



**Sanlam Investment Holdings UK Limited
Group Solvency and Financial Condition Report
2019**

Wealth

SANLAM INVESTMENT HOLDINGS UK LIMITED GROUP SOLVENCY AND FINANCIAL CONDITION REPORT

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INTRODUCTION

This is the Solvency and Financial Condition Report for Sanlam Investment Holdings UK Limited (SIH) (the Group) based on the financial position as at 31 December 2019.

BUSINESS AND PERFORMANCE SUMMARY

SIH is the holding company for businesses which provide financial solutions to individuals and institutional clients. These solutions include life insurance, investment management (including asset management and wealth management) and administration. SIH is the European Economic Area insurance parent.

The Group is part of Sanlam Limited, an international financial services group headquartered in South Africa. As at 31 December 2019, Sanlam Limited has a presence in 18 countries and is rated AA- by Standard and Poor's in South Africa. It has a market capitalisation of £10.4bn.

The only regulated insurance entity within the Group is Sanlam Life and Pensions UK Limited (SLP). SLP provides life and pension products and a wrap administration service.

SYSTEM OF GOVERNANCE SUMMARY

Key oversight committees with independent NED governance report directly to the SIH board. They represent Audit and Risk and Customer Interest, with independent NED Chairpersons, and Human Resources, headed by a Group non-executive director. The Heads of Risk, Compliance, Internal Audit and Human Resources have direct reporting links to the committees.

The subsidiary boards are executive boards, charged with the strategic delivery of group objectives and operational oversight. The SLP board has been constituted in a manner that ensures a degree of independence from the SIH board, with both executive and SA group members that are exclusive to this business. It also retains its own Audit, Actuarial and Risk Committee.

RISK PROFILE SUMMARY

The components of the Company's SCR as at 31 December 2019 are summarised below:

Risk Module	31 Dec 2019 £'000
Market Risk (SLP)	22,924
Counterparty Default Risk (SLP)	1,753
Life Underwriting Risk (SLP)	26,707
Operational Risk (SLP)	2,887
Total Undiversified SCR after diversification within risk modules	52,546
Diversification between risk modules (SLP)	(11,491)
Capital requirements of other entities	12,841
Group SCR	52,801

A detailed risk profile is provided in the report in section C.

VALUATION FOR SOLVENCY PURPOSES SUMMARY

An analysis of the valuation of assets and liabilities per the Solvency II balance sheet [S.02.01.02.C0010] are provided in the report in sections D.1 and D.3 respectively. A comparison between IFRS and Solvency II valuation methodologies and results is included in section D.

There have been no significant changes to the valuation methodologies applied under IFRS or Solvency II during 2019.

Section D.2 provides a detailed explanation of the methodology for calculating technical provisions for the Company's various lines of business, including the key assumptions used in these calculations. Please note that no matching adjustment or volatility adjustment has been used in the calculation of the Company's technical provisions. No transitional measures are applied in the calculation of the Company's technical provisions and SCR.

CAPITAL MANAGEMENT SUMMARY

As at 31 December 2019, the Group's solvency capital requirement is **£55.6m** while the Minimum Capital Requirement (MCR) is **£19.3m**. Own funds stand at **£73.6m**. This gives a capital coverage ratio of **132%**.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations. We are satisfied that:

- a) Throughout the financial year in question, the Group has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable and;
- b) It is reasonable to believe that, at the date of the publication of the SFCR, the Group continues so to comply, and will continue so to comply in future.

On behalf of the Board



Jonathan Polin
Director
7 July 2020

A BUSINESS AND PERFORMANCE

A.1 Business

Sanlam Investment Holdings UK Limited (SIH) acts as the holding company for the Sanlam Group's European operating businesses and exists to satisfy the strategic and governance objectives of the group. SIH is the holding company for businesses which provide financial solutions to individuals and institutional clients. These solutions include life insurance; investment management (including asset management and wealth management) and administration. There is one core business group operating under SIH, Sanlam UK.

The Sanlam UK group's vision is to be a leader in advice led wealth management within the UK market.

SIH is incorporated in the United Kingdom and is a company limited by shares. The address of the registered office is:

Monument Place
24 Monument Street
London
England
EC3R 8JA

REGULATOR

The Group supervisor can be contacted as follows:

Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA
0207 601 4878

AUDITORS

The External Auditor for Sanlam Investment Holdings UK Limited for the reporting period was Richard Page, Senior Statutory Auditor, for and behalf of Ernst & Young LLP, The Paragon, Counterslip, Bristol, BS1 6BX, United Kingdom. NB. The Board has elected not to have the SFCR audited for the year ended 31 December 2019 as it is below the threshold which requires an external audit.

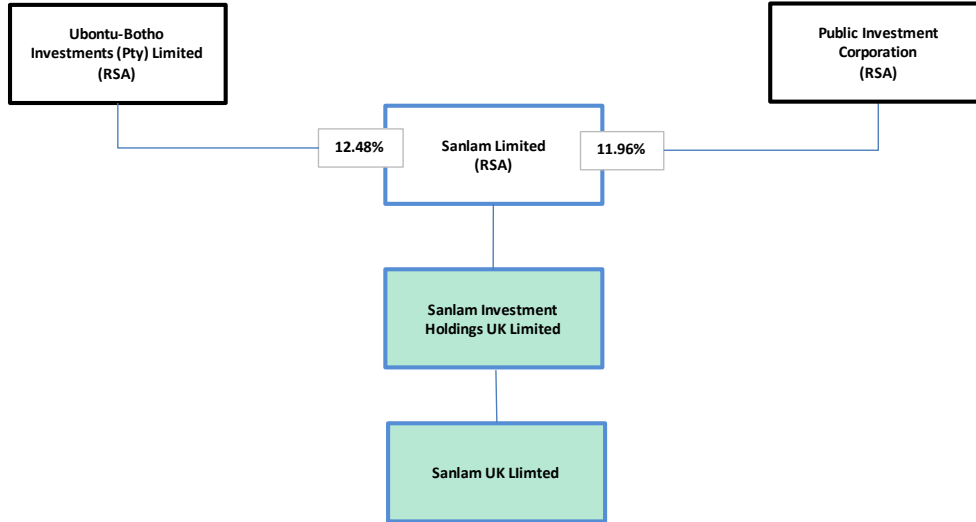
GROUP STRUCTURE

SIH's ultimate controlling party is Sanlam Limited, a company registered in the Republic of South Africa. A simplified organisational structure chart is shown below.

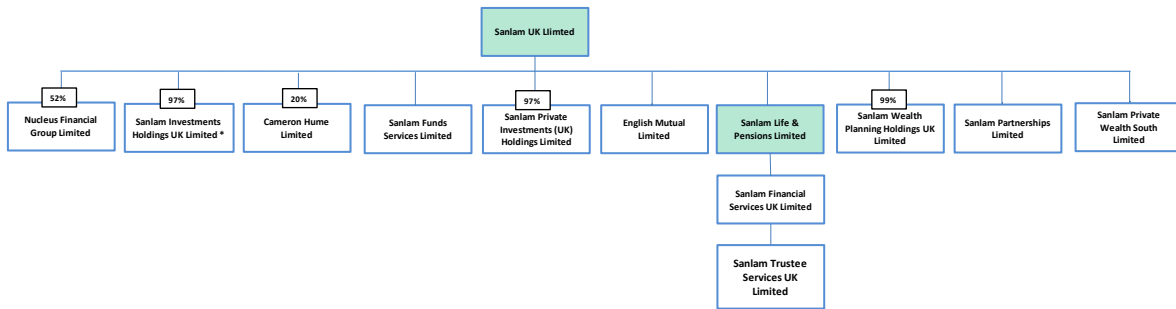
Where there is no information to the contrary, all companies are based in the UK and are 100% owned by the Group.

Full details of the companies within the Group are disclosed in Quantitative Reporting Template S.32.01.22 which is appended to this report.

SIH Subsidiaries



Sanlam UK Limited Subsidiaries



For the purposes of this document, “the Group” is defined as Sanlam Investment Holdings UK Limited and its subsidiaries.

Since the Group operates a vertically integrated business model, there are many areas in which the activities of one entity are impacted by other entities within the Group.

Sanlam UK

The divisional structure and the historic companies that each division will incorporate is as follows:-

Financial Planning Division (Sanlam Wealth Planning Holdings UK Limited, Sanlam Wealth Planning UK Limited, Blackett Walker Limited, Avidus Scott Lang & Co. Limited, English Mutual Limited & Sanlam Partnerships Limited)

Sanlam Wealth Planning is a focused, advice-led, vertically integrated Wealth Management business in retail financial services. It operates a Sanlam restricted whole of market proposition in respect of investment and product solutions to retail clients in the United Kingdom subject to client suitability and focussing on positive client outcomes.

Sanlam Partnerships Limited provides assistance and support services to its network of financial advisors.

Wealth Management Division (Sanlam Private Investments (UK) Holdings Limited, Sanlam Private Investments (UK) Limited, Sanlam Private Wealth South Limited and Sanlam Securities UK Limited)

These entities offer a comprehensive retail and institutional investment management service comprising discretionary and advisory fund management, and stockbroking. In addition there are pooled funds developed to support investors for the South African Private Wealth business.

Asset Management Division (Sanlam Investments Holdings UK Limited and Sanlam Investments UK Limited)

Sanlam Investments manages a number of pooled funds and segregated accounts as well as risk rated model portfolio solutions for institutional and retail clients. It is also responsible for the global asset management proposition, including the International Investment Partner strategy.

Life & Pensions Division (Sanlam Life and Pensions UK Limited & Sanlam Financial Services UK Limited)

Sanlam Life and Pensions UK Limited (SLP) provides life and pension products and a wrap administration service.

SLP plays a key supporting role in delivering the administration centre of excellence for the group. The core portfolio is complemented by investments from the Nucleus platform (wrap administration services).

Unless otherwise indicated below “Sanlam UK” excludes Cameron Hume and Nucleus. In the case of Cameron Hume this is due to the fact it is a minority holding, has limited impact on the Sanlam UK balance sheet and has its own compliance and control frameworks. Nucleus again is subject to its own separately resourced compliance and control framework.

Any other information

A number of acquisitions were completed by the Group during the year.

On 9 April 2019, Sanlam Wealth Planning Holdings UK Limited acquired the entire share capital of Blackett Walker Limited for an initial payment of £4,493,372 and two deferred considerations totalling £3,500,000.

On 14 August 2019, Sanlam Wealth Planning Holdings UK Limited acquired 55% of the share capital of Avidus Scott Lang & Co. Limited for an initial payment of £1,170,174 and deferred consideration totalling £876,967.

On 20 September 2019, Sanlam UK Limited acquired the entire share capital of Sanlam Private Wealth South Limited, formerly Thesis Private Office Limited, for an initial payment of £29,304,503 and deferred consideration totalling £6,219,504.

There has not been any other significant business or other events that have occurred over the reporting period that have had a material impact on the Group other than those addressed in the summary.

A.2 Performance from Underwriting Activities

SIH is a financial conglomerate. Sanlam Life and Pensions Ltd (SLP) is the only regulated insurance entity within the Group. The underwriting performance of SLP can be found in its SFCR, and is reproduced below.

SLP’s SFCR is available on the Group’s website, www.sanlam.co.uk.

Since the Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS), the performance information recognised in the statutory accounts recognises premiums and claims only on insurance business as defined under IFRS. The vast majority of the business written by the SLP is investment business as defined by IFRS. As required under Solvency II, the underwriting performance information recognised below recognises premiums and claims for both insurance and investment business.

	Index-linked and unit-linked insurance		Other life insurance		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Gross premiums written	197,426	203,913	401	430	197,827	204,343
Premiums ceded to reinsurers	766	965	1	3	767	967
Net premiums written	196,660	202,948	400	427	197,060	203,375
Net claims incurred	30,485	22,446	5,167	5,434	35,652	27,880
Direct expenses incurred	28,368	24,160	555	574	28,923	24,735
Surrenders	211,728	196,993	0	0	211,728	196,993

As insurance business only makes up a very small amount of the Group's business, underwriting performance does not have a significant impact on the Group's profitability.

A.3 Performance from Investment Activities

Details of the investment performance for SLP are included in the solo SFCR and included below.

	2019 £'000	2018 £'000
Investment income	37,221	38,194
Net gains on assets and liabilities at fair value through profit or loss	274,036	(124,900)
Investment management fees	(35,928)	(33,249)

Investment income is made up of dividends, interest income, and rental income from investment properties.

The net gains on assets and liabilities at fair value through profit or loss is due to the rise in equity markets in 2019. Unit linked assets accounted for the majority of this gain, and this is therefore offset by a movement in unit linked liabilities.

The Group has no holdings in securitisations.

A.4 Performance of other Activities

A number of the entities within the Group have operating leases in place in respect of properties that the entities occupy. None of these arrangements have a material impact on the operating performance of the Group.

There is no further information to be disclosed in relation to performance of other activities.

A.5 Any other information

There is no further information to be disclosed in relation to business and performance.

B SYSTEM OF GOVERNANCE

B.1 General Governance Arrangements

The general governance arrangements of SIH are documented below. The Group believes these arrangements are appropriate in the context of the nature, scale and complexity of the risks inherent in its business.

Organisational overview

SIH was formed through a merger of equals between Sanlam Netherlands Holdings BV and Sanlam Investments Holdings UK Limited effective 1 July 2015. It acts as the holding company for the Sanlam Group's UK operating businesses and exists to satisfy the strategic and governance objectives of the group.

SIH Board responsibilities and functioning

The SIH Board meets quarterly to consider governance matters relating to SIH and its subsidiaries, focusing on the following:

- Risk Management
- Capital Management
- Compliance with FCA and PRA requirements
- Group Strategy
- Corporate Governance

Regular interim meetings and calls are held to update on various activities during the period.

Business Divisions and Subsidiary Boards

Key oversight committees with independent NED governance report directly to the SIH board. They represent Audit and Risk and a Customer Interest, with independent NED Chairpersons and HR, headed by a Group non-executive director. The Heads of Risk, Compliance and Internal Audit, and a Human Resources committee have direct reporting links to the committees.

The subsidiary boards are executive boards, charged with the strategic delivery of group objectives and operational oversight. The SLP board has been constituted in a manner that ensures a degree of independence from the SIH board, with Non-Executive Directors and both executive and SA group members that are exclusive to this business. It also retains its own Audit, Actuarial and Risk Committee (AARC).

The business operates a divisional operational structure for the group supported by central service functions.

Remuneration Policy

Remuneration principles

The following remuneration principles apply to the managerial body, persons who effectively run the undertaking or have other key functions and to those whose activities have a material impact on the firm's risk profile (Material Risk Takers - MRT's).

- Remuneration is aligned to the Sanlam UK business strategy, long term success of the company and the interests of the company's various stakeholders.
- Performance and reward are closely linked such that a combination of both individual, business unit performance and overall Sanlam UK business performance are used to determine variable pay awards.

- In assessing performance, the HR and Remuneration Committee will take into account the personal performance of the individual, the relevant business unit and the Sanlam UK Group, and the risk framework and appetite, as well as other relevant factors.
- Sharp differentiation between individuals variable pay within each remuneration category is applied. When an individual has performed poorly and is not seen to be adding significant value, or has not adhered to the Group's risk framework, variable pay, should be zero. When the individual has performed exceptionally well then the bonus should be exceptional especially when the business has also performed exceptionally well.
- To assist in their assessment of variable pay, the SIH HRC considers a report from the Group Risk Committee on adherence to the Group's risk framework and appetite and to all relevant conduct standards.
- The Committee has the authority to apply clawback and /or apply malus adjustment to all or a portion of the variable pay in certain circumstances as outlined below:
 - Where a business decision taken during the performance period by the business unit by which individual is employed has resulted in a material breach of any law, regulation, code of practice or other instrument that applies to the company or individuals within the business unit.
 - Where an individual has been found guilty of misconduct
 - Where there is a materially adverse restatement of the accounts for any year during the performance period of the business unit in which the individual worked at any time in the performance year
- Where any matter arises which the Committee believes affects or may affect the reputation of the company or any member of the Group.

Sanlam Behaviours

Sanlam's Performance Management framework is based on 'what' employees do (objectives) as well as 'how' they do it (behaviours). Employees' performance is measured against the achievement of objectives in line with the expected Sanlam behaviours, these are: Customer Focused, Team Player, Results Driven, Capability, Adapting to Change, Demonstrating Integrity.

Sanlam UK Overall Remuneration Framework

- Due recognition will be given to the different types of businesses and positions across the SUK Group and particular benchmark measures and remuneration trends will be taken into account during reviews.
- Individuals are typically awarded market related pay (basic salary plus add on benefits). An annual remuneration survey will take place in which roles will be benchmarked and other criteria such as individual's qualifications, years of experience, critical role etc. will be considered in the benchmark of market related pay. Any differentiation to this will be applied by taking into account the total package of the individual. Due regard is taken of an appropriate balance between fixed and variable remuneration.
- Variable pay is open ended with reference to the nature of variable pay that is awarded in the market in specific industries and professions and will be at management's discretion and SIH HR and Remuneration Committee approval.
- Sharp differentiation between individuals' variable pay within each remuneration category is applied. When an individual has performed poorly and is not seen to be adding significant value, variable pay, could be zero. When the individual has performed exceptionally well then the bonus should be exceptional especially when the business has also performed exceptionally well.
- The SIH HR and Remuneration Committee annually approve the list of in-scope staff in relation to SIMR, Solvency II and in particular the Material Risk Takers (MRTs) within the Group and ensure that a full record of assessment criteria and said list is retained for each performance year. Individuals within this scope are informed in writing of their status during the beginning or appropriate time of the performance year and commit in writing to undertake no personal hedging strategies.

- Control function variable pay is predominantly based on role-specific performance, independent of the performance of the business units overseen. Bonuses may be impacted by overall SUK performance where the total bonus pool is considerably contracted.
- Employees who receive a performance rating of 'Unsatisfactory' at their end of year performance review will not be eligible for a bonus payment. Severance payments must reflect performance over the whole period of activity and will not reward failure.
- Provision of variable pay and metrics will be made for those employees considered "good" and "bad" leavers. Good leavers depart the company on good grounds eg for a reason that cannot be helped such as ill health or compulsory redundancy. Bad leavers can include those that have been dismissed for performance or conduct reasons. In such cases, no payment of bonus will be awarded for any poor performance or in any way that rewards failure.
- The Deferral of a portion of variable remuneration for senior management may be taken into account and for those individuals in scope of regulatory requirements (MRTs) a consideration of deferral may apply.

Forms of remuneration:

Fixed

- The company aims to recognise the market value of each position in a competitive market, reward individuals capabilities and experience and recognise the performance of individuals and the person's potential to contribute. It does not value jobs according to any grading system but rather responds to the question "if this individual was performing the same role in the market at the same level of complexity and performance, what would the market pay the job?"
- Base Salaries plus add-on benefits are reviewed annually, at the start of each year. Any salary increase is effective from 1 April, being determined by factors such as Company performance, rate of inflation, prevailing local marketplace trends, changes in responsibilities and individual performance.
- Under certain circumstances an increase to Base Salary may occur during the year, usually due to promotion, a step change in their role or where the competitiveness of the individual relative to the market has increased. Where possible, the increase will take place effective 1 April in line with the annual review or 1 October in line with the informal interim annual review.
- Benefits are offered in line with prevailing market practice. They include pension, Life Assurance, Income Protection plus private health cover for eligible employees.

Variable component

Short term incentives – subject to regulatory requirement

- In determining the short term variable component of salary the overall total remuneration of the individual is taken into account and an appropriate balance of fixed and variable pay is determined and maintained by taking into account the individuals role within the business and performance. The details of this are outlined in the annual corporate bonus scheme and approved annually by the SIH HR and Remuneration Committee.
- Each year, a variable short term cash incentive can be earned, based on overall individual performance, the performance of the business unit, and the financial results of the company.
- Financial and non-financial goals, consistent with the shareholder goals and in the best interests of the company's clients, are set at the beginning of the year and performance is measured through the performance management process.
- Bonuses are paid in March based on the previous year's financial results and individual performance outcomes as determined as a result of a formal review of performance in December. Pro-rata payments apply to new appointments based upon time in the job over the financial year.
- Bonus payments are at the discretion of the company and depending on remuneration category of the individual and company performance. Employees must be in the employ of the business and not under notice of resignation as at date of payment.

Long term incentives – subject to regulatory requirement

- The purpose of the long term incentive scheme is to align the financial interest of the Company's employees to that of its shareholders. These allocations provide market competitive remuneration levels with a focus on sustained improvement of long term performance. Long term incentives also serve to attract, motivate and retain key senior employees.
- Use is made of regular annual allocations, rather than a once off large allocation to encourage a build-up of a personal stake in the company. In doing so the employee is also exposed to company valuation at different time periods.
- Short term and Long term incentives are not pensionable. Should an individual wish to sacrifice a portion of their incentive towards their pension, this will be for their own discretion and management thereof.
- Allocations are made in June and are discretionary based on base salary and modified by the individual's performance assessment.
- The vehicles used to deliver long term incentives are reviewed annually. These make use of a vesting period to dissuade short-term decision making.
- All employees who own Growth shares are rewarded for growth in the overall Sanlam UK business and there are good and bad leaver provisions affecting all participants.
- The Growth Share scheme is governed by the SIH HR and Remuneration Committee and the Committee will assess performance against agreed measures at the vesting period. The Committee has the authority to apply clawback and/or malus adjustment to all or a portion of the Growth Share award.

Poor Performance

Employees who receive a performance rating of 'Unsatisfactory' at their end of year performance review will not necessarily be eligible for a bonus payment. Under the Solvency II Delegated Act (Remuneration requirements), severance payments must reflect performance over the whole period of activity and will not reward failure.

Non-Executive Directors (NED's)

- All Non- Executive Directors receive a basic fee for their duties as a Board member. Additional fees are paid for added responsibilities such as Chairmanship and membership of committees. The remuneration of NED's shall be a matter for approval by the Sanlam Investments Group HR and Remuneration Committee annually in Quarter Two. Non-Executive Directors are not eligible to participate in annual bonus plans or long term incentive plans.

Material Transactions

There were no material transactions with shareholders, with persons who exercise a significant influence on the undertaking, or with members of the administrative, management or supervisory body.

B.2 Fit and Proper

The fit and proper requirements for the regulated insurance undertakings are included below as set out in the SLP SFCR. Not all approved persons are employed by SLP.

An Approved Persons Guide is available to all staff on the intranet. The guide covers Senior Insurance Manager Function (SIMF) roles and other Approved Persons. The procedure for appointing a new SIMF or Approved Person includes undertaking a fit and proper person test and seeking approval from the Board and Regulator. No individual can undertake such responsibilities without first obtaining approval and passing this test.

Before appointing an individual, SLP must be satisfied that the person has the personal characteristics (including being of good repute and integrity), possesses the required level of competence, knowledge and experience, has the relevant qualifications, and has undergone, or is undergoing, training required in order for them to perform their key function effectively and in accordance with any relevant regulatory requirements.

The ongoing fitness and propriety of SIMFs and Approved Persons is assessed through SLP's Performance Management structure, with progress reviews being carried out no less than annually. Progress reviews for all executive SIMFs other than the Chief Executive are carried out by the Chief Executive. The Chairman carries out a progress review in respect of the Chief Executive and the Non-Executive Directors. The Senior Independent Director carries out a progress review in respect of the Chairman. The performance of the Board is reviewed annually; this is facilitated by the Company Secretary in conjunction with the Chairman and the Chief Executive.

The SIMFs and Approved Persons are also required to complete an annual self-certification to confirm that they remain fit and proper to carry out their role.

Once an individual is a SIMF or an Approved Person they are made aware that they must abide by strict standards of conduct – and that they become personally accountable to the regulator.

B.3 Risk Management System including the Own Risk and Solvency Assessment

ERM Framework

The Sanlam Investment Holdings (UK) Limited Enterprise Risk Management ("ERM") Framework is a high level over-arching framework aimed at ensuring that:

- All risks which could jeopardise/enhance achievement of the Group's strategic goals are identified;
- Appropriate structures, policies, procedures and practices are in place to manage these risks. ERM also requires the Group to take a portfolio view of risk;
- Sufficient organisational resources are applied to, and corporate culture is fully supportive of, the effective implementation of these structures, policies, procedures and practices; and that
- The organisation's risks are indeed being managed in accordance with the foregoing.

The key objective of SIH's Enterprise Risk Management approach is to support the Sanlam Group in achieving its primary objective of optimising the return on Group Equity Value and maximising shareholder value; and to protect the interest of Sanlam's customers serviced by the SIH group of companies and ensure fair and responsible conduct towards clients of SIH's subsidiary companies.

This approach also achieves the following secondary objectives:

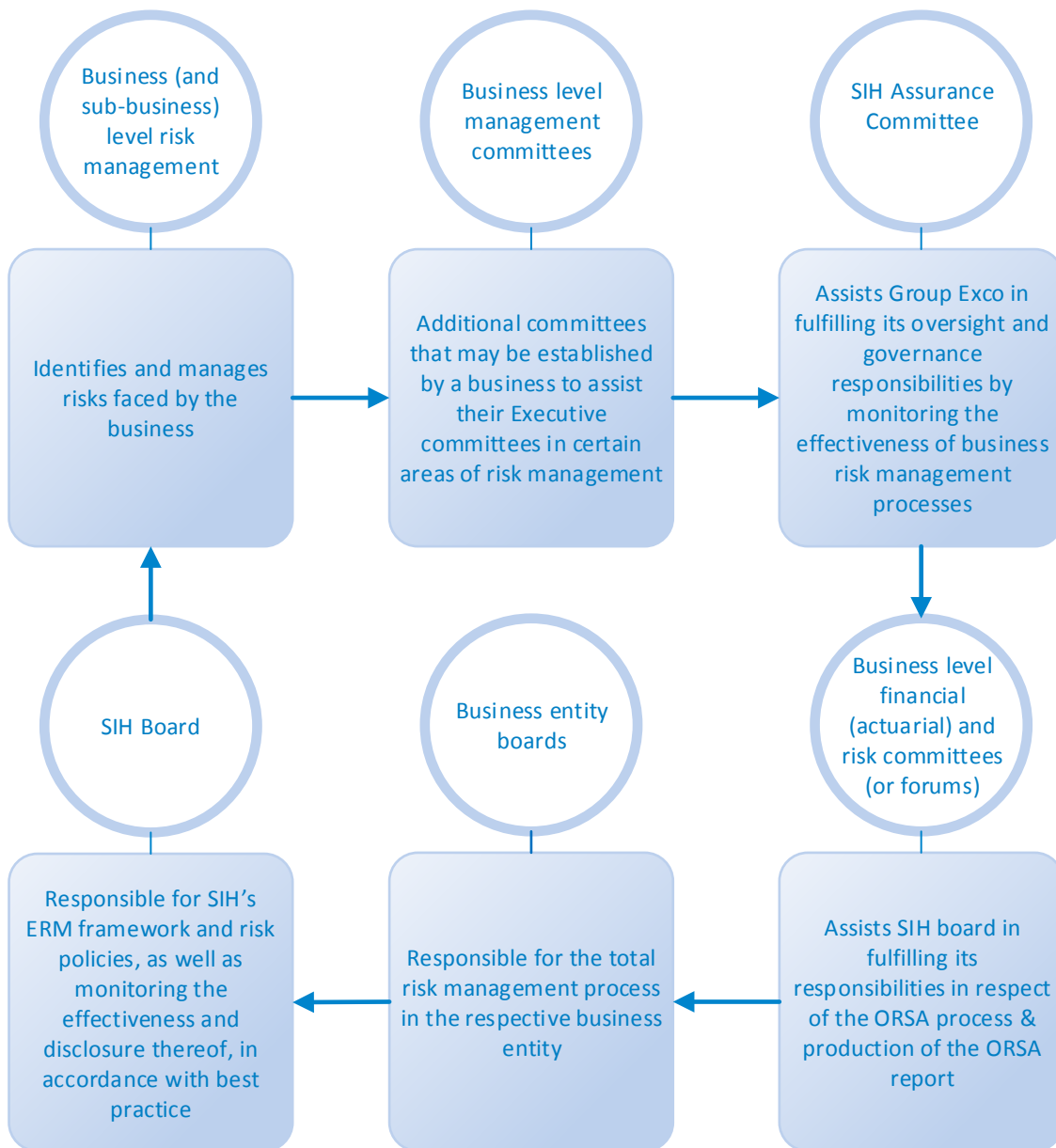
- Safeguarding the Group's assets (including information) and investments;
- Supporting strategic business goals;
- Supporting business sustainability under normal and adverse operating conditions;

- Responsible behaviour towards all stakeholders having a legitimate interest in the Group, including conduct risk and the fair treatment of customers and/or delivery of good customer outcomes;
- Reliability of reporting; and
- Escalation of all identified risks in accordance with Sanlam Group Risk Escalation policy.

Risk Governance and oversight

In terms of the SIH Group’s overall governance structure, the SIH board includes representation from all business entities. The agenda of the SIH board focuses on Group strategy, capital management, regulatory and compliance matters and corporate governance.

The SIH Group operates within a decentralised business model environment. In terms of this philosophy, the SIH board sets the Group enterprise risk management framework and policy and the individual businesses take responsibility for all operational and risk-related matters on a business level, within the limits set by these policies and frameworks. The following diagram generically depicts the flow of risk management information from the individual businesses to the SIH board.



Following integration of the UK businesses, the Group continues to align its risk management and internal control systems and reporting procedures to ensure consistency across all of the business entities.

Role of Risk Management

The role of Risk Management (under the leadership of the Chief Risk Officer for SIH) is to develop, implement, monitor and continuously improve SIH's risk management process, in conjunction with the member group businesses, to ensure that it functions adequately, consistently and effectively across the SIH Group. It ultimately is responsible for reporting to the SIH Board.

Risk Management plays an active role with regard to risk management in SIH. The involvement includes, inter alia, the following:

- Permanent invitee of the Board meetings;
- Member of the majority of the respective business entity boards and risk committees as appropriate.

Within the SIH Group, the SIH Board and the SIH Chief Risk Officer ("CRO") are responsible for monitoring Group risks on a macro level. Group risks in this regard refer to the following:

- Risks with a significant financial impact on the SIH Group;
- Risks with a negative reputation impact on SIH Group;
- Risks that can, owing to their scope, impact negatively on SIH.
- Risks, which within individual businesses, would not fall into any of the above categories, but do so when aggregated at the SIH Group level.

The escalation of particular risks to the Sanlam Group level (including to the Chief Risk Officer of the Sanlam Group) and the monitoring thereof must be done in accordance with the Sanlam Group Risk Escalation Policy.

The SIH Board and Chief Risk Officer of SIH have the responsibility to consider decisions, actions or intended actions and risks, brought to their attention either by the business heads or other sources, and if they conclude that these are or could be detrimental to Sanlam, it is also their responsibility to veto said actions or, alternatively, to insist on measures to reduce or restrict the detrimental effect.

The Chief Risk Officer for SIH will, on an ongoing basis, give the SIH Board feedback on risk management in the SIH Group to allow it to fulfil its responsibilities through the ORSA processes set out in the SIH ORSA policy.

Own Risk Solvency Assessment (ORSA)

The ORSA process for the Group and its subsidiaries is an assessment which considers and links a number of key risk and capital processes, functions and activities operated throughout the Group. The Group Risk Function produces an ORSA update report for the Board every quarter in line with the Board meeting cycle. This report is designed to provide an update and assessment of the key risks that the business is exposed to within the context of the stated risk appetite, and the current (and likely future) solvency positions given these exposures to risk.

The ORSA is conducted in such a way that it supports and complements the Group and company's risk management and capital allocation activities in an efficient manner, by providing feedback loops between the risk assessment, risk measurement and capital and business planning activities. The ORSA describes how the capital management activities take into account its risk management activities.

The following activities form part of the regular ORSA activity cycle:

- Annual review of risk management processes and results presented to the May Board meeting;
- Quarterly quantitative assessment of current and forward looking risk and capital positions;
- Interim capital calculations as part of regular management information in June. Results used to align risk management and capital calculations so that suitable up to date link exists for budget process (September to November);
- Confirmation that risk management and capital calculations are still appropriate (or have been appropriately adjusted) for business planning results flowing from the budget process in November each year; and
- Main ORSA capital calculations (for reporting purposes) based on 31 December calibrations and assumptions, in line with the annual process for updating assumptions for calculations of technical provisions.

The annual cycle is thus aligned with the budgeting process so as to support the use test. The yearly cycle will, however, have to be supported by further ongoing monitoring.

Any change in the risk profile or capitalisation of the SIH Group will be tested for significance against the detail of relevant documented stress testing / scenario analysis.

A significant change in risk profile or capitalisation at business or entity may trigger an out-of-cycle ORSA for the specific business or entity but may not require an out-of-cycle ORSA at SIH level, provided there is not a significant change in the overall SIH group risk profile.

Activities or events that may trigger an out-of-cycle ORSA include:

- macro-economic shocks
- a significant shift in investment markets;
- significant M&A activity;
- significant changes to reinsurance programmes;
- major changes to the risk appetite or tolerances; and
- natural/man-made disasters.

The ORSA process is designed so that it reveals potential areas for improvement so as to:

- Support the optimisation of risk and capital management processes in SIH (and business entities); and
- Ensure that the intended level of comfort with regard to ongoing solvency is provided.

In addition to the full ORSA and ORSA Reports to be performed on an annual and “out-of-cycle” basis, SIH performs a selection of ORSA activities on a quarterly basis (partial ORSA). This is required for purposes of interim reporting, management information, decision making, etc. for ensuring ongoing regulatory compliance. This will mainly include;

- Review and update of risks faced by the entity;
- High level review of appropriateness of ORSA capital requirement calculations; and
- ORSA capital requirement calculations and continuous compliance with the requirements of regulatory capital and technical provisions, and the risks arising from these calculations.

Such activities shall not include the completion and submission of an external ORSA Report to the regulatory authorities, but will include those activities required to produce the necessary internal ORSA management information, as required by the Board.

The ORSA process is conducted throughout the year and the output captured in the annual ORSA report which is owned by the Board and reviewed by the Audit and Risk Committee. The ORSA is reviewed and approved at least annually by the Board and the latest ORSA report was submitted to the PRA in February 2020.

B.4 Internal Control System

The Group's internal control systems are designed to provide reasonable assurance over the effectiveness and efficiency of operation, the reliability of financial reporting and compliance with laws and regulations. The Boards are ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems. The overall framework is subject to annual approval by the Boards.

The Company's risk management framework uses the 'three lines of defence' model (Risk management; Risk oversight; Risk assurance).

Data quality policies set out the principles around data quality and the processes to be applied in order to ensure that this is maintained. These processes include regular analysis of the financial results to ensure that these are well understood, reconciliation of data sources with other internal and external data and the investigation of any discrepancies and review of the financial results on a regular basis by the relevant Boards. All of these activities are carried out as part of business as usual processing. There are various policies in place that provide details of the procedures to be followed to ensure that internal controls are sufficient to allow the Group entities to operate within with their defined risk appetites. Such policies are subject to periodic review.

The SIH Assurance Committee is an executive committee at the SIH level and is responsible for the overall oversight of the control frameworks that are in place. These include the Group Risk Management Policy and its sub policies.

The compliance function is teamed by a multidisciplinary unit covering each of the entities and also sits at the SIH governance level.

SIH operate a "Combined Assurance Model". This aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers on the risk areas affecting the businesses. External assurance providers may include the external auditor, or any other external assurance providers. The International Financial Reporting Standards (IFRS) financial statements are also subject to rigorous controls in the production and review leading up to publishing. Internal assurance includes the operation of Internal Audit and the Compliance function.

The SLP AARC is responsible for monitoring the appropriateness of its combined assurance model and ensuring that significant risks facing SLP are adequately addressed. By providing an effective counterbalance to the executive management, the AARC upholds the independence of internal and external assurance providers, thus helping to ensure that these functions are carried out effectively. The AARC annually reviews and approves the overall risk assurance coverage of high risk areas of the business by considering the plans of the Risk Management Function, Internal Audit, external audit and Compliance.

The combined assurance model operated at SIH and its subsidiaries such as SLP helps satisfy the AARC that significant risk areas within that company have been adequately addressed and suitable controls exist to mitigate and reduce these risks.

At SLP the actuarial liabilities are produced using best practice actuarial practices. The statements are also subject to internal review and external audit review. They are presented to that Board for sign-off prior to publishing.

Operation of the Compliance function

The Compliance Function is an independent function within the Group. Due to the scope of regulation and the potential consequences of non-compliance, the Compliance Function provides the second line of defence for the primary compliance and conduct risks that the Group is exposed to.

The Compliance Function's main roles are:

- to provide guidance to the business on FCA, PRA and EU regulations and regulatory changes so that the businesses can build and operate appropriate controls
- to monitor the design and operational effectiveness of the controls put in place by the business.

The Compliance Function is responsible to the Boards for ensuring compliance risks are identified, assessed, monitored, and reported.

To this end, the Compliance Function assesses the appropriateness of compliance procedures, processes, guidelines systems and controls, follows up identified deficiencies promptly and makes appropriate recommendations for improvement as necessary.

The Compliance Function is responsible for producing and delivering against an annual compliance plan (requiring Board approval). This plan is designed to ensure compliance by the businesses and that conduct aspects of these activities are appropriately assessed in a manner that is proportionate to the risk exposure, the ramifications of non-compliance, and commensurate with the regulatory risk appetite.

The Compliance Function holder is the Group Head of Compliance. Their remit includes being a member of the executive committees, with direct access to the Board. The reporting line of the Compliance Function has been designed to be independent from the first line of the business and can therefore provide an objective view on compliance matters, without the risk of outside influence. The Head of Compliance attends the meetings of the Sanlam UK and SLP Executive Committees, and the SLP and SIH Board and SLP and SIH AARC meetings.

The Compliance Function provides monthly reports to Sanlam UK Executive Committees on regulatory issues that have arisen (both internally to the relevant firms and externally to the regulatory structure) and progress against the Compliance plan. Similarly the Compliance Function also produces a quarterly report to the SLP AARC covering material issues.

B.5 Internal Audit Function

The Internal Audit function is a Group wide function that operates across the SIH Group and its subsidiaries.

The Internal Audit function is an independent function within the Group which examines and evaluates the functioning of the internal controls and all other elements of the system of governance (including risk management), as it relates to the compliance of activities with internal strategies, policies, processes and reporting procedures. As such, Internal Audit forms a key element of the 'third line of defence' in the risk management framework. The function attends the SIH Audit and Risk Committee which is chaired by a Non-Executive Board member. The Head of Internal Audit has a direct reporting line to the Audit Committee Chairperson.

Internal Audit prepares an audit plan setting out the audit work to be undertaken in the upcoming business year. The audit plan is based on a methodical risk assessment, with consideration of historical audit conclusions, business projects, regulatory and industry developments, business strategy and Compliance and Risk Management activities. The result of this risk assessment is analysed and subsequently an annual plan, which reflects the scale and complexity of business activities, is established. As part of the planning process, Internal Audit ensures that all high impact business processes are reviewed within a reasonable period of time (usually a three-year cycle).

The findings and recommendations of any internal audit reviews performed are reported to management and to the AARC who then determine what actions are to be taken with respect to each of the findings/recommendations and ensure that those actions are subsequently carried out within a reasonable time period. Internal audit activities are complemented by a follow-up procedure designed to keep track of remedial actions taken by management in areas where control deficiencies have been identified. Quarterly summarised reports are issued to the AARC and Senior Management.

Internal Audit is independent from the organisational activities that it reviews and carries out its assignments with impartiality. The principle of independence requires that Internal Audit only operates under the functional oversight of the AARC and reports to this body.

B.6 Actuarial Function

The Actuarial Function is specific to SLP and is addressed in the SLP SFCR and included below.

The Actuarial Function within SLP supports the Chief Actuary in the provision of actuarial advice to key stakeholders in the business. The role performed by the Company's Actuarial Function is set out in the Actuarial Function Terms of Reference document.

The Chief Actuary reports directly through to the SLP CEO and sits on the Executive Management Committee and attends the SLP ARC. This ensures that the Chief Actuary is independent from the rest of the business and can provide an independent view on actuarial matters, free from outside influence.

The Chief Actuary has strong experience in the UK Life Insurance industry, having been Chief Actuary of the Company since 2018 and being the Actuarial Manager since 2010. Prior to joining the Company the Chief Actuary gained over 12 years' experience through various technical actuarial and financial reporting roles. He is a Fellow of the Institute and Faculty of Actuaries and has continuously complied with the applicable professional obligations this requires. He holds a Practising Certificate and is an Approved Person (SIMF20) under the Senior Managers and Certification Regime.

The Company's Actuarial Function is made up of three qualified actuaries who are Fellows of the Institute and Faculty of Actuaries. All actuaries at the Company keep their knowledge up-to-date by meeting the continuous professional development requirements. The actuaries are supported by four Actuarial Analysts, a Unit Pricing Manager and a Technical Analyst.

The key areas of responsibility of the Actuarial Function are:

- Coordinate the calculation of the technical provisions
- Assess the sufficiency and quality of the data used in the calculation of technical provisions
- Express an opinion on the overall underwriting policy and reinsurance arrangements
- Contribute to the effective implementation of the risk management system
- Experience investigations (expenses, mortality, morbidity, and persistency)

The Chief Actuary submits an annual report to the Board that includes:

- Documentation of all tasks that have been undertaken by the Actuarial Function and their results
- Details of any deficiencies identified
- Recommendations as to how such deficiencies should be remedied.

In addition to those listed above the Actuarial Department has the following responsibilities:

- Contribute to the production of the ORSA
- Stress and scenario testing
- Financial projections for business planning

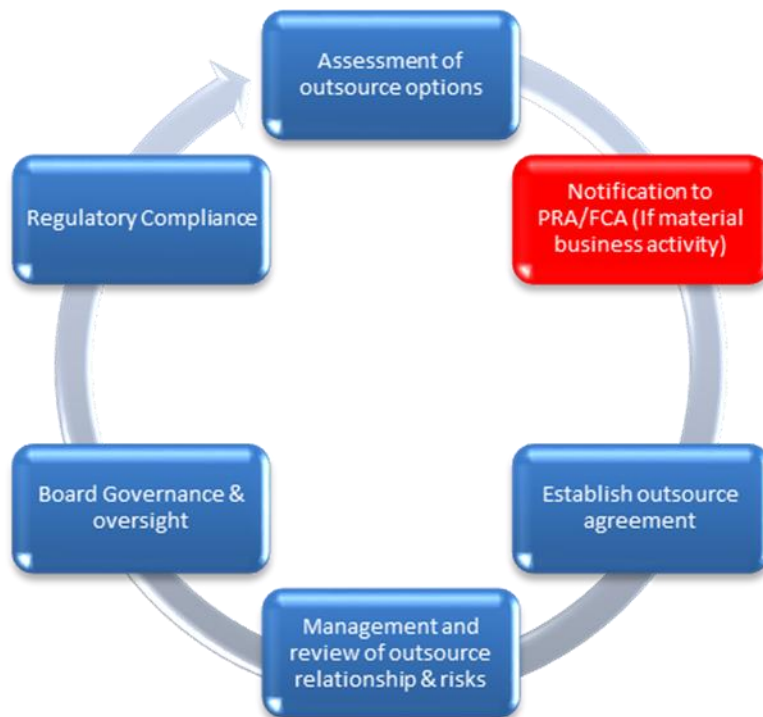
- Asset/liability matching
- Capital management
- Solvency monitoring
- Production of daily unit prices
- Variations in charges for benefits and expenses
- Embedded value reporting

B.7 Outsourcing

The Outsourcing Policy is outlined in the SLP SFCR and is included below.

The Group has adopted an Outsourcing Policy which is intended to establish a prudent risk management framework in relation to the management of the outsourcing arrangements and ensure compliance with the relevant regulatory requirements.

Outsourcing is only implemented following an outsourcing control cycle that contains the following steps.



Both senior management as well as the Board remain fully responsible and accountable for the discharge of all of their obligations when a new outsourcing arrangement is entered into and/ or existing outsourcing arrangement is managed or renewed. An outline of roles and responsibilities is below:

The SIH Board

The SUK Board delegates authority and accountability of the SUK Outsourcing Policy and framework to the Group Executive Committee.

Group Executive Committee

- Deciding on business activities of a material nature to be outsourced and approving such arrangements.
- Proposing outsourcing strategies to the Board to support the business strategy, mitigating risks where appropriate and deciding on business activities of a material nature to be outsourced.
- Communicating information pertaining to material outsourcing risks to the SIH Board in a timely manner;
- Periodically reviewing the original business rationale for the outsourcing agreement.
- The Outsourcing Policy;
- Approval of the Outsourcing Risk Management framework;

The Business Subsidiary Board

Outsourcing arrangements may not impair the prudent management of SUK's business and the SIH Board and the business subsidiary boards retain ultimate responsibility and accountability for all regulatory obligations in respect of outsourced obligations. This includes the responsibility to ensure that all prescribed regulatory standards are observed and that this Policy is complied with.

The business subsidiary boards where appropriate are responsible inter alia for:

- Undertaking regular reviews of outsourcing strategies and arrangements, including and assessment of their continued relevance, safety and soundness.
- Laying down appropriate approval authorities for significant outsourcing arrangements depending on risks and materiality.
- Evaluating the risks and materiality of all existing and prospective outsourcing arrangements along with the governance and oversight that applies to such arrangements within their business.
- Receiving reports from Executive Management to evaluate the risks of all significant existing and prospective outsourcing and the contracts that apply to such arrangements.

Evaluating the annual feedback on the management of material outsource business activities which should include reporting on any outsourced business activities considered significant from a regulatory perspective.

Risks inclusive of mitigation plans and progress thereon pertaining to the outsource agreement must be reported regularly to the Boards of SUK and the SIH Assurance Committee.

The Board must satisfy itself prior to the outsourcing of any control function that the outsourcing will not interfere with the function's independence, objectivity or effectiveness.

The SIH Assurance committee

The SIH Assurance committee where appropriate is responsible inter alia for:

- Evaluating the risks and significance of all material existing and prospective outsourcing, based on the Outsourcing Policy approved by Group Ex-Co.
- Developing and implementing sound and prudent outsourcing procedures based on the principles contained in the SUK Outsourcing Policy commensurate with the nature, scope and complexity of the outsourcing.
- Obtaining the required regulatory approvals and reporting with regards to outsourcing.

- Reviewing annually the effectiveness of policies and procedures related to outsourcing and updating them as necessary.
- Ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested.
- Ensuring that there is independent review and audit for compliance with set policies where appropriate based on the nature scale and complexity of the outsource agreement and associated risks.
- Undertaking periodic reviews of outsourcing arrangements to identify new material outsourcing risks, as they arise. The business must retain the necessary expertise to supervise the outsourced functions effectively and manage the risks associated with the outsourcing.
- Taking appropriate action in terms of the outsourcing agreement if it appears that the service provider may not be carrying out the functions effectively and in compliance with applicable laws and regulatory requirements.
- Ensuring procedures are in place to manage the outsourcing agreement with regards to finances as well as deliverables. This includes reviewing the financial strength and service delivery of the service provider on a continuous basis.
- Communicating information pertaining to significant outsourcing risks to the Group Ex-co in a timely manner.

Business Owner

The Business head (or an appropriate deputy)/ Relationship Manager (if appointed) has overall responsibility of the relationship on behalf of SUK. They are responsible for ensuring the following tasks are undertaken:

- Ensures that a detailed examination is performed to ensure that the potential service provider has the ability, the capacity and any authorisation required by law to deliver the required functions or activities satisfactorily, taking into account the undertaking's objectives and needs.
- Ensures that the service provider has adopted all means to ensure that no explicit or potential conflict of interests jeopardize the fulfilment of the needs of the outsourcing undertaking;
- Engages with Legal to ensure that a written agreement is entered into between the Company and the service provider which clearly defines the respective rights and obligations of the Company and the service provider
- Ensures that the general terms and conditions of the outsourcing agreement are clearly explained to the Board and authorised by them;
- Ongoing governance of the service provider in accordance with the service provider management framework.

Control functions and assurance providers

The Board and Group Ex-co must require the most appropriate control function/s to review any proposed outsourcing of a material business activity and the risk function must regularly review and report to the Boards, SIH Audit & Risk committee and the SIH Assurance committee on compliance with this Policy or the Outsourcing & Service Provider procedures.

The auditor of SUK must provide assurance to the Group Ex-co and Board and any relevant regulator, if requested, that the Business Subsidiary complies with the prescribed requirements.

An overview of the outsourcing of important operational functions for the Group is provided below.

Name of organisation	Services provided	Location	Group company
Cofunds	Provide custody services for portal products. Certain aspects of the services offered under the Sanlam Portal (such as the execution and transmission of orders and the safekeeping and administration of financial instruments)	United Kingdom	N
JP Morgan	Custody services in respect of equities and bonds held in the main insured funds and certain personal funds.	United Kingdom	N
Nucleus	Policy administration related activities for the white labelled Nucleus onshore bond. In turn, Nucleus outsources this to Genpact.	United Kingdom	N
Sanlam Asset Management Ireland	Investment management of certain insured funds and asset-liability matching advice on the Company's non-linked assets fund	Ireland	Y
Sanlam Investments	Management and advisory services of the Life Company model portfolio fund range	United Kingdom	Y
Hubwise Securities Ltd	Platform and administration services	United Kingdom	N
SPI	Management of SFS CASS arrangements	United Kingdom	Y
Genus	Microfiche replacement software and scanning	United Kingdom	N
BNP Paribas	Offshore custodian Provision of global custody facilities.	Jersey	N
Cowen Execution Services Ltd	Investment trading platform	United Kingdom	N
SCC	IT services and solutions	United Kingdom	N
IRESS	CRM system	United Kingdom	N
Linedata	Order Management System	United Kingdom	N
Barclays Corporate Banking	Banking services including online banking	United Kingdom	N

B.8 Any other information

The system of governance is considered to be appropriate for the Group, taking into account the nature, scale and complexity of the risks inherent in the business.

There have been no material changes to the system of governance over the reporting period.

There is no further information to be disclosed in respect of the system of governance.

C RISK PROFILE

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

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

The Group's Solvency Capital Requirement as at 31 December 2019 is £55.6m [S.25.01.g C0100 R0570]. This is comprised as follows.

Risk Module	Risk Type	£'000	% of Undiversified SCR
Market Risk (SLP)	Interest rate risk	1,102	0%
	Equity risk	11,797	24%
	Property risk	508	1%
	Currency risk	5,911	10%
	Spread risk	9,748	10%
	Total before diversification	28,620	44%
	Diversification within market risk module	(6,143)	
	Total	23,430	
Counterparty Default Risk (SLP)		1,753	3%
Life Underwriting Risk (SLP)	Mortality risk	1,184	1%
	Longevity risk	7,614	11%
	Disability risk	112	0%
	Expense risk	5,375	7%
	Lapse risk	20,388	28%
	Catastrophe risk	166	0%
	Total before diversification	31,030	48%
	Diversification within life underwriting risk module	(8,133)	
Total	24,066		
Operational Risk (SLP)		2,887	5%
Total Undiversified SCR before diversification within risk modules		64,700	100%
Total Undiversified SCR after diversification within risk modules		52,546	
Diversification between risk modules (SLP)		(11,491)	
Capital requirements of other entities		11,608	
Group SCR		55,622	

C.1 Underwriting risk

Sanlam Life and Pensions

The material underwriting risks are described below.

Persistency risk

Persistency risk relates to the loss of future charges as a result of unfavourable persistency, potentially resulting in a significant reduction in the value of future profits and therefore the SLP's own funds. However, in the event of unfavourable persistency, the impact on solvency would be largely offset by a reduction in the capital requirement (as evidenced by the sensitivity test results later in this section).

Adverse persistency will affect the solvency of SLP. Lower than expected persistency on policies with realistic reserves which are lower than their surrender values (i.e. policies which are expected to produce future profits) will negatively impact the solvency of the company. Conversely lower than expected persistency on policies with realistic reserves that are higher than their surrender values will positively impact the solvency of SLP.

Mitigation

Mitigants include proactive monitoring of emerging experience; on-going persistency initiatives; product design and distributor relationship management. That said, persistency risk is by its nature largely outside management's control and therefore comes with a sizeable residual risk.

Longevity risk

If clients holding annuities survive longer than anticipated in the reserving calculations, reserves will need to be strengthened, which could significantly impact the SLP's solvency position.

Mitigation

A proof of existence exercise is carried out on an ongoing basis by monitoring death registrations to ensure only genuine claims are paid. Emerging experience is regularly monitored at a SLP Board level.

Mortality risk

Mortality risk is a material risk for some legacy products with a material sum at risk, however it is largely all mitigated by reinsurance arrangement that have been in place for many years.

Mitigation

The reinsurance arrangements remain effective for these legacy products and these products are gradually going off the books. The ongoing effectiveness of these reinsurance arrangements is monitored by SLP's Actuarial Function. If SLP decided to take on new mortality exposures by selling new protection business, the possibility of mitigating the new mortality risk using new reinsurance arrangements would be assessed.

Mortality charges on protection business are variable, so the SLP could consider increasing mortality charges if mortality experience were to worsen significantly.

Expense risk

SLP has a good record of keeping its expenses within budget. However, a number of factors (such as the need to recruit external consultants or increased statutory obligations) could force SLP to incur additional expenses over the next twelve months.

While expenses by themselves are unlikely to cause a threat to solvency, since the expected surplus over the next year is likely to be sufficient to meet any expense demands, they could contribute to the insolvency of SLP if other adverse events occurred at the same time.

If SLP closed to new business, or was unable to continue to expand new business, there is a risk that its solvency would be eroded over time by an expense overrun. An expense overrun occurs when the actual expenses incurred exceed the expenses assumed in the reserving bases, and as a result the surplus that emerges from the business is either reduced or becomes negative.

There is also a risk that expense inflation could be higher than expected in the reserving basis, although such a rise could to some extent be met by an increase in charges, subject to TCF considerations.

Mitigation

The key mitigant is proactive expense management through the budget setting and monitoring processes together with the approval framework and authority guide.

There is a concentration of underwriting risk as all of SLP's business is written in the UK and is in respect of two Solvency II lines of business. Further details can be found in the solo SFCR.

Other Subsidiaries

There is no material Underwriting Risk for any of the other subsidiaries within the Group.

C.2 Market risk

Sanlam Life and Pensions

The key market risks for SLP are equity risk, currency risk and interest rate risk. These risks are described below.

Risk concentration was considered but it was determined not to be material.

Equity risk

A fall in equity markets would have a detrimental effect on the value of future annual administration charges.

SLP is not exposed to any material investment guarantees that would be directly affected by a fall in equity values. However, a fall in equity values would damage SLP's solvency because the resulting lower future expected fund administration charges would increase the realistic technical provisions and therefore immediately worsen SLP's solvency position. Following a fall in equity values, there would also be a reduction in the capital requirement due to the symmetric adjustment, helping to smooth the impact on the solvency position in the short term.

A fall in equity values may also increase the likelihood of other risks occurring such as reduced new business or worse persistency. For example, mis-selling reserves are more likely to be inadequate following a fall in equity values since policy values will be reduced, potentially leading to higher compensation costs.

Mitigation

SLP has a detailed set of processes and procedures in place to manage and mitigate any impact of equity risk. Unit linked assets and liabilities are matched on a daily basis, with some minimal residual exposure permitted within detailed limits for the sake of operational efficiency.

Currency risk

Some of SLP's unit linked funds are invested in overseas linked assets and as such an increase in the value of sterling compared to other currencies will lead to a reduction in the value of capital resources through lower future fund administration charges. In addition, a relative increase in sterling will produce a larger staff pension scheme deficit. Note that the assets held to match SLP's other non-linked liabilities are all sterling denominated.

Mitigation

As with equity risk, unit linked assets and liabilities are matched on a daily basis, with some minimal residual exposure permitted within detailed limits for the sake of operational efficiency.

Interest rate risk

The non-linked liabilities are matched by a portfolio of fixed coupon and index linked securities of relevant outstanding term. All liabilities and assets are denominated in sterling and the matching position is reviewed monthly. Consequently the losses that could arise from mismatching within SLP are unlikely to have a significant impact on the overall solvency position.

Although changes during 2019 to SLP's Defined Benefit Pension Scheme's investment strategy have reduced the level of interest rate mismatching of the Scheme's assets and liabilities, a material amount of interest rate risk still remains within the Scheme.

SLP's solvency position is sensitive to interest rate risk. This is partly due to the level of the risk margin being sensitive to the level of interest rates.

Mitigation

SLP has in place a detailed investment mandate for non-linked matching with another Group company, Cameron Hume, to mitigate any potential impact. The mandate has clear rules over what constitutes an acceptable level of matching and these are reviewed on a regular basis. Performance is reviewed on a monthly basis.

For pension scheme matching, the Scheme's Trustees have in place an investment strategy together with a set of detailed investment limits which are set out in the Scheme's Statement of Investment Principles. Performance against the Scheme's Statement of Investment Principles by the investment manager is reviewed on a regular basis. There is however a sizeable amount of residual risk given the nature of the benefit guarantees that have been granted.

Other Subsidiaries

It is clear that the impact of a declining market will be material to the Group's revenue levels on its existing book. In addition, a lot of new business flows are driven from market levels. There is currently a low inflation environment which provides the Group with challenges in terms of product mix.

In addition, the UK formally stopped being a member of the European Union on 31 January 2020 with a transition period which is due to end on 31 December 2020. A considerable amount of uncertainty still surrounds the Brexit process as negotiations have been delayed. The Group is keeping a watching brief on developments. Whilst the withdrawal process from Europe remains open to negotiation and political influence there will be different interpretations of potential impact, risks and opportunities. The Group is mindful of the effect it may have on foreign exchange trading, rates and yields including the impact on Defined Benefit pension deficit. Developments continue to be monitored and the Group is well prepared to take timely action.

Risk Mitigating Strategy

We are continuing to re-define and enhance our overall suite of investment solutions and distribution focus to better protect against the impact of a declining market.

The distribution sales team will be instrumental in delivering our investment proposition to the Sanlam Partnership Ltd advisers and other advisers who work with us as part of our partnership programme. This will be a key priority for the team in 2020. We will also be looking to capitalise on platform opportunities by building relationships with the right advisers, making our products available where advisers transact business thereby maximising the use of third party distribution.

Marketing will focus on more tangible and concrete activities to enable us to better engage with our clients and provide support that is much more aligned to our products. We will continue to have more product focused marketing campaigns as well as dedicated campaigns and events for high performing funds.

With regard to Brexit, whilst significant uncertainty exists there will be different interpretations of potential impact, risks and opportunities. What is clear is that as a business we need to be able to adapt, challenge and be proactive with our thinking and planning.

Increased uncertainty may provide opportunity for consolidation within the sector and with the breadth of our offering we are well placed to take advantage of any such opportunities. We will continue monitor developments and be prepared to take timely action.

In the shorter term, Brexit is not expected to have much of an impact on the Group as its current target client base is UK residents.

C.3 Credit risk

Sanlam Life and Pensions

Risk concentration was considered but it was determined not to be material.

The key credit risks for SLP are downgrade risk, default risk and the related risk around credit spreads. These risks are described below:

- Assets backing non-linked liabilities. The impact of defaults would be a straight hit to SLP's solvency position through a fall in own funds. Increases in credit spreads would also reduce SLP's own funds as SLP does not make use of the Matching Adjustment. Downgrades of the assets held would worsen the solvency position by increasing SLP's capital requirement.
- Final salary pension scheme. The impact of defaults of the bonds held in the staff pension scheme would be a worsening in the scheme's solvency and funding positions which would require SLP to increase contributions. Increases in credit spreads would also reduce the value of the scheme's assets but this fall in value is expected to be offset by a fall in the value of the liabilities as corporate bond yields are used to set the liability valuation discount rate. Downgrades of the assets held would worsen the solvency position by increasing SLP's capital requirement.
- Reinsurer default. If a default did occur SLP would need to hold gross rather than net reserves for the policies affected, and the previously reinsured mortality and morbidity profits or losses would be retained by SLP.
- The failure of the mis-selling indemnity provider to pay amounts due. The impact would be that SLP could no longer take credit for the expected recovery under the pecuniary loss insurance contract with Allianz Cornhill and this would adversely impact SLP's solvency.

Mitigation

Credit risk is managed in the following ways:

- Assets backing non-linked liabilities. SLP has in place an investment management mandate with Cameron Hume Limited to mitigate any potential impact. The mandate has clear rules over the quality and type of asset that can be used to match non-linked liabilities as well as limits on maximum counterparty exposure. These are reviewed on a regular basis and the investment manager's performance against these guidelines is monitored regularly at Balance Sheet Management Committee meetings. No credit default swaps have been purchased.
- SLP has to date not suffered a default on any of its non-linked assets and the practice is not to seek excessive returns because of the inherent default dangers.
- Asset default (pension scheme). Limits agreed with the Trustees over the maximum percentage of the assets that can be invested in corporate bonds, investing in corporate bonds via a collective scheme which improves diversification and ensures professional management.
- Reinsurers. The risk of reinsurer default is kept low by only dealing with a good quality reinsurance company proactive account management and the right to offset. No use has yet been made of deposit backs.
- Indemnity provider. Dealing with a good quality counterparty, Allianz Cornhill, together with account management keeps the risk of the failure of this indemnity low.

Other Subsidiaries

There is no material Credit Risk for any of the other subsidiaries within the Group.

C.4 Liquidity risk

Sanlam Life and Pensions

In addition to considering whether SLP has an adequate amount of capital, we also need to consider whether the assets held by SLP are sufficiently liquid, that is whether there is a cost associated with having to realise the assets at an unfavourable time. SLP has limited liquidity risk.

A large amount of surrenders on a single day could potentially impact SLP's liquid resources. If the amount of surrender was greater than the cash in the unit fund, assets in that fund would need to be sold. However, since SLP operates a next day pricing policy and investment administration receive daily unit movement reports on the day that a surrender is keyed, assets in the fund can be sold before the price is calculated. The cost of selling assets will therefore be incurred by those surrendering rather than SLP itself.

SLP monitors the level of liquid assets held and reports this to the Executive Committee on a monthly basis.

The expected profit included in future premiums (EPIFP) as at 31 December 2019 is £1.8m. Although EPIFP contributes to SLP's own funds, it only represents around 3% of the total own funds. Therefore, the highly illiquid nature of EPIFP isn't an issue given SLP's other highly liquid investments.

Risk concentration was considered but it was determined not to be material.

Other Subsidiaries

There is no material Liquidity Risk for any of the other subsidiaries within the Group.

C.5 Operational risk

Sanlam Life and Pensions

The operational risk calculation is based on the standard formula's formulaic approach. For internal risk monitoring purposes SLP has a separate calculation for operational risk which attempts to be more appropriate to SLP specifically. SLP's internal operational risk model aggregates all SLP's operational risk impacts and likelihoods as assessed by the various department heads using correlation matrices.

Operational risk is considered separately for each risk category of SLP's risk universe in terms of the loss caused if a process were to fail or, alternatively, the impact on the business if an adverse external event were to hit SLP.

Risk concentration was considered but it was determined not to be material.

Mitigation

Mitigants include the following:

- Risk reduction – where possible, SLP takes action to reduce the impact of a risk. The required actions vary by risk.
- Risk avoidance – where risks are outside risk appetite and there are no commercially viable means of reducing the risk, SLP may avoid the risk.
- Risk acceptance – in some cases, after assessment it is decided that a risk that is outside tolerance should be accepted. In this case, the risk is monitored closely and included in the monthly risk reporting.
- Transfer – in some cases action is taken to reduce the probability or severity by transferring or sharing a portion of the risk

Other Subsidiaries

Nucleus Financial Group Limited

The Group owns 52% of Nucleus. Nucleus operational risk represents 19.7% of the Group's total operational risk.

The Operational risk of Nucleus can be attributed to business continuity (6.8%), regulatory (12.2%), trading (20.3%), CASS (6.8%), systems (16.2%), change delivery (13.5%), outsourcing (14.9%) and other (9.3%).

Sanlam Private Investments (UK) Holdings Limited

SPI (UK) operational risk represents 16.0% of the Group's total operational risk.

The Operational risk of SPI (UK) can be attributable to business continuity (10.3%), key staff (14.6%), regulatory (20.1%), Client Assets (CASS) (3.1%), unsuitable advice (36.4%) and other (15.5%).

Sanlam Wealth Planning Limited

The operational risk of Sanlam Wealth can be attributed to business continuity, regulatory, unsuitable advice and key staff. Sanlam Wealth's risks are managed through the group's risk framework and mitigating risks are in place. A strict administration process is adhered to whereby business is dealt with in accordance with clear processing standards including regulatory standards checking and suitability of advice.

C.6 Other material risks

Conduct risk

The most significant type of conduct risk for SIH is the unfair treatment of customers and/or delivery of poor customer outcomes. Conduct risks can crystallise due to events occurring that the business was not prepared for or because an area of poor behaviour or control vulnerability was not managed effectively. Many incidents of customer detriment can occur due to simple failures in processes. An event is an incident or occurrence emanating from the behaviour of the company, its employees, associates or representative that result in the unfair treatment of customers and/or poor customer outcomes.

Mitigation

SIH is committed to sound risk management practices and regards an active awareness and the mitigation of conduct risk exposures to be a business imperative. That is, SIH will avoid taking on activities that could give rise to the unfair treatment of customers and/or the delivery of poor customer outcomes and thereby potentially incur financial loss and/or material disadvantage to customers.

The SIH companies work together with the aim of developing a consistent approach to the management of conduct risk. The approach to conduct risk management is being enhanced across the group in line with the ERM Framework.

The SIH board has approved the Sanlam definition of conduct risk and all of the business entity boards in SIH have done the same. Conduct risk responsibilities are explicitly documented in the terms of reference/charters for the SIH Board and other key governance bodies.

On an annual basis, Compliance performs a Compliance and Conduct Risk assessment of the business plans for the SIH businesses for the forthcoming year. The assessments are presented to the business unit boards. The findings are used to inform the Compliance Monitoring Plan and also help ensure risks are considered as and when the business plan initiatives are developed.

The risk rating methodology used across SIH includes a customer impact score so that the potential effect of risks on customers is explicitly considered. In SLP there is a Conduct Risk policy that forms part of the risk management framework. The approach to embedding conduct risk in the risk management processes for the other SIH companies is being rolled out as part of the ERM Framework.

Cyber Risk

Increased use of online and mobile platforms and failure to develop, maintain and protect the company's IT systems could result in an increased risk of financial crime, theft of personal information, fraud or scams. This could result in a reduction in value through financial or reputational loss.

Mitigation

SIH is independently audited and certified to the international information security standard ISO 27001, which is implemented in all business areas. This standard provides a comprehensive information security governance framework and risk management process to manage cyber risks. Compliance with ISO 27001 also supports the implementation of the Sanlam Group Cyber Resilience Framework, which involves identifying the Sanlam critical IT systems and undertaking a threat and impact assessment, identifying control gaps and implementing corrective actions.

Group Specific Risks

Fungibility of capital

Sanlam has been receptive to arranging capital between its operations in Europe in order to support the separate business' capital requirements so we consider this risk to be acceptable at the SIH group level. It's sufficiently transferrable, however, there are some constraints to do with distribution reserves and capital structures but there is reason to believe that Sanlam Limited would provide the Group with capital if it was constrained for a period of time. This is evidenced by Sanlam Limited (subject to Exchange Control approval) providing an "on-call" facility to SIH following an out-of-cycle ORSA process undertaken to understand the potential impacts of Covid-19 on the capital resilience of the Group. The facility can be drawn by SIH should it's consolidated solvency ratio fall below the minimum threshold set out in its capital management policy, which is set to maintain a healthy buffer above requirement.

Contagion Risk

There is a risk that the FCA has concerns over culture or conduct within the wider SIH Group as a result of concerns in one entity and risk of this affecting the other subsidiary businesses within SIH. We consider that each individual business has adequately provided for regulatory risks in each of their businesses to include this risk of contagion. Each business subsidiary has PI Insurance and they also have a pillar 2 calculation which covers regulatory risk where necessary.

Reputational Risk

Each of the subsidiary businesses under SIH operate in fairly distinct market segments and all operate under the Sanlam brand. We believe that SIH is therefore covered against reputational risk under individual capital provisions and is also helped with each business having PI Insurance which will provide financial protection against any mistakes and personal losses.

Sensitivities

SIH carries out stress and scenario testing as part of the ORSA process which includes sensitivity testing for the material risks. Sensitivity tests have been selected to give an indication of how sensitive SIH's solvency position is to these material risks. The results of the sensitivity tests on a Pillar 1 basis for SIH as at 31 December 2019 are shown in the table below.

Pillar 1 December 2019	Own Funds £'000	Capital requirement £'000	Capital adequacy ratio
Base	73,588.0	55,621.5	132%
10% reduction in annuitant mortality (inc pension scheme)	69,475.1	54,980.2	126%
1% fall in interest rates	72,189.0	57,222.0	126%
1% increase in credit spreads	67,332.6	54,033.4	125%
30% fall in equity values (Changed Symmetric Adjustment)	63,075.3	48,729.8	129%
10% increase in renewal expenses	69,521.0	54,583.7	127%
10% mass lapse event	67,116.9	52,122.8	129%

The 30% fall in equity values sensitivity shows a big impact on own funds. However, the capital requirement would also fall in this scenario, because the market risk and mass lapse risk would be lower. Therefore the capital adequacy ratio is expected to increase in this scenario.

Other Subsidiaries

Within Sanlam Wealth and Sanlam Partnerships there is a material conduct risk of providing unsuitable advice to customers. This is mitigated through a robust operational framework for processing business, which includes the paraplanning and compliance teams reviewing the suitability of the advice prior to the business being written. Advisers are also subject to suitability obligations when recommending services/products.

Within Sanlam Investments, the wind down costs in the event of cessation of the regulated business could be material, representing 47.3% of the group's business risk capital.

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

C.7 Any other information

As part of the Group's ongoing risk management approach we perform a range of stress and scenario tests, reporting on the output as part of the Group ORSA. SIH's stress and scenario testing process is continuing to evolve so that it becomes fully integrated into the ORSA process.

The stress and scenario testing process has involvement from the Board and Senior Management throughout the year. The process continues to evolve in line with emerging market practice. For this year's ORSA the process has included the following steps:

- Senior management have been involved in deciding which scenarios we should consider for SIH.
- Stress and scenarios tests were considered as part of the business planning process, assessing the impact on all key performance indicators for each of the businesses.
- The conclusions of the aggregated stresses and scenarios for SIH have been reviewed by senior management and any relevant management actions have been considered.
- The results of the SIH stresses and scenarios have been taken into account when reviewing the target solvency levels for Pillar 1 and Pillar 2.
- The capital management framework has been enhanced to identify what actions, if any, should be taken at different levels of capital adequacy.
- A set of potential management actions are in place which can be called upon in the various circumstances identified in the above.

The governance arrangements and mitigation strategies outlined above ensure that the Group is in compliance with the prudent person principle, as outlined in Article 132 of Directive 2009/138/EC.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

SIH is classified as a “mixed financial holding company”, under the definition in Article 212(1)(g) of the Solvency II Directive (Directive 2009/138/EC). This is because the Group is made up of a number of different types of financial undertakings. Further detail is provided below.

The Group balance sheet has been prepared in accordance with Solvency II. This has involved the following approach:

- Valuations for the ‘solo’ insurance entity, SLP, in accordance with the Solvency II valuation requirements and methodology.
- Valuations of other regulated Group companies in line with the appropriate sectoral rules for Own Funds.
- Valuations of other related undertakings on the basis of the Group’s proportion of the entity’s net asset value based on the Group’s percentage holding of shares in the entity, as outlined in the structure charts in A.1.

In calculating the overall Solvency II balance sheet of the Group, the entities within the Group are either consolidated on a line by line basis, or included as single line participations within S.02.01.02 C0010 R0090. The treatment is dependent on the type of entity. The following treatment has been applied according to the definitions included in the Solvency II Directive (Directive 2009/138/EC).

Line by line consolidation

Mixed financial holding company

- Sanlam Investment Holdings UK Limited
- Sanlam UK Limited

Life insurance undertaking

- Sanlam Life and Pensions UK Limited

Ancillary services undertaking

- Sanlam Financial Services UK Limited

Single line participation

Credit institution, investment firm or financial institution

- Sanlam Wealth Planning UK Limited
- Sanlam Investments UK Limited
- Sanlam International Investments Limited
- Sanlam Private Investments (UK) Limited
- Cameron Hume Limited
- Sanlam Securities UK Limited
- Sanlam Partnerships Limited
- Sanlam Private Investments (UK) Holdings Limited
- Sanlam Private Wealth South Limited
- Sanlam Investments Holdings UK Limited
- Nucleus Financial Group Limited
- Sanlam Wealth Planning Holdings UK Limited
- Blackett Walker Limited
- Avidus Scott Lang Group Limited

Other

- Sanlam Funds Services Limited
- English Mutual Limited
- Nucleus Financial Services Limited
- Nucleus IFA Services Limited
- Nucleus IMX Limited
- Sanlam Professional Partnerships LLP
- Buckles Limited

	Solvency II value £'000	Statutory accounts value £'000	Variance £'000	Note
Pension benefit surplus	-	2,005.3	(2,005.3)	D1.1
Property, plant & equipment held for own use	407.0	407.0	-	D.1.2
Holdings in related undertakings, including participations	20,691.0	24,801.4	(4,110.4)	D.1.3
Government Bonds	26,309.7	25,883.6	426.1	D.1.4
Corporate Bonds	75,317.6	74,374.1	943.4	D.1.4
Deposits other than cash equivalents	4,283.9	4,283.9	-	D.1.5
Assets held for index-linked and unit-linked contracts	2,727,967.2	2,727,967.2	-	D.1.6
Loans on policies	262.7	262.7	-	D.1.7
Reinsurance recoverables: Life excluding health and index-linked and unit-linked	694.4	1,028.1	(333.7)	D.1.8
Reinsurance recoverables: Life index-linked and unit-linked	(4,709.1)	451.7	(5,160.7)	D.1.8
Reinsurance receivables	6.7	6.7	-	D.1.9
Receivables (trade, not insurance)	13,573.2	14,942.8	(1,369.6)	D.1.10
Cash and cash equivalents	11,966.0	11,966.0	-	D.1.11
Any other assets, not elsewhere shown	231.0	231.0	-	D1.12
Total assets	2,877,001.3	2,888,611.4	(11,610.1)	

The Group does not prepare consolidated financial statements as a matter of course as it is consolidated in South Africa as part of Sanlam Limited. A proxy statutory balance sheet has therefore been calculated, by taking the Solvency II balance sheet and adjusting for any differences in valuation of assets, technical provisions and other liabilities between the SLP solo IFRS financial statement balance sheet and SLP solo Solvency II balance sheet. Differences between the Solvency II balance sheet and the statutory balance sheet of the participations has been calculated within the holdings in related undertakings, including participations.

The best evidence of fair value is quoted market information or observable active market data at the balance sheet date. For quoted investments where this is not available, the fair value is determined by reference to prices for similar assets in active markets. For transactions in less active markets an alternative valuation method is used. This occurs when the nature of the asset means there is no

quoted price available e.g. investment property. In order to confirm that the prices for publicly traded assets are from an active market, prices are monitored to ensure that they fluctuate regularly and are therefore not stale. The Group does not have any holdings in unlisted bonds or equities that are recognised in the Solvency II balance sheet.

There are no differences between the bases, methods and main assumptions used for the valuation for solvency purposes of the Group's assets and other liabilities and those used by any of its subsidiaries.

D.1.1 Pension benefit surplus

The value of the pension benefit surplus is £0.0m as at 31 December 2019 [S.02.01.02 C0010 R0050].

Under Solvency II the pension benefit surplus cannot be recognised as an asset on the balance sheet

D.1.2 Property, plant and equipment held for own use

The value of property, plant and equipment held for own use is £0.5m as at 31 December 2019 [S.02.01.02 C0010 R0060].

This is valued at cost less depreciation in the IFRS financial statements. The property is valued at fair value in the Solvency II balance sheet, which is considered materially equivalent to the depreciated value used for accounts purposes.

D.1.3 Holdings in related undertakings, including participations

The value of holdings in related undertakings is £20.7m as at 31 December 2019 [S.02.01.02 C0010 R0090]. The balance represents the companies within the Group that are included in the Group's result through the method 1, the Accounting Consolidation-based method, as the proportional share of the undertaking's own funds, for those entities to which sectoral rules are applied, or adjusted equity for the entities to which sectoral rules do not apply. The treatment of each entity in the Group is outlined above.

There is a difference between the Solvency II balance sheet value and statutory balance sheet value in respect of intangible assets which are not valued in Solvency II but included in the statutory balance sheet.

D.1.4 Bonds

The total value of bonds in the non-linked funds was £101.6m as at 31 December 2019 [S.02.01.02 C0010 R0130]. This value is made up of corporate bonds and government securities.

All bonds are marked to market for both the IFRS financial statements and the Solvency II balance sheet.

There is a difference between the Solvency II balance sheet value and IFRS financial statement value in respect of listed securities, which is the value of interest accrued on these bonds as at 31 December 2019. This amount is included in the Solvency II value, but excluded from the IFRS financial statement value, where convention dictates that bonds are included at clean market value with accrued interest shown as a separate line within current assets.

D.1.5 Deposits other than cash equivalents

The value of deposits was £4.3m as at 31 December 2019 [S.02.01.02 C0010 R0200]. These are valued at fair value in both the IFRS financial statements and the Solvency II balance sheet.

D.1.6 Assets held for unit linked and index linked contracts

The total value of assets held for unit and index linked contracts was £2,728.0m as at 31 December 2019 [S.02.01.02 C0010 R0220]. This value is comprised of the following types of asset:

	Solvency II value £'000	Statutory accounts value £'000	Variance £'000
Investment Property	88,600.0	88,600.0	-
Corporate bonds	9,842.4	9,842.4	-
Government Securities	10,349.0	10,349.0	-
Equity	131,185.2	131,185.2	-
Investment funds	2,392,349.5	2,392,349.5	-
Cash	95,369.0	95,369.0	-
Current Assets	272.1	272.1	-
Assets held for unit linked and index linked contracts	2,728,237.2	2,728,237.2	-

Investment property

The Company owns two types of investment properties – property fund properties, and properties within the self-invested funds of some clients.

Property fund properties

These properties are valued on a monthly basis by Jones Lang LaSalle (JLL), an independent property valuer, on an open-market basis. Their valuation is prepared in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards (5th Edition).

Market value is measured as the most probable price reasonably obtainable in the market at the date of valuation between a willing buyer and a willing seller in an arm's-length transaction. Therefore it is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer.

Self-invested properties

These properties are valued prior to purchase and then triennially, by an independent professional valuer acceptable to the Company, and with knowledge of the local market, on an open market basis.

It is determined that all investment properties are fair valued for both the IFRS financial statements and the Solvency II balance sheet.

Corporate bonds and government securities

These are marked to market for both the IFRS financial statements and Solvency II balance sheet. Accrued income is being reported within current assets in the table above. The unit linked assets are reported as a total in the Solvency II balance sheet and is the same as the total unit linked assets within the IFRS financial statements.

Equities

These are marked to market for both the IFRS financial statements and Solvency II balance sheet.

Investment funds

These are marked to market for both the IFRS financial statements and Solvency II balance sheet.

Cash

This is held at fair value for both the IFRS financial statements and Solvency II balance sheet.

Current Assets

Current assets consist of accrued income, offset by outstanding dividends and capital transactions. These are held at fair value for both the IFRS financial statements and Solvency II balance sheet.

D.1.7 Loans on policies

The value of loans on policies is £0.3m as at 31 December 2019 [S.02.01.02 C0010 R0230]. These are valued at cost in the IFRS financial statements and at fair value in the Solvency II balance sheet, which is considered materially equivalent to the cost value used for accounts purposes

D.1.8 Reinsurance recoverables

The total value of reinsurance recoverables is £(4.0m) as at 31 December 2019 [S.02.01.02 C0010 R0270]. On the realistic basis used under Solvency II (see Section D.2 for the detailed basis used in this calculation), reinsurance liabilities exceed the reinsurance assets and therefore reinsurance increases the technical provisions. Reinsurance recoverables reduce on the realistic basis compared to the more prudent IFRS valuation basis. For unit linked business, reinsurance premiums are fixed and therefore do not reduce when the calculation is done on the realistic basis.

The valuation of reinsurance recoverables in the financial statements is £1.5m.

D.1.9 Reinsurance receivables

The total value of reinsurance receivables is £0.01m at 31 December 2019 [S.02.01.02 C0010 R0370]. This balance is made up of claims due from reinsurers in the normal course of business. These are valued at fair value for both IFRS financial statement and Solvency II purposes.

D.1.10 Receivables (trade, not insurance)

The total value of trade receivables is £13.6m at 31 December 2019 [S.02.01.02 C0010 R0380]. These are valued at fair value for both the IFRS financial statements and Solvency II balance sheet. The difference in the value between IFRS financial statements and Solvency II is due to the different treatment of accrued interest on fixed income securities under the different bases. For the IFRS financial statements, this is included in this balance (i.e. assets are held at the clean market value) whereas under Solvency II accrued interest is part of the overall asset value (i.e. assets are held at dirty market value).

D.1.11 Cash and cash equivalents

The value of cash and cash equivalents is £12.0m as at 31 December 2019 [S.02.01.02 C0010 R0410]. These are fair valued for both the IFRS financial statements and Solvency II balance sheet.

There are no differences between the valuation methods used by the Company as outlined above and those used by other companies in the Group.

D.1.12 Any other assets, not shown elsewhere

The value of any other assets, not shown elsewhere is £0.2m as at 31 December 2019 [S.02.01.02 C0010 R0410]. These are fair valued for both the IFRS financial statements and Solvency II balance sheet.

There are no differences between the valuation methods used by the Company as outlined above and those used by other companies in the Group.

D.2 Technical Provisions

As SLP is the only regulated insurance entity within the Group, technical provisions and reinsurance recoverables only arise in relation to SLP. There are no differences in the valuation of SLP's technical provisions for solo compared to group solvency purposes.

The table below shows the technical provisions as at 31 December 2019 split by material line of business.

	Index-linked and unit-linked £'000	Life (excluding health and index- linked and unit- linked) £'000	Total £'000
Gross Best Estimate Liabilities (BEL)	(43,651)	74,649	30,998
less Reinsurance recoverables	(4,709)	694	(4,015)
BEL after recoverables	(38,942)	73,955	35,013
Technical provision calculated as a whole	2,711,382	-	2,711,382
Risk Margin	10,506	5,596	16,102
Technical Provisions after recoverables	2,682,945	79,551	2,762,496

Technical provision calculation methodology

The Company uses a deterministic policy-by-policy cash-flow projection approach to the calculation of the technical provisions.

Future cashflows are to be discounted at the risk free rate as specified by regulation.

In certain specific circumstances, the best estimate element of technical provisions may be negative (e.g. for some individual contracts). These profitable contracts can be recognized on the Solvency II balance sheet and so the value of the best estimate with respect to those individual contracts should not be set to zero. No implicit or explicit surrender value floor should be assumed for the amount of the market consistent value of liabilities for a contract. This means that if the sum of a best estimate and a risk margin of a contract are lower than the surrender value of that contract there is no regulatory requirement to increase the value of insurance liabilities to the surrender value of the contract.

The Best Estimate Liabilities are calculated gross, without deduction of the amounts recoverable from reinsurance contracts or the premiums payable to reinsurers.

The Company has existing reinsurance contracts with Munich Re that cover business written around 1990. The Company has no special purpose vehicles or finite reinsurance.

Recoverables from these reinsurance contracts are valued separately but using consistent assumptions and methodologies to the underlying insurance contracts including applying consistent

contract boundaries (see the “Future Premiums” section under “Technical provisions assumptions”). This means separate reinsurance assets and liabilities are shown on the balance sheet.

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

Technical provisions assumptions

The key assumptions are as follows:

Interest rates

The investment return assumptions and the discount rate are based on the GBP risk-free interest rate term structure as specified in the Solvency II regulations. The Company uses the risk free yield curve supplied by EIOPA:

- No matching adjustment or volatility adjustment is added to the risk-free rate.
- The Company does not apply the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC.
- The Company does not apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

Mortality

The following mortality assumptions were used as at 31 December 2019 and 31 December 2018.

	Aggregate	Non-Smoker	Smoker
Males	33% A67/70 sel	29% A67/70 sel	43% A67/70 sel
Females	37% FA75/78 sel	32% FA75/78 sel	48%FA75/78 sel

Annuitant mortality

For annuities, the following mortality assumptions were used as at 31 December 2019:

	Base Table	Age Rating	Improvement Factors
Conventional annuities			
Males	118% PCMA00	None	CMI 2017, 1.25% LTI
Females	118% PCFA00	None	CMI 2017, 1.25% LTI
Unit linked annuities			
Males	101% PCMA00	-2	CMI 2017, 1.25% LTI
Females	101% PCFA00	-2	CMI 2017, 1.25% LTI

The following mortality assumptions were used as at 31 December 2018:

	Base Table	Age rating	Improvement Factors
Conventional annuities			
Males	118% PCMA00	None	CMI 2016, 1.25% LTI
Females	118% PCFA00	None	CMI 2016, 1.25% LTI
Unit linked annuities			
Males	102% PCMA00	-2	CMI 2016, 1.25% LTI
Females	102% PCFA00	-2	CMI 2016, 1.25% LTI

The CMI tables used in the annuitant mortality investigation for future mortality improvement factors have been updated to reflect more current mortality experience. This has led to a decrease in technical provisions.

Expenses

The following expenses per policy were used as at 31 December 2019:

Class	31 Dec 2019		31 Dec 2018	
	Live	Paid up	Live	Paid up
UL Bond	-	£45.54	-	£40.06
UL Savings Endowment	£47.92	£45.54	£42.12	£40.06
UL Target Cash Endowment	£47.92	£45.54	£42.12	£40.06
UL Regular Premium Pension	£62.63	£50.46	£56.70	£44.68
UL Single Premium Pension	-	£50.46	-	£44.68
Conventional annuities	-	£40.25	-	£35.89
Unit linked annuities	-	£147.24	-	£197.86

The assumptions have been increased over the reporting period to reflect the latest expense experience. This has led to an increase in technical provisions.

Inflation

Renewal expenses and monthly expense charges were assumed to increase at 3.45% p.a. The 31 December 2018 assumption was 3.70%.

Persistency

Discontinuance rates are based on the company's recent experience.

Risk Margin

The risk margin is an addition to the Best Estimate Liabilities to ensure that the total technical provisions are sufficient to cover the amount that a third party would require to take over and meet the insurance obligations.

The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the insurance and reinsurance obligations over the lifetime thereof.

The rate used in the determination of the cost of providing that amount of eligible own funds is the Cost-of-Capital rate. The Cost-of-Capital rate is the annual rate to be applied to the capital requirement in each period. The Cost-of-Capital rate is set by EIOPA and currently equals 6%.

Therefore the Cost of Capital at time t equals the SCR at time t (excluding avoidable market risk) multiplied by the Cost-of-Capital rate. The risk margin equals the sum of the present value of the cost of capital for each future year.

The main risks that make up the SCR used in the calculation of the risk margin are calculated at each time t.

Future Premiums

Where certain requirements are met, the Solvency II specifications allow contract boundaries to be set into the future for protection business. This allows future cash flows relating to future regular premiums to be treated as existing business and therefore included in the best estimate. The impact of this is quantified by calculating the expected profits arising from future premiums (EPIFP). The EPIFP form part of the reconciliation reserve and are included in the own funds.

Uncertainty associated with the level of technical provisions

Uncertainty primarily relates to how future actual experience will differ from the best estimate assumptions used in the technical provision calculations. The key assumptions are interest rates, persistency rates, mortality rates and expense assumptions. The Company performs experience investigations on an annual basis to compare actual experience against the best estimate assumptions. The results of these investigations are used in the assumption setting process to help ensure the level of uncertainty is well understood.

The sensitivity test results at the end of Section C show how sensitive the Company's solvency position is to the key assumptions.

Solvency II and IFRS valuation differences

The table below gives a build up from the IFRS valuation to the Solvency II technical provisions as at 31 December 2019.

£'000	Index-linked and unit-linked	Life (excluding health and index-linked and unit-linked)	Total
IFRS liabilities	2,712,398	77,221	2,789,620
Adjustments for Solvency II	(44,648)	(2,572)	(47,240)
Best Estimate Liabilities (BEL)	2,667,731	74,649	2,742,380
Add Risk Margin	10,506	5,596	16,102
Technical Provisions	2,678,236	80,245	2,758,481

The main differences between the Solvency II technical provisions and IFRS liabilities arise from:

- In certain specific circumstances, Solvency II allows the best estimate element of technical provisions to be negative. However, under IFRS, for investment business, the liability is determined by the value of the corresponding units allocated to the policyholders; the unit liability is tested to ensure that it is not less than the unit surrender value.
- Solvency II uses best estimate assumptions whereas the IFRS valuation assumptions include margins for adverse future experience. The IFRS expense assumptions contain a 10.0% margin. For persistency, the IFRS assumptions contain a 30% margin. For annuitant mortality, the IFRS assumptions include a margin over the best estimate assumptions. This is achieved by applying a 10% margin to the table percentage and a 0.5% margin to mortality improvements in the IFRS basis compared to the best estimate basis.
- Solvency II uses risk-free discount rates based on the relevant risk-free interest rate curve supplied by EIOPA. IFRS uses discount rates based on the risk adjusted yield of the backing assets.
- The risk margin is included in Solvency II technical provisions.

D.3 Other Liabilities

	Solvency II value £'000	Statutory accounts value £'000	Variance £'000	Note
Technical provisions - life (excluding index-linked and unit-linked)	80,245	77,221	3,024	D.2
Technical provisions - index-linked and unit-linked	2,678,236	2,712,399	(36,163)	D.2
Provisions other than technical provisions	4,202	4,202	-	D.3.1
Deferred tax liabilities	9,979	10,532	(553)	D.3.2
Debts owed to credit institutions	5,204	5,204	-	D.3.3
Financial liabilities other than debts owed to credit institutions	2,997	2,997	-	D.3.4
Payables (trade, not insurance)	22,320	22,320	-	D.3.5
Any other liabilities, not shown elsewhere	230	230	-	D.3.6
Total liabilities	2,803,413	2,835,104	(31,691)	

There are no differences between the bases, methods and main assumptions used for the valuation for solvency purposes of the Group's other liabilities and those used by any of its subsidiaries.

D.3.1 Provisions other than technical provisions

The value of other provisions is £4.2m as at 31 December 2019 [S.02.01.02 C0010 R0750]. This is the balance recognised in respect of pensions mis-selling. This is valued at fair value for both the IFRS financial statements and the Solvency II balance sheet.

D.3.2 Deferred tax liabilities

The deferred tax liability is £9.9m as at 31 December 2019 [S.02.01.01 C0010 R0780].

International Accounting Standard (IAS) 12 prescribes the accounting treatment for income taxes. In the IFRS financial statements, deferred tax liabilities are provided for in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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 can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and legislation enacted or substantively enacted at the reporting date. Where tax law allows set off of current tax assets and liabilities, deferred tax assets and liabilities are netted off on the statement of financial position.

The Solvency II methodology for the calculation of deferred tax also follows the provisions of IAS 12. Deferred tax for Solvency II valuation purposes is determined by identifying temporary differences between the fair value of assets or liabilities on the Solvency II balance sheet and their equivalent tax base. The Solvency II technical provisions valued in accordance with the Solvency II Directive are calculated to be at a lower level than our present IFRS liabilities which are used to calculate the company's tax position. As a result of this temporary difference a deferred tax liability needs to be recognised on the Solvency II balance sheet. The other differences between the Solvency II and IFRS balance sheets do not result in any deferred tax changes.

For non-BLAGAB (basic life assurance and general annuity business) business the recognition of this larger deferred tax liability allows the recognition of a larger deferred tax asset related to the non-BLAGAB brought forward losses.

D.3.3 Debts owed to credit institutions

The total value of debts owed to credit institutions is £5.2m as at 31 December 2019 [S.02.01.02 C0010 R0800]. This value represents mortgages on properties held by a number of the Company's clients within their Self-Invested Personal Pension (SIPP) portfolios. These are valued at amortised cost in the IFRS financial statements. A discounted cash flow approach has been taken to value the liabilities for the Solvency II balance sheet, since this is representative of fair value.

D.3.4 Financial liabilities other than debts owed to credit institutions

The value of other financial liabilities is £3.0m as at 31 December 2019 [S.02.01.02 C0010 R0810]. This balance represents accruals for expenses. This is valued at fair value for both the IFRS financial statements and the Solvency II balance sheet.

D.3.5 Payables

The value of payables is £22.3m as at 31 December 2019 [S.02.01.02 C0010 R0840]. This balance is made up of trade creditors, the overall tax creditor and claims outstanding. These are fair valued for both the IFRS financial statements and the Solvency II balance sheet.

D.3.6 Any other liabilities, not shown elsewhere

The value of any other liabilities, not shown elsewhere is £0.3m as at 31 December 2019 [S.02.01.02 C0010 R0840]. This balance is made up of lease obligations. These are fair valued for both the IFRS financial statements and the Solvency II balance sheet.

D.4 Alternative methods for valuation

SLP uses an alternative method for valuation in respect of its holdings of investment properties. Details of the valuation method are disclosed in section D.1.

D.5 Any other information

There have been no material changes to valuation for solvency purposes over the reporting period.

E CAPITAL MANAGEMENT

E.1 Own Funds

The objectives of the own funds management are set out in the Group's capital management policy. The Group aims to maintain, at all times, sufficient own funds to cover the SCR together with an appropriate buffer.

The acceptable target range for the Pillar 1 CAR (ratio of eligible own funds over SCR) is 120% to 140%. The Group regularly monitors the Pillar 1 CAR (ratio of eligible own funds over SCR) and the capital management policy sets out the process to follow to restore the CAR if it falls outside the target range.

The business plan contains a three year projection of the Pillar 1 solvency position and this helps identify any required actions for future own funds management.

The Group has used the Accounting Consolidation-based approach (Method 1) to aggregate the own funds of Group undertakings. The entities within the Group are either consolidated on a line by line basis, or included as single line participation. The details of the treatment of each entity can be found within section D.1.

The table below shows the composition of the own funds across the Group at 31 December 2019.

£'000	Group 2019	Group 2018
Ordinary share capital	39,393.4	6,500.0
Reconciliation reserve	34,194.5	78,249.5
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	(21,172.4)	(26,629.2)
Total basic own funds eligible to meet the consolidated SCR and minimum consolidated group SCR	52,415.5	58,120.3
Own funds of other financial sectors	21,172.4	26,629.2
Total basic own funds eligible to meet the group SCR	73,588.9	84,749.5

The SLP own funds are all Tier 1 funds. The Group own funds are all Tier 1. The total amount of own funds is available to cover the SCR and the MCR.

There is no restriction on the availability or fungibility of Own Funds to cover the Group's SCR.

£'000	31 Dec 2019	31 Dec 2018
Ordinary share capital	39,393.4	6,500.0
Equity - financial reporting basis	39,393.4	6,500.0
Retained earnings in proxy balance sheet	14,113.6	60,696.8
Valuation differences	20,080.9	17,552.7
Reconciliation reserve	34,194.5	78,249.5
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	73,588.0	84,749.5

The valuation differences of £20.1m are made up of the following items.

£'000	2019	2018
Pension benefit surplus	(2,005.2)	-
Holdings in related undertakings, including participations *	(4,110.4)	(7,463.6)
Bonds**	1,369.6	1,273.2
Receivables (trade, not insurance)**	(1,369.6)	(1,273.2)
Removal of reinsurance assets (IFRS)	(1,479.8)	(2,857.3)
Reinsurance assets (SII)	(4,014.6)	(6,700.6)
Removal of technical provisions (IFRS)	2,789,619.7	2,582,758.5
Best Estimate Liabilities (SII)	(2,742,380.0)	(2,534,587.7)
Risk Margin (SII)	(16,101.6)	(14,426.8)
Term finance – Assets held for index-linked and unit-linked contracts	-	-
Term finance – debts owed to credit institutions	-	307.0
Net deferred tax liability	552.5	523.2
Total	20,080.9	17,552.7

*This adjustment relates to the intangible assets which are not included within the Solvency II balance sheet but are included in the statutory balance sheet.

**This adjustment relates to accrued interest which is included in the value of bonds within the Solvency II balance sheet, but within the receivables balance in the statutory balance sheet.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The SCRs and Minimum Capital Requirements (MCRs) for the regulated insurance entity SLP have been determined using the Standard Formula. No undertaking specific parameters have been used in this assessment.

The table below summarises the Group's capital requirements at 31 December 2019.

£'000	Consolidated insurance entities	Other	Group
Market risk	22,923.7		
Counterparty risk	1,753.4		
Life underwriting risk	26,706.7		
Undiversified Basic SCR	51,383.8		
Diversification	(11,491.0)		
Basic SCR	39,892.8		
Loss absorbency capacity of deferred taxes	0.0		
Operational risk	2,887.3		
Non-Insurance capital requirement	0.0	12,841.4	
Total SCR	42,780.2	12,841.4	55,621.5
Total MCR	19,250.8	0.0	0.0

The SCR is subject to supervisory assessment.

The non-insurance capital requirement is analysed in the table below.

Entity	Capital requirement (£'000)	Calculation basis
Sanlam Investments UK Limited	1,879.1	Fixed Overhead Requirement
Cameron Hume Limited	140.0	Fixed Overhead Requirement
Nucleus Financial Group Limited	4,113.1	Fixed Overhead Requirement
Sanlam Private Investments (UK) Holdings Limited	4,294.9	Fixed Overhead Requirement
Sanlam Wealth Planning UK Holdings Limited	713.7	5% of annual income plus own funds requirement for PII & Other FCA capital requirement
Sanlam Partnerships Limited	715.7	5% of annual income plus own funds requirement for PII & Other FCA capital requirement
Blackett Walker Limited	184.7	5% of annual income plus own funds requirement for PII & Other FCA capital requirement
Sanlam Private Wealth South	800.0	Fixed Overhead Requirement

The Group SCR has a floor of £19.3m.

There are no sources of diversification at Group level.

There are no capital add-ons at the Group level or for any of the subsidiaries.

E.3 Use of the duration-based Equity Risk Sub-Module in the calculation of the Solvency Capital Requirement

SLP does not apply the duration-based equity sub-module.

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

No internal or partial internal model has been used in the calculation of the SCR.

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

There was no breach of the SCR or of the minimum value for the consolidated SCR over the reporting period.

E.6 Any other information

There is no further information to be disclosed in respect of capital management.

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

F. ADDITIONAL INFORMATION ON THE COVID-19 PANDEMIC

On 11 March 2020, the World Health Organization declared the outbreak of a strain of a novel coronavirus, COVID-19, a global pandemic. COVID-19 has caused significant disruption across the globe, with governments in affected areas imposing a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. This has resulted in an economic downturn in the UK and the global economy more widely, as well as causing increased volatility in financial markets. If the pandemic is prolonged the adverse impact on the global economy could be deepened and result in further declines in financial markets.

The following summarises the impact of COVID-19 on the information contained within sections A to E of the SFCR where this is considered relevant.

Business and performance

Information presented in Section A of this report represents the performance of the business as reported in the Group's financial statements for the 12-month period to 31 December 2019. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Company at this stage. Figures presented in the SFCR and the associated Quantitative Reporting Templates (QRTs) have been prepared based on conditions and best estimate assumptions at 31 December 2019 and have therefore not been adjusted for any impacts of COVID-19.

System of governance

The Group's risk management and internal control system is responding well to the challenges of the COVID-19 outbreak and remains intact. Government travel restrictions and social distancing measures have required changes to some of our operational processes to ensure continued uninterrupted service to customers, while minimising the impact on the quality of service provided. This involves most of the staff working from home. The changes to operational processes that have been implemented have been designed to ensure customer service, data protection and staff well-being risks are at a level acceptable to Management.

Risk profile

The COVID-19 pandemic has the potential to have significant impacts on each of the main risk categories covered above (Underwriting, Market, Credit, Liquidity and Operational). Taking each of these in turn:

- **Underwriting risk**
The principal life underwriting risks impacted by the COVID-19 pandemic are mortality and morbidity risks. Going forward, there is also uncertainty over the impact the pandemic will have on future policyholder behaviour (e.g. persistency). The claim frequency impacts from COVID-19 are being actively monitored by the Actuarial function across all lines of business.
- **Market risk**
Market risk will be impacted by the widening of corporate bond spreads and the reduction in equity market valuations. SLP's solvency position is being monitored on a regular basis, using the latest market valuation data and taking into account the impacts on the pension scheme.
- **Credit risk**
Credit risk could be impacted by increased frequencies of downgrades and defaults.
- **Liquidity risk**
The Group's liquidity position could be affected by reduced liquidity in its investments, and also through the inability of customers to keep up with premium payments.

- **Operational risk**

COVID-19 is resulting in an increased level of operational risk through enforced remote working, staff absences for sickness and childcare, and through market volatility. The Group is adjusting processes and controls to ensure operational risks remain at an acceptable level.

Valuation for solvency purposes

The COVID-19 pandemic has resulted in declines in global financial markets with a corresponding impact on the valuation of certain financial assets held at fair value within the Group's balance sheet. Technical provisions have been prepared based on conditions and best estimate assumptions at 31 December 2019 and have therefore not been adjusted for any impacts of COVID-19. Life insurance technical provisions will be impacted through life protection products as a result of increased mortality, and through income protection and critical illness products as a result of increased morbidity. These impacts may be offset by a potential reduction in future annuity payments. We review the best-estimate assumptions used in the calculation of technical provisions on an ongoing basis and will update them accordingly for the expected impacts of COVID-19. However, given the rapidly evolving nature of the situation, it is not practicable at this stage to quantify the potential valuation impact of the pandemic and related financial market impacts on the financial assets and technical provisions of the Group.

Capital management

The capital of the Group is monitored on an ongoing basis and the Group expects to continue to meet its Solvency Capital Requirements. However, the negative impact of the COVID-19 pandemic on the economy and the associated volatility in financial markets will most likely have an adverse impact on the Group's own funds and solvency ratio. The Group's balance sheet exposure and solvency position is being reviewed on an ongoing basis and actions are being taken to protect the solvency position and further reduce the sensitivity to economic shocks and mitigate insurance risk. As part of this process of on-going review, the Group has secured support from its parent entity Sanlam Limited, which subject to Exchange Control approval, will provide an "on-call" facility which can be drawn by SIH should its consolidated solvency ratio fall below the minimum threshold set out in its capital management policy.