounts in GBP millions	2020	2019	%
Interest income	350.0	398.0	(12%)
Dividend income	1,223.7	1,144.9	7%
Rental income	34.8	43.8	(21%)
Derivative income	-	-	-
Total Investment Income	1,608.5	1,586.7	1%
Investment income related to general account	35.8	39.1	(8%)
Investment income for account of policyholders	1,572.7	1,547.6	2%
Total Investment Income	1,608.5	1,586.7	1%

The Company's investment income mainly consists of interest income of £350.0m, (2019: £398.0m) and dividend income of £1,223.7m, (2019: £1,144.9m). Compared to 2019, interest income decreased by 12% and dividend income increased by 7%. The decrease is due to lower interest yields, and the increase due to higher market dividend from investment funds.

Investment income by asset class can be analysed as follows:

Investment income by asset class

Amounts in GBP millions	2020	2019	%
Shares	1,223.7	1,144.9	7%
Debt securities and money market instruments	347.3	391.7	(11%)
Loans	0.6	0.7	(14%)
Real estate	34.8	43.8	(21%)
Other	2.1	5.6	(63%)
Total	1,608.5	1,586.7	1%

A breakdown of the Results from financial transactions is outlined in the following table:

Results from financial transactions

Amounts in GBP millions	2020	2019	%
Net fair value change on general account financial investments at fair value through profit or loss (all designated), other than derivatives	75.2	33.9	122%
Realised gains and losses on general account financial investments	0.4	1.1	(64%)
Fair value changes on general account economic hedges for which no hedge accounting is applied	3.3	(22.0)	115%
Net fair value change on account of policyholder financial assets at fair value through profit or loss (all designated)	4,700.7	10,035.0	(53%)
Net fair value change on investments in real estate for account of policyholders	(32.3)	(16.1)	(101%)
Total	4,747.3	10,031.9	(53%)

A breakdown of net fair value change on general account financial investments at fair value through profit or loss (all designated), other than derivatives is outlined in the following table:

Net fair value change on general account financial investments at fair value through profit or loss (all designated), other than derivatives comprise:

Amounts in GBP millions	2020	2019	%
Shares	1.4	2.7	(48%)
Debt securities and money market investments	73.8	31.2	137%
Total	75.2	33.9	122%

A breakdown of realised gains and losses on financial investments is outlined in the following table:

Realised gains and losses on financial investments comprise:

Amounts in GBP millions	2020	2019	%
Debt securities and money market investments	0.4	1.1	(64%)
Total	0.4	1.1	(64%)

A breakdown of net fair value change on account of policyholder financial assets at fair value through profit or loss (all designated), other than derivatives is outlined in the following table:

Net fair value change on for account of policyholder financial assets at fair value through profit or loss (all designated), other than derivatives comprise:

Amounts in GBP millions	2020	2019	%
Shares	1,157.1	2,444.3	(53%)
Debt securities and money market investments	480.3	395.1	22%
Separate accounts and unconsolidated investment funds	2,628.5	6,949.4	(62%)
Derivatives	434.8	246.2	77%
Total	4,700.7	10,035.0	(53%)

Equity markets decreased substantially during 2020, the FTSE all share index decreased 12.5% compared to an increase in 2019 of 14.2%. This has led to a decrease in net fair value change on shares and separate accounts and unconsolidated investment funds.

A.3.3 Collateralised securities

Investments include collateralised securities held in the SE plc general account as follows.

Collateralised securities

Amounts in GBP millions	2020	2019	%
Commercial mortgage backed securities (CMBS)	109.0	108.7	0%
Asset backed securities - other (ABS)	66.5	60.9	9%
Total	175.5	169.6	3%

SE plc's interests in these unconsolidated structured entities can be characterised as basic interests, the Company does not have loans, derivatives, or other interests related to these investments. Specifically for CMBSs and ABSs the maximum exposure to loss is equal to the carrying amount. To manage credit risk the Company invests primarily in senior notes of CMBSs, and ABSs. The composition of the RMBSs, CMBSs and ABSs portfolios of the Company are widely dispersed looking at the individual amount per entity, therefore the Company only has non-controlling interests in individual unconsolidated structured entities.

The Company did not provide financial or other support to unconsolidated structured entities. Nor does the Company have intentions to provide financial or other support to unconsolidated structured entities in which the Company has an interest or previously had an interest. The Company did not recognise other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments, or other liabilities.

A.4 Performance of other activities

A.4.1 Other activities income and expenses

This section provides an overview of the performance of other activities (other than underwriting or investment).

Performance of other activities

Amounts in GBP millions	2020	2019 *	%
Fee and commission income	64.4	54.7	18%
Total performance of other activities	64.4	54.7	18%

* 2019 numbers have been restated as noted on page 15

Fees and commissions from investment management services and mutual funds are recognised as revenue over the period in which the services are performed or for sales activities where services have been rendered.

Fee and commission income

Amounts in GBP millions	2020	2019 *	%
Fee income from asset management	2.8	2.9	(3%)
Other (see below)	61.6	51.8	19%
Total fee and commission income	64.4	54.7	18%

* 2019 numbers have been restated as noted on page 15

Fee income from asset management principally relates to Fee income received for the platform assets under management.

Other fee and commission income has increased to £61.6m in 2020. Of this, £57.7m (2019: £46.1m) relates to fee income on investment contract business which has grown due to new business volumes, and £3.9m (2019: £4.0m) relates to introduction fees in relation to annuity new business now written by Legal and General.

A.4.2 Material leasing arrangements

As lessor, the Company has investments in real estate of c. £418m (2019: c. £497m). The investment properties are fully leased out under cancellable operating leases. This is split over a range of commercial properties.

A new accounting standard (IFRS16 Leases) was adopted from 1 January 2019, which requires lessees to recognise all leases other than short term leases on the balance sheet which reflect the company's right to use an asset for a period of time and the associated liability for payments. The remaining contractual maturity of the lease liability is set out in the table below.

Future lease payments

Amounts in GBP millions	2020			2019		
	Not later than 1 year	1-5 years	Later than 5 years	Not later than 1 year	1-5 years	Later than 5 years
Lease liabilities	7.4	31.8	113.2	7.2	30.9	121.5

A.5 Any other information

All material information regarding the Business and Performance of SE plc is covered earlier in this section.

B. System of Governance

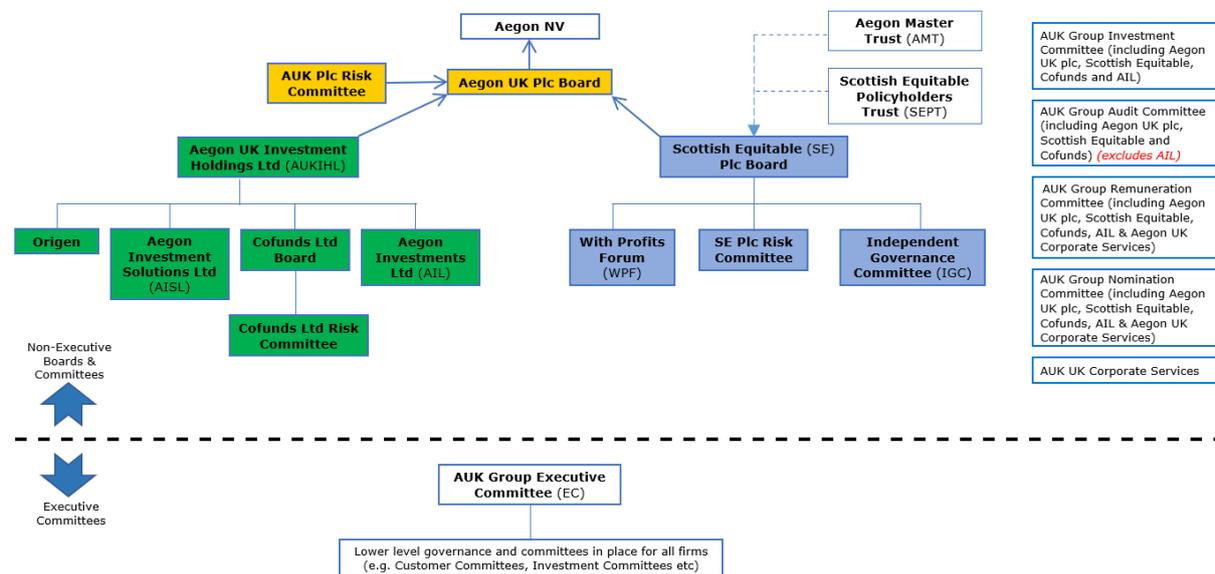
B.1 General Information on the System of Governance

B.1.1 Corporate governance

The Company is a fully regulated entity within the Aegon Group. Our corporate governance structure is in place to ensure the safe and efficient management of the Company, its operations and to protect the interests of its customers.

Specifically, as an insurance company with approval to use a Partial Internal Model (PIM), the Company is required to meet the governance requirements of Solvency II including those requirements applying to internal model firms. There is a 'System of Governance' in place including the oversight of the PIM as detailed within this section.

An overview of the corporate governance framework at the time of writing is noted here:



This section will describe the key systems of governance as they relate to the Company within this section of the report.

B.1.1.1 SE plc Board

The SE plc Board is the statutory board of SE plc. It has oversight of the Company and assumes overall management responsibilities for the Company. Within the Aegon UK Group (AUKG) governance structure, the Aegon UK plc Board ("AUK Board") has delegated to the SE plc Board the management of the Company in line with the Medium Term Plan (MTP) for the business and within agreed Aegon policies. The SE plc Board considers SE plc's capital position and SE plc specific issues, including risk matters, in separate SE plc Board meetings.

The SE plc Board's responsibilities include, without limitation:

- Agreeing the Medium Term Plan and Strategy as it relates to SE plc
- Oversight of delivery of the MTP
- SE plc components of AUKG matters including SE plc financials and performance
- Capital and management of risk profile including internal model
- SE plc control environment
- AUK Policy compliance

- g) Outsourcer and other third party management (including AUK provided services)
- h) Strategy for customers whose policies will not be Upgraded
- i) Oversight of operational changes
- j) Customer treatment and outcomes
- k) PRA and FCA regulatory compliance and relationship and interactions

In respect of strategy and Medium Term Plan development, the AUK Board together with the AUKG Executive Committee (EC), and with input from the SE plc Board and the Board of Cofunds Limited (“Cofunds”), sets the strategy for the AUKG. This includes the strategy for the distribution of AUKG’s pension and investment propositions.

Save for those matters (the “Reserved Matters”) which require the prior written approval of the Executive Board and/or the Supervisory Board of Aegon N.V., the SE plc Board has the authority to approve all matters, regardless of whether such matters have been delegated to a committee or sub-committee.

The SE plc Board is responsible for overseeing SE plc’s Enterprise Risk Management (ERM) framework, including risk governance and measures taken to ensure risk management is integrated properly into the Company’s broader strategy.

The SE plc Board has delegated responsibilities to committees of the Board, and the Board and its committees form the Administrative, Management, or Supervisory Body (AMSB). Specifically, the AMSB includes:

- SE plc Board
- AUKG Executive Committee
- AUKG Audit Committee
- SE plc Risk Committee
- AUKG Remuneration Committee
- AUKG Nomination Committee
- With-Profits Forum (WPF)

In addition, the SE plc Board has input and challenge from two independent committees, SEPT in relation to with-profits and the Independent Governance Committee in relation to the value for money of workplace pensions. The Aegon Master Trust Board may also escalate issues to the SE plc Board in relation to its purpose of performing the functions given to the Trustees of the Aegon Master Trust.

The Aegon Master Trust Trustees provide governance and investment oversight independently of Aegon and are responsible for the proper running of the Scheme in accordance with the Scheme documentation, legislation and regulation. The Aegon Master Trust Trustee Board is currently made up of five trustees, the majority of whom are non-affiliated Trustees, including the Chairman. The Board will shortly be moving to a fully independent Trustee Board, following the approval of an additional independent Trustee and the retirement of the two non-affiliated Trustees. In addition, the Board has recently established an Investment sub-committee and a Communication & Engagement sub-committee.

For Solvency II purposes, the key supporting Committees to the AUKG Executive Committee are the Risk and Capital Committee (RCC), Internal Model Management Committee (IMMC) and the Management Investment Committee (MIC).

B.1.1.2 AUKG Executive Committee (EC)

The purpose of the EC is to provide executive management of Aegon UK plc, Scottish Equitable plc, Cofunds Limited, Aegon Investment Solutions Limited, Aegon Investments Limited and Aegon UK Investment Holdings Limited on behalf of the Board of each entity. In addition, the EC will act on behalf of the relevant Trustees of the trust based pension schemes of the Aegon UK group.

Where a matter arises which is out-with the MTP or agreed AUKG policies, it is considered and determined by the AUK Board together with the EC and with input from the SE plc Board and the relevant entity Board.

The EC's authority encompasses establishment and empowerment of the following committees as set out in their Terms of Reference: Customer Committee, Management Investment Committee, Risk and Capital Committee, and CASS Review and Oversight Committee.

B.1.1.3 AUKG Audit Committee (Committee of the Board)

The AUKG Audit Committee is a committee of the AUK plc Board, SE plc Board and Cofunds Ltd Board from which it derives its authority and to which it regularly reports. The Committee is concerned with the business of each of AUK plc, SE plc and Cofunds Ltd.

The Committee has authority to investigate any matters within its responsibilities and to obtain such information and explanations as it may require from any director, officer, or employee of the companies.

The responsibilities of the Committee include Internal Controls; Financial Reporting; External Audit; Internal Audit; Litigation; Whistle-blowing, Fraud and Anti-Money Laundering; and Regulatory Risk. Whistleblowing arrangements in the firm are governed by the Audit Committee.

B.1.1.4 SE plc Risk Committee (Committee of the Board)

The SE plc Risk Committee is a committee of the SE plc Board from which it derives its authority and to which it regularly reports. Its purpose is to provide oversight, approvals on behalf of, and make recommendations to, the SE plc Board in respect of Risk and certain Capital matters.

The Committee has authority to investigate any matters within its responsibilities and to obtain such information as it may require from any director, officer, or employee of the AUKG.

The primary responsibilities of the SE plc Risk Committee are Risk Management and Capital and Liquidity Management.

In relation to With-Profits matters, the remit of the Committee is to consider risks in relation to such matters in the context of the impact they may have on the Non-Profit Sub-Fund (NPSF) and the shareholder.

B.1.1.5 AUKG Remuneration Committee (Committee of the Board)

The Remuneration Committee ("REMCO") is appointed by the Boards of a number of AUKG Companies including SE plc, the purpose of REMCO is to:

- undertake governance over SE plc remuneration policy.
- make recommendations to the Boards of the Companies on the remuneration philosophy of AUKG, including the framework for the remuneration of the AUKG executives and to determine and review remuneration packages. In particular, the REMCO establishes overarching principles and parameters for a remuneration policy on an AUKG wide basis to ensure REMCO has appropriate oversight and sufficient understanding of overall remuneration policy.

- determine and regularly review specified remuneration packages, including incentive structures and awards, pension rights and any compensation payments, for each of the executive directors, the members of the Executive Committee, and the Company Secretary. No director or manager shall be involved in any decisions as to their own remuneration.
- regularly review (but not determine) specified remuneration packages, including incentive structures and awards, pension rights and any compensation payments for Material Risk Takers and other senior executives whose remuneration is not subject to the paragraph above (which are those employees who exercise a significant influence function or whose activities could have a significant impact on the risk profile of the entity). No director or manager shall be involved in any decisions as to their own remuneration.

B.1.1.6 Nomination Committee (Committee of the Board)

The Nomination Committee is appointed by the Boards of a number of AUKG Companies including SE plc, the purpose of the Nomination Committee is to:

- make recommendations in relation to the appointment of executive and non-executive directors and direct reports of the AUKG Chief Executive Officer (CEO).
- lead the process for appointments to the Board of each Company and to review the composition of and succession to each Board and recommend to each Board the appointment of executive and non-executive directors following a formal and rigorous review process. This involves an on-going assessment of the overall balance and performance of each Board and their individual members, ensuring a strong and effective executive and non-executive team is in place.

B.1.1.7 With-Profits Forum (Committee of the Board) & With-Profits Committee

The purpose of the WPF is to act as the forum in which the responsibilities of SE plc Board relating to the governance of With-Profits business can be discharged. This includes dealing with potential conflicts of interests and ensuring equity between with-profits policyholders and shareholders. The WPF reports directly to the SE plc Board. Scottish Equitable Policyholders Trust Limited (“SEPT”) has the right to be represented on the WPF.

Decisions made on matters within the remit of the WPF are reported to the SE plc Board.

Responsibilities in relation to the following matters have been delegated to the WPF by the SE plc Board (i) Annual Bonus Policy, (ii) Terminal bonus and Market Value Reduction (MVR) policy, (iii) Investment Policy and Strategy, (iv) Principles and Practices of Financial Management (PPFM) compliance, (v) Scheme compliance, (vi) Estate distribution and guarantee charge, (vii) Maintenance of the PPFMs, (viii) Treating Customers Fairly, (ix) Annual Report to With-Profits policyholders, (x) Solvency position, (xi) Management Actions, (xii) Identification of With-Profits Sub-Funds, (xiii) Investment Decisions, (xiv) Incident Resolution and (xv) Discretionary Benefits.

The primary responsibilities of the WPF as they relate to Risk Management in the WPSF cover: With-Profits specific risk appetite statements; receive and review risk reports, and the With-Profits section of the Own Risk and Solvency Assessment; review and approve the approach to and management of material risks to the WPSF; and review and approve the implementation of risk policies, ensuring the effectiveness of the overall risk policy framework.

SEPT is contracted to act as the With-Profits Committee of the Company. The With-Profits Committee is an advisory rather than decision making body and its terms of reference is aligned to the requirements set in Chapter 20 of the Financial Conduct Authority’s Conduct of Business Rules. The purpose of the With-Profits Committee is to advise the Board on all aspects relating to management of the WPSF, ensuring that with-profits policyholders’ interests are appropriately considered. Although, as required by the SE plc scheme of demutualisation, SEPT is funded by the Company, the

directors of SEPT are independent of SE plc and in particular are not directors or employees of SE plc or Aegon UK.

B.1.1.8 Risk and Capital Committee

The RCC is a second line committee established to monitor, oversee and challenge the management of risk and capital issues, challenge and recommend risk policy, direct corrective action or escalate issues to EC, SE plc Risk Committee, the AUKG Audit Committee, or the Group Risk and Capital Committee (GRCC) as appropriate.

B.1.1.9 Internal Model Management Committee

The IMMC is a sub-committee of RCC with a remit to monitor and control the management of/or change to SE plc's models as stipulated in the Model Risk Management Framework, ensuring the ongoing appropriateness of the models, and escalating issues to the SE plc Risk Committee, the SE plc Board, or the Group Risk and Capital Committee (GRCC) as appropriate.

B.1.1.10 Management Investment Committee (MIC)

The Management Investment Committee (MIC) is a committee which considers, oversees, and makes recommendations to the EC on all matters relating to investments of the Company as well as a broader remit within Aegon UK.

Investment governance within the responsibility of the MIC covers general accounts assets, with-profits fund assets, and unit-linked assets (including those not managed by Aegon Asset Management). The MIC has authority to make decisions in relation to certain matters delegated to it.

The MIC has established the Credit and Liquidity Committee to provide oversight of the credit risk and liquidity risk exposures.

B.1.1.11 Key functions

Key functions are all held by Board members or direct reports of the CEO or another EC or Management Committee member. All key function holders participate in relevant governance committees giving access to the Board and key decision making. One exception to this is the independent Chair of the With-Profits Committee who is a director of SEPT and not SE plc.

SE plc has implemented the following four key control functions: risk management, compliance, internal audit and the actuarial function. These functions have been in place within Aegon for many years.

- *Risk management*
The Company Chief Risk Officer (CRO) is the function holder for risk management. He is also a member of the SE plc Board.
- *Compliance*
The Company CRO is also the key function holder for Solvency II Compliance. This is a 2nd line role given Solvency II independence requirements.
- *Internal Audit*
The Chief Internal Auditor (UK) is the function holder for Internal Audit. In line with the requirements, Internal Audit is fully objective and independent from all other functions. The Chief Internal Auditor (UK) has an escalation path and primary reporting line to the Chair of the Aegon UK Group Audit Committee. In addition, the Chief Internal Auditor (UK) has an escalation path to the Group Chief Audit Executive and UK Chief Executive Officer.
- *Actuarial function*
The Chief Actuary is the Head of the Actuarial Function and is a direct report to the Chief Financial Officer (CFO).

The holders of these roles have direct access to the Board or relevant Board Committees. The Audit and Risk Committees review and assess the effectiveness of the Risk, Compliance and Internal Audit functions annually ensuring they have the necessary authority, resources and independence.

B.1.2 Remuneration policy

B.1.2.1 AUKG Remuneration Committee

All Remuneration within AUKG (including employees acting on behalf of SE plc) is overseen by the REMCO. Decisions of the REMCO are taken by a quorum of independent Non-Executive Directors and Aegon N.V. shareholder representatives.

B.1.2.2 Aegon Group Global Remuneration Framework

Aegon has developed the Aegon Group Global Remuneration Framework (AGGRF) to govern all remuneration in the Aegon Group, including within AUKG. The AGGRF is reviewed annually by Aegon N.V.

The AGGRF sets out Aegon Group's remuneration philosophy, principles, and guidelines to be applied to all staff. It has been developed to comply with applicable remuneration regulation. In the UK, the requirements of the FCA Code and PRA Senior Insurance Managers Regime are taken into account in its application.

The AGGRF contains specific rules applicable to the remuneration of the Aegon N.V. Executive Board, Material Risk Takers, and Control Function Staff. It is further supported by detailed methodologies to ensure risk alignment of remuneration policies and practices within the risk tolerances of the Aegon Group. The AGGRF supports Aegon Group HR strategy and local business objectives to:

- attract, retain, motivate and reward a highly-qualified and diverse workforce
- align the interests of executives, managers and all other staff with the business strategy and risk tolerance, values and longer-term interests of Aegon Group as a whole, as well as those of the individual reporting units concerned
- provide a well-balanced and performance-related compensation package to all staff, taking into account shareholder and other stakeholder interests, relevant regulations, and Aegon Group corporate responsibilities.

The AGGRF has the following key pillars, and all remuneration in the Aegon Group must comply with these principles:

- Aegon remuneration is employee-oriented
- Aegon remuneration is performance-related
- Aegon remuneration is geared towards internal and external equity
- Aegon remuneration is risk-prudent

In setting remuneration packages for individual employees, AUKG adopts a job evaluation approach. All roles are evaluated according to recognised job evaluation methodology and are then benchmarked against industry data to ensure that total reward (fixed compensation, variable compensation, and contractual benefits) is appropriate to the particular role and local market conditions.

B.1.2.3 Fixed and Variable Compensation

Remuneration packages within AUKG are categorised into Fixed and Variable Compensation. Fixed Compensation includes: Basic Salary, Employer Pension Contributions and contractual benefits. Variable Compensation is any type of remuneration that is not fixed. It includes participation in a performance bonus scheme appropriate to the employee's role. Other forms of variable pay such as sign on bonuses, retention bonuses, and variable severance pay are only permitted in exceptional circumstances and are subject to strict governance. Variable Compensation is limited to a maximum % of Basic Salary for all employees.

Variable Compensation paid to AUKG employees is from a bonus pool determined by company performance. The funding of the pool is determined by performance against financial and non-financial indicators which are agreed by the REMCO at the start of each performance year, and which are aligned to AUKG and Aegon Group's Medium Term Plan. Separate incentive schemes apply for employees in sales roles and these are similarly aligned to individual and company performance.

The allocation of individual awards to employees from the bonus pool is determined by personal performance against individual financial and non-financial objectives.

B.1.3 Material transactions with shareholders

No dividends were paid by SE plc to its parent company during 2020 (2019: £127m).

B.2 Fit and proper requirements

B.2.1 Requirements

AUKG is committed to a policy of proactive compliance with the PRA and FCA rules. The PRA/FCA expect adherence to standards of behaviour and conduct. These standards are expected as a minimum, and represent good business, ethical, and HR practice.

Apart from ensuring that individuals are made aware of their responsibilities, there are two main areas where AUKG has implemented rigorous processes and procedures:

1. the vetting and verification of individuals, and
2. the maintenance of clear organisational accountabilities: for both individual and group decisions.

The Board should have at its disposal:

- an affinity with and knowledge of the insurance industry, the financial services' market and Aegon UK's businesses;
- a passion for and knowledge and experience in delivering services to meet customer needs through marketing, distribution channels and the application of information technology and, in particular in relation to their financial needs, through investment management;
- experience in the business world both nationally and internationally;
- an understanding of the characteristics of the form of government and regulation and the social aspects of, as well as developments in, each of the countries within the United Kingdom in so far as relevant to the Company's businesses;
- actuarial, financial, accounting and business economics' expertise and the ability to judge issues in the areas of risk management, solvency, currencies and investment and acquisition projects;
- knowledge of and experience in the management of with-profits business;
- experience with, and understanding of the administrative procedures and internal control systems in a large organisation;
- an understanding of employment relationships, human resources and social developments;
- an understanding of public policy, regulatory and legal matters, corporate governance and social, ethical and professional standards; and
- experience and knowledge in the area of executive remuneration.

B.2.1.1 Vetting and verification of Approved Individuals

Those about to be appointed into a Senior Manager Function or Control Function role go through an AUKG vetting and verification process, prior to the application to the PRA/FCA. This applies whether the individual is an external or an internal appointment and whether the appointment arises as the result of restructure, succession planning, or redeployment.

To ensure that AUKG meets its regulatory obligations, it carries out 'due diligence' prior to the application being submitted to the PRA/FCA. In essence this requires AUKG to ensure that all the information provided is factually accurate.

Appointment to an approved role is conditional upon AUKG obtaining satisfactory information from the vetting and verification checks and PRA/FCA approval being granted. In assessing fitness and propriety, the PRA/FCA (and AUKG under the 'due diligence' process) consider both the relevance and the importance of any matter which comes to their attention which suggests that a person might not be 'fit and proper'.

B.2.1.2 Criminal Record Checks

Approved roles are subject to a check from the Criminal Records Bureau (CRB) and/or the Scottish Criminal Records Office. The information provided, includes details of cautions, reprimands or final warnings, as well as convictions. The check must be satisfactory to AUKG and the PRA/FCA for the appointment to be confirmed. Once the AUKG checks have been carried out satisfactorily, all required information is submitted to the PRA/FCA to go through its approval process.

B.2.1.3 Maintenance of clear organisational accountabilities

AUKG has processes in place to ensure the maintenance of clear organisational accountabilities for key decisions. These processes govern both collective and individual decision making.

The collective element is covered by AUKG high level committee structures, which deal with the corporate governance frameworks of the organisation. Each committee has its own terms of reference which covers its remit, membership, and operating/reporting requirements. In addition to this, individual Approved Persons are required to agree and maintain up to date documentation on their role. This includes a job description outlining the main responsibilities of the role. The job description should reflect both the PRA/FCA Controlled Function(s) that apply and details of any high-level Boards and Committees that the individual sits on, either as Chairperson or member. The significance of this is that the individual's responsibilities for both collective and individual decisions are reflected.

Name	SIMF position held	Role
Mike Holliday-Williams	SMF1/SMF3	Chief Executive function/Executive Director
Jim Ewing	SMF4/SMF3	Chief Risk function/ Executive Director
Stephen McGee	SMF2/SMF3	Chief Finance function/Executive Director
Mike Merrick	SMF9/SMF10	Chairman/Chair of Risk Committee
Simon Gulliford	SMF12	Chair of Remuneration Committee
Alison Morris	SMF5	Head of Internal Audit function
Alan McBride	SMF20a	With-Profits Actuary function
Leigh-Ann Plenderleith	SMF20	Chief Actuary function
Matt Rider	SMF7	Group Entity Senior Manager function
Mike Rogers	SMF7	Group Entity Senior Manager function
Dougy Grant	SMF18	Other Overall Responsibility
Brian Duffin	SMF15	Chair of the With-Profits Committee
Ronnie Taylor	SMF18	Other Overall Responsibility
Sharon Thomas	SMF16/SMF17	Compliance Oversight/Money Laundering Reporting
Theresa Froehlich	SMF14	Senior Independent NED
Nick Rodway	SMF 24	Chief Operations Senior Management Function

Mike Merrick is the temporary role holder for SMF11, Chair of Audit Committee, and Helen Heslop will become the permanent role holder following regulatory approval.

B.2.2 Process for assessment

The FCA and PRA Senior Manager and Certification Regime (SMCR) came into force on 10 December 2018 for insurers. The new regime was implemented to ensure the majority of firms (commencing with insurers) followed the same standards that were implemented for banks several years before.

The SMCR seeks to ensure that the senior persons who are running insurers, or who have responsibility for key functions at those firms, behave with integrity, honesty, and skill.

One of the regulators' key themes is senior management responsibility and accountability. Both regulators continue to stress that it is the individual and collective responsibility of senior management to ensure that firms comply with its regulatory obligations.

The objective of the Senior Manager Regime (for insurers) is to enhance the governance structures of Solvency II insurance firms. The regime reaffirms standards of fitness, propriety, and conduct for individuals that fall within scope and reflects the regulators' increased focus on greater personal responsibility and accountability.

The scope of the SMCR covers senior managers function holders who are subject to pre-approval by the regulators and/or FCA for a controlled function who are effectively running the insurer.

The Company ensures it has appropriate persons identified and approved in line with the SMCR regime.

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

B.3.1 Risk management system

B.3.1.1 SE plc's Enterprise Risk Management Framework

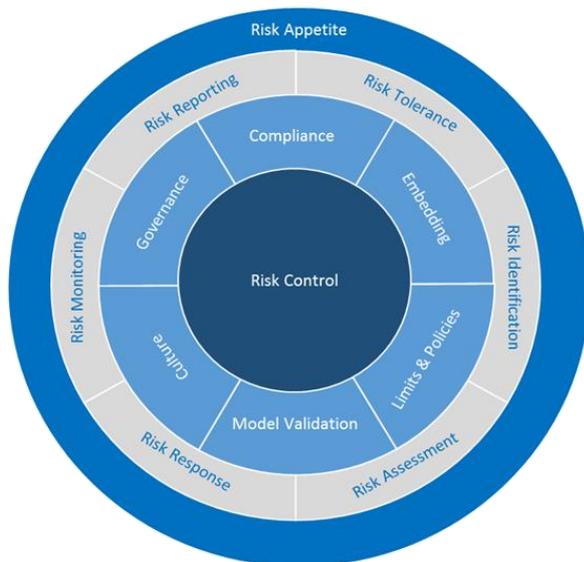
This section includes a description of the Company's Enterprise Risk Management (ERM) framework including risk appetite, risk tolerance, risk identification, risk assessment, risk response, risk reporting and monitoring, and risk control.

The framework is aligned to the Aegon Group Enterprise Risk Framework and involves:

- Understanding which risks the Company is facing.
- Establishing risk tolerances for the level of exposure to a particular risk.
- Utilising risk policies to set minimum standards to be met.
- Monitoring risk exposure and actively maintaining oversight over the Company's overall risk and solvency positions.

The ERM framework is represented by the diagram shown:

The ERM framework can be split into various components. The principles and requirements in the context of ERM concern both financial and operational risks.



Risk Appetite and Risk Tolerance: The Company sets a risk appetite for the business which articulates its risk objectives and attached limits for the key risks. This is articulated in the form of a risk appetite (the directional and core strategic view of risk) and the risk tolerance (setting out clear limits which are monitored against for financial strength, liquidity, continuity, risk balance, business performance and risk culture). Risk tolerance places reliance on the ability to enter into run-off safely. Risk appetite and tolerance is reviewed on an annual basis.

Risk Identification: The Company aligns to the Aegon Group Risk Universe which captures all material risk that the Company is exposed to. An emerging risk process is in place to ensure the appropriateness of the risk universe and the risk management framework.

Risk Assessment: The capital model quantifies the risks to which the business is exposed and capital is held to meet those risks.

Risk Reporting, Monitoring, and Response: Risks are monitored and formally reported through the governance structure. This takes various forms including, but not limited to, Risk Appetite monitoring, Risk Policy compliance, Incident reporting and Compliance Reporting. Mitigating actions are documented as required.

Risk Control: The ERM framework is supported and embedded by a strong risk culture throughout the Company. This is vital to ensuring that adherence to and use of the ERM is active on a day-to-day basis.

B.3.1.2 Aegon's risk governance framework

The risk governance framework is aligned to the corporate governance structure outlined earlier in this section.

B.3.1.2.1 Risk Management Function

The UK Risk function is led by the UK Chief Risk Officer who has reporting lines to the Group CRO and the UK CEO. Together with the Group Risk department of Aegon N.V. and the relevant Risk Committees this forms the second line of defence of the Company.

The main roles and responsibilities of the Risk function include:

- Development and maintenance of the ERM framework, which facilitates the identification, measurement, and management of risk, provides integrity of models and cash flows in the Company and protects the Company's reputation.
- Sharing of good practices and working together on relevant case studies/external standards in order to develop, adopt and maintain relevant standards of practice throughout Aegon.
- Support implementation of the ERM framework, risk methodology and standards of practice where needed.
- Provide subject matter expertise to businesses through review of key initiatives, assumptions, and results across all important reporting metrics. Monitor risk exposures and compliance with aspects of risk policies, in particular risk tolerance and risk policy limits.

- Ensure appropriate risk management information is prepared for use by the Management Committees, EC, and the SE plc Risk Committee.
- Oversight for material risk, balance sheet, and commercial decisions taken throughout the Company.
- Own and oversee the implementation of the SE plc Partial Internal Model.

The UK CRO leads the UK Risk function, is a member of the SE plc Board and EC, and attends the SE plc Risk Committee and Audit Committee.

The main objectives of the UK CRO are to:

- Maintain an organisation-wide and aggregated view on the risk profile of the Company.
- Oversee compliance with the enterprise risk management framework.
- Advise management on risk related matters, including risk tolerance, risk governance, and risk policies.
- Promote a strong embedded risk management culture across the business.
- Engage with regulators and legislators to understand, influence, and support the business response to proposed Government policy and regulations.
- Document the design of the Internal Model.
- Ensure that risk models are properly tested and validated.
- Oversee the model change framework and the validation framework.
- Analyse the performance of and suggest improvements to the Internal Model.

The CRO delivers this accountability with support from Group Risk Methodology, the UK Chief Actuary, the UK CFO, and the UK Finance function.

The activities allocated to the risk management function under Solvency II as set out in Article 44 of the Directive straddle activities owned by the UK Risk Team, the Aegon Group Risk Team, and the UK Finance Team:

- (a) The overall internal model is a Group internal model and, as applied to the UK business, is owned by the UK CRO. This includes the underlying risk universe and wider ERM Framework. The UK CRO chairs the IMMC which is responsible for monitoring and controlling the management of change to the internal model and escalating as appropriate.

The Group Risk methodology team are responsible for the design of the market related and operational risk related methodologies of the Internal Model (IM). The UK Chief Actuary is responsible for the design of the non-market related methodologies of the IM and ensuring that the methodologies developed by Group Risk are appropriate for the UK. Group Risk and the UK Chief Actuary are jointly responsible for the design of the aggregation methodology.

The UK Chief Financial Officer (CFO) is responsible for implementing the IM methodologies supported by the Actuarial Function.

- (b) The UK CRO is accountable for the testing and validation of the IM which provides an independent validation of the IM. The accountability for testing is delivered through oversight of testing undertaken by model owners and the accountability for validation is delivered through independent validation from teams comprising members from UK and Group risk. Independent validation is evidenced through component reports and the Overarching Validation report.

Validation reports are approved by the UK CRO and the Group Head of Operational and Model Risk Management in line with Group Model Validation policy. A UK Model Validation Committee facilitates this approval process.

The model owners (Group Risk methodology team or UK Chief Actuary) are responsible for maintaining the appropriate implementation of the IM. The model owners are required to respond to and address validation points arising. This is evidenced through Group Model Validation Policy, Validation Reports, and Overarching Validation Report.

- (c) The CRO is accountable for documenting the design of the IM, the model change framework and the validation oversight to the framework. This is evidenced through Group Model Validation policy, Group Model Change Policy, AUK Model Change Log, and IMMC ToR.

The Group Risk methodology team and the UK Chief Actuary are responsible for documenting the implementation of the PIM methodology. The UK CFO is responsible for documenting the implementation of PIM reporting. Model owners are responsible for documenting model changes in line with the model change policy.

- (d) The UK CFO is responsible for controls and testing around individual model runs. The UK CRO is accountable for analysing the performance of the PIM. The Risk function will independently assess the performance of the model by means of validation (and supporting assessments) and produce reports summarising the PIM performance at component and overall levels. This is embedded through Overarching Validation Report and the ORSA report.

The UK CFO is responsible for carrying out a P&L Attribution, stress & scenario testing, and other activity to assess the performance of the internal model and producing summary reports covering the outcome of these exercises. The Risk function may request a P&L Attribution or specify scenarios to support their assessment.

- (e) The CRO is accountable for reporting to the AMSB (Administrative Management and Supervisory Body) on the performance of the IM. The CRO is accountable for communicating to the AMSB on the identified weaknesses in the model and progress of improvements. Formal reporting is delivered annually through the Overarching Validation report and ongoing reporting is delivered through Validation Management Information.

The Group Risk methodology team and the AUK Chief Actuary are responsible for implementing appropriate improvements. This is implemented and controlled through Group Validation Policy, Validation Reports, Overarching Validation Report, Model Change log, IMMC ToR, Risk Committee ToR, and the ORSA report.

IMMC monitors and controls the management of/or change to the Company's models as stipulated in the Model Risk Management Framework, ensuring the ongoing appropriateness of the models, and escalating issues to the RCC, the SE plc Risk Committee, or the Group Risk and Capital Committee (GRCC) as appropriate. Internal Model applications and major changes are approved by the SE plc Board following review and recommendation from IMMC, RCC, and the SE plc Risk Committee.

B.3.2 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment ('ORSA') is a key internal process for managing the business. It is a requirement under Solvency II, Pillar 2, that firms produce an ORSA report on at least an annual basis. This section outlines the ORSA process and purposes.

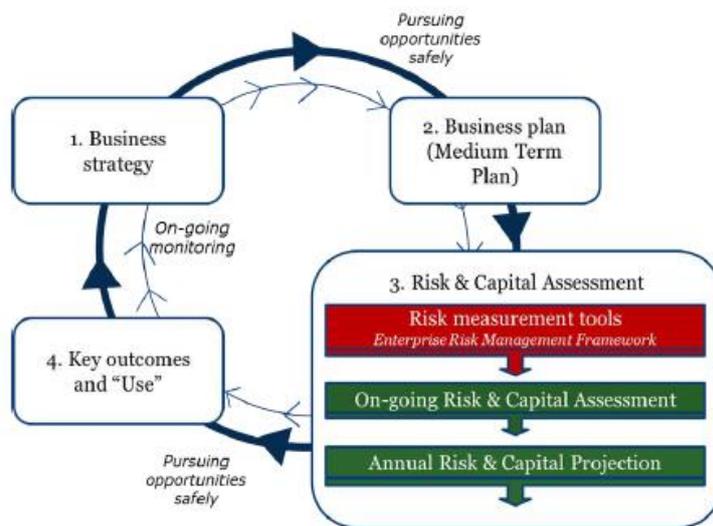
B.3.2.1 ORSA process overview

A graphical overview of the ORSA process is shown in the figure below. This process is based on the following key working assumptions:

- The process is iterative and subject to on-going monitoring to ensure the ORSA responds to changes impacting the business.
- The business strategy for SE plc is clearly set.
- The financial strategy for SE plc must be clearly set to support the business strategy.
- The business plan combines the business and financial strategy to calculate key results.
- The Risk and Capital Assessment must include the identification, measurement, management and monitoring of risk. The capital needs of the business must be considered taking account of the proposed strategy and the acceptable level of the associated risks in pursuit of that strategy. The assessment must take into account both the present and the future.
- The internal model is a key tool used in the measurement and quantification of risk.
- The output from the business strategy, financial strategy, business plan and the risk and capital assessments is used to inform business decisions.
- “Use” applies across a spectrum of areas including Asset and Liability Modelling, product development and pricing, business strategy, risk management, and performance management.

All of the above must be evidenced.

SE plc’s ORSA process overview:



B.3.2.2 ORSA Governance

The ORSA governance is embedded within the corporate governance structure of SE plc and has been structured as follows:

Executive Committee

The Executive Committee is responsible for: (i) the direction of the MTP and ORSA process, (ii) integration of business strategy into the MTP and ORSA process, (iii) the key decision making in respect to MTP and ORSA processes, and (iv) escalation to the SE plc Board.

SE plc Board

In the context of the ORSA, the SE plc Board is responsible for the SE plc elements of: (i) Challenge and approval of the MTP results, (ii) final sign-off of the ORSA report, (iii) discuss and approve quarterly risk reporting and capital reporting results, (iv) approval of the Capital Management and Dividend

Policy, including approval of the Extreme Event scenarios, (v) approval of Risk Appetite, and (vi) approval of ORSA policy; and (vii) approval of Quarterly Risk and Capital reporting results.

B.3.2.3 Chronological execution of the ORSA

The ORSA is presented and reviewed, at least annually. Key sections are updated as required throughout the year following changes in risk profile.

B.3.2.4 Capital Management

Solvency II is the primary metric adopted within the ORSA. Solvency II is a risk-based capital regime which has policyholder protection central to its aims. The approved PIM has been used to determine solvency needs. Additional capital in the form of a capital buffer is set as part of the ORSA process and represents the level of target capital which enables the business to withstand plausible events whilst still being able to meet regulatory capital requirements.

An economic capital model is used for internal purposes of capital and risk management. For SE plc, there is strong alignment to Solvency II requirements with few notable differences of an economic view versus a regulated view. The concept of contract boundaries for instance is removed to give an economic view.

The Company also uses financial forecasts to cover the medium-term financial outlook of the business, including forecasts of solvency positions and key performance indicators under a variety of management decisions. This is a key element of the MTP and ORSA.

Monitoring and managing the level of risk within SE plc against the Risk Tolerance Statements is a key risk management tool. The Risk Tolerance Statements, and the effective management against those, increase the likelihood of SE plc achieving its business objectives and are key to meeting the Solvency II requirements and the Capital Management Policy.

B.4 Internal Control system

B.4.1 Internal Control system

To ensure there are appropriate controls around financial reports including SE plc's PIM, Balance Sheet, and Own Funds, SE plc has a range of tools and validation procedures. This section provides an overview of the Enterprise Risk Management (ERM) Framework and the tools and procedures which enable a robust internal control system and regulatory compliance. This section is split into three as follows:

1. Enterprise Risk Management Framework (B.4.1.1)
2. Implementation within SE plc (B.4.1.2)
3. Compliance Function (B.4.2)

B.4.1.1 Enterprise Risk Management Framework

SE plc complies with the Aegon Group ERM Framework. This sets out the framework against which business areas assess risks, including the capturing and assessment of control activities. SE plc adopts Group policies and frameworks with some tailoring to local requirements.

B.4.1.2 Implementation within SE plc

The SE plc Risk Framework operates through a three lines of defence model with clear reporting and escalation lines defined. This model also extends to the operation of the PIM.

1st Line of Defence Internal Control Activities

A number of activities across the 1st line of defence comprise the Internal Control Framework:

- Finance Control Standards which contain the core principles identified within the Aegon Group Internal Control Framework (AICF) which seek to address the controls expected to provide assurance over the reliability, accuracy, timeliness, and quality of financial, management, regulatory reporting, and the safeguarding of assets.
- A Quality Model is in place within the administration functions to ensure accurate and appropriate processing of customer data.
- A suite of policies which are regularly reviewed and refreshed through governance are adopted to manage the risks that arise in the running of the business in a consistent manner within SE plc's risk appetite. All employees are required to operate within the policy guidelines.
- Risk and assurance actions are recorded, tracked and monitored through the risk system and are subject to oversight from the structure of governance committees and Boards which regularly review and challenge risk MI as well as monitoring compliance with the ERM framework.
- A formal review of risk and control activities (including administrative and accounting procedures) is undertaken by accountable executive and control function holders on a semi-annual basis, culminating in the completion of an Internal Control Certificate which supports the signing of the Governing Body Certification in the SFCR that Scottish Equitable plc has complied in all material respects with the PRA rules.
- Information Security Compliance checks are performed in compliance with the Aegon Group Information Security Policy and minimum standards which is monitored through the use of the Enterprise Information Risk Management Application.
- Business continuity testing is in place and regularly tested in accordance with the Business Continuity Policy and the IT Systems Risk Policy.
- All staff are required to complete mandatory computer based training / eLearning modules on a regular basis to ensure they have an understanding of all key requirements including legislative, regulatory, and the Aegon Group Code of Conduct.
- AUK undertakes an annual employee engagement survey. Risk Culture is an important element of the survey and appropriate actions are put in place to ensure that a strong risk culture is maintained.

2nd Line of Defence Internal Control Activities

The activities undertaken by management within the 1st line of defence are subject to review, challenge, and oversight by the Risk Function. This includes co-ordinating risk reviews and monitoring compliance with the risk framework.

Reporting on the internal control framework activities as detailed above is covered in quarterly risk management information which is provided to the SE plc Risk Committee.

Additional assurance activities are performed over internal controls by the Risk Function as follows:

- Independent assurance over the robustness and appropriateness of the PIM through Independent Model Validation;
- Review and challenge of Solvency II results reporting.
- Specific and thematic reviews are undertaken on a regular basis under a Regulatory Risk Monitoring programme within SE plc.
- A Sarbanes Oxley (SOx) compliance programme is managed by the Risk Function, in accordance with regulatory requirements and the Group SOx methodology.

3rd Line of Defence Internal Control Activities

The Internal Audit function is independent of senior management, which has responsibility for the first and second lines of defence, and is therefore able to provide independent assurance opinions on the

effectiveness of the systems of internal control, risk management, and governance. The Internal Audit function provides independent assurance over the internal controls by undertaking specific and thematic reviews in line with guidance from the Institute of Internal Auditors.

B.4.2 Compliance

B.4.2.1 Objective of the function

The objectives of the Risk Team cover both Solvency II Compliance and broader aspects through the Regulatory Compliance function. The objective is to support the SE plc Board, Audit and Risk Committees in ensuring that SE plc acts in line with relevant legal, regulatory requirements and group risk tolerance. In this role, the function promotes and fosters compliance with laws and regulations. Delivered well, strong regulatory compliance enables the organisation to act with integrity and enable optimal service delivery to the Company's clients.

B.4.2.2 Compliance Risk

'Compliance risk' at SE plc is covered through Legal, Regulatory, Conduct and Compliance Risk which is defined as: The risk that losses occur resulting from non-voluntary legal liabilities, inadequate legal documentation; or products, services, people and actions failing to deliver the reasonable expectations of its customers and other stakeholders; or failure to comply with laws, regulations and internal company rules and policies, as well as late identification of significant and potential legal and regulatory developments.

B.4.2.3 Compliance Risk Appetite

SE plc aims to be compliant with all applicable laws and regulations, internal company rules and policies governing its operations, and established good business practices. SE plc takes steps to ensure that this requirement is embedded in the culture of its business operations.

B.4.2.4 Tolerance

Where a situation requires a deviation from Risk Appetite, a formal Risk Acceptance is logged and subject to regular review. Where the application of a rule or guidance is open to interpretation, SE plc may make a judgement if it can evidence a reasonable argument for its actions and the interpretation does not result in SE plc taking any unacceptable risks.

In judging the application of a rule or guidance that is open for interpretation, SE plc considers the following to be unacceptable:

- Customer financial loss or loss of rights due to non-compliance with applicable regulatory requirements;
- Implementation of any product, service, process or system that does not meet regulatory requirements;
- Implementation of any product, service, process or system that is likely to result in loss of customer or intermediary confidence in the Company's ability to conduct business compliantly; and
- Business practices that do not display integrity and may damage SE plc's reputation.

B.4.2.5 Role of the Compliance Function

The Compliance Function for SE plc is a sub-component of the Risk Function. Where reference is made below to the 'Compliance Function', this is delivered by the Risk function. The Compliance Function:

- Advises the Board, Audit and Risk Committees on the assessment and definition of the Compliance Risk Appetite and the risk tolerance levels;
- Advises on the acceptance of specific risk events based upon impact analysis;
- Raises awareness of Compliance Risk Appetite and established good business practices;
- Supports Management by identifying, assessing and overseeing the mitigation of Compliance Risks; and

- Reports on compliance matters that warrant the attention of the Board. Such reports must include as a minimum exceeded compliance risk tolerance levels and unacceptable business practices.

B.4.2.6 Group and local Compliance Functions

The SE plc Compliance Function is also supported by the Group Compliance Function. The Group Compliance Function supports the Executive Board and Management Board (of Aegon N.V.) by informing them about relevant compliance subjects. The Group Compliance Function is, on behalf of the Management Board, responsible for ensuring that the entire Aegon organisation operates within a clearly defined global compliance framework. The Group Compliance Function proactively advises the Management Board on acting in a compliant manner, both from a strategic and an operational perspective.

B.5 Internal Audit function

B.5.1 Internal Audit function

Aegon's Internal Audit Function ("Internal Audit") assists the Senior Management Team and the Audit Committee in protecting Aegon's assets, reputation, and sustainability by independently and objectively evaluating the effectiveness of internal controls, risk management and governance processes. The Internal Audit function is the third line of defence.

To ensure the independence of the auditors and effective governance, the Chief Internal Auditor (UK) has a primary reporting line to the Chair of the Aegon UK Group Audit Committee and secondary reporting lines to the Global Chief Internal Audit Executive and UK Chief Executive Officer.

Internal Audit's main tasks and responsibilities are:

- Prepare and execute a risk based audit plan which is approved by the Audit Committee.
- Identify, and agree with management, opportunities to improve internal controls, risk management and governance processes and verify that such improvements are implemented properly and within a reasonable period of time.
- Assist in the investigation of significant suspected fraudulent activities within Aegon or conduct special reviews or consulting which may not usually be included in the scope of Internal Audit and notify the regulator of the results of these activities.
- Issue periodic reports to management and Audit Committee, summarising the progress and results of the annual audit plan, as well as on the sufficiency of Internal Audit resources.
- Assemble and maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of the Audit Charter.
- Ensure the Audit Committee (and wider senior management) are kept informed of emerging trends and successful practices in internal auditing.
- Consider the scope of work of the external auditors, regulators, and internal compliance and risk management teams, as appropriate, for the purpose of providing optimal audit coverage to the organisation at a reasonable overall cost.
- Coordinate and work together with other control and monitoring functions (e.g. Risk Management, Compliance, and external auditors).
- Execute audits on the functioning of the first and second lines of defence.
- Administer the whistle blowing policy and independently investigate whistleblowing disclosures and reportable concerns as they arise. Report annually outcomes of whistleblowing investigations to the Aegon UK Group Audit Committee.

B.5.2 Independence and Objectivity of the Internal audit function

The Internal Audit function is independent of senior management, which has responsibility for the first and second lines of defence, and is therefore able to provide independent assurance opinions on the effectiveness of the systems of internal control, risk management, and governance.

Internal Audit executes its duties freely and objectively in accordance with the Institute of Internal Auditors' International Standards for the Professional Practices of Internal Audit including the Code of Ethics, as well as with Aegon policies and procedures. Internal Audit's policies also align with local professional auditing standards, including the Chartered Institute of Internal Auditor's guidance for Effective Internal Audit in the Financial Services Sector.

Internal Audit avoids any conflicts of interest and accesses the expertise and knowledge necessary to undertake work in respect of specialist business functions.

The Chief Internal Auditor verifies that any resource used that is not employed by internal audit departments possesses the necessary knowledge, skills, and other competencies to execute the duties of Internal Audit. These resources are appropriately assigned to audit teams or to otherwise assist the internal auditors and comply with the principles of the Audit Charter.

Internal Audit do not perform any operational roles in areas where they are required to provide assurance. Internal audit personnel do not perform reviews of business areas or functions in which they have had recent management or operational responsibility, or are otherwise conflicted. In respect of the Whistleblowing policy, Internal Audit administer this on behalf of the Executive, to provide staff with independent channels of communication to raise concerns and to investigate those raised. Separate arrangements are made by the Board for periodic assurance over whistleblowing procedures.

B.6 Actuarial Function

The Actuarial Function is fulfilled by a number of teams within the business and overall accountability for the function rests with the AUKG Chief Actuary. The AUKG Chief Actuary is responsible for providing information and assurance as required for the Board and the Group Chief Actuary to place reliance on the work of the AUKG Actuarial Function.

The objective of the Actuarial Function is to assist the Board in the effective discharge of its responsibilities by:

- Ensuring appropriate methodology and best estimate assumptions for the valuation of the liabilities and related items, including procedures that ensure timely review and appropriate level of granularity on an ongoing basis;
- Ensuring that insurance liabilities and related items are valued and reported properly, including choice of valuation approach, reflection of uncertainty and management discretion, model set-up and other relevant components of valuation;
- Furnishing senior management with actuarial analysis and advice at least concerning:
 - appropriateness of data, assumptions and methodologies used to determine technical provisions and related items including items that are deemed to require future attention;
 - adequacy of reinsurance arrangements;
 - impact of strategic or management decisions on liabilities;
- Supporting management in the execution of an effective underwriting policy, also covering pricing and product development, by providing expert opinions;
- Ensuring compliance with regulatory actuarial (reporting) requirements, including local actuarial sign-off on adequacy of reserves;

- Supporting the Risk Management Function in the development of local capital methodology and undertaking appropriateness assessment of capital methodology developed by Aegon N.V. for application across the Aegon Group;
- Calculating the SCR and informing the Board of the regulatory solvency position against approved targets, and making asset and liability management proposals to sustain or improve this position.

B.7 Outsourcing

B.7.1 External outsourcing arrangements

External outsourcing arrangements are arrangements of any form between an organisation and a supplier, by which the supplier performs a function or an activity, whether directly or by sub-outsourcing, which could otherwise be performed by the organisation itself.

Outsourcing risk is considered material when “a function or activity is a critical or important function or activity on the basis of whether this function or activity is essential to the operation of the undertaking as it would be unable to deliver its services to policyholders without the function or activity.”

Examples of significant and material processes that, if performed by another entity, would be classified as material outsourced arrangements include:

- Provision of customer administration or back-office support services;
- Risk management and internal control related functions including compliance, internal audit, actuarial services and financial accounting;
- Product development and pricing;
- Asset and portfolio management;
- Underwriting and claims handling;
- Supplier Hosted Data Storage & Application Services (e.g. Cloud Computing);
- IT maintenance and support;
- Reinsurance administration;
- The ORSA process.

Outsourcing arrangements and material suppliers impact operational risk as a result of potential material changes to and reduced control over the related people, processes, and systems. To manage outsourcing arrangements all entities and business units of AUKG follow the Sourcing and Outsourcing and Supplier Management Policies. The aim of these policies is to ensure that arrangements entered into by AUKG which can result in material risk (i.e. risk classification severe and significant) are subject to appropriate due diligence approval and on-going monitoring and governance. All material risks arising from these activities should be appropriately managed to ensure that AUKG is able to meet both its financial and service obligations.

The Company's main external critical supplier arrangements are UK operations supporting our Traditional Products operations, mail/print services, investment fund processing, Protection operations and Platform technology development support.

In 2018 an agreement was reached to outsource the administration of the Traditional Products portfolio to Atos. The outsourcing agreement took effect on 1 June 2019, and it has continued to operate well throughout 2020. This partnership builds on the relationship we already have with Atos for our award-winning Protection business, a key element of our strategy to provide a modern service and experience for our customers.

B.7.2 Intra-group outsourcing arrangements

The Company has material intra-group outsourcing agreements. The Sourcing and Outsourcing and Supplier Management Policies (taken together) is the written outsourcing policy and the risk assessment process applied under it to classify outsourcing arrangements ensures that critical or important operational functions get appropriate consideration. By following the outsourcing policy for Intra group outsourcing the Company ensures that the performance of these functions is not impaired by such arrangements.

The Company's intra-group arrangements are as follows:

- Aegon Asset Management – provides both investment management and administration services.
- Global Technology Services - Management of infrastructure for Mainframe, Distributed, email, Internet and Security Services

B.8 Any other information

All material information regarding the Systems of Governance for SE plc is covered earlier in this section. The Systems of Governance described are fully embedded in the business. To ensure the Systems of Governance are operating effectively, a regular cycle of Board effectiveness and Terms of Reference compliance is undertaken.

C. Risk Profile

General

Risk exposure

As an insurance provider, SE plc is exposed to a variety of risks. Some of the Company's largest exposures are to changes in financial markets (e.g. interest rate and equity market risks) that affect the value of the investments held, and the liabilities from products that the Company sells. Other risks include insurance related risks, such as changes in mortality and the persistency rates as well as the operating expenses for the business.

The Company manages risk based on risk appetite and policies established across the Aegon Group with appropriate local application and consideration. These are key elements on the Aegon Risk Management Framework applicable to the Company. More generally, Aegon's integrated approach to risk management involves common measurement of risk and scope of risk coverage to allow for aggregation of the overall Aegon Group's risk position.

The risk appetite and policies set limits for the Company's exposure to major risks. The limits in these policies in aggregate remain within the Company's overall tolerance for risk and the financial resources available within the Company. Operating within this risk appetite framework, the Company employs risk management programmes including asset liability management (ALM) processes and models and hedging programmes (which are largely conducted via the use of derivatives and Unit Matching).

The Company operates a Derivative Use Policy to govern its usage of derivatives. These policies establish the control, authorisation, execution, and monitoring requirements of the usage of such instruments. Risk policies and risk appetite are subject to an annual refresh. In relation to Unit Matching, the Company holds a liquidity requirement to ensure sufficient cash is held to cover the costs of the repurchase of units matched in a severe stress scenario.

In this section we make a distinction between the **Non-Profit Sub-Fund (NPSF)**, wholly owned by the shareholder, and the **With-Profits Sub-Fund (WPSF)** where the profits arising in the fund, but also the risk exposures, reside with the with-profits policyholders (unless otherwise stated).

Risk concentration

Concentration risk for financial risks are measured and managed at the following levels:

- Concentration per risk type: Risk exposures are measured per risk type as part of SE plc's internal model. A risk tolerance framework is in place which sets risk limits per risk type and which promotes diversification across risk types;
- Concentration per counterparty: Risk exposure is measured and risk limits are in place per counterparty as part of the Counterparty Name Limit Policy; and
- Concentration per sector, geography, and asset class: SE plc's investment strategy is translated in investment mandates for its internal and external asset managers. Through these investment mandates limits on sector, geography, and asset class are set.

Moreover, concentration of financial risks are measured in the SE plc business planning cycle. As part of business planning, the resilience of SE plc's business strategy is tested in adverse scenarios. In the low interest rate and price and wage inflation scenarios, financial markets are stressed across several different market factors. As part of the Adverse Plausible Scenario testing, appropriate management actions are implemented when management deems this necessary.

Risk mitigation

Risk mitigation techniques are employed within the business. Techniques are adopted to reduce risk exposures within risk appetite. Examples include reinsurance, Unit Matching and derivative hedging programmes.

Reinsurance is actively adopted for the Protection products that we sell. A Reinsurance Use policy is in place to set the limits for reinsurance use and the processes and controls required to be in place. This is subject to regular review and oversight.

Derivatives and Unit Matching are both used as part of our ALM strategy to mitigate our exposures to market movements. A Derivatives Use Policy is in place to set limits for derivative use and the processes and controls required to be in place. This and the ongoing management of the Unit Matching programme are both subject to regular review and oversight.

Risk sensitivities

Sensitivity and scenario analysis is utilised to test the overall financial strength of the business and the exposure to specified risk exposures. Sensitivities and scenario analysis is a core part of the risk framework in allowing the business to measure, monitor and manage risk exposures at any time. The methods and assumptions used primarily rely on the PIM whereby the probability and impact of risk events, either individually or combined can be determined. The models, scenarios, and assumptions used are reviewed regularly and updated as necessary.

Results of SE plc's sensitivity analyses, as at 31 December 2020, are presented throughout this section to show the estimated sensitivity of the Solvency II financial strength to various potential risk events. Management action is taken into account to the extent that it is part of Aegon's regular policies and procedures, such as established hedging programmes. The sensitivities are updated on a quarterly basis and form a key component of the ORSA.

This section discusses each risk category, per the Delegated Acts Article 95, in turn as follows:

- Underwriting risk (C1)
- Market risk (C2)
- Credit risk (C3)
- Liquidity risk (C4)
- Operational risk (C5)
- Other material risk (C6)

The table below shows the breakdown of the PIM SCR components by risk module. The total net SCR after diversification (unaudited) is £1.59bn, (2019: £1.46bn).

Solvency Capital Requirement for SE plc (Unaudited)

Amounts in GBP Millions		2020	2019
C.2 Market risk	Market Risk (SF)	44.8	39.7
	Market Risk (IM)	1,362.2	1,170.1
C.3 Credit risk*	Counterparty default risk (SF)	91.3	102.9
C.1 Underwriting risk	Life underwriting risk (SF)	35.5	26.7
	Life underwriting risk (IM)	1,473.3	1,331.4
	Health underwriting risk (SF)	18.1	9.2
C.5 Operational risk	Operational risk (IM)	325.9	287.6
	LAC-TP **	(155.4)	(158.0)
C.6 Other material risk	LAC-DT	(284.3)	(239.5)
Total undiversified components		2,911.5	2,570.1
Diversification ***		(1,325.9)	(1,107.7)
PIM SCR*		1,585.6	1,462.4

* In this summary presentation, the credit risk values represent counterparty exposure only, with other credit risk relating to financial investments (spread risk, migration risk and default risk) included within Market Risk IM.

** Loss absorbing capacity of technical provisions (LAC-TP) refers to the management actions available to the With-Profits Sub-Fund (WPSF) to reduce the impact of stressed scenarios. These are a combination of regular management actions, such as change of investment strategy, and other management actions that may be implemented in more extreme conditions to maintain the solvency of the fund.

*** Diversification reflects diversification between Standard Formula and Internal Model components and between risk modules / components.

“SF” Standard Formula, “IM” Partial Internal Model

Significant risk exposure change in the period

In 2020, as part of the equity hedging strategy, SE plc continued with the active Unit Matching programme, rebalancing quarterly to re-align with risk appetite. The level of equity put options was reduced (by c33% vs previous year); a capital trade-off for increased liquidity.

Prudent Person Principle

SE plc only invests in assets that we can properly identify, measure, manage, control, and report. Assets held to cover Technical Provisions are invested in a manner appropriate to the nature and duration of the corresponding insurance liabilities. The overall aim is aligned to Article 132 of the Solvency II Directive to only make investments for SE plc clients that a "prudent person" would make.

The assets backing unit-linked technical provisions are invested as closely as is possible to the corresponding unit-linked liabilities, other than where Unit Matching is applied.

SE plc may hold small investments in each underlying unit-linked fund in excess of the amount required to cover the underlying technical provisions in order to facilitate the investment and disinvestment of assets in these funds. The vast majority of these investments in excess of technical provisions account for the value of future profits from customer investments in the funds. We may also consider it appropriate to pool liquidity across funds where it is in the interests of our customers to do so.

Assets covering other Technical Provisions are invested in line with our agreed risk tolerance and to ensure that our liabilities to customers can be met as they fall due. We also set our investment strategy to avoid concentration risk as set out above.

Off-balance positions and Special Purpose Vehicles

There are no significant off-balance sheet positions for SE plc. The Company does not currently utilise Special Purpose Vehicles.

C.1 Underwriting risk

C.1.1 Underwriting risk description

Underwriting risk exposures arise as a result of changes in demographic experience such as mortality and persistency.

The following sources of underwriting risk are recognised under the Risk Management Framework:

Risk	Description
Longevity	The risk that improvements in life expectancy result in higher than expected benefit payments for annuity business
Mortality	The risk of higher numbers of deaths than expected resulting in lower profits and/or higher than expected claim payments on unit-linked and protection business
Life Catastrophe	The risk that a one-off event could cause a large increase in claim payments over the next year e.g. a pandemic
Morbidity	The risk that higher levels of sickness or lower levels of recovery rates result in higher than expected claims for protection business
Lapse / Policyholder Behaviour	The risk that lapse rates are higher or lower than expected resulting in lower profits and/or higher claim payments than expected The risk that policyholder behaviour leads to higher or lower guarantee claims
Expenses	The risk that the value of future expenses is higher than expected resulting in lower profits

SE plc monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results from what was expected. SE plc also performs experience studies for underwriting risk assumptions, comparing SE plc experience both to expected industry experience as well as combining SE plc’s experience and industry experience based on the depth of the history of each source to Aegon’s underwriting assumptions. SE plc may take action to reduce expense levels over time in order to mitigate any unfavourable expense variation.

C.1.2 Underwriting risk assessment

SE plc is exposed to underwriting risk as follows:

Risk	Exposures
Longevity	<ul style="list-style-type: none"> • Value of NPSF inwardly reinsured annuities from Phoenix Group • Value of Guaranteed Annuity Options and Guaranteed Minimum Pensions in the WPSF • Value of liabilities of the staff defined benefit pension scheme
Mortality	<ul style="list-style-type: none"> • Value of individual protection liabilities (although largely reinsured) • Value of future fee income on NPSF unit-linked packaged and Platform business

Life Catastrophe	<ul style="list-style-type: none"> • Value of individual protection liabilities (although largely reinsured) • Value of future fee income on NPSF unit-linked packaged and Platform business
Morbidity	<ul style="list-style-type: none"> • Value of individual protection liabilities (although largely reinsured)
Lapse / Policyholder Behaviour	<ul style="list-style-type: none"> • Value of NPSF unit-linked packaged and Platform business • Value of individual protection liabilities • Value of net cost of guarantees in the WPSF • Value of Guaranteed Annuity Options (GAOs) in the WPSF
Expenses	<ul style="list-style-type: none"> • Value of future expenses in the NPSF

Risk exposure is measured using the PIM for each risk type.

Risk profile change in period:

Assumption update

The annual assumptions update took place in Q4 2020. Multiple updates were made to underwriting assumptions and actuarial models. The most relevant are:

- The unit-linked persistency assumptions were updated to reflect recent experience. The updated assumptions also include an allowance for the anticipated implications of the COVID-19 pandemic on policyholder behaviour.
- The maintenance expense assumptions were reviewed to reflect an updated cost analysis and our best estimate view of the effects of a number of cost management initiatives.

For other underwriting risks, SE plc manages the risks by regularly reviewing the experience, holding capital to cover the extreme adverse events to ensure policyholder benefits are protected to a high degree, monitoring the risk exposures against risk limits (which are set in accordance to the Risk Appetite), and actively looking for risk mitigation opportunities where appropriate.

C.1.3 Risk concentration

Risk limits are set for each underwriting risk type (mortality, longevity, policyholder behaviour, and expenses) as outlined in Sections B and C. SE plc uses reinsurance transactions with the external market to lower the concentration of certain risks, e.g. through excess of loss or quota share reinsurance contracts.

C.1.4 Risk mitigation

Mortality and Morbidity

The general approach adopted by SE plc in relation to the Protection portfolio is to limit risk through widespread use of reinsurance. Currently this results in reinsurance of around 90% of the benefit at risk for long term individual protection business and 60% for group protection business which was closed to new business in 2009. Variations from this level will occur from time to time to reflect the terms available in the market, the type of business (life, critical illness, permanent health insurance) and the length of risk involved.

Expense Risk

This is the risk that expenses increase by more than expected due to reduced efficiency and other factors. SE plc has in place expense management processes to mitigate this risk, and the partnership deal with Atos completed in 2019 will reduce SE plc's expense risk going forward.

Lapse Risk

The Company is exposed to lapse risk under contracts where it takes a number of years for annual charges to recoup expenses incurred. The Company has a number of processes in place which are designed to improve the retention of in-force business.

Longevity Risk

The only annuity business remaining during 2020 was an inward reinsurance from Phoenix Group. No new annuity business is written in Scottish Equitable plc, with an arrangement in place under which Legal & General may provide annuities arising from vesting policies. This significantly reduces the Company's exposure to longevity risk.

C.1.5 Risk sensitivity

SE plc undertakes a range of stress and sensitivity testing to determine both the potential losses that could arise as a result of changes in underwriting experience and also any additional impacts on solvency coverage levels that could arise, for example as a result of changes in Risk Margin or SCR.

Based on stress scenarios calibrated according to the Aegon PIM and allowing for the impact of risk mitigating strategies, the potential losses that may arise from key underwriting risks have been assessed as part of the ORSA, and are set out below. The sensitivities represent an increase or decrease in lapse rates, a decrease in mortality rates over best estimate and an increase in expenses, resulting in an increase/decrease in solvency ratio. Delta shows the impact on solvency position at Q3 2020 applied to the pre-stress solvency ratio at Q4 2020 (155%).

Risk Sensitivity

Amounts in GBP millions	Own Funds	SCR	Ratio	Delta
Underwriting				
20% increase in lapse rates	(199.8)	(85.0)	151%	(5%)
20% decrease in lapse rates	253.8	83.6	163%	7%
5% decrease in mortality	(4.3)	30.4	152%	(3%)
Expenses				
5% increase in expenses	(68.3)	42.6	147%	(8%)

Own Funds are exposed to an increase in lapse rates as this reduces the future profits of the business which are recognised on the SII balance sheet. The SCR would however reduce as the future profits lost in a further stress event would be lower. The SCR reduces to a lesser extent than Own Funds resulting in a decrease in the solvency ratio in this scenario. Conversely, a decrease in lapse rates increases future profits and SCR, resulting in an increase in solvency ratio.

Own Funds are exposed to improved longevity. In this case, the SCR increases as improved longevity increases exposure to further stresses. This scenario results in a decrease in solvency ratio. Similar but more significant impacts are observed in the expense sensitivity.

C.2 Market risk

C.2.1 Market risk description

Market risk exposures arise as a result of investments in assets which may fall in value, including equities, properties or other alternative asset classes. Such exposures may be indirect, for example where a fall in the value of investments held on behalf of customers results in a fall in expected future management fees.

The following sources of market risk are recognised under the Risk Management Framework:

Risk	Description
Equity Risk	The risk that the market value of equity-like investments fluctuates because of changes in the financial condition, reduced prospects, or a change in relative value of the issuing company.
Alternative Investment Risk	The risk that the market value of alternative asset classes (e.g. property) changes because of changes in the financial condition of the underlying entity, reduced prospects, or a change in other underlying risk drivers.
Equity Volatility Risk	The risk that the value of assets or liabilities decreases/increases because of a change in equity volatilities.
Interest Rate Risk	The risk that the value of assets and the value of liabilities have different sensitivities to a change in interest rates. It is the risk that the net value of the business decreases with an adverse change in the level of interest rates.
Inflation Risk	The risk that the value of assets and the value of liabilities have different sensitivities to a change in market implied future inflation rates. It is the risk that the net value of the business decreases with an adverse change in the level of expected future inflation.
Interest Rate Volatility Risk	The risk of unequal fluctuations in the value of assets and the value of liabilities given a change in interest rate volatility levels. It is the risk that the net value of the business decreases with an adverse change in interest rate volatility.
Currency Risk	The risk of unequal fluctuations in the value of assets and the value of liabilities given a change in relative currency rates. It is the risk that the net value of the business decreases with changes in relative currency rates.

Market risks in this context exclude those arising from credit or counterparty exposures. These are considered separately under Section C.3. They also exclude the risk that investments cannot be readily realised in order to meet liability commitments, or the risk of short-term timing mismatches between asset and liability cash flows. These are considered separately under Section C.4.

C.2.2 Market risk assessment

SE plc is exposed to market risk as follows:

Risk	Exposures
Equity Risk	<ul style="list-style-type: none"> • The value of future fee income on NPSF unit-linked packaged and Platform business to the extent that the underlying assets are invested in equities. • The cost of investment guarantees in the WPSF. • Equity holdings in the Staff Pension Scheme. • Shareholder equity holdings, e.g. seed investment in AIL funds.
Alternative Investment Risk	<ul style="list-style-type: none"> • The value of future fee income less expenses on NPSF unit-linked packaged and Platform business to the extent that the underlying assets are invested in property and other alternative investments. • The cost of investment guarantees in the WPSF.
Equity Volatility Risk	<ul style="list-style-type: none"> • The value of investment guarantees in the WPSF. • The value of hedging instruments held to protect the value of fee income from the NPSF unit-linked packaged and Platform business.

Risk	Exposures
Interest Rate Risk	<ul style="list-style-type: none"> • The value of future fee income and expenses on NPSF unit-linked packaged and Platform business. • The cost of investment guarantees in the WPSF, including those related to Guaranteed Annuity Options and Guaranteed Minimum Pensions. • Mismatches between asset and liability cash flows in respect of annuity business and Staff Pension Scheme. • Change in value in other assets within Own Funds.
Inflation Risk	<ul style="list-style-type: none"> • The value of provisions held to cover the expected future cost of maintaining business already written may go up if we expect future inflation to be higher. • The value of benefit commitments made to policyholders which are linked to inflation may go up if we expect future inflation to be higher. • The value of obligations under the Staff Pension Scheme may increase if we expect future inflation to be higher.

Risk exposure is measured using the PIM for each risk type.

Risk profile change in period:

In 2020 as part of the equity hedging strategy, SE plc continued with the active Unit Matching programme, rebalancing quarterly to re-align with risk appetite. The level of equity put options was reduced (by c33% vs previous year); a capital trade-off for increased liquidity.

Note: Under Unit Matching, SE plc holds less than 100% of unit-linked assets to back its unit-linked liability. SE plc then undertakes to buy the remaining assets at a future date. This creates a negative market exposure which acts as a hedge against the market exposure on fee income from the underlying assets.

C.2.3 Risk concentration

Risk limits are set for each market risk type in the same way as Underwriting risks, as outlined in Sections B and C. SE plc expects to remain within risk appetite and where limits are breached or in the warning zone, management will take actions to return the position within risk appetite.

C.2.4 Risk mitigation

SE plc manages the investment of its own assets in order to ensure market risk exposure remains within an acceptable tolerance, in line with the Asset Liability Management strategy.

A core part of this strategy is to hold investments that match liabilities as closely as possible by timing, amount, and currency.

The Staff Pension Scheme currently hedges its interest rate and inflation exposure by reference to the trustee funding basis.

A portfolio of interest rate swaps and zero-coupon inflation swaps is held to provide protection against the effect of falling interest rates leading to increased Risk Margin and Solvency Capital Requirements, while providing additional protection against the risk of future inflation leading to higher than anticipated operating costs. This portfolio is also used to align overall balance sheet sensitivity within target levels.

SE plc also maintains an equity hedging strategy which combines a portfolio of put options and a Unit Matching programme. Unit Matching is targeted to hedge a proportion of expected fee income over the medium term, with rebalancing being reviewed quarterly. The portfolio of puts are held and

rebalanced on an annual basis to ensure residual equity risk remains below our limit for equity exposure. We have a potential management action available to increase the level of Unit Matching should more equity risk hedging be required – this is our preference over an increased level of equity put options.

The cost of guarantees in the WPSF are hedged using portfolios of equity and interest rate derivatives designed to protect the fund against a wide range of market movements.

C.2.5 Risk sensitivity

SE plc undertakes a range of stress and sensitivity testing to determine both the potential losses that could arise as a result of market movements, and also any additional impacts on solvency coverage levels that could arise, for example as a result of changes in Risk Margin or SCR.

Based on stress scenarios calibrated according to the Aegon PIM, and allowing for the impact of the risk mitigating strategies, the potential losses that may arise from key market risks have been assessed as set out below. The sensitivities show the impact that a range of stress events could have on overall solvency coverage of SE plc. Delta shows the impact on solvency position at Q3 2020 applied to the pre-stress solvency ratio at Q4 2020 (155%).

Risk Sensitivity

Amounts in GBP millions	Own Funds	SCR	Ratio	Delta
Interest				
Interest rate curve -1%	128.9	109.4	153%	(2%)
Interest rate curve +1%	(106.8)	(73.7)	156%	1%
Equity				
25% increase in equities	265.6	153.9	157%	2%
25% decline in equities	(298.4)	(140.8)	150%	(6%)

Own Funds increase when interest rates fall, primarily due to increases in assets held to hedge this risk. The Staff Pension Scheme is almost fully hedged against interest rate risk. The SCR increases when interest rates fall, primarily due to increases in longevity and credit capital. The solvency ratio reduces in this scenario. Conversely, an increase in interest rates decreases Own Funds and SCR resulting in an increase in solvency ratio.

Similar to lapse risk, when the value of equities falls there is a reduction in Own Funds as the value of future profits i.e. charges on unit linked business falls. The SCR also reduces because there is then less exposure to further stress. Overall, the solvency ratio does not materially change in these scenarios, assisted by our equity hedging strategy.

Exposures to other market risks are less material.

C.3 Credit risk

C.3.1 Credit risk description

Credit risk arises principally as a result of the failure of any third party to make contractual payments to SE plc, or as a result in changes in the value of any assets or liabilities that arise principally as a result of changes in the credit risk environment.

The following sources of credit risk are recognised under the Risk Management Framework:

Risk	Description
Credit Risk	The risk that the market value of fixed income investments fluctuates because of changes in the financial condition of the obligor or the appetite in the market for this risk.
Counterparty Risk	The risk that the counterparty in a risk mitigating contract is unable to meet its obligations to the insurer.

C.3.2 Credit risk assessment

SE plc is exposed to credit risk as follows:

Risk	Exposures
Credit Risk	<ul style="list-style-type: none"> • The value of bonds and similar fixed income assets held to cover insurance liabilities, including those in respect of annuity business and the WPSF asset shares. • The value of bonds and similar fixed income assets held to meet business expenses (including Unit Matching buyback commitments and project costs) as they arise. • The value of future fee income on NPSF unit-linked packaged and Platform business to the extent that the underlying assets are invested in bonds and similar fixed income assets. • The value of bonds and similar fixed income assets held in the Staff Pension Scheme. • Changes in the discount rate used to determine the value of the Staff Pension Scheme liabilities under International Accounting Standard (IAS) 19.
Counterparty Risk	<ul style="list-style-type: none"> • The value of expected recoveries from reinsurance counterparties, including those in respect of reinsured external fund links and protection. • The value of any derivative assets, net of any collateral held in respect of these positions. • The value of cash deposits held.

Credit and counterparty risk exposures in SE plc arise from a number of sources.

Investment funds managed on behalf of policyholders include investments in bonds and other credit linked assets. Any fall in the value of these investments will result in a fall in the value of future fee income to SE plc.

SE plc also maintains direct investments in bonds or other similar assets in order to cover direct liabilities, including annuity liabilities or as investment of the surplus assets. The value of these bonds, including any gilts issued by the UK Government, may fall relative to the liabilities that they are being held to cover. Certain Immediate Annuity liabilities in SE plc are held in ring-fenced funds managed in accordance with the Matching Adjustment rules under Solvency II. The value placed on these liabilities generally tracks the value of the matching assets with the result that the sensitivity of the overall solvency position to changes in the value of these assets is substantially reduced.

The treatment of the Staff Defined Benefit Pension Scheme (“the Staff Pension Scheme”) for SE plc Solvency II reporting is included in Section D. In relation to credit risk we note that the Staff Pension Scheme holds bonds and other similar investments in order to fund pension commitments. Any default or other fall in value of these bonds may increase the level of future contributions required from the Company to the Staff Pension Scheme. In addition, under IAS 19 the value of the pension scheme surplus/deficit for reporting purposes is determined with reference to the yields that can be obtained on high quality corporate bonds. Changes in these market yields can therefore impact the reported

solvency of SE plc regardless of the underlying performance of the actual assets held since the discount rate and value of assets are only indirectly related.

SE plc has reinsurance arrangements in respect of protection insurance business with a small number of key counterparties. To support continued protection insurance new business activity in line with Plan, the Company's Board and Aegon Group have agreed to an increased risk appetite for 2021-23.

SE plc also makes certain externally managed unit-linked investment funds available to customers by means of reinsurance arrangements with insurance subsidiaries of third-party asset managers. The nature of these arrangements gives rise to counterparty risks in SE plc, which remain within risk tolerance.

The Company will regularly undertake derivative transactions with investment banks in order to achieve risk management or other investment objectives.

Risk profile change in period:

The Company now holds a proportion of surplus liquidity in short-term bonds, rather than entirely cash and gilts, to seek higher returns on these surplus assets. This has increased credit risk, though not materially.

To support continued protection new business activity (in line with the Medium Term Plan), the Company's Board and Aegon Group have agreed to an increased risk appetite for the plan period for our panel of key counterparties. This is not materially different to the agreement in place for 2020.

C.3.3 Risk concentration

SE plc manages concentrations of credit risk exposure in line with the Aegon Group Credit Name Limit Policy. The Company aims to avoid over-concentration of exposure to any individual issuer or counterparty, to any industry sector or asset type, to any credit rating band or to any currency of issue. Details of current concentrations of risk are set out below.

Credit Exposures by Rating (excludes unit-linked and WPSF)

Amounts in GBP millions	2020	2019
AAA	38.7	76.8
AA	558.3	587.9
A	359.2	302.7
BBB	150.6	102.1
BB	1.1	1.0
B	-	-
Assets not rated	12.8	58.1
Total Assets by Credit Risk	1,120.7	1,128.6

Financial assets above comprise:

Amounts in GBP millions	2020	2019
Derivative financial instruments	12.8	58.1
Debt securities and money market investments	1,028.9	968.8
Cash and cash equivalents	79.0	101.7
Total Assets by Category	1,120.7	1,128.6

Credit Exposures by Sector for Debt securities and money market investments

Amounts in GBP millions	2020	2019
Asset-backed securities: Asset-backed securities - Other	66.5	60.9
Commercial mortgage-backed securities	109.0	108.7
Residential mortgage-backed securities	-	-
Financial	212.3	162.7
Industrial	183.9	198.5
Utility	69.1	57.2
Sovereign exposure	388.1	380.8
Total Credit Risk Concentrations for Debt securities and MMI	1,028.9	968.8

Separate Treasury Cash limits are maintained for cash, recognising that the counterparties under these exposures are restricted to a more limited range of financial institutions.

Aegon Group Credit Name Limit Policy also applies to the reinsurance arrangements in respect of protection insurance business. However, we have specific agreement from Aegon Group for certain extended limits (reviewed annually) which take in to account the more limited range of reinsurers and the need to support continued protection insurance new business activity to support the Medium Term Plan.

C.3.4 Risk mitigation

Credit Risk

The principal strategy adopted by SE plc to mitigate credit risk exposures is to ensure that aggregate credit risk exposure is maintained within accepted limits.

Credit spread risks, which relate to the loss of market value of credit investments in the absence of any other defaults or credit rating migrations, are offset in part on the balance sheet as a result of the valuation of the Staff Pension Scheme Deficit on the Company balance sheet. The matching adjustment offsets credit spread risk for annuities in the matching adjustment portfolios.

Counterparty Risk

Counterparty exposures arising through derivative or reinsurance arrangements are mitigated wherever possible through appropriate collateral arrangements. All derivative positions are either subject to Central Clearing arrangements or established under industry standard ISDA/CSA terms and are fully collateralised.

The reinsurance arrangements (for protection insurance business and those which provide access to externally managed investment funds) are not formally collateralised, but in the event of a default by one of these counterparties SE plc would have a claim on the underlying investment assets. The reinsurance contracts ensure that the Company would rank equally with all other investors in such an event, and the entities themselves are regulated insurance companies.

The Company undertakes ongoing risk monitoring and due diligence of all derivative and reinsurance counterparties.

C.3.5 Risk sensitivity

SE plc undertakes a range of stress and sensitivity testing to determine both the potential losses that could arise as a result of changes in credit risk and also any additional impacts on solvency coverage levels that could arise, for example as a result of changes in Risk Margin or SCR.

Based on stress scenarios calibrated according to the Aegon PIM and allowing for the impact of risk mitigating strategies, the potential losses that may arise from key credit risks have been assessed as set out below. The sensitivities represent an increase or decrease in the credit spreads, resulting to an increase/decrease in solvency ratio. Delta shows the impact on solvency position at Q3 2020 applied to the pre-stress solvency ratio at Q4 2020 (155%).

Risk Sensitivity

Amounts in GBP millions	Own Funds	SCR	Ratio	Delta
Credit				
Non-government bond spreads -0.50%	(69.8)	53.7	146%	(9%)
Non-government bond spreads +0.50%	(10.5)	(73.1)	162%	7%

Own Funds decrease when credit spreads narrow, primarily due to an increase in the Pension Scheme liabilities where the IAS 19 discount rate is set with reference to AA bonds. We have partially mitigated this exposure by holding a portfolio of AA bonds. The SCR increases when credit spreads narrow primarily due to the impact on tax recoverability and increased market and persistency risks from the increased expected fee income on credit assets in the unit linked funds.

C.4 Liquidity risk

C.4.1 Liquidity risk description

Liquidity risk arises where there are insufficient liquid assets to meet payments as they are due to be made. Each asset purchased and liability incurred has its own liquidity characteristics with some liabilities being able to be surrendered on short notice while some assets, such as privately placed loans, mortgage loans, real estate and limited partnership interests, can have low liquidity. If SE plc requires significant cash assets to meet payments on short notice and cannot access this through existing credit facilities, it may not be able to sell these low liquidity investments at attractive prices or in a timely manner.

SE plc's liquidity risk does not give rise to a capital requirement.

C.4.2 Liquidity risk assessment

Liquidity risk exists in the investment funds managed by SE plc on behalf of customers. Generally, these funds are managed with sufficient liquid assets to ensure that inflows and outflows can be managed without impacting investment returns. However, in the event of significant requests to withdraw from these funds, the managers may need to sell underlying investments which could have a detrimental impact on the fund performance.

In extreme circumstances, or where the underlying fund investments are difficult or costly to sell quickly (for example direct property investments), the Company may need to exercise rights to delay encashments from the affected funds. The specific powers that SE plc retains in such circumstances are set out in Policy Provisions.

Liquidity risks also arise in SE plc as a result of the need to meet day to day business commitments, for example the payment of insurance claims or business expenses. SE plc must ensure that sufficient cash is available at all times to meet any payment commitments that may arise.

Liquidity is also required to support the strategic initiatives of SE plc. This will include planned payments of dividends to Aegon Group and other projects within the business.

Liquidity is also needed to maintain the collateral arrangements that are used to mitigate the counterparty risks arising from derivative contracts and reinsurance arrangements. These arrangements often have tight restrictions on the types and quality of assets that may be posted as collateral, and it is necessary to ensure that there are sufficient eligible assets available to enable the Company to cover its collateral posting obligations under a wide range of potential future scenarios.

Risk profile change in period:

Over 2020 we continued our active Unit Matching programme as part of our equity hedging. This involved the quarterly rebalancing of the position, generating liquidity in line with new business written and market movements to broadly offset the cost of unit buy backs that occur daily as previously matched fee income is received.

At the end of 2020 we implemented an initiative to seek higher returns on surplus cash through investments in short-term bonds, rather than only holding cash and gilts. This has reduced available liquidity, but as the proceeds from these bonds will be used to meet business expenses as they arise, liquidity requirements are reduced by approximately the same amount and thus surplus liquidity is broadly unchanged as a result of this initiative.

C.4.3 Risk concentration

A number of concentrations of liquidity risk exist in SE plc.

In the event that large numbers of customers seek to withdraw their investments within a short space of time, where the liquid assets in the underlying investment funds are insufficient to fund the requested withdrawals, then the investment managers may be forced to sell assets at below market value in order to allow these investment to be withdrawn. This may adversely impact the performance of the funds affected or lead to delays in withdrawals being made available.

The day-to-day operating cash that is maintained in SE plc may be insufficient to meet a significantly large claim or operating cost, so that less liquid long-term investments may need to be sold to make the necessary payment.

In the WPSF, a significant portfolio of derivatives is held to cover the cost of Guaranteed Annuity Options and other historical investment guarantees as well as interest rate swaps held to cover interest rate risk exposure. A significant rise in long term interest rates may result in a requirement to post collateral against these derivatives, so we need to ensure that sufficient collateral assets are available to post.

In the NPSF, there is also a portfolio of interest rate swaps and zero-coupon inflation swaps to cover interest rate risk exposure and inflation risk exposure. A significant change in long term interest rates or inflation may similarly require collateral to be posted.

SE plc has a Unit Matching programme in place whereby it has undertaken to buy back units as it receives fee income from the underlying funds. A combined stress of an increase in equity markets with a mass lapse event could give rise to a liquidity strain where the units must be bought back earlier than expected.

C.4.4 Risk mitigation

SE plc operates liquidity monitoring controls in line with the Aegon Group Liquidity Risk Policy. This policy is designed to ensure that businesses in the Aegon Group maintain sufficient levels of cash or other highly liquid assets to meet cash demands by policyholders and account holders over the next two years. Potential cash demands are assessed under a stress scenario which includes a significant rise in interest rates.

C.4.5 Risk sensitivity

Liquidity levels in SE plc are generally predictable and capable of management control.

Rising long term interest rates are recognised as the most significant risk factor to future levels of liquidity. Such a rise could lead to falls in the value of highly liquid assets that could otherwise be sold to release cash, and also to a requirement to post collateral in respect of NPSF and WPSF derivative positions.

Unit Matching is exposed to a combined shock of equities up and a mass lapse where the equity shock increases the cost of buying back units and the lapse shock accelerates the time over which the units need to be bought back.

C.4.6 Expected profit included in future premiums (EPIFP)

The reported solvency position of SE plc includes the value attributable to profits that are expected to be made on future premiums – that are expected but have not yet been received.

The value placed on total future profits at 31 December 2020 is £798m (2019: £845m).

C.5 Operational risk

C.5.1 Operational risk description

Operational risk is inherent in Aegon's businesses and may manifest itself in many ways, including business interruption, poor vendor performance, information systems malfunctions or failures, regulatory breaches, processing errors, modelling errors, and/or internal and external fraud. These events may result in financial loss, harm Aegon's reputation, or hinder Aegon's operational effectiveness.

Aegon defines operational and conduct risk as a potential event which may result in (complete or partial) non-achievement of the Company's business objectives. Operational and conduct risks are further defined as follows:

- Operational risk: Risk of losses resulting from inadequate or failed internal processes and controls, people and systems or from external events.
- Conduct risk: Risk of losses resulting from a company's products, services, people, and actions failing to deliver the reasonable expectations of its customers and other stakeholders, and resulting in poor outcomes.

These definitions highlight the four causes of operational risk events: (1) external events and inadequate or failing (2) processes and controls; (3) people; and (4) systems.

C.5.2 Operational risk assessment

The Company has identified eight risk event categories in line with the Aegon risk universe. This risk event categorisation also supports the preparation of operational risk reporting and analysis that can be interpreted meaningfully across Aegon as it defines a common language for the Aegon Group. These are detailed below:

C.5.2.1 Legal, Regulatory, Conduct and Compliance risk

Legal and compliance risk is the risk that losses occur resulting from non-voluntary legal liabilities, inadequate legal documentation; or products, services, people and actions failing to deliver the reasonable expectations of its customers and other stakeholders; or failure to comply with laws, regulations and internal company rules and policies, as well as late identification of significant and potential legal and regulatory developments.

C.5.2.2 Processing risk

Processing risk is the risk of losses due to inadequate or failing administrative processes and related internal controls, inadequate capturing of source data, reporting errors, modelling errors and failing outsourcing and supplier arrangements.

C.5.2.3 Business risks

Business risk is the risk of losses due to failed or inadequate strategy execution, marketing and sales practices, distribution channels, pricing, investment returns, handling of customer complaints, or late reaction to changes in the business environment.

C.5.2.4 Tax risk

Tax risk is the risk of losses due to fiscal authorities challenging SE plc's tax treatment of transactions on technical grounds or as a result of inconsistent argumentation, imperfections in the tax planning, concentration risk and late identification of significant tax developments in relevant jurisdictions, possibly resulting in an inability to influence the final outcome.

C.5.2.5 Financial crime risk

Financial crime risk is the risk of losses due to a wrongful act (including money laundering), omission, breach of duty or trust, intentionally performed by a SE plc employee, intermediary or external party, which potentially could or results in a disadvantage to SE plc or another.

C.5.2.6 People risk

The risk of losses due to acts inconsistent with employment, health or safety laws or agreements; from payment of personal injury claims or from diversity/discrimination incidents; or losses resulting from an insufficient number of, or appropriately trained, personnel.

C.5.2.7 Facility risk

Facility risk is the risk of losses due to inadequate or failing physical asset management (including physical security incidents and inefficient procurement) and events causing damage to physical assets (vandalism, water damage, fire, explosions, etc.).

C.5.2.8 Information Technology and business disruption risk

The risk of losses due to a failure, misuse of IT and associated assets or inefficiency utilization of assets. This comprises of poor IT service delivery, IT performance and capacity issues, insufficient implementation or execution of information security controls, poor incident management practices, inadequate or failed business continuity and disaster recovery planning and execution.

C.5.2.9 Exposures

Operational risk exposure in SE plc is dominated by processing risks and Legal, Regulatory, Conduct and Compliance risks.

Processing risks arise both from day-to-day business operations supporting the servicing of business written, and from the wider financial management of the business. Inaccuracies in financial models in particular could still have a significant adverse effect on SE plc's business, results of operations and financial condition. Reliance on various financial models to measure risk, price products and establish key results, is critical to the Company's operations. If these models or the underlying assumptions prove to be inaccurate, this could have a significant adverse effect on the Company's business or performance.

Legal and Compliance risks can arise as a result of changes in the regulatory environment. These risks have not significantly changed from last year. Legal and Compliance risk continues to be monitored given the external regulatory and political agenda both in the UK and in Europe, and in light of the

uncertainties associated with the Brexit process. The United Kingdom formally left the EU on 31 January 2020. Following this, trade deal negotiations continued to within days of the scheduled end of the transition period on 31 December 2020. Through the Brexit deal negotiated by the UK Government, a planned Memorandum of Understanding on financial services is due to be in place by the end of the first quarter of 2021. This will set the future direction of travel for cooperation between the UK and other European countries. Although the Company only writes business in the UK, the Company could be adversely impacted by related market developments such as higher financial market volatility in general due to increased uncertainty, which could reduce the value or results of the Company.

The risk around systems and business disruption has risen due to the increasing number of attempted hacking and denial of service attacks. We operate a series of due processes and controls identified to mitigate these risks.

C.5.3 Risk concentration

Operational risk concentration can occur where specific risk exposures are in excess of operational risk appetite. For SE plc, a range of Key Risk Indicators are utilised to monitor and manage operational risk exposures against appetite. This is reported regularly to Management and Board governance as detailed in Section B.

C.5.4 Risk mitigation

Operational risks in SE plc are mitigated by maintaining a strong risk control framework and culture. The internal control framework was outlined in Section B of this report. Where risk events arise, the Company has in place a clear and governed rectification process to ensure risks are mitigated. Outsourcing arrangements are subject to appropriate oversight and managed through service level agreements.

C.5.5 Risk sensitivity

Within the 2020 results the risk capital is measured on an Internal Model approach. Internal scenario analysis allows the business to test sensitivities to the risk exposure.

C.6 Other material risk

Deferred tax assets and changes in the loss-absorbing capacity of deferred taxes (LAC-DT) are material risks. At a high level, the adjustment for the LAC-DT is equal to the change in the value of deferred taxes that would result from an instantaneous loss in a 1-in-200 worst-case shock. The LAC-DT is the tax benefits we expect to receive – by way of tax refunds, reduced future tax bills or the tax free unwind of temporary differences – after a stress occurs.

There is a risk that the assessment of availability of future taxable profit is inaccurate resulting in reduced deferred tax assets or LAC-DT being able to be recognised. A deferred tax risk policy is in place and this provides the framework for ongoing monitoring of underlying assumptions including ensuring changes in financial position or business strategy are taken in account.

C.7 Any other information

All material information regarding the Risk Profile of SE plc is covered earlier in this section.

D. Valuation for Solvency Purposes

General

This section outlines the valuation of the assets, liabilities, and technical provisions of the Company for Solvency II purposes. Under Solvency II, the assets are valued at market value and are typically observable from market data directly. Where a market observable price is not available, the market value of the asset is ascertained using methodology aligned to the Solvency II rules. Liabilities are valued as the sum of the best estimate liability (BEL) and the Risk Margin, as described in Section D.2, in accordance with the Solvency II rules for determining Technical Provisions.

SE plc has a single long-term insurance fund, which is notionally divided into a With-Profits Sub-Fund (WPSF), and a Non-Profit Sub-Fund (NPSF), consistent with the Scheme of Demutualisation from Scottish Equitable Life Assurance Society to SE plc on 31 December 1993.

Generally, all new long-term business of the Company is written in the NPSF which, when taken with the shareholder’s fund, is managed to be independent of capital resources in the WPSF. The investments of the NPSF, otherwise known as general account investments, are those where the financial risks are not borne by the policyholder. The risk profile of the NPSF was monitored by reference to the Solvency II capital positions. The shareholder has a 100% interest in the NPSF.

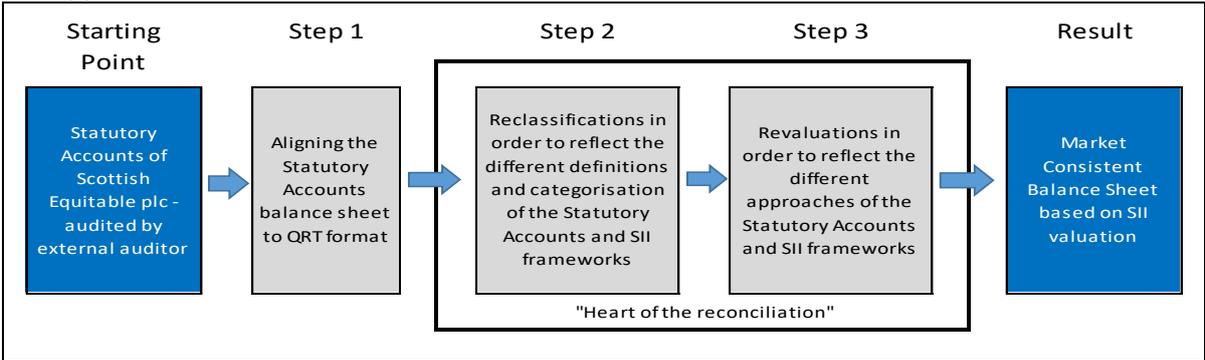
The WPSF is a mutual sub-fund in which the shareholder has no financial interest other than certain charges. The WPSF is closed to all new business including those with investment guarantees (with the exception of certain contractual obligations such as regular premiums) and is managed to be self-supporting in capital terms according to regulatory requirements. The shareholder has a 0% interest in the WPSF, with the fund fully owned by the policyholders.

The valuation of assets and technical provisions for Solvency II purposes are derived predominantly from the same data and models as used in preparation of the Statutory Accounts, and a key internal process control is to reconcile from the audited Statutory Accounts to the valuation of assets and technical provisions for Solvency II reporting. In this section, the International Accounting Standards in conformity with the requirements of the Companies Act 2006 balance sheet is reconciled to the Solvency II balance sheet.

First, the approach used for the reconciliation of the IFRS balance sheet to the Solvency II balance sheet is discussed. Subsequently a reconciliation overview of the IFRS balance sheet to the Solvency II balance sheet is provided. This is followed by a reconciliation by balance sheet line items between IFRS and Solvency II, including an explanation of the differences in measurement and presentation between IFRS and Solvency II and the resulting reconciliation differences.

Approach towards IFRS to Solvency II balance sheet reconciliation

The approach can be illustrated as follows:



Balance sheet reconciliation overview

The table below shows the IFRS to Solvency II balance sheet reconciliation for each applicable class of asset and liability. The full SII balance sheet can be seen in QRT S.02.01.02.

In the sections that follow, the reconciliation for each balance sheet item is discussed in more detail.

Balance Sheet Reconciliation

As at December 31, 2020

Amounts in GBP million	Section	Statutory Accounts	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Assets					
Deferred acquisition costs	D.1.1	735.2	-	(735.2)	-
Deferred tax assets	D.1.2	98.8	211.2	(310.0)	-
Property, plant & equipment held for own use		77.6	-	-	77.6
Investments (other than held for index- and unit-linked funds)	D.1.3	2,379.8	4,302.2	-	6,682.0
Assets held for index- and unit-linked funds	D.1.4	82,041.5	(9,896.7)	-	72,144.8
Loans & mortgages		25.0	-	-	25.0
Reinsurance recoverables	D.1.5	577.5	5,868.6	(319.7)	6,126.4
Insurance & intermediaries receivables		42.7	-	-	42.7
Reinsurance receivables		36.3	-	-	36.3
Receivables (trade, not insurance)	D.1.6	615.1	(318.4)	-	296.7
Cash and cash equivalents		79.0	-	-	79.0
Any other assets	D.1.7	8.2	(6.9)	-	1.3
Total assets		86,716.7	160.0	(1,364.9)	85,511.8
Liabilities					
Technical provisions: life (excluding index- and unit-linked)	D.2.1	1,492.7	4,549.1	(1,070.8)	4,971.0
Technical provisions: index- and unit-linked	D.2.1	82,874.6	(4,557.7)	(1,911.1)	76,405.8
Contingent liabilities		-	-	-	-
Provisions other than technical provisions		-	-	-	-
Pension benefit obligations	D.3.1	-	-	-	-
Deferred tax liabilities	D.3.2	-	211.2	-	211.2
Derivatives	D.3.3	243.3	(52.0)	-	191.3
Insurance & intermediaries payables		135.2	-	-	135.2
Reinsurance payables		10.9	-	-	10.9
Payables (trade, not insurance)	D.3.4	951.7	9.7	-	961.4
Any other liabilities	D.3.5	61.7	(0.3)	(59.3)	2.1
Total liabilities		85,770.1	160.0	(3,041.2)	82,888.9
Group equity		946.6	-	1,676.3	2,622.9

D.1 Assets

D.1.1 Deferred acquisition costs

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Deferred acquisition costs	735.2	-	(735.2)	-

Deferred acquisition costs (DAC) represent directly attributable acquisition costs with regard to the selling, underwriting and initiating of insurance contracts, and are allocated to future reporting periods.

IFRS Treatment

Deferred Acquisition Costs (DAC) – presented in the Statutory Accounts under Deferred expenses – are related to insurance contracts as well as investment contracts with discretionary participation features. Deferred acquisition costs are amortised over time and include:

- Deferred expenses and commission;
- Deferred costs of reinsurance; and
- Deferred transaction costs.

Solvency II Treatment

Solvency II regulations do not recognise DAC. Under Solvency II, these costs are captured under insurance liabilities, which for Solvency II embody all the acquisition costs and servicing costs within the contract boundaries defined. For the valuation of the insurance liabilities, the principles of accrual-based accounting and the matching principle are not applied. There were no judgement, valuation, or recognition assumption changes during the year.

D.1.2 Deferred tax assets

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Deferred tax assets	98.8	211.2	(310.0)	-

Deferred tax assets (DTA) are recognised for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value with the exception of differences arising from the initial recognition of goodwill, and of assets and liabilities that do not impact taxable or accounting profits. The DTAs recognised have no expiry date and can be carried forward indefinitely.

IFRS Treatment

International Accounting Standard (IAS) 12 prescribes the accounting treatment for Income Taxes, including IAS 12.5 and IAS 12.46 for (deferred) tax. A tax asset is recognised for tax loss carry forwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised (IAS 12.5). Current tax liabilities or assets for the current and prior periods shall be measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period (IAS 12.46). Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period (IAS 12.47).

Solvency II Treatment

The Solvency II methodology for the calculation of deferred tax follows the provisions of IAS 12 Income Taxes. Deferred tax assets and liabilities are recognised for Solvency II purposes on the basis of the temporary differences between the carrying amounts of the assets and liabilities in the Solvency balance sheet and the tax balance sheet values according to local tax regulations of the insurance company. A deferred tax accrual is calculated at corporate tax rate expected to apply when the temporary differences unwind. Tax losses carried forward are recognised as deferred tax assets if their future benefit is probable.

In line with the IFRS approach, Solvency II does not require discounting of deferred tax assets and liabilities.

IFRS to Solvency II reconciliation adjustments

Considering the requirements outlined above - IFRS to Solvency II balance sheet reconciliation adjustments of deferred tax items should comprise of Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) reflecting the tax impact of all the individual revaluations processed for all relevant components of the Balance Sheet. If it is the case that the sum of all the adjustments made for revaluation of the balance sheet from an IFRS Balance Sheet to a Solvency II Balance Sheet, results in the DTA or DTL changing their sign to negative - effectively becoming DTL and DTA respectively – an additional reclassification adjustment is required to move the DTA or DTL to the correct – opposite – side of the Balance Sheet.

Reconciliation difference: Reclassification Adjustments

To reconcile the IFRS deferred tax position with the Solvency II deferred tax position on the balance sheet, it is necessary to reclassify the net DTA balance under IFRS from assets to liabilities under Solvency II. A total amount of £211.2m was reclassified, as a result of movement from overall deferred tax asset to deferred tax liability.

Reconciliation difference: Revaluation Adjustments

The difference between the balance sheet valuation of the deferred tax assets according to IFRS or Solvency II is purely driven by the differences in the valuation of the relevant balance sheet elements between the IFRS balance sheet and Solvency II balance sheet. Where tax bases do not change, revaluation adjustments related to DTA balances must then be equal to the revaluation adjustments for other balance sheet elements multiplied by applicable tax rates.

The revaluation adjustments in respect of the DTA amounts to £(310.0)m due to the write-down of intangible assets, DAC and VOBA £81.7m and revaluation of technical provisions from the IFRS to Solvency II basis £(391.7)m.

D.1.3 Investments (other than assets held for index- and unit-linked funds)

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Investments (other than held for index- and unit-linked funds)	2,379.8	4,302.2	-	6,682.0

Investments (other than assets held for index- and unit-linked funds) include equities, bonds, and other financial assets held by the NPSF but exclude those assets backing index- and unit-linked business. These assets are held to back an annuity book and surplus assets backing the NPSF's capital requirement. For Solvency II reporting, assets including property, equities, bonds, and other financial assets held by the WPSF are reclassified to this line item.

IFRS Treatment

IAS 39 Financial Instruments: Recognition and Measurement defines four categories of financial instruments excluding derivatives:

1. Fair Value through Profit or Loss (FVTPL) – these are held for trading or are designated as such;
2. Held-to-maturity (HTM);
3. Loans and receivables; and
4. Available for (AFS) sale assets – these are any other types of financial instruments.

Categories 2 and 3 are measured at amortised cost (i.e. value at time of purchase reduced gradually over time until maturity). Categories 1 and 4 are measured at Fair Value in the IFRS balance sheet.

Solvency II Treatment

Irrespective of whether investments in financial instruments are FVTPL, HTM, Loans, and receivables or AFS, Solvency II requires Fair Value, or equivalently "market value", to be applied for value measurement. There were no judgement, valuation, or recognition assumption changes during the year.

IFRS to Solvency II reconciliation adjustments

To bridge between IFRS and Solvency II, the investment in financial assets valued at amortised cost under IFRS needs to be measured at Fair Value for Solvency II.

Reconciliation difference: Reclassification Adjustments

The reclassification adjustments of £4,302.2m comprise the reallocation of policyholder accounts related assets from 'Assets held for index-linked and unit-linked funds' to 'Investments (other than assets held for index- and unit-linked funds)' in respect of the WPSF £4,327.4m, inclusion of accrued interest £24.9m and exclusion of index- and unit-linked derivatives £(50.1)m.

Reconciliation difference: Revaluation Adjustments

There are no revaluation adjustments, as SE plc's investments (other than assets held for index- and unit-linked funds) are measured at Fair Value on the IFRS balance sheet.

D.1.4 Assets held for index- and unit-linked funds

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Assets held for index- and unit-linked funds	82,041.5	(9,896.7)	-	72,144.8

Assets held for index- and unit-linked funds consist of investments in financial assets, as well as real estate. Investment returns on these assets are passed on to the index- and unit-linked policyholders.

IFRS Treatment

IFRS does not separately distinguish assets held for index- and unit-linked funds. These assets are (generally) classified as Fair Value through Profit or Loss. These are the policyholder assets within the unit-linked funds, and are reported under Investments for account of policyholders. This category also includes the assets of the WPSF, but those assets are not index- or unit-linked.

Solvency II Treatment

Under Solvency II, assets held for index- and unit-linked funds are presented as a separate category. The valuation approach is the same for both IFRS and Solvency II. There were no judgement, valuation, or recognition assumption changes during the year.

Reconciliation difference: Reclassification Adjustments

The £(9,896.7)m reclassifications are analysed as follows:

- the relocation of policyholder accounts related assets from 'Assets held for index-linked and unit-linked funds' to 'Investments (other than assets held for index- and unit-linked funds)' in respect of the WPSF £(4,327.4)m;
- the reclassification of reinsured External Fund Linked ("EFL") assets for £(5,877.1)m, accounted for as unit-linked investments under IFRS and reclassified as reinsurance assets under Solvency II;
- the reclassification of index and unit-linked current assets and Derivatives as Assets Held for Index and Unit-linked Funds £272.3m;
- £35.5m reclassification in relation to accrued interest.

Reconciliation difference: Revaluation Adjustments

The valuation rules for this group of assets are aligned between IFRS and Solvency II as the majority of the assets are valued at market value for both IFRS and Solvency II.

D.1.5 Reinsurance recoverables

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Reinsurance recoverables	577.5	5,868.6	(319.7)	6,126.4

Reinsurance recoverables comprise the amount of reinsurers' share of technical provisions.

IFRS Treatment

Reinsurance contracts are contracts signed by SE plc to receive compensation for losses on contracts written by the Company (outgoing reinsurance) in order to reduce the risk exposure of the Company to certain underwriting risks. For contracts transferring sufficient insurance risk, a reinsurance asset is recognised for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance premiums, commissions, and claim settlements are accounted for in the same way as the original contracts for which the reinsurance was concluded. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid.

Solvency II Treatment

For Solvency II value measurement, a Fair Value approach is used for the reinsurance receivables. It is similar to the valuation of insurance liabilities, however without a Risk Margin and after adjusting for counterparty default risk. There were no judgement, valuation, or recognition assumption changes during the year.

IFRS to Solvency II reconciliation adjustments

Reconciliation to Solvency II requires similar adjustments as those presented in Section D.2 'Technical provisions', with the exception of Risk Margin. For Solvency II, the reinsurance Risk Margin is included on the liabilities side – netted against the insurance liabilities Risk Margin.

Reconciliation difference: Reclassification Adjustments

£5,868.6m was reclassified for EFLs (typically investment funds managed by an external party, not Aegon) assets deemed to be reinsurance assets for Solvency II purposes. This figure differs by £(8.6)m from the amount transferred out of Assets held for index- and unit-linked funds due to the inclusion of a capital adjustment for Reinsurance Default Allowance.

Reconciliation difference: Revaluation Adjustments

The SE plc reinsurance asset has been revalued downwards by £319.7m. The difference in valuation relates to the underlying reinsured liabilities. As outlined in the technical provision section, there are differences in the valuation of insurance liabilities under IFRS compared to Solvency II and the value of the reinsurance assets covering these liabilities changes as a result. These adjustments include different use of Risk Margin and different discount rates (IFRS historical rates versus Solvency II current market rates).

D.1.6 Receivables (trade, not insurance)

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Receivables (trade, not insurance)	615.1	(318.4)	-	296.7

The IFRS receivables (trade, not insurance) comprises accrued interest, unsettled balances from investment managers relating to investment transactions and tax recoverable.

IFRS Treatment

Trade and other receivables are measured at amortised cost.

Solvency II Treatment

Solvency II requires that receivables are held at Fair Value ('market value'). There were no judgement, valuation, or recognition assumption changes during the year.

Reconciliation difference: Reclassification Adjustments

The majority of the reclassification adjustment of £(318.4)m relates to policyholder assets which are relocated under 'Assets held for index-linked and unit-linked contracts' for SII reporting £(267.3)m, the reallocation accrued interest £(60.4)m and tax recoverable £9.8m.

Reconciliation difference: Revaluation Adjustments

Given the short term nature of these receivables, there are no differences between amortised cost for IFRS and Fair Value for Solvency II.

D.1.7 Any other assets

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Any other assets	8.2	(6.9)	-	1.3

The IFRS Any other assets comprises dividends receivable.

IFRS Treatment

Dividends receivable are measured at amortised cost.

Solvency II Treatment

Solvency II requires that dividends receivable are held at Fair Value ('market value'). There were no judgement, valuation, or recognition assumption changes during the year.

Reconciliation difference: Reclassification Adjustments

The reclassification adjustment of £(6.9)m relates to policyholder assets which are relocated under 'Assets held for index-linked and unit-linked contracts' for SII reporting.

Reconciliation difference: Revaluation Adjustments

Given the short term nature of these other assets, there are no differences between amortised cost for IFRS and Fair Value for Solvency II.

D.2 Technical provisions

This section provides the value of technical provisions including the amount of the best estimate liability (BEL) and the Risk Margin, as well as a description of the bases, methods, and main assumptions used.

D.2.1 Value of Technical Provisions

Amounts in GBP million	Insurance with profit participation	Index-linked and unit-linked Insurance	Other life insurance excluding Protection	Accepted reinsurance	Protection & Health insurance	Total
SII Technical provisions	4,187.4	76,405.8	139.5	651.3	(7.2)	81,376.8
- SII Risk Margin *	(39.5)	(668.3)	(35.1)	(6.1)	(5.2)	(754.3)
Liability valuation difference	401.2	2,762.7	(66.9)	8.1	639.6	3,744.7
IFRS Technical provisions -life, including index-linked and unit linked	4,549.1	78,500.2	37.5	653.3	627.2	84,367.3

* unaudited

The "Technical Provisions" row in the above table is consistent with the Solvency II balance sheet where the liabilities are calculated without allowance for reinsurance, and the assets include the value of reinsurance recoverables. The second part of the table then shows the impact of adjusting the liabilities to allow for reinsurance.

D.2.2 Bases, Methods, Assumptions, Uncertainty and Simplifications

D.2.2.1 Bases

SE plc's Solvency II technical provisions are calculated taking into account the requirements of the Solvency II directive, implementing measures and guidance.

D.2.2.2 Key models and methodologies

Technical provisions are the sum of the Best Estimate Liability (the BEL) and the Risk Margin (RM). BEL is defined as the best-estimate value of liability cashflows and has been calculated in accordance with the SII rules and regulations (specifically, Article 77 of Directive). To calculate BEL, future cashflows are projected assuming best estimate assumptions for all demographic risks. BEL for liabilities with no embedded options and guarantees is calculated deterministically. For liabilities with financial options and guarantees within the WPSF, BEL is calculated using stochastically generated economic scenarios.

Risk neutral valuation is used to obtain arbitrage-free market consistent values. In a deterministic valuation, all cashflows are projected and discounted back at a risk-free rate derived from the current term structure of the swap curve. All swap curves are subject to a Credit Risk Adjustment.

In a stochastic valuation, risk neutral economic scenarios are used to project future cashflows. These stochastic scenarios are generated using the Numerix Economic Scenario Generator (ESG) and are calibrated to current market conditions.

Some liabilities are discounted at the risk free curve plus either a Matching Adjustment or a Volatility Adjustment. These adjustments are described in Sections D.2.8 and D.2.9 respectively.

The Risk Margin has been calculated to ensure the Technical Provisions are equivalent to the amount insurers would be expected to require in order to take over and meet the insurance obligations as aligned to Article 77. The Risk Margin is described further in Section D.2.13.

D.2.2.3 Assumptions – Best estimate non-economic assumptions

Non-economic assumptions made when projecting cash-flows to calculate BEL include:

- Persistency: assumptions about the rates at which policies surrender, lapse, or cease to pay regular premiums
- Expenses: assumptions about future costs, e.g. administration and investment
- Mortality / longevity: assumptions about the probabilities of dying / surviving
- Morbidity and claim recovery rates: assumptions about the probabilities of becoming ill, and about recovery
- Guaranteed Annuity Option (GAO) take-up rates: for policies with GAOs, the likelihood of the option being exercised
- Reinsurance provision risk of default: adjustment to discount rates to allow for risk of default by reinsurers

Considering each line of business, the most significant non-economic assumptions are:

- unit-linked policies: persistency and expenses
- insurance with-profits participation: persistency, GAO take-up rates and longevity assumptions underlying guaranteed annuity or guaranteed minimum pension benefits
- annuities (other life assurance and accepted reinsurance): longevity
- protection (Other life assurance and Health): mortality, morbidity, claim recovery rates and persistency

D.2.2.4 Assumptions – Economic assumptions

Economic assumptions made when projecting cash-flows to calculate BEL include:

- Risk free investment returns: set by supervisory authorities
- Credit risk adjustment: set by EIOPA
- Matching adjustment: see Section D.2.8
- Volatility adjustment: set by EIOPA
- Inflation: based on Bank of England inflation curves
- Equity volatility: calibrated using term dependent market implied volatility of equity put options
- Interest rate volatility: calibrated using term dependent market implied volatility of interest rate swaptions
- Tax rates

D.2.2.5 Level of uncertainty associated with the value of the technical provisions

The main source of uncertainty associated with the technical provisions is in the setting of assumptions where a significant level of judgement may be required about how future experience may differ from past experience. The assessment of uncertainty in this case is addressed by undertaking sensitivity testing of key assumptions so that the governing body can understand how different choices would impact the technical provisions. The internal model and derivation of SCR measures the range of potential impacts from a change in experience or uncertainty in the assumptions.

The Risk Margin relates to the cost of holding capital to allow for uncertainty around the best estimate assumptions and are included in the technical provisions as an addition to the best-estimate liabilities.

D.2.2.6 Significant simplified methods used to calculate the technical provisions

The BEL is derived using modelling techniques as earlier described. For policies other than those with financial options and guarantees within the WPSF a deterministic approach has been used.

The Risk Margin has been derived in line with Article 58 of the Solvency II delegated act, which allows for the use of simplified methods. For the with-profits fund Risk Margin derivation, a simplified approach is taken appropriate to the nature of the fund while aligning to the regulatory requirements. The Risk Margin is described further in Section D.2.13.

D.2.3 BEL – Index-linked and unit-linked insurance

D.2.3.1 NPSF Unit-Linked (UL) Business

Policyholder contributions are invested in units in a pooled fund. BEL is the market value of the unit fund less the discounted value of the future profit cashflows to the shareholder (assuming best-estimate mortality, lapse, and expenses).

The economic value of these contracts to SE plc arises from any excess of future fee income over future expenses. Future cashflows include management fees and charges minus expenses. These cashflows vary with the return on the underlying assets so they contain market risk. The product has no embedded guarantees and hence a deterministic valuation is appropriate. The future investment return on all assets is set equal to the forward rates derived from the current swap curve. The projected profit cashflows are then discounted at the swap rate.

Contract Boundaries

Under the Solvency II Delegated Act Articles 17 and 18, short contract boundaries are applied to a portion of unitised business. This means that future premiums cannot be included in the calculation of future profits for this business. Short contract boundaries are not applied in respect of unitised business where premiums are invested in the default funds for which the DWP charge cap applies. The

DWP charge cap creates a discernible guarantee and therefore allows future premiums to be recognised.

D.2.3.2 WPSF Charges and Expense

UWP and NGWP business is written within the NPSF as a unit-linked contract where the customer has opted to invest part or all of their fund within the WPSF. Management charges are deducted from the associated with-profits asset shares and paid by the WPSF to the NPSF. The NPSF meets all administration and investment expenses associated with UWP and NGWP policies in the same way as for any other unit-linked policy. The charges, together with relevant expenses, are taken into account in the valuation of future cash-flows and included in the overall unit-linked BEL. Note that no contract boundaries restriction is applied for UWP business as there are various guarantees offered to policyholders invested in these funds.

D.2.4 BEL – Insurance with-profit participation

SE WPSF Traditional With-Profits (TWP), UWP, and GAOs

The with-profits business contains investment guarantees, guaranteed annuity options, and guaranteed minimum pensions. The WPSF is also liable for the cost of guaranteed annuity options offered on unit-linked business with no investment in the WPSF. Stochastic scenarios are used to project future liability cash flows.

The total BEL is equal to the asset shares accrued for UWP and TWP policies plus the stochastically calculated cost of future guarantees of the unit fund less deductions made to asset shares as a contribution to the cost of guarantees within the fund.

The business is grouped into model points reflecting the underlying characteristics of the portfolio. Stochastic simulations are used to project forward the asset share and the unit fund. The WPSF applies smoothing rules under which a certain percentage of smoothed asset share will be paid to policyholders if the guarantee does not bite. Therefore, the impact of the ‘smoothing’ rules need to be considered when projecting the liability cash flows. Each simulation projects the following items:

- A. guarantee cost (= pay-out with guarantees – pay-out without guarantees (based on projected smoothed asset share))
- B. deduction from asset share towards the cost of guarantees within the fund
- C. smoothing profits or losses (= unsmoothed asset share – smoothed asset share)

The net cost of guarantees equals the average of $[PV(A)-PV(B)-PV(C)]$ across 7,500 simulations (where PV is the Present Value).

A Volatility Adjustment is applied as described in Section D.2.9 below.

The WPSF uses specific actions to manage the solvency and risk appetite of the fund in both normal and extreme circumstances. Those applied in normal circumstances are included when calculating the best estimate liability and those expected to be applied following an extreme event are applied to the derivation of the SCR and subsequently the Risk Margin.

Normal management actions include adjustments to reversionary and terminal bonus rates, plus adjustments to the proportion of asset shares invested in equities. Further management actions following an extreme event include reductions in reversionary bonus, increases in the deduction towards the cost of guarantees, removal of past discretionary increases to asset shares from the surplus assets of the fund, changes in asset mix, and reductions in basic asset share.

SE New Generation With-Profits

The best estimate liability within the WPSF is the unsmoothed asset share for NGWP business. The value of charge income less administration and investment expenses for this business resides within the NPSF. In the event that the smoothed NGWP liability cannot be met from the NGWP assets, a liability is added to the NPSF BEL. This liability is assessed using stochastic techniques.

D.2.5 BEL – Other Life insurance and Accepted reinsurance

SE NPSF Annuities (Reinsurance Accepted)

BEL is the present value of expected future liability outgo assuming best-estimate mortality and expenses. The future outgo includes claims payments, annuity payments, and expenses. The expected outgo is discounted at the swap rate plus the Matching Adjustment. The liabilities do not contain any options and so a deterministic valuation is used.

SE NPSF Protection

BEL is the present value of expected future net liability outgo. Protection business is heavily reinsured so a reinsurance asset is held on the balance sheet to reflect the value of the reinsurance in place.

The liabilities are discounted at risk free rate without Matching Adjustment or Volatility Adjustment and a deterministic valuation approach is used.

Reviewable protection business allows SE Plc to review without limit the premiums payable under the contract at every quinquennial anniversary. However, as the contracts are only underwritten at the policy level at outset, under current guidance it is recognised that the insurer cannot fully recognise the risk at contract level in the revised premiums and hence the contract boundary remains the term of the contract.

The liability cashflows do not depend on market conditions so a deterministic valuation is used.

SE WPSF Deferred Annuities for post NRD policies

BEL is the present value of expected future liability outgo for WPSF policies that have past their NRD. At this point the terminal bonus due to each policy is crystallised and these policies are taken out of the with-profit funds. As they are no longer participating in the profits of the fund these policies have been moved out of the “Insurance with-profit participation” section and into “Other Life”.

D.2.6 BEL – Health insurance

SE NPSF Health Insurance

Health, as part of the protection business, is heavily reinsured so a reinsurance asset is held on the balance sheet to reflect the value of the reinsurance in place.

The liabilities are discounted at risk free rate without Matching Adjustment or Volatility Adjustment and a deterministic valuation approach is used.

D.2.7 Comparison of Solvency II and Financial Statements

The following table compares the Solvency II technical provisions with the IFRS Statutory Accounts technical provisions. This section provides a reconciliation and explanation between the results.

Amounts in GBP million	Insurance with profit participation	Index-linked and unit-linked Insurance	Other life insurance excluding Protection	Accepted reinsurance	Protection & Health insurance	Total
SII Technical provisions	4,187.4	76,405.8	139.5	651.3	(7.2)	81,376.8
- SII Risk Margin *	(39.5)	(668.3)	(35.1)	(6.1)	(5.2)	(754.3)
Liability valuation difference	401.2	2,762.7	(66.9)	8.1	639.6	3,744.7
IFRS Technical provisions -life, including index-linked and unit linked	4,549.1	78,500.2	37.5	653.3	627.2	84,367.3

* unaudited

It can be seen that the SII Technical Provisions (SII TP) of £81,376.8m are £2,990.5m lower than the Financial Statements Technical Provisions (FS TP) of £84,367.3m.

For the purposes of this comparison, Protection business has been removed from Other Life and combined with Health.

Risk Margin

Under Solvency II a Risk Margin is held over and above best estimate liabilities. The concept of Risk Margin is not required under IFRS reporting. The Solvency II amount included in the Technical provisions offsets other differences by £754.3m.

Liability Valuation Rules

The rules for liability valuation differ under the two regimes, with the result that SII TP are £3,744.9m lower:

- The difference of £401.2m for with-profits participation arises mainly because the WPSF Fund for Future Appropriations is treated as a policyholder liability in the Financial Statements Technical Provisions.
- The differences of £2,762.8 for unit-linked, and £(66.8)m for Other Life (excluding Protection), are mainly due to the fact that the Financial Statements Technical Provisions do not allow for the discounted value of the future profit cashflows (or 'PVFP') to the shareholder from management fees and charges minus expenses. In addition, different treatment applies to some other cashflows, reserves, and reinsurance.
- The difference of £8.1m for Accepted reinsurance, is due to different assumptions used in the valuation of annuity liabilities. Under IFRS, assumed investment returns are based on the yields on the assets actually held adjusted to allow for credit risk, while under Solvency II they are based on the yields on risk-free assets (subject to a Matching Adjustment as described in Section D.2.8).
- The difference of £639.6m for Protection and Health insurance arises because assumptions under IFRS are based on assumptions which are, for each cohort, determined at inception of the business and which include a margin for risk and adverse deviations.

D.2.8 Matching Adjustment

The Matching Adjustment (MA) is designed to protect insurers with long-term liabilities from the impact of asset volatility on the insurers' solvency position. It is calculated based on cashflow matching between the insurers' assets and the liabilities.

SE plc's Matching Adjustment application was accepted in November 2015. Following the completion of the sale of the majority of the annuity book during 2017, the Matching Adjustment now only applies to the Annuities described in Section D.2.5, and the assets assigned to that business.

Impact of setting Matching Adjustment to zero

Amounts in GBP millions	2020	2019
Technical provision	33.2	38.0
Basic Own Funds	(26.9)	(31.5)
Eligible Own Funds to meet SCR	(26.9)	(31.5)
SCR*	35.2	26.8
Eligible Own Funds to meet MCR	(26.9)	(31.5)
MCR	0.7	0.8

*unaudited

We note that in the event that the Matching Adjustment were to be set to zero at 31 December 2020, SE plc would continue to be able to have sufficient capital to meet 100% of the SCR.

D.2.9 Volatility Adjustment

Some of the Company's liabilities do not meet the strict Matching Adjustment eligibility criteria as set out in Article 77. However, they do retain some of the same features (i.e. are reasonably predictable, minimal exposure to policyholder behaviour, etc.). SE plc's Volatility Adjustment application was approved in 2015 in respect of a number of WPSF items, namely: the projection of WP asset shares used in the calculation of investment, GAO and GMP guarantee costs; and the discounting of the investment and GMP guarantee costs.

The principle of a VA is similar to the MA - namely that it aims to reduce balance sheet volatility by adjusting the discount rate in response to fluctuations in asset prices. Unlike the MA however, the VA is specified by the supervisory authorities and thus is independent of an individual firm's portfolios or matching position. Commensurate with the relaxation of the eligibility criteria and the reduced restrictions on portfolio management, the magnitude of the VA is lower and hence the Own Funds benefit is lower.

Impact of setting Volatility Adjustment to zero

Amounts in GBP millions	2020	2019
Technical provisions	11.4	16.3
SEplc Basic Own Funds (after RFFR)	1.0	1.1
Eligible Own Funds to meet SCR	1.0	1.1
SCR*	1.0	1.1
Eligible Own Funds to meet MCR	1.0	1.1
MCR	0.4	(0.8)

*unaudited

We note that in the event that the Volatility Adjustment were to be set to zero at 31 December 2020, SE plc would continue to be able to have sufficient capital to meet 100% of the SCR. The reason that Own Funds changes by the same amount as SCR is because of the way the Ring-Fenced Fund restriction (RFFR) operates (see Chapter E. Capital Management).

D.2.10 Transitional risk-free interest rate-term structure

SE plc does not apply the Transitional risk-free interest rate-term structure – as described in Article 308c of Directive 2009/138/EC.

D.2.11 Transitional deduction

SE plc received permission to use the Transitional Measure on Technical Provisions (TMTP) – as described in Article 308d of Directive 2009/138/EC - at 2016 year-end. Following the sale of the annuity portfolio this was recalculated as zero and approval to use the TMTP was withdrawn in 2017.

D.2.12 Recoverables from reinsurance contracts and Special Purpose Vehicles

Reinsurance contracts are valued using a similar methodology to Technical Provisions. The reinsurance cash flows are based on the nature of the reinsurance arrangements. The value of the reinsurance is calculated consistently with the boundaries of the underlying insurance contracts to which it relates.

The reinsurance cash flows only include payments in relation to the compensation of insurance events and unsettled insurance claims. The value of the reinsurance asset allows for a best estimate default provision. The asset is reduced to allow for the likely level of reinsurer defaults.

The current provision is derived by treating the reinsurance contract as being equivalent to a rated bond. The contract is re-valued allowing for the best estimate risk of default with the difference between the two values taken as the provision.

Individual protection business is reinsured on a net level premium quota share basis. The percentage of each plan reinsured varies from between 80% and 100% of the sum insured depending upon the nature of the risk. Each and every plan is reinsured and may be ceded across multiple reinsurers depending upon the size and nature of the risk.

SE plc has in place a series of reinsurance arrangements with respect to reinsured EFLs. A reinsurance default provision has been set up for these EFLs to address the Solvency II requirement to include best estimate default provisions for reinsured EFLs.

SE plc does not have any recoverables from Special Purpose Vehicles.

D.2.13 Risk Margin

The Risk Margin (RM) has been calculated to ensure the Technical Provisions are equivalent to the amount insurers would be expected to require in order to take over and meet the insurance obligations as aligned to Article 77.

The RM which relates to uncertainty around the best estimate assumptions for a non-hedgeable risk, is held in respect of the following risks:

- Mortality / Longevity Risks
- Morbidity Risk
- Lapse Risk
- Expense Risk
- Operational Risk
- Counterparty Risk

Market risks, other than counterparty exposures, are treated as hedgeable.

The calculation of RM should reflect the price at which SE plc expects to be able to transfer the non-hedgeable risks in the market, and cannot be directly observed. SE plc has adopted the Market Cost of Capital approach which is required by the Solvency II guidance. The concept underlying this approach is to calculate current and future SCR for non-hedgeable risks and the RM is then calculated as the cost of holding this capital, *i.e.*

$$RM = \sum_t PV[CoC\ spread * SCR\ after\ diversification(t)]$$

Where,

- RM is Risk Margin,
- CoC is the Cost of Capital (gross of tax), equal to 6% for this reporting period
- SCR is the Solvency Capital Requirement (pre-tax) for non-hedgeable risks
- The PV calculation discounts the stream of capital charges at Risk Free – i.e. swaps-10bps

The allowance for diversification includes only diversification between non-hedgeable risks – i.e. excludes diversification between non-hedgeable risks and market risks.

Annuities, Unitised and Protection business are valued using a prospective method to calculating Risk Margin. In practice this generally means deriving the SCR at each point in time and rebasing the stress valuation at time t to allow for best estimate assumptions until time t and then stressing the assumptions thereafter.

For With-Profits business the capital requirements are calculated as the change in Own Funds under shock and Risk Margin calculations are calculated by assuming that capital run off is in line with the cost of guarantees. Specified With-Profits management actions, e.g. allowing for bonus rates to be lowered following a shock, are used to reduce the required capital by offsetting risks. Consistent with this approach the Risk Margin is calculated with allowance of the management actions to offset the non-hedgeable risks.

D.2.14 Material changes in assumptions made in calculations of technical provisions

Assumptions have been reviewed and, where appropriate, updated in line with experience. This is performed annually or more frequently as required.

Various non-economic assumptions were updated as a result of the annual review of best estimate assumptions in the period. The most significant impacts on NPSF Technical Provisions (where BEL is shown gross of reinsurance and Risk Margin is shown net of reinsurance) were a decrease of c. £215m due to changes in expense assumptions, an increase of c. £39m for updated persistency assumptions, a decrease of c. £44m due to updated morbidity assumptions, and a decrease of c. £12m from updated mortality and longevity assumptions.

The most significant impact on the WPSF Technical Provisions from updates to the best estimate assumptions was mortality, which decreased Technical Provisions by £10m.

There have been significant market movements over the period which have affected the interest rate and inflation rate assumptions. Updates to these assumptions resulted in a c. £93m increase in Technical Provisions for the NPSF, and a c. £202m increase in Technical Provisions for the WPSF, over the period.

D.3 Other liabilities

D.3.1 Pension benefit obligations

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Pension benefit obligations	-	-	-	-

IFRS Treatment

The SE plc Staff Pension Scheme surplus (2019: surplus) is reported in the Statutory Accounts of Aegon UK plc, the sponsoring employer.

The IFRS treatment for pension benefit obligations is regulated by IAS 19 Employee benefits. The pension benefit obligations are based on AUKG's defined benefit plan and the terms and conditions applicable at the balance sheet date. In measuring the defined benefit pension obligation, the Company uses the projected unit credit method and actuarial assumptions that represent the best estimate of future variables.

The benefits are discounted using an interest rate based on the market yield for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, mortality rates, and price inflation. To the extent that actual experience deviates from these assumptions, the valuation of the defined benefit plans and the level of pension expenses recognised in the future may be affected. Plan improvements (either vested or unvested) are recognised in the income statement at the date when the plan improvement occurs. Plan assets are qualifying insurance policies and assets held by long-term employee benefit funds that can only be used to pay the employee benefits under the plan and are not available to the Company's creditors. They are measured at Fair Value and are deducted from the defined benefit obligation in determining the amount recognised on the statement of financial position.

The cost of the defined benefit plans are determined at the beginning of the year and comprise the following components:

- Current year service cost which are recognised in Profit or Loss; and
- Net interest on the net defined benefit asset (liability) which is recognised in Profit or Loss.

Re-measurement of the net defined benefit asset (liability) is recognised in comprehensive income and revisited quarterly. It is also not to be reclassified to Profit or Loss in a subsequent period. Net interest on the net defined benefit asset (liability) comprises of interest income on plan assets and interest cost on the defined benefit obligation, and is determined by multiplying the net defined benefit asset (liability) by the applicable discount rate. Interest income on plan assets is a component of the return on plan assets and is determined by multiplying the Fair Value of the plan assets by the applicable discount rate. The difference between the interest income on plan assets and the actual return on plan assets is included in the re-measurement of the net defined benefit asset (liability).

Re-measurements of the net defined benefit asset (liability) comprise of:

- Actuarial gains and losses;
- The return on plan assets, excluding amounts included in net interest on the net defined benefit asset (liability); and
- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit asset (liability).

Solvency II Treatment

EIOPA 'Guidelines on valuation of assets and liabilities other than technical provisions' prescribes application of IAS 19 Employee Benefits for pension benefit obligations valuation under Solvency II; *i.e.* Solvency II valuation treatment for pension benefit obligations is the same as IFRS valuation treatment, which is the application of IAS 19. See the above section, IFRS treatment, for more information regarding IAS 19.

Currently the sole statutory employer is Aegon UK Corporate Services Ltd (AUKCS) which is a subsidiary of AUK plc. The process within Aegon UK is to allocate the expense of the Staff Pension Scheme to other group entities based on cash contributions. The sponsoring employer of the Staff Pension Scheme, in line with IAS 19 is AUK plc and as such the surplus (2019: surplus) of the Staff Pension Scheme, as measured under IAS 19 is reported in the AUK plc Statutory Accounts and not in the SE plc Statutory Accounts.

Under SII we only report the SII position for SE plc on a solo basis and for Aegon N.V. at a consolidated group level. AUKCS funds 89.8% of pension contributions through a recharge to SE plc. In the event of any future issues around the payment of contributions from AUK plc, the Pension Regulator has powers to issue a Financial Support Direction to SE plc, as it could be considered to be connected to the Staff Pension Scheme sponsor, to force SE plc to fund the deficit based on its relationship within the AUK Group, the value of any benefits received by SE plc from the AUK Group (directly or indirectly), the connection and involvement of SE plc with the Staff Pension Scheme and the financial circumstances of SE plc.

Therefore having considered the PRA’s Supervisory Statement SS5/15 - Solvency II: the treatment of pension scheme risk, the directors of SE plc have exercised judgment and concluded that the most appropriate approach for SE plc to achieve the objectives of this Supervisory Statement is that, where the Scheme is in deficit (as in previous years), to recognise SE plc’s share of the deficit within the Own Funds of SE plc and SE plc’s consideration of the potential risk to the safety and soundness of the Company, should SE plc be required to provide support for the Staff Pension Scheme in the future, within the SCR. However, in the event the Scheme is in surplus, as with the current year, no share of the surplus has been recognised within the Own Funds of SE plc.

Reconciliation difference: Reclassification Adjustments
 No reclassification adjustments were required.

Reconciliation difference: Revaluation Adjustments
 The pension deficit is reported in the Statutory Accounts of Aegon UK plc, the sponsoring employer. Under Solvency II, the pension deficit is reported in SE plc.

Under IFRS, the pension benefit surplus of £38.8m (2019: surplus £0.8m) is reported in the statutory accounts of Aegon UK plc and includes the asset (2019: asset) for all Aegon’s UK entities. Under SII none of the surplus is recognised by SE plc.

D.3.2 Deferred tax liabilities

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Deferred tax liabilities	-	211.2	-	211.2

IFRS Treatment
 See the explanation in Section D.1.2 ‘Deferred tax assets’.

Solvency II Treatment
 See the explanation in Section D.1.2. ‘Deferred tax assets’.

Reconciliation difference: Reclassification Adjustments
 To reconcile the IFRS deferred tax position with the Solvency II deferred tax position on the balance sheet, it is necessary to reclassify the net DTA balance under IFRS from assets to liabilities under Solvency II. A total amount of £(211.2)m was reclassified, as a result of movement from overall deferred tax asset to deferred tax liability.

Reconciliation difference: Revaluation Adjustments

The difference between the revaluation of the deferred tax liabilities according to IFRS and Solvency II is purely driven by the valuation of relevant balance sheet elements. Where the tax basis does not change, revaluation adjustments related to DTL balances must then be equal to the revaluation adjustments for the relevant balance sheet elements multiplied by applicable tax rates. Revaluation adjustments to deferred tax is explained in assets section.

Closing Deferred Tax Liability

The £211.2m SII Deferred Tax Liability at YE20 is made up of the following items:

Amounts in GBP million	Investments	Technical provisions	Defined benefit plans	Debts	Losses and tax credits	Non-recognised DTA	Other	Total
At December 31, 2020	1.0	391.7	0.0	0.0	-178.7	4.3	-7.1	211.2

Within the £211.2m DT Liability, there are a number of Deferred Tax Assets which can be set against the DTL and so reduce the final amount reported. In the UK, there is no expiry date for these assets with the material ones being:

DTA	Amount	Location in above table
Non-BLAGAB Trade Losses	£174.4m	Losses and tax credits
Excess Expenses	£23.2m	Other

These DTAs are on the IFRS Balance Sheet and are held at the same value in SII.

Future Tax Rate changes had been enacted in advance with a reduction to 17% due from 1 April 2020. However, in the Spring Budget 2020, the Government announced the corporation tax rate would remain at 19% from 1 April 2020 and this was substantively enacted on 17 March 2020.

The deferred tax balances above have been calculated using the tax rate in force at the balance sheet date, being 19%.

In the Spring Budget 2021, the Government announced their intention to increase the corporation tax from 19% to 25% from 1 April 2023.

This increase has not yet been substantively enacted but if it were, using a 25% tax rate to value the deferred tax liabilities would have the effect of increasing the net Deferred Tax Liability by £67m.

There was no change to the Policyholder Tax Rate used to value the Policyholder items (Excess Expenses and CGT), which remained at 20% over the period.

Non-BLAGAB Trade Losses

The utilisation of the Trade Losses depends on there being future taxable profits available. To assess the recoverability of the DTA, we looked at the following items on an IFRS Basis:

- expected future IFRS profits from the in force Non BLAGAB business (being Pension and Protection business); and
- the impact of the loss relief restriction rules enacted as part of Finance (No.2) Act 2017 whereby losses can only be set against a maximum £5m plus 50% of the remaining profit in any year.

Given the long term nature of the pension business, the expected future profits from inforce business are projected over a 30 year period. It is considered that profits expected to arise within this timeframe satisfy the probable test for deferred tax asset recognition. Based on the projections at 31 December 2020 the deferred tax asset recognised in respect of the Trade losses is expected to be recovered in full over 8 to 9 years.

The most significant assumptions relate to retention of inforce pension business, expense assumptions, fixed interest, and equity investment returns.

Excess Expenses

There is a deferred tax asset of £23.2m recognised in respect of Excess Expenses, the recoverability is considered probable taking into account:

- expected income from inforce onshore bond business
- expected income from inforce with-profits business

The asset is expected to be recovered over 3 to 4 years.

The most significant assumptions relate to lapse rates on inforce onshore bond business, and fixed interest and equity investment returns for inforce onshore bond and with-profits business.

Unrecognised Deferred Tax Assets

No deferred tax asset is recognised on the statement of financial position in respect of policyholder capital losses arising under capital gains tax legislation of £21m (2019: £21m). The deferred tax asset in respect of excess management expenses has been fully recognised. The losses may carry forward without expiry.

D.3.3 Derivatives

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Derivatives	243.3	(52.0)	-	191.3

IFRS Treatment

All derivatives are recognised on the statement of financial position at fair value. The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, when available. All changes in fair value are recognised in the income statement unless the derivative has been designated as a hedging instrument in a cash flow hedge.

Solvency II Treatment

Similar to IFRS, a Fair Value approach is prescribed for Solvency II. There were no judgement, valuation, or recognition assumption changes during the year.

Reconciliation difference: Reclassification Adjustments

The reclassification of index and unit-linked Derivatives as Assets Held for Index and Unit-linked Contracts £(52.0)m.

Reconciliation difference: Revaluation Adjustments

No revaluation adjustments were required.

D.3.4 Payables (trade, not insurance)

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Payables (trade, not insurance)	951.7	9.7	-	961.4

Payables (trade, not insurance) relates to non-insurance trade payables, including amounts due to employees, suppliers and investments purchased not settled at period end.

IFRS Treatment

Payables (trade, not insurance) are to be valued at amortised cost or Fair Value. If valued at Fair Value, then the discount rates should also include the OCS.

Solvency II Treatment

For Solvency II, a Fair Value approach is prescribed, excluding the effect of changes in OCS since initial recognition. There were no judgement, valuation, or recognition assumption changes during the year.

IFRS to Solvency II reconciliation adjustments

Revaluation of the liabilities kept for IFRS at amortised costs needs to be performed as part of the reconciliation. For items measured for IFRS at Fair Value, an adjustment is required reversing the impact of OCS movement between the issuance date and reporting date (own credit gain or loss).

Reconciliation difference: Reclassification Adjustments

The majority of the reclassification adjustment relates to the residual tax payable balance under SII following relocation of tax recoverable balance to Assets held for index-linked and unit-linked contracts £9.7m.

Reconciliation difference: Revaluation Adjustments

Given the short term nature of these payables, there are no differences between amortised cost for IFRS and Fair Value for Solvency II.

D.3.5 Any other liabilities

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Any other liabilities	61.7	(0.3)	(59.3)	2.1

Any other liabilities under IFRS consists primarily of deferred revenue liabilities.

IFRS Treatment

Any other liabilities are to be valued at amortised cost or Fair Value. If valued at Fair Value, then the discount rates should also include the OCS.

Solvency II Treatment

For Solvency II, a Fair Value approach is prescribed, excluding the effect of changes in OCS since initial recognition. There were no judgement, valuation, or recognition assumption changes during the year.

IFRS to Solvency II reconciliation adjustments

Revaluation of the liabilities, kept for IFRS at amortised cost, needs to be performed as part of the reconciliation. For items measured for IFRS at Fair Value, an adjustment is required reversing the impact of OCS movement between the issuance date and reporting date (own credit gain or loss).

Reconciliation difference: Reclassification Adjustments

Reclassification adjustments were required between Statutory Accounts and Solvency II of £0.3m.

Reconciliation difference: Revaluation Adjustments

Deferred Revenue liabilities are not recognised under Solvency II and for this reason they are eliminated (i.e. revalued to nil with corresponding adjustment of reducing equity/Own Funds) as one of the reconciliation steps. The IFRS deferred revenue liability of £59.3m is therefore eliminated.

D.4 Alternative methods for valuation

Loans and Mortgages

The different valuation approach stipulated under IFRS and Solvency II – amortised cost versus Fair Value – requires revaluation of loans and mortgages. By their nature, none of the loans and mortgages included in this category are listed on active markets. According to the Solvency II regulations the Fair Value should be based on the discounted cash flow valuation method. The Solvency II value determination should then be based on the contractual future cash flows discounted with a discount rate representing the time value of money and risk.

Derivatives

All derivatives are recognised on the statement of financial position at fair value. The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, when available.

D.5 Any other information

All material information regarding SE plc's Valuation for Solvency Purposes is covered earlier in this section.

E. Capital Management

General

The financial strategy for SE plc supports the execution of its business strategy. The key financial strategy themes for the period 2021-23 are:

- Execution of strategic priorities – allocation of capital towards core products, with investment planned to grow the business over the Plan period.
- Return capital to shareholders – maintain an attractive capital return in the form of dividends to allow investors to share in the performance of the Company, while balancing the reinvestment to meet growth aspirations, as stated above.
- Maintaining capital as protection for policyholders.

The capital management strategy supports the execution of the financial strategy. The main capital management themes are described in this section.

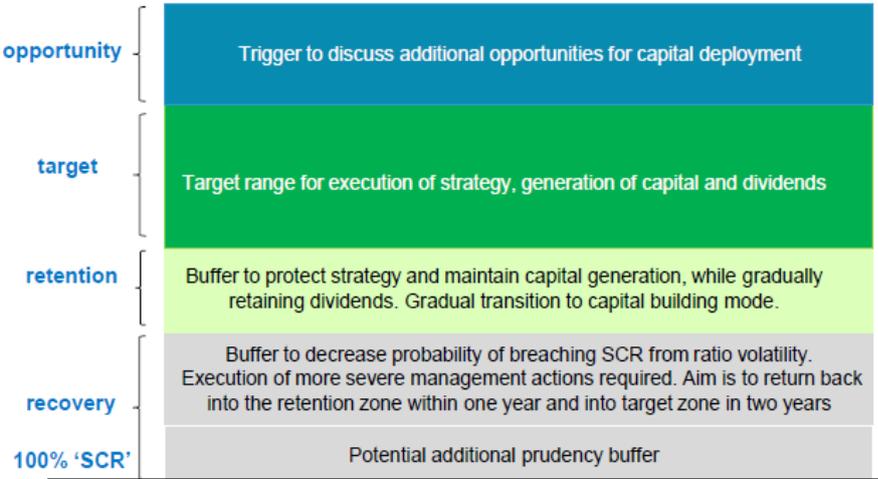
Solvency II Ratio for SE plc split by sub-fund

Within SE plc are a NPSF and WPSF, as described earlier. The WPSF is a ring-fenced fund which is 100% owned by its policyholders. Any surplus in the WPSF is subject to a Ring-Fenced Fund restriction (RFFR). The following table outlines the overall capital position of SE plc, allowing for the RFFR relating to the WPSF.

Amounts in GBP millions	NPSF		WPSF		WPSF Ringfence*		SE plc	
	2020	2019	2020	2019	2020	2019	2020	2019
Own Funds	2,342.2	2,074.2	280.8	274.6	(160.8)	(206.3)	2,462.2	2,142.5
SCR*	1,465.6	1,394.1	120.0	68.3	-	-	1,585.6	1,462.4
Surplus / (Deficit)	876.6	680.1	160.8	206.3	(160.8)	(206.3)	876.6	680.1
Solvency II ratio	160%	149%	234%	402%			155%	147%
excluding WPSF							160%	149%

*unaudited

The Capital Management Policy approach to setting the Capital Management Zones is outlined in the table below:



Under the Capital Management Policy, a level of additional capital is targeted such that the Company aims to cover between 140% and 180% of its regulatory capital requirement. Where capital coverage

is in excess of the upper end of this range, the expectation is that this provides opportunity for accelerated investment in its growth strategy or payment of a dividend to the shareholder. Where coverage is below the lower end of this range it would become necessary to develop plans to strengthen the capital position back to within the target range over a limited period of time.

Although the WPSF is ring-fenced, the SCR for the WPSF impacts the solvency ratio at SE plc level. An increase in Own Funds in the WPSF would result in an increase in surplus and an equal increase in the RFFR and hence would have no impact on the SE plc ratio. However, an increase in WPSF SCR would result in both an increase in Own Funds and SCR at SE plc level and hence a change in the overall SE plc solvency ratio.

Capital Management Policy

In addition to the regulatory capital requirements required under Solvency II, additional capital is maintained in accordance with the Capital Management Policy approved by the Board and in line with the Aegon Group Capital Management Policy. This additional capital aims to protect the Company from breaching its regulatory capital requirements following a range of adverse events.

The Company utilises and targets capital management zones associated with different levels of SCR coverage in line with the Aegon Group Capital Management Policy.

Under the Capital Management Policy, a level of additional capital is targeted such that the Company can withstand moderate risk events and still meet its regulatory capital requirement. Where coverage falls into the Retention Zone, a plan will be expected to be formed to return to the Target Zone within 24 months. If coverage falls to the Recovery Zone, a plan will be expected to return to the Retention Zone within 12 months and the Target Zone within 24 months. This plan would include reduction or non-payment of planned dividends and any other appropriate management actions to strengthen the capital position.

In addition to the overall Capital Management Policy, the WPSF is targeted to maintain sufficient assets to cover 100% of the regulatory capital requirements associated with the liabilities of the WPSF plus further assets sufficient to maintain an appropriate amount of working capital within the fund and allow the fund to withstand a range of adverse scenarios without recourse to shareholder support. The Capital Management Policy is reviewed at least annually by the Board through the ORSA. The current position against the capital and risk tolerance policy is subject to regular monitoring at Board level and discussion with regulators.

A full formal Budgeting and Medium Term Planning process is undertaken each year involving a detailed review of SE plc's business plan including detailed projections of the expected level of Own Funds, SCR, and IFRS earnings over a three year projection period. This takes into account the Company's best estimate of future investment conditions, new business sales, expenses, and business experience such as persistency and mortality rates. This plan is approved by the Board and forms part of the overall Aegon N.V. MTP.

More frequently reviewed forecasts are also maintained showing the expected capital position against target at future points in time, taking into account known upcoming internally or externally driven factors, including new business plans. These forecasts are regularly discussed by the Board and shared with regulators.

G-SII designation

On November 3, 2015, Aegon was designated by the Financial Stability Board (FSB) as a Global Systemically Important Insurer (G-SII), based on an assessment methodology developed by the International Association of Insurance Supervisors (IAIS). Up until 2016, the FSB reviewed the G-SII designation annually. However, the FSB, in consultation with the IAIS and national authorities, decided not to publish a new list of G-SIIs for 2017 or 2018. In November 2019, in recognition of the fact that the Holistic Framework (see below), consistently implemented, provides an enhanced approach to assessing and mitigating systemic risk in the global insurance sector, the FSB decided to suspend the identification of global systemically important insurers (G-SIIs). In November 2022, the FSB will, based on the initial years of implementation of the Holistic Framework, review the need to either discontinue or re-establish an annual identification of G-SIIs. Consequently, Aegon continues to be designated at the time of publication of this Solvency and Financial Condition Report.

Due to its G-SII status, Aegon has been subject to an additional layer of direct supervision at group level. In accordance with these requirements, Aegon submitted a liquidity risk management plan, a systemic risk management plan, and an ex ante recovery plan to DNB and to the G-SII crisis management group (CMG) that was established. Aegon has updated these plans on an annual basis. In addition, the Aegon Group's Resolution Authority (the Dutch Central Bank) was made responsible for the development of Aegon's resolution plan.

In November 2019, the IAIS adopted the Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector. Some of the provisions of the Holistic Framework are included in the IAIS Insurance Core Principles (that apply to all insurers), while others are included in ComFrame (the Common Framework for the Supervision of Internationally Active Insurance Groups, or IAIGs).

The Holistic Framework consists of an enhanced set of supervisory policy measures and powers of intervention, an annual IAIS global monitoring exercise and collective discussion on the outcomes and appropriate supervisory responses, and an assessment of consistent implementation of supervisory measures. ComFrame establishes supervisory standards and guidance focusing on the effective group-wide supervision of IAIGs. ComFrame is a comprehensive and outcome-focused framework that provides supervisory minimum requirements tailored to the international activity and size of IAIGs. ComFrame builds on the Insurance Core Principles that are applicable to the supervision of all insurers.

If the FSB would, as referred to above, discontinue the annual identification of G-SIIs after the review of the Holistic Framework in November 2022 or, alternatively, Aegon would not be identified as a G-SII, Aegon would still be subject to ComFrame and ICS, to the extent these would be implemented in local legislation.

E.1 Own Funds

E.1.1 Aggregation methods

The solvency position is calculated as a ratio, by dividing Own Funds by the Capital Requirement. There are two capital requirements: a Solvency Capital Requirement (SCR) and a Minimum Capital Requirement (MCR). The solvency ratio uses the SCR as the denominator and this is reported as the Solvency II Capital Ratio.

E.1.2 Tiering of Own Funds

The Own Funds are divided into three Tiers. An overview of the general characteristics of the three Tiers of Own Funds is visualised in the figure below.

Tier 1	Tier 2	Tier 3
Unrestricted Tier 1 Equity (Share Capital and share premium) Restricted Tier 1 Perpetual subordinated capital instruments with loss absorption	<ul style="list-style-type: none"> • Dated or perpetual • Subordinated capital instruments <ul style="list-style-type: none"> o With an original maturity of at least 10 years o Limited loss absorption o With suspension of payments and deferral of interest 	<ul style="list-style-type: none"> • Dated or perpetual • Subordinated capital instruments <ul style="list-style-type: none"> o With an original maturity of at least 5 years o Limited loss absorption o With suspension of payments and deferral of interest • Net deferred tax assets

Restrictions apply to the eligibility of Restricted Tier 1, as well as the eligibility of Tier 2 and Tier 3 capital. Restricted Tier 1 may not exceed 20% of Tier 1 Own Funds and the total of Tier 2 and Tier 3 Own Funds may not exceed 50% of the SCR, while Tier 3 Own Funds is limited to 15% of SCR.

SE plc has a simple capital structure and all of its capital is Tier 1. On 16 October 2020, SE plc reduced the nominal value of its shares from £1 each to £0.01 each. This reduced the overall value of share capital from £625m to £6.25m, with a resultant increase to the reconciliation reserve of £618.75m. SE plc includes a ring-fenced WPSF where a restriction is applied to the availability of Own Funds. Any free surplus in the ring-fenced fund in excess of the stand-alone SCR is not available to meet the SCR of the remaining legal entity, and a ring-fenced fund restriction is therefore reported with this value.

The tables below set out the Solvency II Own Funds per tier for the end of the reporting period (31 December 2020).

S.23.01 Own Funds (as at 31 December 2020)	Amounts in GBP millions				
	Tiers Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Basic Own Funds					
Ordinary share capital	6.3	6.3			
Share premium account	-	-			
Reconciliation reserve	2,455.9	2,455.9			
Subordinated liabilities	-	-			
Amount equal to the value of net deferred tax assets	-	-			
Other basic own funds approved by supervisory authority	-	-			
Total Basic Own Funds before adjustments	2,462.2	2,462.2	-	-	-
Non-available own funds	-	-			
Participations investment firms, credit- and financial institutions	-	-			
Available Own Funds	2,462.2	2,462.2	-	-	-
Eligible Own Funds SCR	2,462.2	2,462.2			
Eligible Own Funds MCR	2,462.2	2,462.2			
Company SCR*	1,585.6				
Company MCR	600.7				
Solvency II ratio	155%				

*unaudited

S.23.01 Own Funds (as at 31 December 2019)	Tiers	Tier 1	Tier 1	Tier 2	Tier 3
Amounts in GBP millions	Total	unrestricted	restricted		
Basic Own Funds					
Ordinary share capital	625.0	625.0			
Share premium account	-	-			
Reconciliation reserve	1,517.5	1,517.5			
Subordinated liabilities	-	-			
Amount equal to the value of net deferred tax assets	-	-			
Other basic own funds approved by supervisory authority	-	-			
Total Basic Own Funds before adjustments	2,142.5	2,142.5	-	-	-
Non-available own funds	-	-			
Participations investment firms, credit- and financial institutions	-	-			
Available Own Funds	2,142.5	2,142.5	-	-	-
Eligible Own Funds SCR	2,142.5	2,142.5			
Eligible Own Funds MCR	2,142.5	2,142.5			
Company SCR*	1,462.4				
Company MCR	559.6				
Solvency II ratio	147%				

*unaudited

In the section below, the Own Funds items in Tier 1, Tier 2, and Tier 3 for year-end 2019 and 2020 are discussed in more detail.

Ordinary share capital

On 16 October 2020, SE plc reduced the nominal value of its shares from £1 each to £0.01 each. This reduced the overall value of share capital from £625m to £6.25m, with a resultant increase to retained earnings of £618.75m. The amount £6.25m (2019: £625m) presented here in Tier 1 unrestricted aligns with the data published in the Statutory Accounts.

Reconciliation reserve

The reconciliation reserve is calculated as follows:

Reconciliation reserve

Amounts in GBP millions	2020	2019	%
Excess of Assets over Liabilities	2,622.9	2,348.8	12%
Less other Basic OF items including:			
Share Capital and Share Premium	(6.3)	(625.0)	(99%)
Other Basic OF items from R0180	-	-	
Amount equal to deferred taxes	-	-	
Ring Fenced restriction*	(160.8)	(206.3)	(22%)
Treasury Shares	-	-	
Reconciliation reserve	2,455.9	1,517.5	62%

*unaudited

Total Expected profits included in future premiums (EPIFP)	798.0	845.3	(6%)
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Ring-fenced restriction £(160.8)m, (2019: £(206.3)m), is related to the ring-fenced fund WPSF, for which the surplus is restricted as these funds are not available for the Company (surplus is a benefit for the policyholders).

Amount equal to the value of net deferred tax assets

Under Solvency II, SE plc has a deferred tax liability at the end of both 2019 and 2020.

Tiering restrictions

All SE plc's funds are Tier 1 and unrestricted.

E.1.3 Difference between Solvency II Own Funds and IFRS Shareholders Equity

The main difference between the Solvency II Own Funds and IFRS Shareholders Equity as reported in SE plc's Statutory Accounts is primarily caused by a difference in the valuation of the insurance liabilities and treatment of deferred acquisition costs. This is explained in detail in Sections D.2.7 and D.1.1 respectively.

For a quantitative explanation of the material differences between equity as shown in the financial statements and the excess assets over liabilities as calculated for Solvency II purposes refer to Section D. Valuation for Solvency II Purposes - Balance sheet reconciliation overview – and the table disclosed as part of the Reconciliation reserve in Section E.1.2 Tiering of Own Funds.

E.1.4 Transitional arrangements

SE plc has not included transitional arrangements as defined in article 308b of Directive 2009/138/EC.

E.1.5 Ancillary Own Funds

SE plc did not include any Ancillary Own Funds as defined by article 89(1) of Directive 2009/138/EC.

E.1.6 Description of items deducted from Own Funds

SE plc has no deductions from Own Funds.

E.1.7 Distributions to shareholders

During the year, no dividends were paid by SE plc to its parent company (2019: £127m). The Directors do not propose a final dividend payment for the year ended 31 December 2020 (2019: nil).

E.1.8 Deferred Taxes

Deferred tax assets have been recognised in respect of carried forward tax losses and other tax attributes including timing differences between IFRS (and the basis of UK tax) and Solvency II liabilities. These assets are netted against Deferred tax liabilities when reported on the overall Balance Sheet. The table in D3.2 Deferred tax liabilities provides further information regarding these assets including the basis of recognition and expected future usage.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement

This section outlines the full year 2020 Solvency Capital Requirement (SCR) based on the Partial Internal Model (PIM) for SE plc, with comparison to full year 2019.

The UK and EU signed a Trade and Cooperation Agreement (TCA) on 24 December 2020, but it does not cover financial services. Therefore, following the end of the Brexit transition period at 23:00 on 31 December 2021, UK financial services undertakings are subject to the relevant regulations under UK statute; EU regulations no longer directly apply.

Existing approvals of Internal Models and Internal Model Change Policies issued by an EEA supervisor have been grandfathered by the PRA. Therefore, SE plc can continue to use the Internal Model as it stood at the point of transition to calculate its Solvency II SCR.

Amounts in GBP millions	2020	2019	%
Eligible own funds to meet the SCR	2,462.2	2,142.5	15%
SCR*	1,585.6	1,462.4	8%
Solvency II ratio	155%	147%	

* unaudited

SCR based on the Partial Internal Model

At 31 December 2020, SE plc's SCR based on the PIM was £1.59bn, (2019: £1.46bn). This includes SE plc Non-Profit and With-Profits Sub-Funds. The Minimum Capital Requirement based on the PIM was £0.6bn (2019: £0.6bn).

E.2.2 SCR split by risk module

The table below shows the breakdown of the PIM SCR components by risk module. The total net SCR after diversification is £1.59bn (2019: £1.46bn).

Solvency Capital Requirement for SE plc (Unaudited)

Amounts in GBP Millions		2020	2019
C.2 Market risk	Market Risk (SF)	44.8	39.7
	Market Risk (IM)	1,362.2	1,170.1
C.3 Credit risk*	Counterparty default risk (SF)	91.3	102.9
C.1 Underwriting risk	Life underwriting risk (SF)	35.5	26.7
	Life underwriting risk (IM)	1,473.3	1,331.4
	Health underwriting risk (SF)	18.1	9.2
C.5 Operational risk	Operational risk (IM)	325.9	287.6
	LAC-TP **	(155.4)	(158.0)
C.6 Other material risk	LAC-DT	(284.3)	(239.5)
Total undiversified components		2,911.5	2,570.1
Diversification ***		(1,325.9)	(1,107.7)
PIM SCR*		1,585.6	1,462.4

* In this summary presentation, the credit risk values represent counterparty exposure only, with other credit risk relating to financial investments (spread risk, migration risk and default risk) included within Market Risk IM.

** Loss absorbing capacity of technical provisions (LAC-TP) refers to the management actions available to the With-Profits Sub-Fund (WPSF) to reduce the impact of stressed scenarios. These are a combination of regular management actions such as change of investment strategy and other management actions that may be implemented in more extreme conditions to maintain the solvency of the fund.

*** Diversification reflects diversification between Standard Formula and Internal Model components and between risk modules / components.

"SF" Standard Formula, "IM" Partial Internal Model

E.2.3 Simplified calculations

The PIM SCR is calculated using the Partial Internal Model approved by the PRA. SE plc does not apply simplified calculations for calculating the Standard Formula SCR.

E.2.4 Undertaking- specific parameters (Article 104(7) of Directive 2009/138/EC) (unaudited)

SE plc does not apply undertaking specific parameters as defined in article 104(7) of the Directive 2009/138/EC for calculating the Standard Formula SCR.

E.2.5 Article 51(2) of Directive 2009/138/EC (unaudited)

In the calculation of its SCR, SE plc is not required by the supervisory authorities to hold a capital add-on nor to use undertaking specific parameters in the calculation of the Standard Formula components.

E.2.6 Capital Requirement: Minimum Capital Requirement

The Minimum Capital Requirement (MCR) is calculated in accordance with a prescribed formula, which is subject to a defined floor and cap based on the SCR. The MCR of SE plc for 2020 is £600.7m (2019: £559.6m). The inputs used to calculate the MCR were:

Minimum Capital Requirement (MCR) Inputs

Amounts in GBP millions	2020	2019
Best estimate (net of reinsurance)		
With-profits - guaranteed benefits	3,502.5	3,528.4
With-profits - future discretionary benefits	645.1	729.0
Unit-linked	69,846.1	64,504.6
Other Life and Health	502.4	523.9
Capital at risk (net of reinsurance)	7,457.7	6,331.4

E.3 Use of the duration-based equity risk sum-module (unaudited)

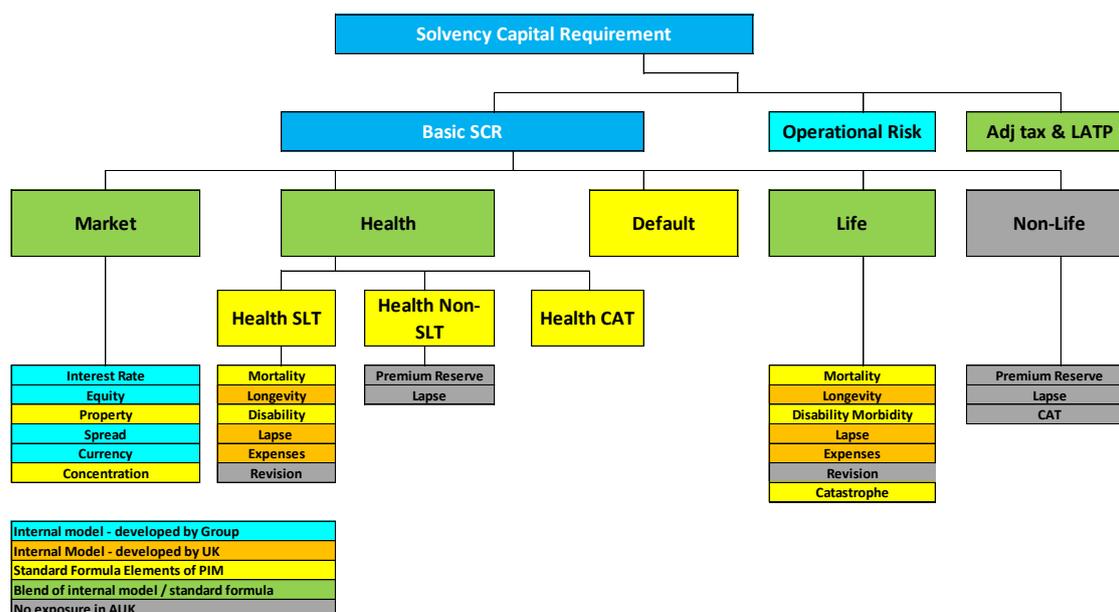
SE plc does not make use of the duration-based equity risk sub-module set out in article 304 of Directive 2009/138/EC for the calculation of the Standard Formula SCR.

E.4 Differences between standard formula and partial internal model used (unaudited)

SE plc applies a Partial Internal Model (PIM) for the calculation of the SCR. The PIM is integral to the management of the business and is used widely, for example in:

- a) Risk Management
- b) Capital Management
- c) Setting Business Strategy
- d) Pricing
- e) Asset and Liability Management
- f) Own Risk and Solvency Assessment

The chart below shows how the PIM maps to the structure of the Standard Formula.



For the key market risks i.e. interest rate, equity, currency and spread (credit), Aegon Group developed internal risk models which have been adopted by SE plc to replace the Standard Formula shocks. These internal risk models are based on statistical distributions fitted to data which appropriately reflect the underlying risk exposure.

For Operational Risk, Aegon Group developed an internal risk model which has been adopted by SE plc to replace the Standard Formula shock. The model uses statistical distributions which are fitted to a combination of relevant historical operational risk data and the output from operational risk scenario analysis prepared by SE plc.

For the key underwriting risks i.e. longevity, persistency and expenses, local internal risk models are used to replace the Standard Formula shocks. A combination of internal experience data and external data is used to fit statistical distributions for each of the risks.

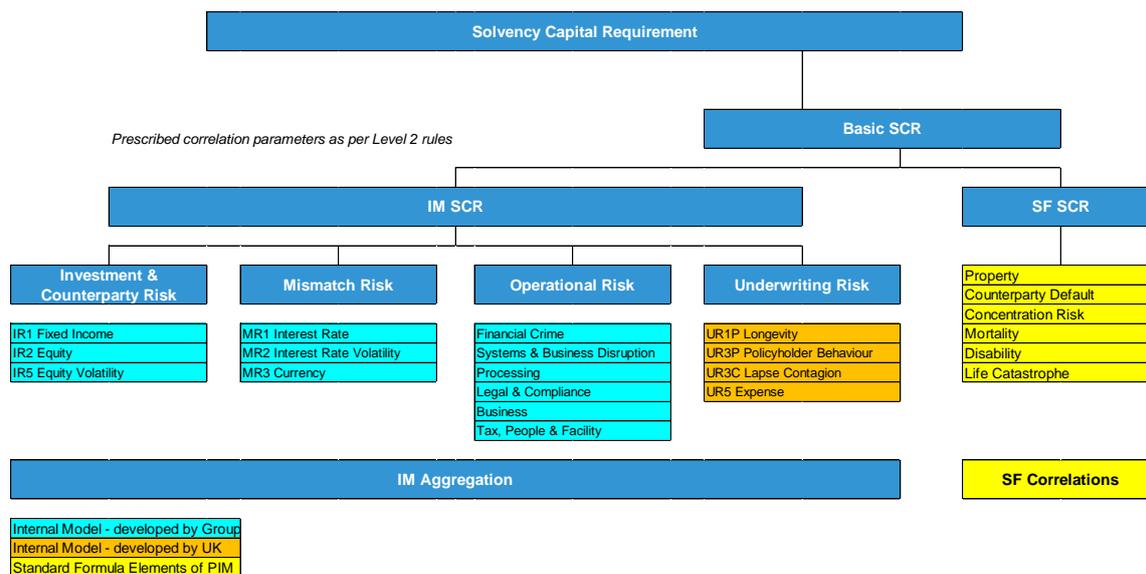
All internal risk models are calibrated to a 99.5% confidence level over a one year time horizon.

Generally, the Internal Model results in a more appropriate representation of capital requirements of SE plc compared to the standardised approach of Standard Formula (SF), as the Internal Model is tailored to reflect SE plc's own specific risk exposures.

Other than the replacement of Standard Formula shocks for these key risks, the other main differences between the Standard Formula and the PIM include the following:

- The PIM includes capital for interest rate volatility risk and equity volatility risk whereas the Standard Formula only includes capital for changes in interest rate and equity levels.
- The effects of diversification between the IM risks under the PIM are modelled using a simulation approach which allows the full probability distribution of capital to be calculated. Diversification between the SF risks is allowed for through use of the prescribed correlation matrices. Capital requirements for the IM and SF risks are aggregated using one the Integration Techniques prescribed in regulation (Integration Technique 3).
- The PIM reflects the effects of diversification between Operational Risk and other IM risks.

The chart below shows the structure of the PIM.



Aegon has a Data Quality Policy which requires the data material to the PIM to be accurate, complete, and appropriate. The data used to calculate the SCR covers the following areas:

- External and internal data underlying the internal model risk calibrations
- Asset and liability data
- Data used to assess the effects of diversification in the capital simulation model.

All data used in the PIM is kept under review and updated appropriately to ensure it is fit for use.

E.5 Non-compliance with capital requirements (unaudited)

There have not been any instances during 2020 where the estimated SE plc Solvency II ratio was below the SCR, nor the MCR level. To ensure that SE plc maintains adequate solvency levels, actual and expected capital positions are monitored against capitalisation zones that are defined in the Aegon UK Capital Management and Dividend Policy. Several activities are performed to monitor and assess the future development of the Company's solvency position, such as the annual MTP process and periodic management reporting. Decisions to return capital to shareholders are based on solvency assessments that consider the impact of the decisions on the current and future projected solvency position.

Any solvency position is subject to risks and SE plc therefore continuously monitors such risks. These are quantified to determine the impact of such risks on the current and the projected solvency position. The Capital Management and Dividend Policy provides actions that need to be performed as soon as the identified risks could cause the projected Solvency II ratio to fall within a particular capitalisation zone.

E.6 Any other information

All material information regarding the Capital Management of SE plc is covered earlier in this section.

E.6.1 Loss absorbing capacity of deferred tax (LAC-DT)

The table below sets out the impact of LAC-DT on the SCR and the relevant components regarding justification of recognition. There has been no inclusion of carried back losses in calculating the LAC-DT position.

LAC-DT (Unaudited)

Amounts in GBP million

LAC-DT reducing SCR	292.8
LAC-DT justified by reversion of deferred tax liabilities	211.0
LAC-DT justified by reference to probable future taxable profit	81.8

Future taxable profits are projected over a 30 year period in order to assess the recoverability of deferred tax.

The Solvency II “short contract boundary” restriction on existing business is removed and the cash flows arising as a result of the inclusion of additional future premiums included in the projection of future profits. This means that profits from future premiums are allowed for on a basis that the company believes to be economically realistic.

Profits from future new business sales are included based on the company’s business plan which is based on the Medium Term Plan projection. Five years of future new business sales are included. Future taxable profits arising from new business sales and contract boundaries are adjusted to reflect the impact of a 1 in 200 year scenario.

Recapitalisation following a shock, if it is required, is assumed to occur linearly over 3 year period to a post shock SCR.

Risk free income on post shock and post recapitalisation Own Funds is included as a future profit.

Risk margin is not used as a source of future taxable profit. We perform a check that the unwind of Risk Margin on existing business is sufficient to cover the expected set up of Risk Margin for new business. If the risk margin in respect of new business is higher, a haircut is applied to the value of new business to ensure there is no excess risk margin included.

F. Governing Body Certification

Solvency & Financial Condition Report

Acknowledgement of content under PRA supervisory statement SS11/16

Scottish Equitable plc

Financial year ended 31 December 2020

We certify that:

- (a) the Solvency & Financial Condition Report ('SFCR') for Scottish Equitable plc has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and
- (b) we are satisfied that:
 - (i) throughout the financial year in question, Scottish Equitable plc has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and
 - (ii) it is reasonable to believe that, at the date of the publication of the SFCR, Scottish Equitable plc has continued so to comply, and will continue so to comply in future.

M. HOLLIDAY-WILLIAMS, Chief Executive

S. McGEE, Director

J. EWING, Director

Edinburgh, 7 April 2021

Compliance with Scheme of Demutualisation
Scottish Equitable plc
Twelve month period ended 31 December 2020

The business of Scottish Equitable Life Assurance Society was transferred to Scottish Equitable plc at 23.59 hours on 31 December 1993, under a Scheme of Transfer under Section 49 of the Insurance Companies Act 1982 ("the Scheme"), as approved by the Court of Session on 9 November 1993.

We certify that, in our opinion, the provisions of the Scheme have been complied with and given effect to for the twelve month period to 31 December 2020.

L. PLENDERLEITH, Chief Actuary

A. R. McBRIDE, With-Profits Actuary

Edinburgh, 7 April 2021

G. Report of the External Independent Auditors to the Directors of Scottish Equitable plc

Report of the external independent auditors to the Directors of Scottish Equitable plc ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2020, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01 and S.28.01.01 ('**the Templates subject to audit**').

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

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

- Information contained within the relevant elements of the Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01 and S.25.02.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

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

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Confirmation of the existence of cash and cash equivalents, financial investments and collateral payable and receivable to assess the availability of liquid assets
- Performance of independent valuations using auditors' experts to determine the appropriateness of the market value of certain Financial Investments considering the increased estimation uncertainty as a result of Covid-19
- Independent challenge and assessment using our actuarial specialists over the methodology and assumptions used in valuing the actuarial liabilities, including the potential impact of Covid-19 on these future looking assumptions
- Consideration of the impact of Covid-19 on the Directors' assessment to continue to adopt the going concern basis of accounting.

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

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Emphasis of Matter - Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations 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 below:

- In accordance with regulation 43 of the Solvency 2 Regulations 2015, the Prudential Regulation Authority ('the PRA') has decided to grant the firm approval to apply a volatility adjustment to the relevant risk-free interest rate term structure.
- In accordance with regulation 42 of the Solvency 2 Regulations 2015, the Prudential Regulation Authority ("the PRA") has decided to grant the firm approval to apply a matching adjustment to the risk-free interest rate term structure.

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

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as PRA Rules and Solvency II regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, such as increasing the capital position of the company, and inappropriate management bias in accounting estimates and judgemental areas such as the valuation of technical provision and the valuation of investments. Audit procedures performed included:

- Discussions with the Board, management, internal audit, senior management involved in the risk and compliance function and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Reviewing relevant meeting minutes including those of the Risk Committee and attending all Audit Committees.
- Assessment of matters reported on the company's whistleblowing helpline register and the results of management's investigation of such matters.
- Reading key correspondence with, reports to and making enquiries of meetings with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations.
- Reviewing data regarding policyholder complaints, the company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud.
- Identifying and testing journal entries and reclassifications, focusing on those determined by us as displaying higher fraud risk characteristics, such as, but not limited to, unusual account combinations.
- Procedures relating to the valuation of technical provisions and the valuation of investments.
- Designing audit procedures that incorporated unpredictability around the nature, timing or extent of our testing to material and immaterial balance sheet line items.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using a partial internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

Chartered Accountants

Edinburgh

7 April 2021

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
 - Row R0550: Technical provisions - non-life (excluding health) - risk margin
 - Row R0590: Technical provisions - health (similar to non-life) - risk margin
 - Row R0640: Technical provisions - health (similar to life) - risk margin
 - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
 - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of template S.12.01.02
 - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin

- The following elements of template S.22.01.21
 - Row R0010 – Technical provisions
 - Row R0090 – Solvency Capital Requirement

- The following elements of template S.23.01.01
 - Row R0580: SCR
 - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of Company template S.28.01.01
 - Row R0310: SCR

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

Appendix A: Acronyms

Acronym	Term
AC	AUK Group Audit Committee
AFS	Available For Sale
AGGRF	Aegon Group Global Remuneration Framework
AUK Board	Aegon UK plc Board
AUKG	Aegon UK plc Group
BEL	Best Estimate Liability
BLAGAB	Basic Life Assurance and General Annuity Business
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CoC	Cost of Capital
CRO	Chief Risk Officer
DAC	Deferred Acquisition Costs
DNB	De Nederlandsche Bank
DS	Digital Solutions
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
DWP	Department of Work and Pensions
EB	Existing Business
EBR	Equity Backing Ratio
EC	AUKG Executive Committee
EFLs	External Fund Links
EIOPA	European Insurance and Occupational Pensions Authority
EPIFP	Expected profit included in future premiums
ERM	Enterprise Risk Management
FCA	Financial Conduct Authority
FSB	Financial Stability Board
FVTPL	Fair Value through Profit or Loss
G-SII	Global Systemically Important Insurer
GAO	Guaranteed Annuity Option
HRG	Homogeneous Risk Group
HTM	Held To Maturity
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
L&G	Legal & General
LAC-DT	Loss Absorbing Capacity of Deferred Taxes
MA	Matching Adjustment
MCR	Minimum Capital Requirement
MTP	Medium-Term Plan
NGWP	New Generation With-Profits
NPSF	Non-Profit Sub-Fund
NRD	Normal Retirement Date
OCS	Own Credit Spread
OF	Own Funds
ORSA	Own Risk and Solvency Assessment

Acronym	Term
PIM	Partial Internal Model
PPFM	Principles and Practices of Financial Management
PMA	Preferred Management Action
PRA	Prudential Regulation Authority
PUP	Paid-up Policy
QRT	Quantitative Reporting Template
REMCO	AUKG Remuneration Committee
RFFR	Ring-Fenced Fund Restriction
RM	Risk Margin
RSR	Regular Supervisory Report
SII	Solvency II
SCR	Solvency Capital Requirement
SE plc	Scottish Equitable plc
SEPT	Scottish Equitable Policyholders' Trust Ltd
SF	Standard Formula
SFCR	Solvency and Financial Condition Report
SMCR	Senior Manager and Certification Regime
SOx	Sarbanes-Oxley
TP	Technical Provisions
TWP	Traditional With-Profits
UL	Unit-Linked
UWP	Unitised With-Profits
VA	Volatility Adjustment
VOBA	Value of Business Acquired
WPF	With-Profits Forum
WPSF	With-Profits Sub-Fund

Appendix B: Glossary

Term	Description
Aegon N.V.	The parent company of the global Aegon Group
Available For Sale	A categorisation of financial instruments under IAS 39
Best Estimate Liability	The expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information.
Chief Executive Officer	The CEO of SE plc is Mike Holliday-Williams
Chief Financial Officer	The CFO of SE plc is Stephen McGee
Cost of Capital	The opportunity cost of funds used to finance a business. It is the rate of return that could have been earned by putting the same money into a different investment with equal risk.
Chief Risk Officer	The CRO of SE plc is Jim Ewing
De Nederlandsche Bank	The Dutch National Bank, and the authority responsible for Solvency II group supervision of the Aegon N.V. Group
Deferred Tax Asset	A deferred tax asset is recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised
Deferred Tax Liability	A deferred tax liability is recognised for income taxes payable in future periods in respect of taxable temporary differences
Economic Balance Sheet	The Solvency II balance sheet
Enterprise Risk Management	The AUKG risk management framework
European Insurance and Occupational Pensions Authority	EIOPA is a financial regulatory institution of the European Union
Fair Value through Profit or Loss	A categorisation of financial instruments under IAS 39
Financial Conduct Authority	The FCA is a financial regulatory body in the UK
Global Systemically Important Insurer	A list of G-SIIs is issued by the Financial Stability Board (FSB). Aegon is a company included on the G-SII list.
Held To Maturity	A categorisation of financial instruments under IAS 39
Homogeneous Risk Groups	The segmentation of insurance and reinsurance obligations, according to the nature of the risks underlying the obligations, as required under Solvency II when calculating technical provisions.
International Accounting Standard	The standards that apply under IFRS
Loss Absorbing Capacity of Deferred Tax	Maximum amount of tax relief that can be expected on additional capital following a stress
Medium-Term Plan	MTP is also used to refer to the annual budgeting and medium-term planning process, as well as the plan itself.
New Generation With-Profits	With NGWP investments, there is no concept of guaranteed benefits (as with TWP and UWP), with benefits being determined by reference to a smoothed unit price that normally changes on a daily basis.
Non-Profit Sub-Fund	The shareholder-owned funds of SE plc

Term	Description
Own Credit Spread	The difference in yield between a bond held and a sovereign bond of equivalent duration in the country of issue.
Own Funds	Own Funds is SII terminology for available capital, and is the equivalent to Shareholder Equity under IFRS. At its simplest it is calculated as assets less liabilities (or excess of assets over liabilities). There is a restriction (RFFR) over the Own Funds for SE plc which arises because the Own Funds of the WPSF are ring-fenced.
Operational Risk	Operational Risk is assessed using results from scenario analysis workshops and stochastic modelling
Own Risk and Solvency Assessment	The ORSA is a Solvency II (Pillar 2) requirement. An ORSA Report must be produced at least annually.
Paid-up Policy	Policy for which regular premiums have ceased.
Partial Internal Model	An internal model under which some risks are valued using the standard formula approach.
Principles and Practices of Financial Management	Directive 147.A.i (LT) issued by the Financial Services Board requires insurers to define, and make publicly available, the Principles and Practices of Financial Management (PPFM) that are applied in the management of their discretionary participation funds (for SE plc, this relates to the WPSF)
Prudential Regulation Authority	The PRA is the relevant competent authority for regulation of Solvency II in the UK
Regular Supervisory Report	The RSR is a Solvency II (Pillar 3) requirement. A full RSR must be submitted to the PRA at least every three years, with a summary report annually. It contains both qualitative and quantitative information. The RSR is a private report, and is not disclosed publicly.
Ring-Fenced Fund Restriction	Net assets (or OF) of the WPSF are owned by the with-profits shareholders. These assets are ring-fenced, and cannot normally be used to cover the liabilities or capital requirements of SE plc shareholders. A restriction is therefore applied to the availability of the Own Funds of SE plc to ensure that net assets of the WPSF do not contribute to the solvency assessment of SE plc as a whole.
Risk Margin	RMs relate to the uncertainty around the best estimate assumptions for non-hedgeable risks. RMs are derived by calculating the cost of holding SCR in future for the non-hedgeable risks.
Sarbanes-Oxley	The Sarbanes–Oxley Act of 2002 (Pub.L. 107–204, 116 Stat. 745, enacted July 30, 2002). An Act to protect investors by improving the accuracy and reliability of corporate disclosures, also known as the "Public Company Accounting Reform and Investor Protection Act"
Solvency II	The Solvency II Directive (2009/138/EC) is a Directive in European Union law that codifies and harmonises the EU insurance regulation.
Solvency II Ratio	The Solvency II ratio is a measure of a company's solvency, calculated as OF divided by SCR.
Solvency and Financial Condition Report	The SFCR is a Solvency II (Pillar 3) requirement. An SFCR must be produced at least annually. It contains both qualitative and quantitative information. It must be disclosed publicly, as well as submitted to the PRA.
Solvency Capital Requirement	In Solvency II, this represents the level of economic capital required, covering all material risks, which will cover the risk of 'ruin' occurring on a one in 200 year basis

Term	Description
Staff Pension Scheme	The Aegon UK defined benefit staff pension scheme. The 'deficit' is the level of shortfall of assets versus liabilities at the valuation date
Traditional With-Profits	Investments which offer a level of guaranteed benefit in return for the payment of a premium or a series of premiums
Unitised With-Profits	Investments which offer a level of guaranteed benefit linked to the payment of each individual premium, expressed in terms of a unit value.
Value at Risk	Value at risk in times of stress
With-Profits Sub-Fund	A ring-fenced fund, wholly owned by the with-profits policyholders of SE plc

Appendix C: Quantitative Reporting Templates

In line with Solvency II requirements, quantitative reporting templates (or forms) are included to support the SE plc SFCR.

General information

Undertaking name	Scottish Equitable plc
Undertaking identification code	213800X1T29YFAYMPC26
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2020
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Partial internal model
Matching adjustment	Use of matching adjustment
Volatility adjustment	Use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.12.01.02 - Life and Health SLT Technical Provisions
- S.22.01.21 - Impact of long term guarantees measures and transitionals
- S.23.01.01 - Own Funds
- S.25.02.21 - Solvency Capital Requirement - for undertakings using the standard formula and partial internal model
- S.25.02.21 - Solvency Capital Requirement - for undertakings using the standard formula and partial internal model
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02
Balance sheet

Solvency II value	
C0010	
	77,642
	6,682,009
	118,969
	2,127,169
	1,224,433
	1,224,433
	2,347,444
	1,145,534
	962,101
	0
	239,808
	19,302
	631,637
	213,055
	0
	72,144,758
	25,000
	0
	25,000
	6,126,366
	0
	235,099
	28,382
	206,717
	5,891,266
	0
	42,714
	36,348
	296,665
	0
	79,002
	1,307
	85,511,811

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

S.02.01.02
Balance sheet

Solvency II value	
C0010	
	0
	0
	0
	4,971,036
	-7,228
	0
	-12,410
	5,183
	4,978,264
	0
	4,897,491
	80,773
	76,405,708
	0
	75,737,397
	668,311
	0
	211,207
	191,344
	135,237
	10,936
	961,353
	0
	0
	2,056
	82,888,877
	2,622,934

Liabilities

R0510	Technical provisions - non-life
R0520	<i>Technical provisions - non-life (excluding health)</i>
R0530	<i>TP calculated as a whole</i>
R0540	<i>Best Estimate</i>
R0550	<i>Risk margin</i>
R0560	<i>Technical provisions - health (similar to non-life)</i>
R0570	<i>TP calculated as a whole</i>
R0580	<i>Best Estimate</i>
R0590	<i>Risk margin</i>
R0600	Technical provisions - life (excluding index-linked and unit-linked)
R0610	<i>Technical provisions - health (similar to life)</i>
R0620	<i>TP calculated as a whole</i>
R0630	<i>Best Estimate</i>
R0640	<i>Risk margin</i>
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>
R0660	<i>TP calculated as a whole</i>
R0670	<i>Best Estimate</i>
R0680	<i>Risk margin</i>
R0690	Technical provisions - index-linked and unit-linked
R0700	<i>TP calculated as a whole</i>
R0710	<i>Best Estimate</i>
R0720	<i>Risk margin</i>
R0740	Contingent liabilities
R0750	Provisions other than technical provisions
R0760	Pension benefit obligations
R0770	Deposits from reinsurers
R0780	Deferred tax liabilities
R0790	Derivatives
R0800	Debts owed to credit institutions
R0810	Financial liabilities other than debts owed to credit institutions
R0820	Insurance & intermediaries payables
R0830	Reinsurance payables
R0840	Payables (trade, not insurance)
R0850	Subordinated liabilities
R0860	<i>Subordinated liabilities not in BOF</i>
R0870	<i>Subordinated liabilities in BOF</i>
R0880	Any other liabilities, not elsewhere shown
R0900	Total liabilities
R1000	Excess of assets over liabilities

S.12.01.02

Life and Health SLT Technical Provisions

Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)	
	C0020	C0030	C0040	C0050	C0060	C0070				C0080	C0090	C0100				C0150
R0010 Technical provisions calculated as a whole									0	0						0
R0020 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole									0	0						0

Technical provisions calculated as a sum of BE and RM

Best estimate

R0030 Gross Best Estimate	4,147,919		75,737,397		104,356			645,216	80,634,887			-12,410				-12,410
R0080 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	326		5,891,266		206,391			0	6,097,983			28,382				28,382
R0090 Best estimate minus recoverables from reinsurance/SPV and Finite Re	4,147,594		0	69,846,130		-102,036	0	645,216	74,536,904			-40,793	0		0	-40,793
R0100 Risk margin	39,525	668,311			35,122			6,126	749,084	5,183						5,183
Amount of the transitional on Technical Provisions																
R0110 Technical Provisions calculated as a whole									0							0
R0120 Best estimate									0							0
R0130 Risk margin									0							0
R0200 Technical provisions - total	4,187,444	76,405,708			139,477			651,342	81,383,971	-7,228					0	-7,228

S.22.01.21

Impact of long term guarantees measures and transitionals

	Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
	C0010	C0030	C0050	C0070	C0090
R0010 Technical provisions	81,376,743	0	0	11,373	33,169
R0020 Basic own funds	2,462,163	0	0	1,012	-26,867
R0050 Eligible own funds to meet Solvency Capital Requirement	2,462,163	0	0	1,012	-26,867
R0090 Solvency Capital Requirement	1,585,613	0	0	1,012	34,540
R0100 Eligible own funds to meet Minimum Capital Requirement	2,462,163	0	0	1,012	-26,867
R0110 Minimum Capital Requirement	600,744	0	0	411	697

**Solvency Capital Requirement -
for undertakings using the standard formula and partial internal model**

USP Key	USP Key	USP Key
For life underwriting risk: 1 - Increase in the amount of annuity benefits 9 - None	For health underwriting risk: 1 - Increase in the amount of annuity benefits 2 - Standard deviation for NSLT health premium risk 3 - Standard deviation for NSLT health gross premium risk 4 - Adjustment factor for non-proportional reinsurance 5 - Standard deviation for NSLT health reserve risk 9 - None	For non-life underwriting risk: 4 - Adjustment factor for non-proportional reinsurance 6 - Standard deviation for non-life premium risk 7 - Standard deviation for non-life gross premium risk 8 - Standard deviation for non-life reserve risk 9 - None

Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0090	C0120
1	10360I	Insurance Company - Interest rate risk - PC3 curvature up		9	
2	20200I	Insurance Company - Type 2 Counterparty risk - SF	4,968	9	
3	1071BP	Pension Scheme - Spread risk - Corporate non-financial	323,508	323,508	9
4	80300I	Insurance Company - Loss-absorbing capacity of deferred tax	-284,265	9	
5	1071DI	Insurance Company - Spread risk - Other assets	109,658	109,658	9
6	10390P	Pension Scheme - Interest rate risk - Other interest rate risk		9	
7	10499I	Insurance Company - Equity risk - Equity risk diversification	-16,805	-16,805	9
8	1041DP	Pension Scheme - Equity risk - Equity values (other currencies)	31,116	31,116	9
9	80400I	Insurance Company - Other adjustments		9	
10	20100I	Insurance Company - Type 1 Counterparty risk - SF	84,559	9	
11	10420P	Pension Scheme - Equity risk - Equity volatility		9	
12	10600P	Pension Scheme - Property risk - SF		9	
13	1041DI	Insurance Company - Equity risk - Equity values (other currencies)	117,232	117,232	9
14	30220I	Insurance Company - Longevity risk - Longevity trend	294,204	294,204	9
15	1041CP	Pension Scheme - Equity risk - Equity values (US\$)	71,281	71,281	9
16	1071AP	Pension Scheme - Spread risk - Corporate financial	95,152	95,152	9
17	10600I	Insurance Company - Property risk - SF	38,363	9	
18	10310P	Pension Scheme - Interest rate risk - PC1 shift down		9	
19	10760I	Insurance Company - Spread risk - Liability change due to matching adjustment	-9,397	-9,397	9
20	1041CI	Insurance Company - Equity risk - Equity values (US\$)	269,861	269,861	9
21	10390I	Insurance Company - Interest rate risk - Other interest rate risk		9	
22	10330I	Insurance Company - Interest rate risk - PC2 slope down		9	
23	10799I	Insurance Company - Spread risk - Spread risk diversification	-87,137	-87,137	9
24	30300I	Insurance Company - Disability-morbidity risk - SF	11,546	9	
25	30299I	Insurance Company - Longevity risk - Longevity diversification	-83,593	-83,593	9
26	1071DP	Pension Scheme - Spread risk - Other assets	63,602	63,602	9
27	30800I	Insurance Company - Life catastrophe risk - SF	10,938	9	
28	19900	Diversification within market risk - Includes pension scheme	-1,322,282	-1,302,457	9
29	10799P	Pension Scheme - Spread risk - Spread risk diversification	-249,711	-249,711	9
30	1071CI	Insurance Company - Spread risk - Safe havens / supranational	115,580	115,580	9
31	80100I	Insurance Company - Other risks		9	
32	10340P	Pension Scheme - Interest rate risk - PC2 slope up	110,515	110,515	9

**Solvency Capital Requirement -
for undertakings using the standard formula and partial internal model**

USP Key	USP Key	USP Key
For life underwriting risk: 1 - Increase in the amount of annuity benefits 9 - None	For health underwriting risk: 1 - Increase in the amount of annuity benefits 2 - Standard deviation for NSLT health premium risk 3 - Standard deviation for NSLT health gross premium risk 4 - Adjustment factor for non-proportional reinsurance 5 - Standard deviation for NSLT health reserve risk 9 - None	For non-life underwriting risk: 4 - Adjustment factor for non-proportional reinsurance 6 - Standard deviation for non-life premium risk 7 - Standard deviation for non-life gross premium risk 8 - Standard deviation for non-life reserve risk 9 - None

Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0090	C0120
33	1041BP	Pension Scheme - Equity risk - Equity values (euro)	15,696	15,696	9
34	30210P	Pension Scheme - Longevity risk - Longevity mis-estimation	43,356	43,356	9
35	10399P	Pension Scheme - Interest rate risk - Interest rate risk diversification	-97,383	-97,383	9
36	80200I	Insurance Company - Loss-absorbing capacity of technical provisions	-155,374		9
37	30600I	Insurance Company - Expense risk	452,482	452,482	9
38	41600I	Insurance Company - Other health underwriting risk - All health SLT risk post diversification	17,561		9
39	30400I	Insurance Company - Mass lapse	753,233	753,233	9
40	1041BI	Insurance Company - Equity risk - Equity values (euro)	117,928	117,928	9
41	10800P	Pension Scheme - Concentration risk	5,571		9
42	10370I	Insurance Company - Interest rate risk - Interest rate volatility	2,792	2,792	9
43	10420I	Insurance Company - Equity risk - Equity volatility	10,470	10,470	9
44	10320P	Pension Scheme - Interest rate risk - PC1 shift up	68,828	68,828	9
45	30500I	Insurance Company - Other lapse risk	936,993	936,993	9
46	1071BI	Insurance Company - Spread risk - Corporate non-financial	292,465	292,465	9
47	1041AP	Pension Scheme - Equity risk - Equity values (sterling)	60,107	60,107	9
48	10320I	Insurance Company - Interest rate risk - PC1 shift up	340,842	340,842	9
49	30210I	Insurance Company - Longevity risk - Longevity mis-estimation	103,538	103,538	9
50	10399I	Insurance Company - Interest rate risk - Interest rate risk diversification	-218,599	-218,599	9
51	10900I	Insurance Company - Currency risk	269,995	269,995	9
52	10499P	Pension Scheme - Equity risk - Equity risk diversification			9
53	1071CP	Pension Scheme - Spread risk - Safe havens / supranational	59,851	59,851	9
54	10350I	Insurance Company - Interest rate risk - PC3 curvature down	14,393	14,393	9
55	1041AI	Insurance Company - Equity risk - Equity values (sterling)	310,348	310,348	9
56	10900P	Pension Scheme - Currency risk	56,032	56,032	9
57	70100I	Insurance Company - Operational risk	325,929	325,929	9
58	10340I	Insurance Company - Interest rate risk - PC2 slope up	284,357	284,357	9
59	10310I	Insurance Company - Interest rate risk - PC1 shift down			9
60	29900I	Insurance Company - Diversification within Counterparty risk - SF	-1,181		9
61	10360P	Pension Scheme - Interest rate risk - PC3 curvature up			9
62	30220P	Pension Scheme - Longevity risk - Longevity trend	227,378	227,378	9
63	30100I	Insurance Company - Mortality risk - SF	24,371		9
64	10350P	Pension Scheme - Interest rate risk - PC3 curvature down	32,419	32,419	9

S.25.02.21

**Solvency Capital Requirement -
for undertakings using the standard formula and partial internal model**

USP Key	USP Key	USP Key
For life underwriting risk: 1 - Increase in the amount of annuity benefits 9 - None	For health underwriting risk: 1 - Increase in the amount of annuity benefits 2 - Standard deviation for NSLT health premium risk 3 - Standard deviation for NSLT health gross premium risk 4 - Adjustment factor for non-proportional reinsurance 5 - Standard deviation for NSLT health reserve risk 9 - None	For non-life underwriting risk: 4 - Adjustment factor for non-proportional reinsurance 6 - Standard deviation for non-life premium risk 7 - Standard deviation for non-life gross premium risk 8 - Standard deviation for non-life reserve risk 9 - None

Row

Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0090	C0120
65	10330P	Pension Scheme - Interest rate risk - PC2 slope down		9	
66	30299P	Pension Scheme - Longevity risk - Longevity diversification	-37,616	-37,616	9
67	1071AI	Insurance Company - Spread risk - Corporate financial	50,718	50,718	9
68	39900	Diversification within life underwriting risk - Includes pension scheme	-1,275,996	-1,263,551	9
69	10370P	Pension Scheme - Interest rate risk - Interest rate volatility		9	
70	10800I	Insurance Company - Concentration risk	24,853	9	

S.25.02.21

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Calculation of Solvency Capital Requirement		C0100
R0110	Total undiversified components	2,815,249
R0060	Diversification	-1,280,102
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	Solvency capital requirement excluding capital add-on	1,585,613
R0210	Capital add-ons already set	
R0220	Solvency capital requirement	1,585,613
Other information on SCR		
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	-337,418
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-292,775
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	1,411,324
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	119,962
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	108,648
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
Approach to tax rate		C0109
R0590	Approach based on average tax rate	No
Calculation of loss absorbing capacity of deferred taxes		LAC DT
		C0130
R0640	Amount/estimate of LAC DT	-292,775
R0650	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	-210,983
R0660	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	-81,792
R0670	Amount/estimate of AC DT justified by carry back, current year	
R0680	Amount/estimate of LAC DT justified by carry back, future years	
R0690	Amount/estimate of Maximum LAC DT	-642,856

