Scottish Widows Europe

Solvency and Financial Condition Report

31 December 2024

Statement of Directors' Responsibilities

This Solvency and Financial Condition Report ("SFCR") presents information in the format prescribed by the applicable Solvency II European regulations and guidelines. It includes disclosures in relation to business performance, governance, risk profile, solvency and capital management.

In doing so it sets out the financial position of Scottish Widows Europe (SWE), a Luxembourg life insurance company and its German branch as it was still active on 31/12/2024.

The Directors are responsible for preparing this SFCR in accordance with the Solvency II European regulations and guidelines.

Each of the Directors, whose names are listed in the Board of Directors section of the SWE Annual Report and Financial Statements, confirm that, to the best of their knowledge:

- throughout the reporting period (01/01/2024 to 31/12/2024), SWE continuously complied in all material respects with the requirements of the Solvency II regulations as applicable and
- based on the agreement reached in 2024 at European level on the Solvency II review, it is reasonable to believe that SWE will continue so to comply in the future.

The following elements explain that SWE's solvency remain strong despite the current geo-political tensions and the limited economic growth prospects:

- The company is in run-off and its profitability does not depend on the conclusion of new business
- Its solvency is sufficiently protected by
  - its hedging strategy, recalibrated in spring 2024, against interest rate and inflation risks,
  - the extent of the coverages offered by its reinsurance treaties with its parent company (financial risks) and Swiss Re (technical risks),
  - the deposit of a collateral from SWL, its parent company.

From an operational perspective, with a view to the recent entry into force (17/01/2025) of the Digital Operational Resilience Act (DORA) requirements, we continue to strengthen SWE's IT Risk Management Framework, including through the design of preventative measures against cyber-attacks and we continue to assess credible adverse scenarios that may affect us, our clients and suppliers.

Regarding economic crime prevention, SWE has policies and procedures designed to detect and prevent the use of its products and services for money laundering, terrorist financing, bribery, tax evasion, and any activities prohibited by legal and regulatory sanctions.

Against a background of evolving laws and regulations, and of continued criminal activity, SWE, together with its external partners, regularly reviews and assesses its policies, procedures and organisational arrangements to keep them current, effective and consistent with local requirements.

On behalf of the Board: Frédéric Chandelle,
SWE Chief Risk Officer and Chief Actuary, 08 April 2025

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Summary

A. Business and performance

Scottish Widows Europe S.A. (“the Company" or “SWE”) is a life insurance company incorporated in the Grand Duchy of Luxembourg, with its registered office also in Luxembourg. SWE is governed by Luxembourg law, incorporated on 19 October 2018 under the form of a public limited liability company (société anonyme). SWE began its activities on 29 March 2019, the date from which the Company manages the run-off portfolio transferred from Scottish Widows Limited (‘SWL’), its sole shareholder.

Until 20/11/2023, SWE operated through its registered office as well as two branches in the European Union, one in Germany and one in Italy. Since that date, SWE operates its Italian portfolio under the Freedom of Services out of Luxembourg. The Italian branch has been cancelled and deregistered from the Italian Trade Register on 01/02/2024. As at 31/12/2024 the German branch was still in place. The German branch closure has been decided after the migration to Luxembourg of its German and Austrian portfolios on 24/02/2025 and shall be effective upon deregistration with the German Trade Register, which is still expected to occur. Since the migration, SWE conducts its operations for all its insurance policies under the Freedom of Services out of Luxembourg.

SWL is a subsidiary of Scottish Widows Group Limited (‘SWG’), itself part of Lloyds Banking Group plc (‘LBG’). LBG, SWE’s ultimate parent company, is a company registered in the UK and is quoted on the London Stock Exchange and the New York Stock Exchange. LBG is one of the largest companies in the FTSE 100 index of leading UK companies.

For the purposes of this report:

- SWG and its three insurance subsidiaries, Scottish Widows Limited (‘SWL’), Lloyds Bank General Insurance Limited (‘LBGIL’) and St Andrew’s Insurance plc (‘StAI’) are referred to as the “Insurance Group” or “Insurance, Pensions & Investments” (‘IP&I’), a business unit within Lloyds Banking Group,
- the ultimate parent company and all its subsidiaries are referred to as “Lloyds Banking Group”, the “LBG Group” or “LBG”, whose core brands are: Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows.

SWE was set up to allow continued servicing of SWL’s European policies following the United Kingdom’s exit from the European Union. SWE’s only business is the run-off of the insurance portfolio transferred from SWL. Currently SWE is not seeking new business. SWE has a mix of with-profit and unit-linked bonds, endowments, deferred annuities and pensions products that have been sold in Germany, Austria, Italy and Luxembourg.

Despite current economic uncertainties, SWE keeps displaying strong solvency ratios, thanks among other elements to its hedging strategy against inflation and interest rate risks (see Section C “Risk Profile” of this report).

As expected, despite its severity and long-time duration, the impacts of the Russian invasion of Ukraine on both the business and the customers have remained very limited. This may be explained as SWE is a life only, run-off and largely reinsured company, heavily collateralised.

The nature and volume of SWE’s activities remained unaffected as this crisis, as well as other geopolitical tensions, do not influence the timing of neither policyholders’ future benefits nor SWE’s expected future expenses.

More information on Business and Performance can be found in Section A of this report.

B. System of governance

The governance and organisational structure of the Company is set out in the Company's Articles of Association, Corporate Governance Framework and Terms of Reference. These define the responsibilities and authority of the members of the Board and Committees. SWE follows the principles, policies, procedures and processes of LBG and adapts them, if necessary, to the specific needs of Luxembourg and European legislation.

The Company’s compliance with fit and proper requirements is assured through a combination of policies and related procedures at both LBG Group and Company level. In particular, the Company follows:

- Strict Fit & Proper principles and criteria, in conformity with Solvency II and Group requirements, defined in SWE’s “Corporate Governance Framework”,
- the Company’s Colleague Policy and special procedures related to appointments of Board and Management Committee Members,
- CEO, Key Function Holders and Branch Managers (nominations or changes) performance reviews and training.

A set of tools and templates facilitates the implementation of these policies, which collectively ensures that those who effectively run the undertaking or have other key functions

- are of good repute and integrity,
- possess the requisite skills, knowledge and expertise for their roles and
- have undergone or are undergoing all training required to enable such persons to perform their role effectively.

SWE’s Risk Management Framework (‘RMF’) is aligned to LBG’s, whilst adopting specific terminology and incorporating elements to address and support compliance with Insurance- and EU or Luxembourg specific requirements, like DORA. SWE operates a prudent approach to risk with rigorous management controls to ensure business continuity and minimise losses.

The RMF provides a robust and consistent approach to risk management across the organisation with mechanisms for developing and embedding risk policies and risk management strategies, which are aligned to the risks faced by the business. This in turn drives the risk profile of the business in line with risk appetite and through good risk-reward decision making.

Standard governance arrangements in place prior to the onset of the Covid-19 pandemic continue to operate as before.

On the operational side, teams have been re-organised through an adequate and evolving mix of remote working in all locations to ensure availability and office presence.

The reader is invited to refer to section B of this report for more detailed information on SWE's governance system.

C. Risk profile

SWE's current risk exposures are assessed and aggregated in accordance

- with the requirements of the Standard Formula for the calculation of the regulatory Solvency Capital Requirement ('SCR') defined by the Solvency II directive and its implementing measures,
- plus an internal capital requirement over and above a provision covering the risks associated with the final cost of settlement of contracts previously sold mainly in Germany, Austria and Italy (also referred to as "Litigation risk" in some sections of this report).

A key component of SWE's Risk Appetite is the requirement to hold a Capital Buffer in excess of the SCR. SWE's Capital Buffer is set so as to withstand a 1-in-10 year event for the entire insurance business of the company.

There has been no significant change in 2023 and 2024 in SWE's risk exposure, despite the increased geopolitical tensions and current economic and financial uncertainties.

For SWE, key points remain:

- Thanks to the high level of reinsurance, the bulk of the market risk was transferred to Scottish Widows Ltd (SWL), the parent company of SWE,
- As observed in 2024, key SWE financial risks clearly remain under control, as a result of
  - the hedging strategy against inflation and interest rate risks implemented in spring 2020, monitored on a continuous basis and recalibrated in spring 2024 and
  - strong and less sensitive solvency ratios thanks to this strategy (See more details in Section "E").
- SWE's underwriting risks, more specifically mortality / longevity and persistency, remain quite stable.

SWE continues to manage all risks on an ongoing basis thanks to the different new or reinforced control measures to assess and mitigate their possible impacts, such as:

- Operational resilience, especially taking account of DORA requirements, as well as quality measurement of policyholder administration, which are pursued to ensure no business disruption and to maintain adequate level of service quality,
- Solvency, which is estimated on a monthly basis to assess the need of additional actions in addition to the hedging program aimed at protecting SWE's current level of own funds,
- Liquidity, which is not a source of concern as liquidity ratios (available liquid assets divided by liquidity needs) continue to be very high.

More information on the risk profile can be found in Section C of this report.

C1 Underwriting risk

The principal risk that SWE faces under insurance contracts is that the actual claims and benefit payments exceed the amounts expected at the time of determining the insurance liabilities. The nature of SWE's business involves the accepting of insurance risks which primarily relate to expenses, persistency, mortality, and longevity.

Refer to section C.1 for more detailed information regarding these risks and the way they are managed within SWE.

C2 Market risk

All market risks are assessed and aggregated according to the Standard Formula for the calculation of the regulatory SCR.

Interest rate and inflation were the two most important financial risks SWE is exposed to when it started its activities in 2019. The hedging programme (*based on interest rates and inflation swaps)* set up to protect SWE's balance sheet against these two key risks has been recalibrated in spring 2024. The figures observed confirm that it contributes to greater stability in SWE's solvency ratios, which remain at levels significantly higher than those required by both Solvency II rules and the Group's internal requirements.

Note also that SWE has put in place and updated a Board approved Investment Policy which sets out the key requirements of the Prudent Person Principle and the controls to ensure that the requirements are complied with.

Refer to section C.2 for more detailed information regarding these risks and the way they are managed within SWE.

C3 Credit risk

SWE's counterparty risk relates to exposure to banks through cash holdings and SWL defaulting. SWE's Credit risk is assessed using the Standard Formula SCR. Due to the reinsurance arrangement with SWL being heavily collateralised, the Standard Formula clearly overestimates SWE's effective exposure to credit risk.

Refer to section C.3 for more detailed information regarding these risks and the way they are managed within SWE.

C4 Liquidity risk

Liquidity risk may result from:

- the inability to sell financial assets quickly at their fair values (which may make it difficult to re-attain a matched position after a stress event);
- an insurance liability falling due for payment earlier than expected;
- the inability to generate cash inflows as anticipated.

Liquidity risk is actively managed and monitored to ensure that SWE has sufficient liquidity to meet its obligations and remains within approved risk appetite.

Refer to section C.4 for more detailed information regarding these risks and the way they are managed within SWE.

C5 Operational risk

Operational risk may be defined as "*the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which may result in financial loss, disruption or reputational damage*".

These include the availability, resilience and security of our core IT systems (taking account of DORA requirements), people risk, regulatory and legal risk, governance risk and potential for failings in our customer processes.

Refer to section C.5 for more detailed information regarding these risks and the way they are managed within SWE.

D. Valuation for solvency purposes

This section of the report explains the valuation principles underpinning the Solvency II balance sheet, represented in the simplified table below. Further detail is set out in:
Section D1: assets
Section D2: technical provisions, representing Best Estimate Liabilities ('BEL') and risk margin
Section D3: other liabilities, including subordinated debt.

€	31/12/2023	31/12/2024
Total Assets	3,828,655,767	3,793,907,208
Total Technical Provisions	1,866,838,606	1,873,929,279
Total Other Liabilities	1,752,925,088	1,747,075,903
Total Subordinated Debt		
Excess of Assets over Liabilities	**208,892,074**	**172,902,025**

Assets and liabilities continue to be recorded at fair value in line with the valuation methodology described in the Solvency II Directive and its implementing measures, more particularly the delegated regulation 2015/35.

D1 Asset valuation under Solvency II

Assets are recorded at fair value in line with the valuation methodology described in the Solvency II Directive.

The underlying concept is that assets are valued at an amount for which they could be exchanged, transferred or settled between knowledgeable and willing parties, in an arm's length transaction.

Valuation methods make maximum use of relevant market inputs and rely as little as possible on company specific inputs. The assets of the Company are shown in the table below.

€	31/12/2023	31/12/2024
Deferred Tax Assets	0	0
Bonds	22,092,442	37,315,306
Collective Investments	1,715,374,045	1,679,425,983
Derivatives	77,970,656	64,324,822
Assets held for Unit-Linked Contracts	247,956,293	264,533,231
Reinsurance Recoverables	1,459,585,897	1,451,596,523
Insurance Receivables	3,593,181	7,895,278
Trade Receivables	74,832,650	83,948,748
Cash and Cash Equivalents	227,250,602	204,867,317
Total Assets	**3,828,655,767**	**3,793,907,208**

More information on these figures and their evolution over time can be found in Section D1 of this report.

D2 Technical provisions valuation under Solvency II

The Solvency II technical provisions represent the value of the Company's obligations if they were to be transferred to a third party at the valuation date. The value of the technical provisions is the sum of the Best Estimate of the Liability ('BEL' or 'BE') and Risk Margin ('RM').

The BEL is intended to correspond to the probability weighted average of the present value of future cash flows on a market consistent basis. The projection of future cash flows is performed using best estimate assumptions.

Discount rates are determined on a market consistent basis using the relevant risk-free term structure as specified by EIOPA.

The Risk Margin component exists to adjust the BEL value so that the total technical provisions reflect the price for risk that a potential purchaser would take into account when acquiring a book of insurance business.

The Risk Margin is calculated by projecting the run-off of the non-hedgeable SCR risks, applying the 6% cost of capital defined by EIOPA to the projected values and discounting using the risk-free rate.

The table below shows the technical provisions for SWE, split by business category and gross of reinsurance.

Life Insurance Gross Technical Provisions, €	31/12/2023	31/12/2024
a) With-Profit (Unitised WP and Vested Annuities)		
Best Estimates of the Liabilities	1,472,890,639	1,470,355,739
Risk Margin	57,398,353	57,005,831
Total With-Profit	**1,530,288,992**	**1,527,361,570**
b) Unit-linked		
Best Estimates of the Liabilities	326,566,545	336,451,127
Risk Margin	9,983,070	10,116,582
Total Unit-Linked	**336,549,614**	**346,567,709**
Total (With-Profit & Unit-Linked)		
Best Estimates of the Liabilities	1,799,457,184	1,806,806,866
Risk Margin	67,381,422	67,122,414
Total With-Profit and Unit-Linked	**1,866,838,606**	**1,873,929,279**

More information on these figures and their evolution over time can be found in Section D2 of this report.

D3 Other liabilities valuation under Solvency II

The amounts recognised in SWE's balance sheet are shown in the table below.

SWE had no subordinated liabilities during, or at the end of, the reporting period.

Other liabilities are recorded at fair value as required under Solvency II principles, the underlying concept being that items are valued at an amount for which they could be exchanged, transferred or settled, between knowledgeable willing parties in an arm's length transaction.

Other liabilities, €	31/12/2023	31/12/2024
Provisions other than technical provisions	60,222,704	60,436,257
Deposits from Reinsurers	1,433,561,026	1,437,267,205
Net Deferred tax liabilities (DTL, *)	6,262,044	5,820,946
Derivatives	131,240,258	137,425,413
Debts owed to credit institutions	70,530,805	50,625,175
Insurance and intermediaries payables	21,119,923	31,832,680
Trade payables	29,988,328	23,668,228
Total other liabilities	**1,752,925,088**	**1,747,075,903**

More information on these figures and their evolution over time can be found in Section D3 of this report.

E. Capital management

SWE's two most important objectives about Capital management are:

- To have sufficient Own Funds to safeguard the Company's ability to continue ensuring the orderly run-off of the transferred portfolio, providing benefits to policyholders as they fall due, so that it can continue to provide returns for the shareholder and benefits for other stakeholders.
- To comply with all regulatory capital requirements as set out under Solvency II.

A key component of SWE's Risk Appetite is the requirement to hold a Capital Buffer in excess of the SCR. SWE's Capital Buffer is set so as to withstand a 1-in-10 year event for the entire insurance business of the company.

The regulatory SCR for SWE has been determined using the Standard Formula approach set out in the Solvency II Directive and its implementing measures.

SWE is also required to calculate a Minimum Capital Requirement ('MCR'). The MCR represents the minimum level below which the amount of financial resources should not fall.

It is calculated in accordance with a formula prescribed in the Solvency II regulations and is subject to a floor and a cap equal to 25% and 45% of the SCR respectively.

The eligible Own Funds, SCR and MCR for SWE as at 31 December 2023 and 2024 are shown in the tables below.

€	31/12/2023	31/12/2024
Eligible Own Funds to cover SCR	208,892,074	172,902,025
SCR	94,017,094	96,949,985
Ratio of Eligible Own Funds to SCR	**2.22**	**1.78**

€	31/12/2023	31/12/2024
Eligible Own Funds to cover MCR	208,892,074	172,902,025
MCR	23,504,273	24,237,496
Ratio of Eligible Own Funds to MCR	**8.89**	**7.13**

The company keeps maintaining in 2023 and 2024 solvency ratios significantly in excess of 100%.

More information regarding Own Funds, SCR and MCR components can be found in Section E of this report.

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A. Business and performance

A.1 Business

A.1.1 SWE Identifiers

Name of the undertaking: Scottish Widows Europe S.A.

Scottish Widows Europe S.A ("the Company" or "SWE") is a life insurance company incorporated in the Grand Duchy of Luxembourg, with its registered office at:

> 2, rue Albert Borschette, L-1246 Luxembourg
> (Until 24/02/2025, the registered address was Europe Building, 1, Avenue du Bois, L-1251 Luxembourg)

SWE is a life insurance entity governed by Luxembourg law, incorporated on 19 October 2018 under the form of a public limited liability company (*société anonyme*). It has been registered with the Luxembourg trade register under number B228618 since 24 October 2018. The Company's legal entity identifier (LEI) is 213800KWRFPFZHUEMW58.

On 1 February 2019, SWE received approval from the Luxembourg Minister of Finance

- to act as a life insurance company, and
- to conduct class I and III life insurance business.

In practice, it may be considered that SWE began its activities on 29 March 2019, the date from which the Company manages the run-off portfolio transferred from SWL, its sole shareholder (see below).

Until 20/11/2023, SWE operated through its registered office as well as two branches in the European Union, one in Germany and one in Italy. Since that date, SWE operates its Italian portfolio under the Freedom of Services out of Luxembourg. The Italian branch has been cancelled and deregistered from the Italian Trade Register on 01/02/2024.

As at 31/12/2024 the German branch was still in place, at the following address:

> Scottish Widows Europe S.A., Zweigniederlassung Deutschland
> Im Breitspiel 2/4, 3rd Floor
> D-69126 Heidelberg

The German branch closure has been decided after the migration to Luxembourg of its German and Austrian portfolios on 24/02/2025 and shall be effective upon deregistration with the German Trade Register, which is still expected to occur. Since the migration, SWE conducts its operations for all its insurance policies under the Freedom of Services out of Luxembourg.

A.1.2 Supervisory Authorities

A.1.2.1 SWE's Supervisory Authority

> Commissariat aux Assurances
> 11, rue Robert Stumper, L-2557 Luxembourg, GD de Luxembourg
> Tel.: (+352) 22 69 11 - 1
> caa@caa.lu, https://www.caa.lu/

A.1.2.2 Group's Supervisory Authority

LBG, as well as SWL (see below), are regulated in the United Kingdom by:

- the Prudential Regulatory Authority (PRA), and
- the Financial Conduct Authority (FCA).

Prudential Regulatory Authority (Bank of England)
Threadneedle St, London, EC2R 8AH, United Kingdom
Tel.: +44 20 3461 4444, +44 20 3461 4878
enquiries@bankofengland.co.uk,
https://www.bankofengland.co.uk/contact

and:

Financial Conduct Authority (FCA)
FCA Head Office
12 Endeavour Square
London E20 1JN, United Kingdom
Telephone:
0800 111 6768 (freephone)
0300 500 8082 (from the UK)
+44 207 066 1000 (from abroad)
www.fca.org.uk

A.1.3 External Auditors

A.1.3.1 SWE's External Auditor

SWE's external auditor appointed by its shareholder is:

Deloitte Audit
20 Boulevard de Kockelscheuer
L-1821, Grand Duchy of Luxembourg
Tel.: +352 451 451
Website: https://www2.deloitte.com/lu/en.html
Contact: https://www2.deloitte.com/lu/en/footerlinks/contact-us.html?icid=top_contact-us

A.1.3.2 Group's External Auditor

SWG and its regulated insurance subsidiaries, including SWL, are audited by Deloitte. The contact details for the auditors are:

Deloitte LLP
Statutory Auditors
1 New Street Square
London
EC4A 3HQ
United Kingdom

A.1.4 SWE's shareholders

A.1.4.1 Scottish Widows Limited (SWL)

As at 31 December 2024, SWE is a subsidiary of SWL, its immediate parent company and only shareholder. Its product range includes life assurance and pensions. SWL is a limited company incorporated and existing under the laws of England and Wales, registered with Companies House Registrar of Companies for England and Wales under number 03196171. It has its registered office at 25 Gresham Street, London, EC2V 7HN, United Kingdom.

A.1.4.2 Scottish Widows Group ('SWG')

SWL is a subsidiary of SWG, itself part of Lloyds Banking Group plc ('LBG'). SWE, SWL and SWG form part of the LBG Insurance, Pensions & Investments (IP&I) business unit.

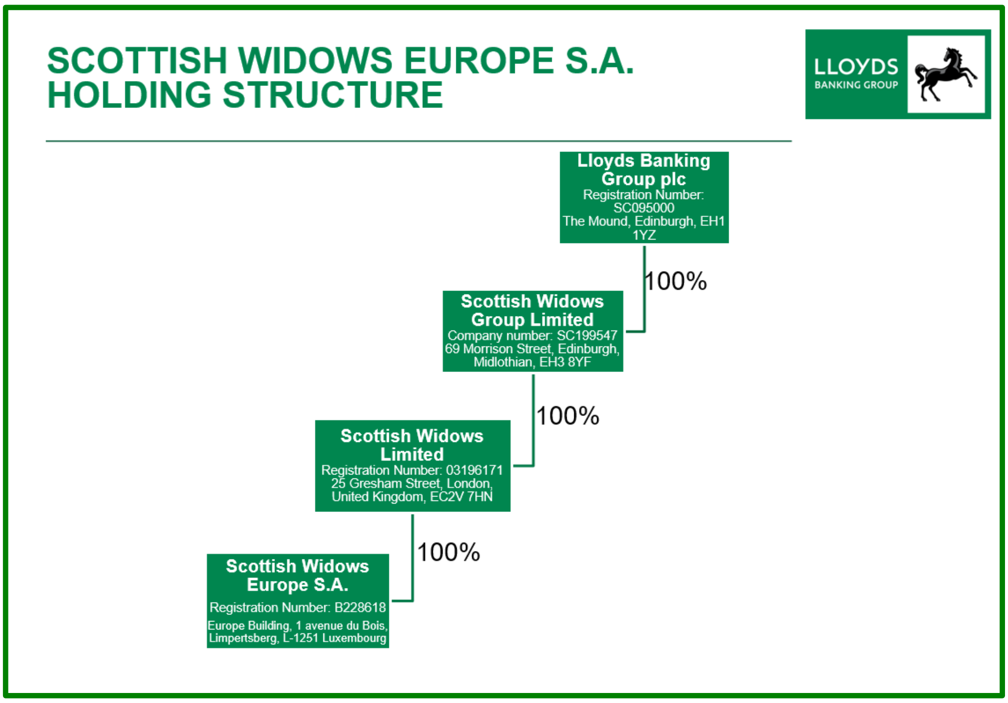
A.1.4.3 Lloyds Banking Group ('LBG')

LBG plc, SWE's ultimate parent company, is a company registered in the UK and is quoted on both The London Stock Exchange, and The New York Stock Exchange and is one of the largest companies in the FTSE 100 index of leading UK companies.

For the purposes of this report, the ultimate parent company and all its subsidiaries are referred to as "Lloyds Banking Group", the "LBG Group" or "LBG".

A.1.5 SWE's position within LBG

The Company's shareholding structure as at 31/12/2024 is as follows:



A.1.6 Material lines of business and geographical operation areas

SWE was set up to allow continued servicing of SWL's European policies following the United Kingdom's exit from the European Union.

SWE's only business is the run-off of the insurance portfolio transferred from SWL. Currently SWE is not seeking new business however it could be used in the future (subject to obtaining appropriate permissions) as a receiving entity for further European business, following future acquisitions for example.

A.1.6.1 Material lines of business

All Policies

SWE has a mix of with-profit and unit-linked endowments, pensions and deferred annuities that, for the most important part, have been sold in Germany, Austria and Italy. Currently, there are still limited numbers of vested with-profit annuities, but this will continue to grow in the future, attributing to a large extent the long duration of SWE's technical provisions. Key features of the main product types are discussed below.

All life endowment policies have a basic death benefit of at least 101% of the value of units on death, and a number of these policies also have additional life cover and /or other protection benefits (Waiver of Premiums, an optional non-linked additional benefit that can be added to Unitised With-Profit as well as unit-linked policies).

In addition, several of these policies have the option (deferred annuity products) or the obligation (pension products), to convert their plans to with-profit annuities on maturity (Vesting). For all pension products, with the exception of some of them where they compulsorily receive a lump sum at retirement, the policyholders must (in whole or in part) vest into annuity when they retire.

Some life insurance policies have an option to specify a series of regular unit encashments, starting immediately or at a future date. Policyholders may also request partial unit encashments on an ad-hoc basis.

Unit-Linked Policies

The value of a Unit-Linked policy is determined by reference to the number and price of notional units allocated to the policy from a range of internal insurance funds.

Funds available invest in a range of asset classes. The investment performance of the assets in the fund, net of fund management charges, is reflected in the price of the units and this price can change on a daily basis.

Notional units are purchased, in the funds selected by the customer, following receipt of premiums.

Benefits and claims are funded by the sale of the notional units at the price of those units at the point of sale.

Within the range of unit-linked funds are four "Guaranteed Access" unit-linked funds. Unlike other unit-linked funds, these funds have minimum unit price guarantees, based on the highest unit price ever achieved by the fund (dependent on the fund, this ranges from 70% to 90% of maximum price achieved) and an asset allocation strategy that varies the asset mix depending on fund performance.

Unitised With-Profits

While notionally invested in “units”, the characteristics of Unitised With-Profit (‘UWP’) policies are very different from unit-linked business.

The mechanisms for distributing the performance of the fund rely on the application of bonuses which can increase the price of units and/or add additional value to certain claims.

The price of units increases with a declared bonus rate and, as long as the policy is maintained until maturity or death, the policyholder is guaranteed to receive at least the unit price (which cannot decrease).

If lapsed early, the company can reduce the surrender value if the value of the underlying assets falls below the value represented by the unit price.

In addition to the value of units, an additional bonus may be declared on exit, so that the claim value closer matches the overall performance of the fund.

UWP policies invest in the Clerical Medical With-Profits fund of SWL via a reassurance agreement between SWE and SWL.

A.1.6.2 Major geographical areas of operation

SWE’s run-off insurance portfolio relates to contracts that were sold mainly in Germany, but also in Austria, and, for a smaller part, in Italy and Luxembourg.

As at 31 December 2024, the number of in-force contracts were split between Germany (87%), Austria (11%), Italy and Luxembourg (2%).

A.1.7 Significant post 2024 business or other events with material impacts

There are no such events to mention.

A.2 Underwriting performance

The table below provides a summarised profit and loss account for the financial reporting periods 2023 and 2024. The detailed figures are available in SWE's 2024 financial statements.

Underwriting performance (€)	2023	2024
1. Earned premiums, net of reinsurance	20,391,775	18,603,983
2. Investment Income	64,178,711	97,632,059
3. Unrealized gains on investments	184,442,226	98,651,733
4. Other Technical income, net of reinsurance	33,084,146	44,992,953
5. Claims incurred, net of reinsurance	-30,907,441	-25,926,098
6. Change in other technical provisions, net of reinsurance	722,669	-19,310,607
7. Bonuses and rebates, net of reinsurance	0	0
8. Net operating expenses	-54,985,601	-46,525,502
9. Investment charges	-191,424,385	-140,079,926
10. Unrealized losses on investments	-22,383,074	-40,249,458
11. Other technical charges, net of reinsurance	-15,321,826	-26,553,902
12. Allocated investment return transferred to the non-technical account (-)	-102,498	-143,621
13. Sub-total: Balance on the technical account life assurance business	**-12,305,298**	**-38,908,387**

SWE manages a portfolio in run-off. As such

- no new policies were sold during 2023 and 2024,
- Subscription of new risks is not part of Company strategy,
- The only premiums collected and commission paid during this two-year period are related to existing contracts, and
- No other acquisition costs are spent by the company.

Total turnover for the year was € 78,435,022 (2023: € 82,138,269), of which € 66,555,988 was UWP business (2023: € 68,619,552) and 11,879,034 was UL (2023: € 13,518,717). The 2024 turnover is derived of

- single premiums: € 10,641,038 (2023: € 7,330,991) and
- regular premiums: € 67,793,984 (2023: € 74,807,278).

Total commissions to intermediaries for direct insurance for the year amount to € 11,635,921 (2023: € 12,363,654). A total of € 638,192 of these commissions were charged to affiliated undertakings (2023: € 613,655).

The abovementioned loss of **€ -38.9m** can be explained mainly by:

- The actual versus expected expenses net of covering AMCs: **€-7.1m**,
- The economic experience (overall impacts of decreasing interest rates (€-24,5m) and inflation (€+2.9m) and performance of equity markets (€+15,6m), taking account of the swap-based hedging strategy): **€ -6.0m**,
- The changes in assumptions & methodology, mainly updates of assumptions on future maintenance expense leading to increased Lux GAAP Technical reserves: **€- 21.7m**,
- The non-Economic Experience, mainly expenses in excess of provisions made at yearend 2023: **- €3.2m**,
- Other elements, mainly technical adjustments: **€-0.9m**.

A.3 Investment performance

A.3.1 Income and expenses by asset class

At the date of the transfer of activity from SWL, the Company delegated the active management of the investment portfolio to SWL. The aim of the delegation was to continue the asset management strategy in place prior to the transfer without any disruption of processes.

Total investment management charges for 2024 amount to € 140,079,926 (2023: € 193,714,561), of which € 102,227,020 was interest charges on reinsurer deposits (Funds Withheld) (2023: € 156,683,612).

A.3.2 Gains and losses recognised directly in equity

No investment gains or losses were recognised directly in equity.

A.3.3 Investments in securitisations

SWE does not hold any investments in securitisations.

A.4 Performance of other activities

The company does not enter in to any other business than the management of its insurance portfolio.

A.5 Any other information

There are no other elements to mention.

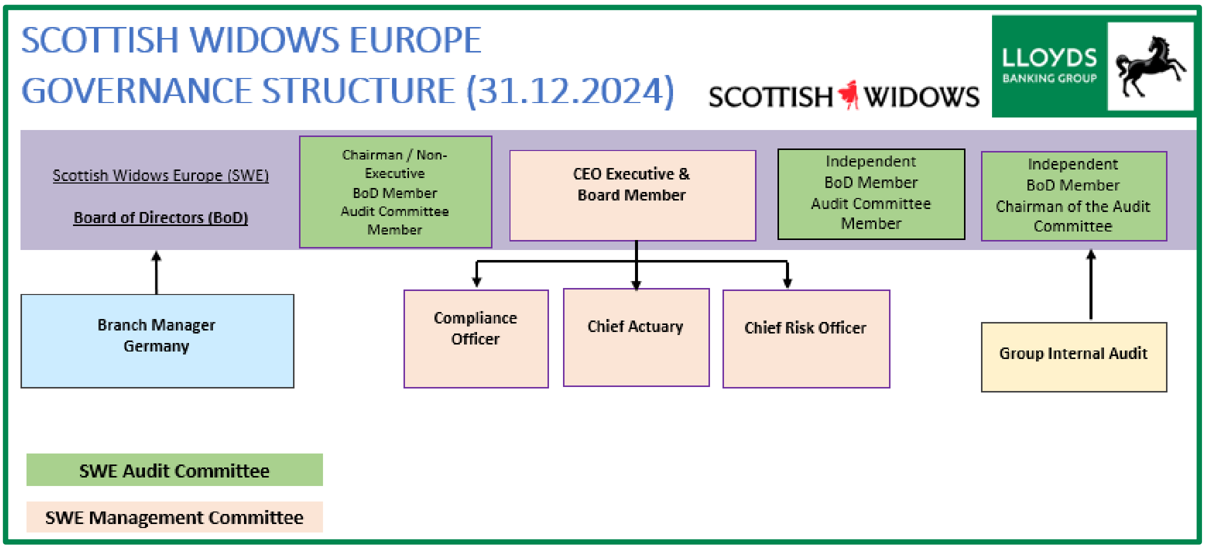
B. System of governance

B.1 General information on the system of governance

B.1.1 Governance overview

The governance and organisational structure of the Company is set out in the Company's Articles of Association, Corporate Governance Framework and Terms of Reference. These define the responsibilities and authority of the members of the Board and Committees.

The governance structure is outlined in the diagram below:



B.1.1.1 Board of Directors

Role

The Board is collectively responsible for the management of the Company in a way to achieve the Company’s purpose and in the Company’s best interests. The Board is responsible for the sound and prudent management of the Company.

The Board sets the Company’s strategy and oversees delivery against it and ensures that the Company manages its risk effectively, monitors reports appropriately, and has the necessary financial and human resources in place for the Company to meet its objectives.

The members of the Board bear ultimate responsibility and liability for meeting applicable legal obligations. They have the right and obligation to take all measures to fulfil their legal duties.

Composition

The Board comprises of four members, one of whom is an Executive Director and three of whom are Non-executive Directors. Two of the Non-executive Directors are independent, one of whom is the chair of Audit Committee.

The Chairman of the Board is a Non-executive Director appointed by the Board and has no individual delegations. The Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role. The Chairman has a critical role in creating the conditions for overall Board and individual director effectiveness, both inside and outside the boardroom.

The members of the Board are individuals with the abilities, professional background and personal character (including honesty and financial soundness) necessary and required to ensure an independent decision-making process in a critical exchange of ideas with the executive management.

Delegation and retained responsibilities of the Board

In order to support its work, the Board has delegated certain responsibilities and authorities to a number of committees and individuals. These include the Company's:

- Audit Committee
- CEO
- Management Committee
- A German-Branch Manager
- Key Function Holders.

The Board retains ultimate responsibility, oversight and control of the delegated responsibilities and authorities.

B.1.1.2 Audit Committee

In order to support its work, the Board has established an Audit Committee which carries out its tasks in support of the Board. As a Board committee, the Audit Committee is accountable to the Board but does not, nor is able to, relieve the Board of any of its responsibilities.

Role

The role of the Audit Committee is to assist the Board in fulfilling its oversight responsibility including:

- the integrity of the Company's financial statements (including the Luxembourg statutory returns),
- the Company's internal controls regarding the financial reporting of the Company,
- the external auditor's qualification and independence as well as the performance and selection of the external auditor.

Composition

The Audit Committee is composed of three Non-executive Directors. The Chairman of the Audit Committee is

- an Independent Non-executive Director
- acting as Audit Director
- responsible for chairing and overseeing the performance of the Audit Committee

B.1.1.3 Chief Executive Officer ('CEO')

The CEO has executive responsibility for the overall day-to-day management of the Company's business and has authority to sign individually. The CEO represents the Company at the CAA, is resident in Luxembourg and has been approved by the Luxembourg Minister of Finance.

The CEO discharges their responsibility for the day-to-day management of the business through delegating elements of his authority to other Company's executives and with the assistance of the Management Committee. The CEO is the chair of the Management Committee (see below). The CEO is also acting as a key function holder for distribution and as the "Responsible for Compliance" with the Responsible for Compliance with the professional obligations relating to the fight against money laundering and terrorist financing, i.e. the accountable senior manager ("ASM") for the Company.

B.1.1.4 SWE Management Committee ('MC')

Role

The MC is responsible for managing the Company's business and supervising operational activities of the Company and its branches. It provides a cross-functional and cross-location communication platform and ensures that any matters relating to the Company are effectively communicated to the head office in Luxembourg and the branches. The MC provides a holistic forum for the discussion of key risk and operational issues impacting the Company, putting customers at the heart of all decisions.

Composition

The MC is chaired by the CEO and is composed of the following executive members: the CEO, the Head of Operations, the Lead Technical Product Manager and his secondee, the CFO, the Head of Legal & Company Secretary, the Compliance Officer, and the Chief Risk Officer ('CRO') & Chief Actuary ('CA').

B.1.1.5 German Branch Manager (Situation as of 31/12/2024)

For the German branch, the Board has appointed one person as branch manager and legal representative of the Company in the jurisdiction of the branch (the "Branch Manager"), who was in charge of

- the day-to-day management of the branch and
- conducting business in the name of the Company in the jurisdiction of the branch.

Until the closure of the German branch, this Branch Manager was a regular attendee to the Management Committee and Board meetings.

This function will cease to exist when the branch is deregistered from the German Register of Commerce.

B.1.1.7 Solvency II and other key functions

The Board:

- is responsible for adopting appropriate measures to implement guidelines or policies relating to the key functions;
- nominates individuals as designated representatives of the respective key functions towards the Company;
- monitors the key functions to ensure they are adequately staffed with professionals possessing the requisite professional qualifications, knowledge and experience, and
- has full authority to investigate any matters within their respective duties.

Key function holders operate under the oversight of, and report directly to, the Board and Board Committees of the Company. Key function holders will report directly to the Board and Management Committee any issues that could have an impact on the Company.

Key Function Holders are authorised to:

- obtain independent professional advice,
- request external advisors to undertake specific tasks or to obtain any information from any director, officer or employee acting on behalf of the Company, and
- secure their attendance to the relevant meetings when necessary.

In line with Solvency II requirements, the Company has implemented the four Solvency II key functions (i.e. Compliance, Actuarial, Risk Management and Internal Audit). There is a clear separation between the risk-taking and risk controlling (assurance) roles. The key functions have operational independence in performing their reporting functions with the exception of Internal Audit, which shall have complete independence in performing its reporting function.

The role of each of the four Solvency II key functions is described in the following sub-sections of this report:

- Compliance: Please refer to sub-section "B.4.2"
- Actuarial: Please refer to section "B.6"
- Risk Management : Please refer to sub-section "B.3.2"
- Internal Audit: Please refer to section "B.5"

B.1.1.8 Chief Financial Officer ('CFO')

The CFO holds responsibility for the management of the financial resources and reporting to the Board in relation to the financial affairs. The CFO is responsible for delivering local statutory and regulatory reporting for the Company, as well as providing insightful reporting and analysis to the Board, the CEO and internal LBG stakeholders (Group finance and commercial teams based in the UK).

The CFO is a direct report of the CEO and also has a dotted line to the I,P&I Chief Financial Officer. He is a member of the Management Committee and a regular attendee of the Board and the Audit Committee.

B.1.2 Changes in the system of governance over the reporting period

There are no material changes to report.

B.1.3 Remuneration

The Company's remuneration policy is driven by that of the wider LBG Group, where the policy is set by the LBG Remuneration Committee. SWE employees are subject to the Insurance Group Remuneration Policy. The objective of the Policy is to align individual reward with the Group's performance, the interests of its shareholders and a prudent approach to risk management.

The remuneration policy is based on four core aims that are designed to specifically promote certain desired behaviours and outcomes, which are supported by the structure of the remuneration package offered to colleagues. The four core aims are:

- **Purpose** – Remuneration should be linked to the purpose of Helping Britain Prosper.
- **Behaviours** – Remuneration should reward and drive the right behaviours and outcomes and reflect both strategic (non-financial) and financial achievements.
- **Simplicity** – Remuneration should be designed in a manner that is clear for all stakeholders and reflects their expectations.
- **Clarity** – Remuneration should be easy to explain and viewed as fair.

The remuneration policy is based on principles which are applicable to all employees within the Group and, in particular, the principle that the reward package should support the delivery of the Group's purpose and strategic aim whilst delivering long-term superior and sustainable returns to shareholders.

It fosters performance in line with the Group's values and behaviours, encourages effective risk disciplines and is in line with relevant regulations and codes of best practice.

B.1.4 Material transactions with shareholders, SWE's Board or Management Committee members

Details of material transactions with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body are given below.

The ultimate shareholder of SWE is the UK based Lloyds Banking Group plc, through the structure described in Section A.1 of this report.

B.1.4.1 Transactions between SWE and its immediate parent, SWL

Balance sheet positions and transactions

In relation to financing activities with SWL

€	Called-up Share Capital	Share Premium Account
Balance at 31 December 2019	**6,000,000**	**175,000,000**
Capital injection - December 2020	0	30,000,000
Balance at 31 December 2020	**6,000,000**	**205,000,000**
Capital movements in 2021-2023	0	0
Balance at 31 December 2024	**6,000,000**	**205,000,000**

In relation to the transfer of life insurance business to SWE and reinsurance back to SWL

The balances and transactions in respect of reinsurance back to SWL, as detailed in Section D.3.1 were as follows:

Amounts in € Balances at	31/12/2023	31/12/2024	Counterparty
Reinsurers Share of Technical Provisions **(-> Asset)**	1,474,286,572	1,465,069,115	SWL
Funds Withheld **(-> Liability)**	1,433,561,026	1,437,267,205	SWL

During the reporting periods:

- SWE recognised
  - reinsurance premiums payable to SWL of € 51,038,680 (*2023:* € 61,746,494) and
  - reinsurance claims recoverable from SWL of € 194,022,008 (*2023:* €149,982,473)
- SWL
  - credited SWE Annual Management Charges (AMC's) of € 18,895,006 (*2023:* €27,350,830) and
  - recharged SWE Investment Management expenses of € 263,900 (*2023:* € 285,006).

In relation to Policyholder Claims/Rectifications

During the reporting periods, SWE recharged SWL € 8,977,926 (2023: € 7,001,753) in respect of indemnified pre-transfer policy rectifications.

In relation to Dividends

No dividends were paid during the financial reporting periods from

- 1 January 2023 to 31 December 2023,
- 1 January 2024 to 31 December 2024.

B.1.4.2 Transactions occurring between SWE and other LBG entities

Scottish Widows Services Limited ('SWSL'), a fellow subsidiary of LBG, is the Insurance Group's service company and as such recharges employee, pension and overhead costs to the other Insurance Group entities.

During the 2024 reporting period Scottish Widows Services Limited (SWSL) charged SWE expenses of € 15,748,671 (2023: € 23,056,864).

B.1.5 System of Governance Adequacy Assessment

The SWE Board carries out an annual evaluation of its system of governance against relevant best practice standards in order to assess whether the system of governance remains adequate to the nature, scale and complexity of the risks inherent in SWE's business.

A review was performed in December 2024 and the Board concluded that the system of governance remained adequate. Board members collectively possess the necessary qualifications, competency, skills and professional experience in the relevant areas of the business to efficiently manage and oversee the Company in a professional manner.

B.2 Fit and proper requirements

B.2.1 Requirements applicable to Board Members and Key Function Holders (KFH)

The Company's compliance with fit and proper requirements is assured through a combination of policies and related procedures at both LBG Group and Company level.

In particular, the Company follows:

- Strict Fit & Proper principles and criteria, in conformity with Solvency II and Group requirements, defined in SWE's "Corporate Governance Framework",
- the Company's Colleague Policy and special procedures related to appointments of Board and Management Committee Members,
- CEO, Key Function Holders and Branch Managers (nominations or changes) performance reviews and training.

A set of tools and templates facilitate the implementation of these policies, which collectively ensure that those who effectively run the undertaking or have other key functions

- are of good repute and integrity,
- possess the requisite skills, knowledge and expertise for their roles and
- have undergone or are undergoing all training required to enable such persons to perform their role effectively.

B.2.2 "Fit and Proper" Continuous Assessment Process

Compliance of the Board, Management Committee, Key Function Holders and Branch Managers with Fit & Proper requirements is reviewed at various stages, as shown in the table on the next page:

Stage	Activities
Initial assessment	The Company has adopted specific policies and standards describing the appointment process and the skill/experience required. The Company screens nominees upfront (e.g. CV, passport, criminal records, non-bankruptcy check) and uses the LBG Group approval process and fitness and propriety assessment including pre-recruitment vetting by Group HR.
Induction	Newly appointed members receive an induction package covering a range of Group/Company topics.
Training	Training sessions are offered during the year and often integrated in the agenda of regular Board meetings, which are scheduled on a quarterly basis. All relevant colleagues must undertake relevant annual mandatory training, including where applicable Codes of Responsibility, Financial Crime, Market Abuse and Conflicts of Interests, to ensure familiarity with their obligations.
Collective Assessment	A formal performance review of the Board and the Management Committee is conducted annually during a private session. Board/Management Committee members individually prepare the review with a self-assessment questionnaire and checklist, which specifically refers to Fit& Proper requirements. Gaps and action items (e.g. training needs, suggested changes to board committees) are documented for follow-up. The composition of the Board and the Management Committee is reviewed regularly. Board and Management Members must collectively possess and maintain appropriate qualification, experience and knowledge (in order to meet relevant legal and business requirements) about at least • Insurance and financial markets • Business strategy and business model • System of governance • Finance and actuarial analysis • Regulatory framework and requirements
Ongoing and ad-hoc assessment	All individuals subject to Fit & Proper requirements have to complete an annual attestation, which focuses on the validation of the propriety to cover the assigned position. Re-assessments are performed if a) additional responsibilities are assigned to a concerned individual, b) if concerned individuals become aware that they no longer meet the Company's fit and proper criteria, or c) if the performance or the behaviour of a concerned individual raises serious doubts about this person meeting the fit and proper criteria.

B.3 Risk management system including the ORSA

B.3.1 Risk Management System (Framework) description

B.3.1.1 Overview

The operation of System of Governance ('SoG') components within SWE can be described, delivered and assessed holistically in the context of the adoption, application and monitoring of the wider LBG plc Risk Management Framework and Insurance Group Risk Management Framework ('RMF') outlined in the diagram below (Latest version: August 2023), whilst incorporating elements to address and support compliance with Luxembourg-specific requirements. SWE Risk policies define mandatory requirements for risk management and control and are aligned to the agreed risk appetite.

Insurance Group Enterprise Risk Management Framework

In March 2019, the Board agreed to adopt the principles and framework of the Insurance Group Risk Management Framework (designed for entities based and regulated in the United Kingdom), subject to at least an annual review to ensure it remains appropriate for the SWE business and its environment control (Luxembourg regulatory regime based, as regards the prudential aspect, inter alia on European Solvency II requirements).

On 11 December 2024 SWE Board adopted the latest version of the Insurance Group Risk Management Framework ('RMF'), whilst confirming specific terminology and elements previously adopted to address and support compliance with Luxembourg specific requirements.

SWE operates a prudent approach to risk with rigorous management controls to support sustainable business growth and minimise losses. The RMF provides a robust and consistent approach to risk management across the organisation with mechanisms for developing and embedding risk policies and risk management strategies, which are aligned to the risks faced by the business. This in turn drives the risk profile of the business in line with risk appetite and through good risk-reward decision making.

The RMF is structured around six components, as set out in the diagram above, which align with, and meet, the industry-accepted internal control framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

These six components apply across all risk types and are outlined in more detail below.

B.3.1.2 Analysis of the system of governance of the Risk Management Framework

Component 1 – Role of the Board and senior management

At the highest level, key responsibilities of the Board and senior management (as much for SWE as for its shareholders) include:

- Setting risk appetite and risk policies;
- Cascade of delegated authority;
- Effective oversight over risk management in accordance with the agreed risk appetite.

Component 2 – Risk Culture and the Customer

Supporting the formal frameworks of the RMF is the underlying culture, or shared behaviours and values, which sets out in clear terms what constitutes good behaviour and good practice.

In order to effectively manage risk across the organisation, the functions encompassed within the Three Lines of Defence have a clear understanding of risk appetite, business strategy and an understanding of (and commitment to) the role they play in delivering it.

A number of levers are used to reinforce the risk culture, including tone from the top, clear accountabilities, effective communication and challenge and an appropriately aligned performance incentive and structure.

Component 3 – Risk Appetite

Overview

Risk appetite is set by the Board of Directors with reference to the SWG Insurance Board ('Insurance Board') approved risk preferences. The Insurance business defines risk appetite as '***the amount and type of risk that our organisation either prefers, accepts or wishes to avoid***'.

SWE risk appetite is aligned to LBG's Risk Principles that drive the Group Risk Appetite statements:

- Market Risk, Credit Risk, Liquidity Risk, Capital Risk,
- Insurance Underwriting Risk,
- Change/Execution Risk,
- Conduct Risk,
- Data Risk,
- People Risk,
- Operational Resilience Risk, Operational Risk,
- Model Risk,
- Regulatory and Legal Risk,
- Strategic Risk, and Climate Risk.

Risk Appetite Statements (RAS) were introduced for SWE in 2019. They set limits and triggers for exposures to the key risks faced by the business.

Note that for the purposes of quantifying risk and to reflect its risk profile, SWE calculates an “Internal SCR”, which corresponds to the sum of

- the regulatory SCR reported to the CAA, calculated using the Standard Formula defined by the Solvency II directive (2009/138) and its implementing measures, including the Delegated Regulation 2015/35 of the EU,
- an additional capital requirement held on a voluntary basis in respect of litigation risk, which is not considered in the standard formula. This specific capital requirement is calculated on the basis of the SWG Internal Model, approved by the Prudential Regulatory Authority.

SWE’s Risk Management Framework requires that these statements are reviewed at least annually by the SWE Board, after the Group and Insurance reviews. The latest review took place on 11/12/2024 on the occasion of the approval of the ORSA report.

A key component of SWE’s Risk Appetite is the requirement for the company to hold a Capital Buffer over and above its internal SCR. This Capital Buffer is calculated in such a way SWE is able to withstand a 1-in-10 year event for its entire business, that is, to continue to cover this internal SCR with eligible own funds even after the hypothetic occurrence of such an event.

Reporting

Risk profile is reported quarterly in full to the SWE Board.

Reporting focuses on ensuring and demonstrating to the SWE Board that the business is run in line with approved risk appetite.

Any breaches of risk appetite must be escalated to the SWE Board and require clear plans and timescales for resolution.

Embedding

SWE management formulates its business strategy, objectives and plans within its risk appetite.

Insurance Executive and Board paper templates have an explicit risk appetite section to ensure proposals consider risk appetite impacts and are within agreed tolerances.

One of the SWE CEO’s main target is to make sure that all risk appetite metrics remain within agreed control limits.

Component 4 – Risk and Control Self-Assessment

An enterprise-wide risk management framework for the identification, measurement, management, monitoring and reporting of risk is in place.

The framework is in line with LBG’s risk management principles and covers the full spectrum of risks that the Insurance Group (and insurance entities within it, including SWE) is exposed to.

Under this framework, risks are categorised according to an approved LBG risk language which has been adopted across the Group. This covers the principal risks faced by the Group, including those mentioned in “Component 2” above.

The process for risk identification, measurement and control is integrated into the overall framework for risk governance.

Risk identification processes are forward looking to ensure emerging risks are identified.

Risks are captured in comprehensive risk logs/registers, and measured using robust and consistent quantification methodologies.

The measurement of risks, among others in the context of the ORSA, includes the application of stress testing and scenario analysis, and considers whether relevant controls are in place before risks occur.

Identified risks are logged and reported at least monthly or as frequently as necessary to the appropriate committee. The extent of the risk is compared to the overall risk appetite as well as specific limits or triggers.

When thresholds are breached, actions and timeframes required to resolve the breach and bring risk within given tolerances are put in place and tracked to completion. There is a clear process for escalation of risks and risk events.

Business areas monitor and review the effectiveness of their internal controls and put in place a programme of enhancements where appropriate.

Component 5 – Risk Governance frameworks

SWE Policy Framework is aligned to the Insurance Group Policy Framework, supplementing it with SWE and Luxembourg specific policy requirements. Risk policies

- define mandatory requirements for risk management and control
- are aligned to the agreed risk appetite.

Regular reporting of risk exposures and the control environment take place through the monthly “Insurance Consolidated Risk Report” presented to the LBG Insurance, Pensions and Investment Risk Committee (“IP&IRC”).

This 1st Line report enables monitoring of performance against risk appetite, summarises key changes to the Enterprise Risk Management (‘ERM’) profile, with the 2nd Line of Defence Risk View and ERM ratings facilitating the Risk Committee discussion on key risks and issues (including emerging risks) and agreement of remedial actions.

Via a paper regarding the Insurance Chief Risk Officer’s Top Prospective Risks, the IP&IRC is asked to discuss the Risk View and 2nd Line ERM ratings provided by the Insurance Chief Risk Officer (‘CRO’) and agree any subsequent actions. In addition, the Insurance Consolidated Risk Report sets out the key risks for onward reporting to ROC and LBG for discussion.

Material events are reported and escalated to the IP&IRC, Group Executive and Risk Division.

The events are recorded on the Operation Risk System and actions to address the root cause are monitored. In line with Solvency II requirements, the Insurance Group also monitors the risk exposures and capital position through the Own Risk and Solvency Assessment (ORSA).

The same monitoring process exists for SWE, where its Board of Directors and Management Committee are regularly informed of the evolution of the solvency ratio, both on a regulatory basis (Eligible Own Funds / SCR Pillar 1) and on an internal basis, which is more conservative:

[Eligible Own Funds] **/** [SCR Pillar 1 **+ SWE's Litigation Risk Capital Requirement**].

Component 6 – Three Lines of Defence model

The Insurance Group RMF also applies to SWE. It is implemented through a 'Three Lines of Defence' model which defines clear responsibilities and accountabilities and ensures that effective independent oversight and assurance activities covering key decisions take place.

The business lines (first line) have primary responsibility for risk decisions, identifying, measuring, monitoring and controlling risks within their areas of accountability and implementing the requirements of the RMF and its components.

The role of the SWE Risk Function (second line) includes

- providing oversight and independent constructive challenge to the effectiveness of risk decisions taken by business management,
- reviewing and challenging the risk profile of SWE and
- ensuring that mitigating actions are appropriate.

The SWE CRO benefits from the contractual support of the IP&I "Risk Oversight" team, who are asked to provide:

- Line 2 opinions where there is a potential conflict between the SWE CRO and Chief Actuary roles as both are held by the same person;
- Broader input in helping the SWE CRO translate elements of the LBG RMF for application within SWE.

Group Audit (third line) provides independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the Insurance Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Group Audit provides independent assurance to the Insurance Audit Committee (and for SWE to its specific Audit committee) and the Insurance Board that risks within the Insurance Group are recognised, monitored and managed within acceptable parameters.

Group Audit is fully independent of the Risk Division and the business. It seeks to ensure objective challenge to the effectiveness of the risk governance framework.

B.3.2 Risk Management function

B.3.2.1 Description

The objective of the Risk Function is to provide both proactive oversight and constructive challenge to the business (i.e. management of SWE run-off portfolio), for which the SWE CRO assumes oversight responsibilities.

It also has a key role in promoting the implementation of a strategic approach to risk management through the development, implementation and maintenance of the Risk Management Framework.

Particular focus is on:

- Developing and embedding effective risk management processes;
- Risk monitoring and reporting;
- Maintenance of a constructive dialogue with the first line through provision of advice, development of common methodologies, understanding, education and training.

B.3.2.2 The SWE Chief Risk Officer: roles and responsibilities

The SWE CRO has oversight responsibilities for the SWE business across all risk types, with the support of specialist UK teams. The SWE CRO is a member of the Management Committee and a regular attendee of the Board and the Audit Committee. The SWE CRO is a direct report of the SWE CEO.

Key accountabilities of the SWE CRO are:

- Develop, implement and maintain a governance system and an effective Risk Management Framework (RMF) that
    - comply with all applicable legal-regulatory-mandatory requirements and Group's risk policies
    - meet the local regulators' requirements and expectations
    - ensure an appropriate balance between profitability and risk
    - promote the optimum use and adequacy of the Group's resources
    - enable the Board and Management to discharge their duties
- Enhance SWE's RMF to make it more efficient and proportional to SWE's risks
- Advise and recommend on Risk Appetite to the Board
- Conduct the SWE ORSA process and co-ordinate its implementation
- Maintain a constructive dialogue with the first line through provision of advice, development of common methodologies, understanding, education and training
- Develop the required overseeing processes to ensure the business is managed optimally within the risk appetite constraints
- Develop the risk management and internal control systems (identify, measure, monitor, manage and report risks and their interdependencies),
- Monitor SWE risk profile and provide a regular comprehensive view of it, taking account of both current and emerging risks, as well as pending regulatory changes,
- Advise on future management actions to ensure continuous compliance with SWE's overall Risk Appetite Framework.

The SWE CRO is an actuary recognised as “Fit and Proper” by the Commissariat Aux Assurances.

B.3.3 Governance over the Standard Formula Model

To ensure an appropriate level of governance and control framework is applied to the SWE capital assessment, the Standard Formula Model is included within the Insurance Model Governance Framework. The underlying EUC /model components comprising the Standard Formula Model, which are used for the calculation of the SWE SCR, are included as a Model on the Insurance Model Inventory. As such, the governance of the Standard Formula Model is set out in the Insurance Model Governance Policy and is overseen by the Insurance Model Governance Committee (IMGC).

<u>Key responsibilities of IMGC</u> are:

- Approval of frameworks and policies to support the effective management of models within Insurance, and ensure compliance with regulations
- Annual (as a minimum) re-approval of the Standard Formula Model (as detailed in B.3.3.2)

B.3.3.1 Changes to Standard Formula Model Governance during the reporting period

Governance principles around the Standard Formula Model already applicable within Insurance were unchanged during the reporting period. The Standard Formula model was approved by the Internal Model Governance Committee of IP&I for the purpose of reporting SWE's capital requirements as a solo entity.

B.3.3.2 Outline of Model validation process

The process to maintain, validate and approve the Standard Formula involves:

- **<u>Model Validation</u>**: Model approval is for a limited period (at most 12 months). The Model Owner ensures Line 1 validation work is proportionate, depending on the materiality of the model, the level of any changes being made, known limitations of the model and the extent of validation in recent cycles. A Line 2 model risk assessment is carried out annually to determine the appropriate level of independent validation for that year. Where a full validation is deemed appropriate, the scope of the Independent Validation is challenged by the Technical Challenge Committee (TCC) and a Line 2 Independent Validation report (co-authored by the Independent Validator and a Line 2 representative) is produced for the model to support the re-approval process. This is challenged at TCC prior to being submitted for approval to IMGC. This committee reviews and approves the most material models and further enhances visibility of modelling issues at a senior management level. In years when the model is not required to complete a full Independent Validation, it will either undergo a Proportionate Validation (targeting an area of particular risk within the model and typically used where there has been a change or new use of a model which has been relatively recently validated, or that is well established and understood with low materiality- there is no approval by IMGC).) or be approved for a further year.
- **<u>Ongoing monitoring and tracking of the Risk recommendations</u>**: Progress against IMGC actions and Risk recommendations is tracked by IMGC and Risk.
- **Line 2 Review**: The Validation Work plan is owned by Line 2 and defines the validation tests and standards applied to ensure compliance with regulations and LBG Policies and Standards. A review is completed by Line 2 (either as part of the basic validation or part of the Independent Validation). It incorporates an assessment of closure of previous recommendations, details new recommendations, refers to PRA and Internal Audit feedback, and provides a summary of or reference to interactions between Lines 1 and 2.
- **<u>PRA Review</u>**: Where the PRA has provided feedback or recommended changes, Line 2 assesses progress towards these as part of their review.
- **<u>Internal Audit</u>**: Where Internal Audit has reviewed model activity, Line 2 assess progress towards closure of Management Actions as part of their review.

B.3.4 Own Risk and Solvency Assessment ('ORSA')

B.3.4.1 Overview

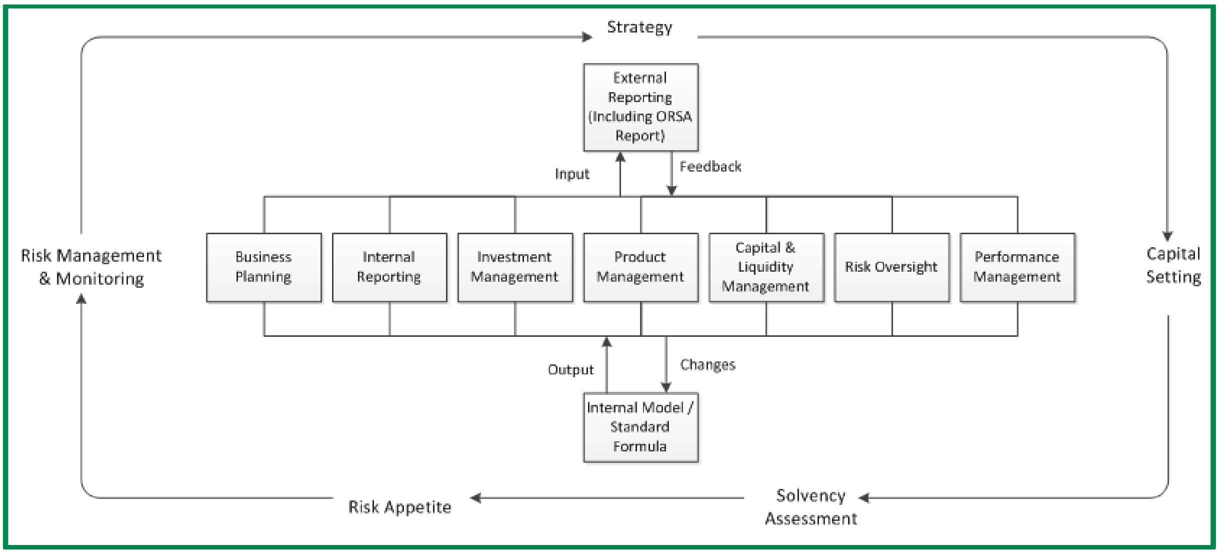
The business objective of the ORSA is to ensure that all risks are appropriately identified, assessed, measured, monitored and managed within prescribed limits and to ensure that the organisation has sufficient capital and liquidity to meet liabilities as they become due, including under stressed conditions.

The ORSA is integrated into day-to-day management and decision-making through a defined ORSA process, which considers whether in scope activities are undertaken to the required quality and by the appropriate parties on a timely basis.

At the hub of this is the solvency assessment and the understanding of how the assessment is expected to change in both base and adverse scenarios moving forward.

Critical to a successful ongoing ORSA process is that the insights gained from one assessment inform the next process, creating a virtuous circle of improvement.

In practice, the sub-processes of the ORSA are performed by a variety of functional areas in the normal performance of their responsibilities. An overview of the ORSA process and the associated sub-processes is summarised below:



The primary objective of ORSA reporting is to enable the SWE Directors and Management Committee Members to make an assessment of the overall solvency position, risk profile and risk strategy of the business, including the status of any key actions identified. This information can then be used to refine the risk and capital management strategy.

The ORSA report consolidates key data and outputs from the underlying ORSA processes and seeks to highlight areas of specific current or future concern, with recommendations for action required made where appropriate. The report highlights any key changes made to processes, issues identified and key decisions made impacting the risk and capital profile.

The SWE Board of Directors is actively involved in the ORSA process. The results and conclusions of the ORSA are reported at least annually and are presented to a range of audiences, including at Group Level, the Insurance Group Board, for review and endorsement before going to SWE Board of Directors for approval.

The last SWE ORSA report was submitted to the CAA on 20/12/2024. Next SWE ORSA report is expected to be produced by December 2025, on the basis of the latest figures available, in accordance with prudential and financial reporting (QRT's and Annual Accounts), also taking into account the then latest 4 Year Operating Plan available. The SWE CRO & Chief Actuary is responsible for overall production of SWE ORSA Report.

B.3.4.2 Frequency

The ORSA process is carried out on a continuous basis with a final report being produced at least annually, knowing that additional (ad-hoc) editions may be carried-out either on request of the Board of Directors or the Commissariat Aux Assurances, or in case of an event that could significantly / materially change the risk profile of the undertaking or its solvency ratio.

B.3.4.3 Determination of SWE's Overall Solvency Needs (OSN)

Scottish Widows Europe needs to maintain sufficient financial resources to

- meet liabilities to policyholders as they fall due,
- support the ongoing operations of the business,
- meet regulatory and internal capital requirements and
- ultimately generate excess capital to fund distributions or invest in new initiatives.

As a reminder (*See "Component 3" of "B.3.1.2 Risk appetite" above*) SWE's Overall Solvency Needs equals the sum of

- SWE's internal (Pillar 2) SCR, which is the sum of
  - the regulatory (Pillar 1) SCR, calculated using the standard formula and
  - a capital requirement held on a voluntary basis to cover the litigation risk
- a Capital Buffer over and above this internal SCR, calculated in such a way SWE is able to withstand a 1-in-10 year event for its entire business (level set consistently with LBG's Risk Appetite Framework).

B.4 Internal control system

B.4.1 Internal control system

SWE's Risk Management Framework ('RMF') aligns to the Insurance Group RMF, adopting its mechanisms, Principles and Policies and supplementing it with insurance-specific mechanisms to address relevant regulations and requirements.

At the highest level, SWE's RMF acts as the organisation's internal control system. Its documentation fulfils the requirement for an internal control policy. At the heart of this is the identification of material risks and the subsequent monitoring and measurement of those risks.

Thereafter, a series of reviews and attestations are undertaken to demonstrate that risks are being appropriately managed. The following sections give additional information on this control framework.

B.4.1.1 Risk Inventory and Identification processes

All business areas are required to document the material risks which the business faces and ensure that controls are designed and operated effectively to mitigate these risks. Risk identification and assessment focuses on the material and severe risks that could impact customers or the reputation of the Business, or that may have financial and/or resourcing impacts.

Key controls cover the following areas:

- Financial, Prudential and Regulatory reporting: covering the production of Solvency II, Lux-GAAP and IFRS results,
- ORSA process and governance controls,
- LBG Risk Policies: including controls to ensure compliance with policies.

B.4.1.2 Risk Measurement, Monitoring and Reporting processes

Key business risks are reviewed on an ongoing basis with assessments made of the scale of risk before and after controls are applied, to ensure that residual exposures remain within acceptable limits and to identify where improvements to controls are required. The assessments are also updated to reflect any issues identified.

The Standard Model approach is used for the quantification of risks and to ensure risks are managed within risk appetite limits set by the SWE Board and approved by the Insurance Board.

B.4.1.3 Risk assurance

The purpose of Insurance Group Risk Management Framework is to ensure that all key risks and controls are assessed within all legal entities on an ongoing basis in order to identify and resolve any issues identified.

The control framework for SWE is supported through:

- Existing processes within the UK, which were developed to support the European business,
- Policy administration which is supported by SWE's contractors,
- The establishment of operations within Luxemburg and additional support required for business in Germany, Austria and Italy.

The development of the infrastructure and control framework within SWE will continue into 2025. Key controls are confirmed by a combination of self-assessment by the responsible business area with independent review undertaken by control functions to confirm the operation of controls. This assessment also takes into account any known issues, including:

- Those identified by the regulator, LBG's external auditors, LBG Group Audit, Insurance Risk Assurance and Business Unit Risk Functions in conjunction with business management,
- Significant and Material Events identified,
- Any known policy gaps or waivers in place.

Independent audits are conducted by Group Audit based on an annual plan of activities. The status of issues and controls is monitored by the SWE Board and within the LBG Insurance, Pensions & Investment Division.

B.4.2 Compliance function

B.4.2.1 Overview within the Insurance Group

Given the differing focus of UK regulators (PRA and FCA), compliance activity is split between prudential compliance and conduct compliance within the Insurance Group, to which SWE belongs as a subsidiary of SWL. The Compliance Function requirements under Solvency II relate to prudential compliance, which is owned by the Insurance Finance Director. Solvency II developments and the impact of these are assessed through activity undertaken by Risk, Actuarial and Technical teams throughout the Insurance business, such as through monitoring of publication of consultation papers, discussion with industry peers and with regulators.

The impacts on SWE are considered as part of this process. Impacts are communicated to and assessed by relevant teams within the business. For significant developments, the associated impacts are communicated through senior management and where appropriate to Board and Board Committee level. On an annual basis, the Insurance Group undertakes a self-assessment against the requirements of Solvency II (including any changes to regulation that have been implemented). This process includes a formal assessment of Solvency II compliance risk.

B.4.2.2 SWE Compliance and AML Compliance Officer: roles and responsibilities

The SWE Compliance Officer is the overall owner of the management of the Compliance Function.

The SWE Compliance Officer, who also acts as AML Compliance Officer

- reports directly to the SWE CEO,
- is a member of the Management Committee and regular attendee to the Board and Audit Committee,
- acts in accordance with the Luxembourg regulatory and CAA requirements,
- provides primary assurance oversight,
- assists management in the design of remedial actions and
- oversees their implementation, in collaboration with the Company's CRO.

B.5 Internal Audit function

B.5.1 Overview

LBG has a Group Audit ('GA') function which is the third line of defence within the Group's Risk Management Framework.

The primary role of GA is to **conduct and deliver internal audit services** to help the Boards and Executive Management protect the assets, reputation, and sustainability of the Group.

GA does this by:

- Assessing whether all significant risks are identified and reported appropriately to the Boards and Executive Management of the Group;
- Assessing the design and operation of key controls to determine whether they are effective at mitigating significant risks e.g. to ensure customers are treated fairly, to protect the capital, and / or financial position; and
- Challenging Executive Management to improve the effectiveness of governance, risk management, and internal controls, by providing assurance over the effectiveness of the first and second line of defence functions.
- Acting as a single independent internal audit function, reporting to the Group Audit Committee and the Board and providing services to LBGs subgroups, subsidiaries, and legal entities, where applicable, through Inter Group Service Agreements.
- Undertaking assurance activity to assess the effectiveness of first and second line management in identifying and mitigating risks through performing reviews and engaging with committees / executive management, providing opinion, challenge and informal advice on governance, risk and the control environment.

GA is independent of LBG's operational management and has no direct operational responsibility of authority over the activities it reviews.

GA operates in accordance with the Institute of Internal Auditor's (IIA) International Professional Practices Framework (IPPF, 2024), which includes the Global Internal Audit Standards. Additionally, GA operates in accordance with the Chartered Institute of Internal Auditor's (CIIA) Internal Audit Financial Services Code of Practice, as well as regulatory requirements and guidelines for internal audit in applicable jurisdictions.

GA does not provide formal advisory services.

GA receives its mandate and authority from the Group Audit Committee.

The Group Chief Internal Auditor (Group CIA) has a direct reporting line to the Chair of the Group Audit Committee and a secondary reporting line to the Group Chief Executive for administrative Purposes, only (for example travel and expenses, personal account dealing requests, system access permissions and leave request approval). The Group CIA attends the Group Executive Committee and has appropriate standing and authority within the organisation.

All GA colleagues report directly or indirectly to the CIA, including the Audit Director, Insurance, Pensions & Investments. The Audit Director, Insurance, Pensions & Investments also serves as Chief Internal Auditor for Scottish Widows, reporting to the Chair of the Insurance Audit Committee as well as the Group CIA. They have a secondary reporting line to the Group Director, Insurance and Chief Executive Officer, Scottish Widows.

The Audit Director, Insurance, Pensions & Investments also has a close working relationship with the Scottish Widows Europe ('SWE') Audit Director who is the SWE Key Function Holder for GA and responsible for the management of the internal audit function. The SWE Audit Director is an Independent Non-Executive Board member, who chairs and attends the SWE Audit Committee, providing a clear escalation route to the SWE Board's Chairman. Together they ensure the SWE audit plan is fit for purpose and provide regular updates on progress against this plan and other relevant audit activities to the SWE Audit Committee and SWE Board.

GA colleagues are responsible for being independent, objective, and constructive in the conduct of their work and avoiding conflicts of interest and personal, business, or other issues that may impair impartiality.

GA colleagues are required to follow the honesty, professional courage, legal and ethical behaviour requirements of the Global Internal Audit Standards and the Group's Code of Ethics and Responsibilities.

The scope of GA's work is unrestricted and is based on GA's independent assessment of the key risks faced by the Group and how effectively these risks are being managed.

Audit Directors who are CIAs of subgroups and subsidiaries report directly/indirectly to the Group CIA, in addition to any required reporting line to the governance structure of the subgroup/subsidiary.

The Audit Director, Insurance, Pensions & Investments attends the SWE Audit Committee and SWE Board.

GA has a full, free, and unrestricted right of access to all of LBG's data, records, personnel, fora, property, and management information, necessary to fulfil its mandate. This is considered to give a right to audit over all legal entities within the Group

Furthermore, Audit Committee responsibilities are reflected within the individual Audit Committee Terms of Reference. The Group Audit Committee is responsible for ensuring that GA has the necessary resources and access to information to enable it to perform its mandate; and obtaining an independent external assessment of the GA function in line with the CIIA standards, at least once every five years.

The Group Audit Committee oversee the relationship with the Group's external auditors.

B.5.2 Conflict of interest

In discharging any part of its mandate, GA avoids conflicts of interest and any other activity that could possibly threaten the independence, objectivity, integrity, confidentiality or reputation of GA. Professional standards require GA to take reasonable steps to identify circumstances that could pose a conflict of interest, and apply appropriate safeguards to eliminate threats or reduce them to an acceptable level.

With respect to conflicts of interest, it is each individual's responsibility to identify / consider if a situation creates either an actual or potential conflict of interest. Colleagues should disclose any threats to independence or objectivity that arise immediately to their line manager who must then decide and note any remedial action that is necessary to address this threat.

In addition, the GA Risk team in the Chief Operating Office ('COO') maintain the "Confirmation of Independence" process that all colleagues must complete when they join GA, experience a significant change in circumstances and annually. Responses are automatically sent to the colleague's line manager for 1st review and to add remedial actions if required.

It then receives a 2nd review & approval by the first approver's line manager to conclude and confirm they are comfortable with the remedial action. For any Audit Director threats, the CIA will conclude and confirm they are comfortable with any remedial actions. In many cases, GA can safeguard any threat or perceived threat to independence by, for example, segregation of duties, increased oversight or restrictions in undertaking audits in certain areas.

B.6 Actuarial function

B.6.1 Overview

Insurance companies are required to maintain an Actuarial Function in line with Solvency II requirements. The Chief Actuary for SWE, who also acts as Chief Risk Officer, has responsibility for the Solvency II Actuarial Function. The Chief Actuary holds a degree in actuarial sciences and has been recognised "Fit and Proper" by the Commissariat Aux Assurances (CAA). He is a member of the "Institut Luxembourgeois des Actuaires". The primary function of the Actuarial Function is to review and provide an opinion on the reliability and adequacy of technical provisions, the overall underwriting policy and the adequacy of reinsurance arrangements.

In accordance with the requirements of the Solvency II regulation, the Chief Actuary produces an annual "Actuarial Function Report", which he submits to the Board for discussion. The latest edition of this report was submitted to the Board in September 2023. In this report, he mentioned that he is satisfied (convinced) that

- SWE's Solvency II technical provisions are adequate, as they appear to be produced in accordance with all key Solvency II requirements,
- the underwriting and pricing approaches are fair and prudent,
- the reinsurance agreements and the swap-based hedging strategy may be considered appropriate with regard to SWE's risk management framework and resulting risk appetite,
- the Actuarial Function (with the support of IP&I colleagues) provides an effective contribution to SWE's Risk Management System (e.g., through the ORSA process and report, SFCR/RSR, oversight of Solvency II reporting and continuous compliance with SWE's Risk Appetite Statements).

The SWE Actuarial Function, within SWE and with the support of its shareholder:

- Recommends to the SWE Board the methodology and assumptions to be used in the calculation of SWE technical provisions,
- Undertakes independent model validation for core models used in the calculation of technical provisions to help ensure that these models used are adequate and robust,
- Reports annually to the Board with its opinion on the adequacy of the technical provisions, taking into account
  - its review of the results and its view on the appropriateness of the methodology and assumptions used,
  - the reliability of the models used,
  - the sufficiency and quality of data used,
  - the sensitivity of the results to changes in assumptions and
  - a comparison of actual and expected experience (back testing)
- reports, on an annual basis, to the Board with its opinion on the adequacy of the underwriting policy and product pricing and
- reports on the adequacy of the reinsurance arrangements.

In addition, within the Actuarial Function, teams reporting to Insurance, Pensions & Investment management, such as the Chief Actuary or the Finance Controller, are responsible for activities which support SWE in the identification, quantification and monitoring of the risks that SWE is, or could be, exposed to and of its solvency positions.

For example actuarial teams within the Actuarial Function:

- Develop and recommend to the Board the methodology and assumptions to be used in quantifying risk exposures and calculating the Solvency Capital Requirement (‘SCR’),
- Undertake independent model validation for core models used in the calculation of risk exposures and the SCR,
- Undertake ongoing monitoring and reporting of solvency and risk positions relative to risk appetite, providing insight on drivers of change and forward looking outlook,
- Prepare the annual ORSA report,
- Carry out ongoing management of SWE capital and liquidity, including asset and liability matching.

B.6.2 The Chief Actuary: roles and responsibilities

The Chief Actuary is the overall owner of the management of the Actuarial Function.

Responsibilities include key functional activities of continuous solvency monitoring and performance of asset liability management within agreed policy and appetite.

The Chief Actuary

- is a member of the Management Committee and a regular attendee to the Board and Audit Committee,
- is responsible for providing the Board with advice on actuarial matters, primarily relating to risk and capital management so as to ensure adequacy of the Group's resources and promote their optimum use,
- reports to the CEO with a dotted line to the Insurance Finance Director.

B.7 Outsourcing

B.7.1 Outsourcing Policy, Procedure and Process

The SWE business model makes extensive use of external suppliers including a range of outsourced arrangements (see template below. Where a decision is made to outsource, consideration will be given to where services and expertise can best be provided. This will include consideration of internal provision from elsewhere in LBG as well as the use of external providers.

This has resulted in two operational outsourcing models:

- shared services within the wider banking group (LBG shared services) and
- external supplier outsourcing arrangements.

	German Portfolio	Austrian Portfolio	Italian Portfolio	Luxembourg Portfolio	
Claims Handling	LV Bestandsservice GmbH (a subsidiary of HLSM)		Lifeware SA (*)	PACK Assurance Management S.A.	
Location	*Germany*		*Luxembourg*	*Luxembourg*	
Intra Group or External	*External*		*External*	*External*	
Complaints Handling	LV Bestandsservice GmbH (a subsidiary of HLSM)		Lifeware SA (*)	PACK Assurance Management S.A.	
Location	*Germany*		*Luxembourg*	*Luxembourg*	
Intra Group or External	*External*		*External*	*External*	
IT	LV Bestandsservice GmbH (a subsidiary of HLSM)		Lloyds Bank PLC	PACK Assurance Management S.A.	
Location	*Germany*		*UK*	*Luxembourg*	
Intra Group or External	*External*		*Intra Group*	*External*	
Payments	Lloyds Bank PLC			PACK Assurance Management S.A.	
Location	*UK*			*Luxembourg*	
Intra Group or External	*Intra Group*			*External*	
Human Resources	Lloyds Bank GmbH	N/A	N/A	Lloyds Bank PLC	EY
Location	*Germany*			*UK*	*Luxembourg*
Intra Group or External	*Intra Group*			*Intra Group*	*External*
Investment	Multiple providers for business in force (See table below)				
Location	*See table below*				
Intra Group or External	*See table below*				
Reserving	Scottish Widows Limited				
Location	*UK*				
Intra Group or External	*Partial - Intra Group*				
Reinsurance Structuring	Scottish Widows Limited				
Location	*UK*				
Intra Group or External	*Intra Group*				
Accounting and Reporting	Scottish Widows Limited				
Location	*UK*				
Intra Group or External	*Partial - Intra Group*				
Audit	Lloyds Bank PLC				
Location	*UK*				
Intra Group or External	*Intra Group*				
Data Privacy Officer	KPMG Luxembourg Societe Anonyme				
Location	*Luxembourg*				
Intra Group or External	*External*				

Investment		
Entity Name	**Location**	**Intra Group or External**
Scottish Widows Limited	*UK*	*Intra Group*
Aberdeen Standard Life PLC	*UK*	*External*
BlackRock Inc	*USA*	*External*
BNY Mellon	*Luxembourg*	*External*
Lemanik Asset Management S.A.	*Luxembourg*	*External*
State Street Bank and Trust Limited	*UK*	*External*
State Street Bank International GmBH	*Germany*	*External*
Hauck & Aufhäuser Fund Services S.A.	*Luxembourg*	*External*
Insight Investment Management Limited	*UK*	*External*
Schroder Investment Management Limited	*UK*	*External*

LBG shared services

The LBG shared services model provides infrastructure support to SWE seeing a number of centralised teams providing IT, Finance, Audit, Digital and People services. The provision of these defined services to SWE is managed through a structured account management approach for key services aligning to the Internal Service Provision Policy with all requirements set out in the Intra Group Agreements between SWE and other LBG entities.

External supplier outsourced arrangements

As a result of a strategic decision by SWL a number of years ago to divest its non-UK business, outsourced relationships were put in place in Germany, Italy and Luxembourg to service customers and these agreements have been transferred to SWE. Some of the reasons that the SWE business uses external suppliers and outsources are:

- Provision of specialist expertise or services for example, systems and people
- Flexibility and capacity to complement the Group Model
- Cost efficiencies.

The LBG Group Policy framework adopted and approved by the SWE Board defines the Risk Appetite for both external and intra group arrangements.

B.7.1.1 Policy

The SWE Board has adopted Lloyds Banking Group's Policies that clearly outline a set of mandatory requirements for the business to comply with. Using services from external suppliers is defined as 'Sourcing' and all requirements are set out in the Group Sourcing & Supply Chain Management Policy.

This has underlying procedures which ensure that we fulfil all obligations under Solvency II and other local regulations.

The policy defines appropriate monitoring and reporting requirements aligned to the services being provided by the supplier.

It covers all LBG suppliers and details an end to end process providing a consistent framework aimed at mitigating risks inherent in dealing with external suppliers. The policy is reviewed and updated on an annual basis.

The key aspects of the policy are the following;

- Ensuring our suppliers understand and comply with our Conduct approach, especially where suppliers have direct contact with our customers.
- Mitigating the regulatory risks associated with the outsourcing of activities and or operations
- Entering into business relationships with third parties who share SWE and the Group's approach to Ethics and Social responsibility.
- SWE enters into commercially viable arrangements with appropriate external suppliers, supported by an underlying policy that defines the basis of the relationship and in particular roles and responsibilities.
- That we pay our suppliers in a timely manner and to terms agreed.

To assess the risk of a supplier and outsourced relationship, a supplier is assessed against four key policy areas and will be segmented into one of five categories. This then drives the required treatment strategy for the management of that supplier and ensures appropriate resource and oversight is in place. SWE has put a separate Service Provision Policy and Procedure in place for intra group services (Refer to Section B.7.2 below).

B.7.1.2 Procedures

A number of procedures underpin the Group Sourcing & Supply Chain policy and each one defines a set of controls and activities the company and its colleagues are required to follow depending on the complexity of the supplier relationship. The procedures are:

Outsourcing procedure

This defines both accountabilities and responsibilities for engagement and approval for all outsourcing activity.

It defines the role of the SWE Accountable Executive within the overall control framework explicitly defining requirements in the management, supervision and oversight of such arrangements and ensures compliance with the Solvency II requirements.

It also defines the appropriate governance including the engagement of LBG Sourcing and appropriate cost board and regulatory approvals where applicable.

Right way to buy procedure

This underpins SWE's Cost Management process, through which all external expenditure is managed, controlled and approved. It supports the business to source goods and services in the right way, maximising value for our customers and shareholders.

Supplier management procedure

The key objective of this procedure is to achieve a single framework of governance and oversight in line with SWE's risk appetite. It ensures that SWE is compliant with their regulatory and/or statutory obligations where operational processes are dependent on supplier performance.

Completing these specific activities ensures that we do not enter into inappropriate supplier relationships and outsourced contracts, and we have in place adequate oversight to ensure risk is managed during the life of an agreement.

B.7.1.3 Process

The Central Group Sourcing team on-boards all new external suppliers in line with the policy and ensures suppliers' obligations that comply with the policy are written into individual contracts. Both the contract and performance of suppliers are monitored through completing the specific activities outlined in the treatment strategies and the receipt of management information as outlined with the requirements of the contract.

Further assurance activity may also be undertaken through visits to supplier premises to assess the robustness of the control environment and to ensure that our customers are receiving fair outcomes.

Any weaknesses identified have appropriate actions agreed and are subject to monitoring and reporting through internal governance structures. This assurance activity is split between Group Sourcing and the SWE Business but all resulting activity and decisions are made by SWE in line with approved policy.

A centralised supplier qualification process is an integral part of the on boarding and the assurance process of new suppliers. It manages policy compliance in a standardised way and targets assurance activity on a risk based approach appropriate to each supplier. These activities are monitored through a set of defined metrics which the relationship manager compiles and reports to SWE management and upwards into Group governance. Performance is reported monthly to the SWE Management Committee.

B.7.2 Material intra group outsourced arrangements

SWE has a number of intra group arrangements across service providers within LBG. These are services provided by LBG to SWE and includes IT servicing and finance.

Services are detailed within an Intra Group Agreement ('IGA'). Each agreement is appended to an overarching agreement between the Insurance Group and LBG. The Group functions providing these services are subject to agreements which are refreshed regularly.

A Service Provision Policy provides consistent and robust principles to manage and govern intra group services across LBG.

The key aspects are as follows:

- Key Services provided are defined and captured within specific schedules of an IGA as well as outlining management information ('MI') and key performance indicators ('KPIs').
- The schedules also contain the agreed processes for service remediation and dispute resolution.
- These are subject to defined governance sign-off processes and are approved by the provider and recipient of services.
- Governance and reporting arrangements are in place to allow the Insurance Group and in particular SWE to have effective oversight, review and challenge of service performance including key service risks and issues.
- Agreements are regularly reviewed to ensure alignment with the policy is maintained.
- All these schedules are Solvency II compliant.
- SWE complies with the Internal Service Provision policy.

Services provided by our internal partners are monitored and reported to SWE in monthly Service Provision meetings. Issues are escalated in the SWE monthly Management Committee meetings.

B.8 Any other information

There is no other information regarding SWE Governance issues to report.

C. Risk profile

C.1 Underwriting risk

Underwriting (or insurance) risk is defined as "*the risk of adverse developments in the timing, frequency and severity of claims for insured/underwritten events and in customer behaviour, leading to reductions or volatility in earnings and/or value*".

The principal risk that SWE faces under insurance contracts is that the actual claims (including future expenses associated with their settlement) and benefit payments exceed the amounts expected at the time of determining the best estimate of insurance liabilities.

C.1.1 Risk measurement

Current and potential future risk exposures are assessed and aggregated on a range of stresses including

- risk measures based on 1-in-200 year stresses in the Standard Formula SCR assessment and
- other supporting measures where appropriate (for instance for the production of sensitivity and resilience analyses for the ORSA).

The breakdown of the Life Underwriting Risk between its various components, as well as their evolution over the last two financial years under review, is given in the table below.

Life underwriting sub-modules of risk are here all assessed and aggregated (using the matrix calculation based on the correlation coefficients prescribed by the Delegated Regulation 2015/35) according to the Standard Formula provisions.

Risk type (Life Underwriting Risks) €	**31/12/2023**	**31/12/2024**
Mortality	3,229,366	3,424,637
Longevity	3,247,510	3,420,686
Disability / morbidity	500,000	500,000
Expenses	52,485,259	49,236,247
Lapse	20,255,711	26,444,246
Life catastrophe	647,849	611,321
Diversification effects	*-13,289,583*	*-15,027,580*
Total underwriting SCR	**67,076,112**	**68,609,558**

There have been no changes to how underwriting risks are measured and the underwriting risk profile in 2024 is quite similar to that of 2023.

This explains the relative stability of the results of the standard formula calculated for the two years under review, both at the overall level of underwriting risk and at the level of most of its individual risk sub-modules.

The increase in Lapse Risk may be explained by the higher value of the Assets Under Management, which leads to larger future charges/fees and therefore, all other things being equal, an increase in the profitability of in-force contracts.

C.1.2 Risk exposure

The nature of SWE's business involves accepting insurance risks which primarily relate to expenses, persistency (Lapse), and to a much smaller extent mortality, and longevity. SWE has written insurance contracts including the following benefits:

- Life assurance: Where the life of the policyholder is insured against death usually for pre-determined amounts;
- With-Profits Annuity: Where typically the policyholder is entitled to payments which cease upon death.

For contracts where death is the insured risk, the most significant factors that could increase the overall level of claims are epidemics or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

For with-profit contracts, the nature of these contracts results in a significant portion of the insurance risk being shared with the policyholder. Insurance risk is also affected by policyholders' rights

- to pay reduced or no future premiums,
- to terminate the contract completely or
- to exercise a guaranteed annuity option.

As a result, the amount of insurance risk is also subject to policyholder behaviour. On the assumption that policyholders will make decisions that are in their best interests, overall insurance risk will generally be increased by policyholder behaviour. For example, it is likely that policyholders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those policyholders who remain in good health.

Persistency (Lapse) risk exists on profitable unitised business due to the amounts of fund-based charges. High levels of lapses would lead to a reduction in the funds under management and hence a direct reduction in future charge (fee) based income.

SWE has taken account of the expected impact of policyholder behaviour in setting the assumptions used to measure insurance and investment contract liabilities:

- Rates of mortality are investigated annually, based on SWE's recent experience
- Future mortality assumptions are set using the latest population data available

Expense risk arises because SWE's business is in run-off and the per-policy expenses will, in relative terms, increase as the business runs off, due to limited ability to increase charges to meet higher expenses. The liabilities associated with the business, especially after considering the annuities vesting in future, will have a long duration, resulting in limited exposure to interest rate risk (Lower interest rates meaning higher present value of SWE's future expenses) and significant exposure to life expense inflation risk. Higher inflation rates increase the present value of both SWE's future expenses and Life Expense Inflation risk. In spring 2020 SWE entered into interest rates and inflation swaps with SWL and/or other parties to mitigate these two key risks, thus better protecting its solvency position and reducing the volatility of its financial results. This hedging strategy has been recalibrated in spring 2024.

There is no underwriting risk exposure from off-balance sheet positions and there is no transfer of risk to special purpose vehicles.

C.1.3 Risk appetite

SWE reviews periodically its Risk Appetite Framework (RAF), which is then validated by its Board of Directors. This RAF is based on SWL's one, where underwriting risk appetite is set.

C.1.4 Risk mitigation

C.1.4.1 Mitigation

Insurance risk is mitigated through pooling and through diversification across large numbers of individuals, geographical areas, and different types of risk exposure.

Since spring 2020, life expense inflation risk is mitigated thanks to the hedging inflation swaps SWE entered into with SWL.

A number of processes are used to control insurance risk including:

- Claims management;
- Product design and management;
- Reinsurance; and
- Cost controls and efficiencies.

In addition, risk appetite limits (by risk type) are assessed through the business planning process and used as a control mechanism to ensure risks are taken within risk appetite.

C.1.4.2 Monitoring

There is ongoing monitoring of relevant experience against expectations (for example claims experience, persistency experience, expenses and non-disclosure of risks at the point of sale).

Additionally, the progression of insurance risk capital against limits is monitored, as is the sensitivity of profit before tax to the most significant insurance risks, such as Life expenses inflation risk. SWE continues to monitor on a continuous basis its hedging strategy protecting its solvency position against this risk.

The effectiveness of controls put in place to manage insurance risk is evaluated and significant divergences from experience or movements in risk exposures are investigated and remedial action taken.

C.1.5 Risk concentration

SWE is not exposed to the risk of concentration of underwriting risk.

C.2 Market risk

Market risk is defined as "*the risk that unfavourable market movements (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and prices for bonds, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in earnings and/or value*".

The credit risk component of the market risk SCR relates to credit spread widening on fixed interest securities (including loans) as a result of an increase in the market expectations of future defaults and downgrade risk.

Credit risk arising from reinsurance exposures and certain receivables generates a separate SCR, which is covered in Section C.3.

C.2.1 Risk measurement

Current and potential future risk exposures are assessed and aggregated on a range of stresses including

- risk measures based on 1-in-200 year stresses in the Standard Formula SCR assessment and
- other supporting measures where appropriate (for instance for the production of sensitivity and resilience analyses for the ORSA).

The breakdown of the Market Risk between its various components, as well as their evolution over the last two financial years under review, is given in the table below. Market sub-modules of risk are here all assessed and aggregated (using the matrix calculation based on the correlation coefficients prescribed by the Delegated Regulation 2015/35) according to the Standard Formula provisions.

Risk type (Market Risks) €	**31/12/2023**	**31/12/2024**
Interest rates	13,439,593	16,909,658
Equity	27,732,926	27,914,611
Property	0	0
Credit spread	6,508,341	7,269,442
Concentration	0	0
Currency	11,640,086	11,994,829
Diversification effects	*-18,383,975*	*-20,744,616*
Total Market SCR	**40,936,971**	**43,343,925**

There have been no changes to how market risks are measured.

All other things being the same, decreased interest rates lead to higher values of the interest rate risk submodule of the standard formula. The slight increase in credit spread is also an indirect consequence of the decrease in interest rates, as the same shock is applied on higher market values of assets sensitive to this risk.

C.2.2 Risk exposure

The majority of SWE's business is Unitised With-Profits business, the investment element of which is reinsured with SWL into their Clerical Medical With-Profits Fund. On unit-linked business, the majority of the market risk is borne by the policyholders.

So, market risk arises indirectly in relation to charges taken as a percentage of funds under management. Falling asset values reduce overall policy values and hence result in lower future charges (Fees) to receive.

In spring 2020 SWE entered into interest rate swaps with SWL to mitigate this risk, thus protecting its solvency position and reducing the volatility of its financial results.

There is no market risk exposure from off-balance sheet positions and there is no transfer of risk to special purpose vehicles.

C.2.3 Risk appetite

Market risk appetite is aligned on the one from Insurance Group as most of investment risk is reinsured to SWL. SWE entered into interest rate swaps to further mitigate market and inflation risks and protect its solvency ratios.

C.2.4 Risk mitigation

C.2.4.1 Mitigation

As mentioned the former paragraph, most of investment risks are reinsured to SWL.

Since spring 2020, market risk is also mitigated thanks to the hedging interest rate swaps SWE entered into with SWL. SWE continues to monitor on a continuous basis its hedging strategy protecting its solvency position against interest rate risk.

C.2.4.2 Monitoring

SWE complies with the Group's Investment strategy, including monitoring of risk exposures across all types of business.

C.2.5 Risk concentration

Market concentration risk is generally managed via investment strategy and process. No additional capital (as assessed by the Standard Formula) was held at 31 December 2024 in respect of market concentration risk.

C.3 Credit risk

Credit risk is defined as "*the risk that counterparties with whom we have contracted default and fail to meet their financial obligations, resulting in losses to SWE*". The risk exists with reinsurers and policyholder debtors (but such exposures are very minor). Note that capital is held for the risk of credit spread widening on fixed interest securities (including loans) within the market risk capital requirement (see Section C.2 above).

C.3.1 Risk measurement

Current and potential future risk exposures are assessed and aggregated on a range of stresses including

- risk measures based on 1-in-200 year stresses in the Standard Formula SCR assessment and
- other supporting measures where appropriate (for instance for the production of resilience analyses for the ORSA).

The breakdown of the Counterparty Default (Credit) Risk between its two main components, as well as their evolution over the last two financial years under review, is given in the table below.

Credit sub-modules of risk are here all assessed and aggregated according to the Standard Formula provisions, that is, taking into account

- the 'probability of default' by the counterparty on its contractual obligations;
- the current exposures to the counterparty; and
- the likely loss ratio on the defaulted obligations (the 'loss given default').

Risk type (Counterparty Default Risks) **€**	**31/12/2023**	**31/12/2024**
Default - Type 1	15,862,271	14,735,912
Default - Type 2	0	0
Diversification effects	*0*	*0*
Total Counterparty Default SCR	**15,862,271**	**14,735,912**

There have been no changes to how credit risks are measured.

The value of the With-Profit Reinsurance with SWL has fallen over the last year as the business runs off, reducing SWE's exposure to SWL and therefore the capital requirement covering the default risk.

C.3.2 Risk exposure

SWE's counterparty risk relates to single counterparty exposure to

- banks, through cash holdings and
- counterparties to the hedge assets (interest rate and inflation swaps), which are assessed in the counterparty default calculation
- Scottish Widows Limited (SWL) defaulting under the (although heavily collateralised) Reinsurance Agreement and the Indemnity Agreement.

The Charge Arrangement that is in place to protect against SWL's possible insolvency or downgrade reduces the economic exposure of such an event to SWE; however, credit cannot be taken for this Charge agreement within the Standard Formula calculation of SWE's capital requirements.

There is no risk exposure from off-balance sheet positions, or from the transfer of risk to special purpose vehicles.

C.3.3 Risk appetite

Credit risk appetite is aligned on the one from Insurance Group.

An annual review is undertaken of

- SWE's reinsurance arrangements and
- counterparties on the interest rate and inflation swaps.

C.3.4 Risk mitigation

C.3.4.1 Mitigation

Almost all of the default risk generated by ceded reinsurance is covered by a collateral received from SWL.

C.3.4.2 Monitoring

Exposures are compared to approved limits and triggers on a regular basis. This is monitored and reported by Risk and where appropriate, escalation procedures are in place.

C.3.5 Risk concentration

SWE's asset allocation is designed in such a way that it does not expose the company to the risk of the concentration of "counterparty default risk" and will continue to do so in the future.

C.4 Liquidity risk

Liquidity risk is defined as "*the risk that SWE has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost*".

C.4.1 Risk measurement

Liquidity risk in SWE is managed in line with SWE Liquidity Risk Policy and the monthly position is reported through the production of Insurance Group's liquidity scorecard.

As a result of the policies and processes in place and active management, the Board believes that liquidity risk is adequately mitigated, therefore no additional capital is held.

There have been no changes to how liquidity risk is measured.

C.4.2 Risk exposure

Liquidity risk may result from

- the inability to sell financial assets quickly at their fair values (which may make matched position recovery difficult after a stress event);
- an insurance liability falling due for payment earlier than expected;
- the inability to generate cash inflows as anticipated.

In order to measure liquidity risk exposure, liquidity is assessed in stressed scenarios. Liquidity risk appetite considers three time periods:

- Three month stressed outflows are required to be covered by primary liquid assets;
- One year stressed outflows are required to be covered by primary and secondary liquid assets, after taking account of management actions
- Regarding with-profit business, one month's expected claims are required to be covered by unencumbered cash.

Primary liquid assets are gilts or cash, and secondary liquid assets are tradable non-primary assets (e.g. corporate bonds). Liquidity risk is actively managed and monitored to ensure that SWE has sufficient liquidity to meet its obligations and remains within approved risk appetite.

There is no risk exposure from off-balance sheet positions, or from the transfer of risk to special purpose vehicles.

C.4.3 Risk appetite

The liquidity risk appetite is reviewed and set annually by the Board.

C.4.4 Risk mitigation

C.4.4.1 Mitigation

Liquidity is actively monitored to ensure that, even under stress conditions, there is sufficient liquidity to meet obligations and remain within approved risk appetite.

Liquidity risk in respect of each of the major product areas is primarily mitigated as follows.

With-profit contracts (Unitised With-Profits and Vested Annuities)

For With-profit business, a portfolio of assets is held in line with investment mandates, which is consistent with policyholders' reasonable expectations. Liquidity is maintained within the portfolio via the holding of cash balances and a substantial number of highly liquid assets, principally gilts, bonds and listed equities.

Management also have the ability to sell less liquid assets at a reduced price if necessary. However, less liquid assets such as property are managed on a prospective basis to avoid having to potentially sell in future at a reduced price. Losses are managed and mitigated by anticipating policyholder claim payments to plan sales of underlying assets within funds.

Unit-linked Contracts

For unit-linked products, portfolios are invested in accordance with unit fund mandates. Deferral clauses are included in policyholder contracts to give time, when necessary, to realise linked assets without being a forced seller (e.g. within property-linked funds). As at 31 December 2024, there were no funds subject to deferral.

C.4.4.2 Monitoring

As described above, liquidity is actively monitored to ensure that, even under stress conditions, there is sufficient liquidity to meet SWE's obligations and remain within approved risk appetite. Routine reporting is in place to senior management and through the Group's committee structure.

In a stress situation the level of monitoring and reporting is increased commensurate with the nature of the stress event. Liquidity risk is controlled via approved liquidity policies which are subject to independent internal oversight and maintenance of liquidity facilities with LBG.

C.4.5 Risk concentration

Liquidity concentration risk arises where SWE could be unable to meet its obligations as they fall due or could do so only at an excessive cost, due to over-concentration of investments in particular financial assets or classes of financial asset. As most of the invested assets are diversified across a range of marketable equity and debt securities in line with the investment options offered to policyholders, it is unlikely that a material concentration of liquidity could arise.

C.4.6 Expected Profit Included in Future Premiums ('EPIFP')

Article 260 of Delegated Regulation 2015/35 defines EPIFP as "*the expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy*".

As at 31 December 2024, the value of the EPIFP is € 8,926,019 *(31/12/2023: € 17,842,397).*

C.5 Operational risk

Operational risk may be defined as "*the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which may result in financial loss, disruption or reputational damage*".

These include the availability, resilience and security of our core IT systems, people risk, regulatory and legal risk, governance risk and potential for failings in our customer processes.

The largest contributions to operational risk for SWE are

- regulatory,
- litigation (mainly in Germany, but also in Austria and, to a lesser extent, Italy),
- financial reporting,
- conduct,
- business (including outsourced activities) and
- information security risks.

C.5.1 Risk measurement

For regulatory reporting, operational risk is evaluated using the Standard Formula SCR.

The capital requirement on 31 December 2024 is 7,299,017 (YE) *(31/12/2023: € 7,240,087).* There have been no changes to how operational risks are measured.

C.5.2 Risk exposure

The material operational risks to which SWE is exposed are as follows. There is no operational risk exposure from off-balance sheet positions or from the transfer of risk to special purpose vehicles.

C.5.2.1 Regulatory and legal risk

Regulatory and legal risk is defined as "*the risk that SWE is exposed to fines, censure, legal or enforcement action, civil or criminal proceedings in the courts (or equivalent) and the risk that SWE is unable to enforce its rights as anticipated*".

Regulators aim to protect the rights of customers, ensuring firms satisfactorily manage their affairs for the benefit of customers and that they retain sufficient capital and liquidity. SWE has embedded a risk framework to closely monitor and manage its legal and regulatory risks, and maintains regular interaction with all its supervisory authorities.

C.5.2.2 Litigation risk

Litigation risk is defined as "*the cost for SWE of potential claims from customers relating to the mis-selling between late 1990s and early 2000s of policies sold by independent intermediaries, mainly in Germany, but also in Austria and Italy*".

SWE has set up provisions to cover the resulting liabilities. In SWE's financial accounts and prudential reporting, these liabilities are included in the non-technical provisions of the balance sheet.

The validity of these claims depends upon the circumstances of each case. As a result the ultimate financial effect will only be known once all relevant claims have been resolved. Hence, in addition to this non-technical provision and in addition to the Standard Formula SCR used for regulatory reporting, SWE also holds – on a voluntary basis – an additional "capital add-on" of around € 30m in respect of this litigation risk.

This add-on is based on a number of prudent scenarios including possible deteriorations in future new claim volumes and/or amounts caused, for example, by possible future adverse legal jurisprudence.

As this does not form part of the formal Standard Formula, it is only used for internal management purposes, in order to comply with LBG Risk Management Framework (RMF) and its overall Risk Appetite Statements.

C.5.2.3 Financial reporting risk

Financial reporting risk is defined as "*the risk that SWE suffers reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial and regulatory reporting, failure to manage the associated risks of changes in taxation rates, law, ownership or corporate structure and the failure to disclose accurate and timely information*".

Financial reporting of the Company is based on Luxembourg GAAP (lux-GAAP) framework – as defined by the Law of 8 December 1994 as amended – with the application of the fair value option.

In accordance with Lux-GAAP principles all financial balances are evaluated with prudence. The accounting policies and valuation rules, apart from those defined by Luxembourg law or by the Commissariat aux Assurances, are determined and applied by the Board of Directors.

In addition all year-end closing assumptions are validated by the Board of Directors.

Application of closing framework is controlled through an escalation process with final sign-off due by the Chief Executive Officer of the Company.

C.5.2.4 Conduct risk

Conduct risk is defined as "*the risk of customer detriment or regulatory censure and/or a reduction in earnings/value, through financial or reputational loss, from inappropriate or poor customer treatment or business conduct*".

SWE is focused on delivering fair customer outcomes, and has embedded a risk framework to effectively monitor and manage its conduct risks.

C.5.2.5 Business risk

Business risk is defined as "*the risk to planned profit arising from sub-optimal business strategy or sub-optimal implementation of the strategic plan*".

Ultimately, these risks may have an impact on SWE's ability to meet its strategic objectives due to:
- Formulation of a strategy which cannot be achieved or failure to react to changing conditions;
- Selection of an inappropriate strategy or deviation from the chosen strategy;
- Failure to manage and control the business within risk appetite;
- Failure to participate or withdraw from markets, segments etc. as appropriate;
- Competitive pressure;
- Political and macroeconomic factors;
- Ineffective prioritisation of change projects.

On a financial point of view, the Company build a 4-year operating plan ('4YOP') at least once a year. The 4YOP of the Company is then consolidated in the 4YOP of its Parent Company. The 4YOP is then used to monitor the evolution of the business.

In addition a yearly review of the overall strategy of the Company is performed by the Management Committee and reviewed by Board of Directors.

C.5.2.6 Information security risk and IT systems and Cyber risk

Information security risk relates to "*the risk of reductions in earnings and/or value, through financial or reputational loss, resulting from theft of or damage to the security of SWE's information and data*".

IT systems and cyber risk relates to "*the risk of reductions in earnings and/or value through financial or reputational loss resulting from the failure to develop, deliver, maintain, or protect the company's IT solutions against cyber-attack*".

The SWE Management Committee SWE Board have embedded a specific Information & Communication Technology (ICT) risk management framework to ensure continuous compliance with, among others, DORA and GDPR requirements.

C.5.2.7 Sourcing and service provision risk

Sourcing risk covers "*the risk of reductions in earnings and/or value through financial or reputational loss from risks associated with activity related to the agreement and management of services provided by third parties, including outsourcing*". Service provision risk covers "*the risks associated with provision of services to a third party and with the management of internal intra group service arrangements*".

Overall service quality has been defined in the Outsourced Service Agreement with third parties translating into a Service Level Agreement (SLA). SLAs are monitored on a monthly basis for main suppliers; monitoring is reviewed at Management Committee level.

C.5.2.8 Financial crime and fraud risk

Financial crime and fraud risk is defined as "*the risk of reduction in earnings and/or value, through financial or reputational loss, including censure, fines or the cost of litigation due to activity related to money laundering, sanctions, terrorist financing and bribery or acts intended to defraud, misappropriate property or circumvent the law*".

C.5.2.9 Governance risk

Governance risk is defined as "*the risk that SWE's organisational infrastructure fails to provide robust oversight of decision making and the control mechanisms to ensure strategies and management instructions are implemented effectively*".

C.5.2.10 People risk

People risk is defined as "*the risk that SWE fails to lead, manage and enable colleagues to deliver to customers, shareholders and regulators leading to an inability to deliver its strategy*". SWE's Management Committee is supported in all its duties by dedicated resources at LBG Group level ensuring that local processes are documented and understood. For key function holders, a yearly succession exercise is performed.

C.5.3 Risk appetite

SWE's operational risk appetite is designed to safeguard the interests of customers, internal and external stakeholders, and shareholders. This is expressed through high level statements (examples below), each of which are defined with limits and triggers approved by the Board, and are regularly monitored by risk committees.

Regarding "Money Laundering" / "Terrorism Financing" risks, SWE, like LBG, has no tolerance for any risk of breaching economic crime legislation and regulation. None of SWE's employees or any other stakeholders may do anything to frustrate or circumvent the intended purpose of SWE's Economic Crime Prevention policy that the Board approves and reviews at least annually. Failure to comply with this Policy may result in formal action under the "Group's Colleague Policy".

C.5.3.1 Financial loss

SWE does not expect to experience cumulative fraud or operational losses above a defined level of budgeted SWE income, or individual losses above a defined amount.

C.5.3.2 Management time and resources

SWE does not expect internal events that could divert excessive senior management time from running the business or have extensive impact on colleague time and/or morale.

C.5.3.3 Digital Operational Resilience and Cyber

SWE has designed its own Digital Operational Resilience risk management and control frameworks so as to minimise the impact from cyber-attacks and information breaches *that could result in a significant loss of customer confidence or undermine the financial stability of the Insurance Group*.

C.5.3.4 Risk culture

All colleagues are responsible for risk within their individual roles. SWE sets a strong tone from the top and embraces a risk culture across the business which is aligned to its strategy, vision, values and codes of responsibility. SWE encourages an open dialogue and rapid escalation of potential threats and events.

C.5.4 Risk mitigation and monitoring

Operational risks are measured and monitored to ensure that they stay within risk appetite and that actions can be taken in a timely manner to prevent material losses occurring.

The method and frequency of monitoring is appropriate to the materiality and type of risk, and the relevant controls. All operational risks that are considered to be inherently material or severe have controls in place to mitigate the risk.

We assess the overall design and operational effectiveness of each key control in relation to the risk it is mitigating. Key indicators are in place and reviewed monthly for the most material risks to monitor for early warnings that controls are not operating as intended and/or that risk exposures are increasing.

The operational risk profile is reported regularly, highlighting material changes in the profile and tracking progress in closing high priority actions. An indemnity arrangement is in place with Scottish Widows Limited relating to the litigation risk, which places an upper bound on the exposure of SWE.

C.5.5 Risk concentration

Operational risks arise from diverse sources and as such do not give rise to material risk concentrations. However the combined exposure of these various risks is evaluated and the most material operational risks are reported appropriately.

C.6 Other material risks

C.6.1 Capital risk

Capital risk is defined as "*the risk that SWE*

- *has a sub-optimal amount or quality of capital or an inefficient capital structure;*
- *has insufficient capital to meet its regulatory capital requirements;*
- *has insufficient capital to provide a stable resource to absorb all losses up to a confidence level defined in the risk appetite;*
- *loses reputational status by having capital that is regarded as inappropriate, either in quantity or type*".

SWE's objectives when managing capital are:

- to have sufficient capital to safeguard its ability to orderly run-off its portfolio of insurance contracts (Transferred Business from SWL) so that it can continue to provide returns for its shareholder and benefits for other stakeholders;
- to comply with capital requirements set out by the European and Local Regulations.

The capital management strategy is such that the SWE will hold additional buffer capital in line with the stated risk appetite for the business. It is intended that all surplus capital above that required to absorb such a stress event will be distributed to SWL.

C.6.2 Political risk

The continued political uncertainty and associated volatility of financial markets results in a somewhat more volatile solvency position for SWE.

C.6.3 Group risk

Certain risks could arise because SWE, like its sole shareholder SWL and the other underlying solo entities, operate as part of a Group. These include:

- Contagion risk (spill-over effect of risks from other parts of the group);
- Risks arising from intra-group transactions and group level risk concentration, (notably in relation to participations, intra-group or internal reinsurance, intra-group loans and intra-group outsourcing);
- Interdependencies within the group and their impact on the group risk profile;
- Risk arising from the complexity of the group structure.

These risks can be considered non-critical for SWE, even immaterial, thanks to the intra-group reinsurance agreement and its associated collateral (assets left as guarantee) protecting SWE from the consequences of a possible insolvency of its SWL shareholder. As part of broader risk identification process, a monthly "Insurance Consolidated Risk Report" (ICRR) is regularly produced. This captures any significant risk events of this nature within Scottish Widows Limited and the associated management actions. The intra-Group exposure register also acts as an additional method of identifying, controlling and recording these risks.

C.6.4 Climate risk and sustainability strategy

Sustainability-related risks are increasingly considered as material risks. These are environmental, social or governance (ESG) events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investments, hence affecting the value of contracts the policyholders and the beneficiaries of the contracts.

The main challenge for SWE (like all insurance companies) is to understand the concrete impact that ESG will have on the operating model, among which;

- Non-compliance risk management
- Development of an ESG Strategy
- Upgrade of the operating model and integration of ESG data
- Identify investments constraints and opportunities

Given the complexity of the legal and regulatory frameworks (multiple sources at both European and Luxembourg levels and rapidly changing ESG requirements), SWE has reinforced its "Legal", "Compliance" and "Change" teams in 2024.

More specifically, regarding the CSRD Project Update :

- CSRD implementation project kicked-off on 01/10/2024 with the support from an external advisory firm to ensure compliance of SWE by 2026 (reporting year: 2025),
- Double Materiality Assessment (DMA) Workshops have been held with key stakeholders from Risk, Finance, Operations, Compliance, HR, Supplier Management, Facilities Management, and Actuarial to determine SWE's ESG topic materiality,
- This DMA and the subsequent Gap Analysis will help SWE to define its ESG targets and objectives and create a clear implementation roadmap.

SWE's sustainability strategy and adherence to the evolving regulatory requirements on climate risk align with the wider Lloyds Banking Group approach of transitioning to a low carbon economy. More details on this approach can be found in LBG Annual Report and Accounts, which can be downloaded via www.lloydsbankinggroup.com.

C.7 Any other material information

C.7.1 Prudent Person Principle

SWE has put in place a Board-approved Investment Policy which sets out the key requirements of the Prudent Person Principle and the controls to ensure that the requirements are complied with.

The policy is part of the formal policy governance framework requiring regular reporting and an annual review of compliance with the Principle.

To further embed the policy requirements, the Prudent Person Principle is a standing agenda item at committees making investment decisions in relation to shareholder and policyholders' assets.

The committees review any decisions to ensure alignment with the key requirements.

The investment strategy for assets is specified in the Market Risk Policy. It is dependent on the nature of the funds in question and is summarised in Section C.2. "Market Risks".

For non-linked funds' investments, limits on the exposure to a single entity are specified and monitored. Bond exposures are managed through credit rating bands and maximum exposures to individual assets, sectors, and non-UK countries are set.

Assets are restricted to securities in a specified list of countries, and limits applicable to property portfolios are set to prevent concentration of exposure to single tenants and single buildings.

C.7.2 Stress testing: sensitivity and scenario analysis

As part of the ORSA process, SWE has to perform various scenario and stress tests.

SWE latest stress test was conducted between July and November 2024 and put the focus on the consequences of the hypothetical occurrence of a major ICT risk based on two different scenarios and narratives (leak and cyber-attack events).

Looking at the results of this stress test, SWE Board confirmed in December 2024 the adequacy of both

- SWE's overall risk profile and solvency needs,
- the standard formula used for calculating SWE's SCRs.

D. Valuation for solvency purposes

D.0 Summary balance sheet – overview

This section of the report explains the valuation principles underpinning the Solvency II balance sheet, represented in the simplified table below. Further detail is set out in:
Section D1: assets
Section D2: technical provisions, representing Best Estimate Liabilities ('BEL') and risk margin
Section D3: other liabilities, including subordinated debt.

€	31/12/2023	31/12/2024
Total Assets	3,828,655,767	3,793,907,208
Total Technical Provisions	1,866,838,606	1,873,929,279
Total Other Liabilities	1,752,925,088	1,747,075,903
Total Subordinated Debt		
Excess of Assets over Liabilities	**208,892,074**	**172,902,025**

D.1 Assets

D.1.1 Asset valuation under Solvency II

The assets of the Company are shown in the table below.

The commentary which follows sets out the nature of each asset class and its valuation principles, analysed at a level reflecting the materiality, nature, function and inherent risk of each type of asset.

€	31/12/2023	31/12/2024
Deferred Tax Assets	0	0
Bonds	22,092,442	37,315,306
Collective Investments	1,715,374,045	1,679,425,983
Derivatives	77,970,656	64,324,822
Assets held for Unit-Linked Contracts	247,956,293	264,533,231
Reinsurance Recoverables	1,459,585,897	1,451,596,523
Insurance Receivables	3,593,181	7,895,278
Trade Receivables	74,832,650	83,948,748
Cash and Cash Equivalents	227,250,602	204,867,317
Total Assets	**3,828,655,767**	**3,793,907,208**

Assets are recorded at fair value in line with the valuation methodology described in the Solvency II Directive. Their valuation principles are set out below.

The underlying concept is that assets are valued at an amount for which they could be exchanged, transferred or settled between knowledgeable and willing parties, in an arm's length transaction.

In particular, assets are valued using quoted market prices, and where quoted market prices do not exist, a mark-to-model approach is used, which is calibrated to available market information.

No value is given to intangible assets.

In general, these asset values are consistent with Luxembourg accounting principles, which underpin the valuation in the Company financial statements.

Any material differences between valuation for solvency purposes and the valuation basis used in the financial statements are detailed in Section D.1.2.

The Board of SWE may make use of assumptions, judgement or estimation in determining the reported value of assets.

Any such assumptions, judgement or estimation are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Where the valuation of specific assets has been determined by way of assumptions, judgement or estimation, commentary is given below on how the value has been derived.

D.1.2 Solvency II valuation principles followed by SWE

Valuation methods make maximum use of relevant market inputs and rely as little as possible on company specific inputs.

The hierarchy applied is:

Method (i): Unadjusted quoted prices for identical investments actively traded in recognised financial markets. Fair value is determined by reference to quoted market bid prices at the final pricing point on the reporting date. Prices are provided by vendors such as Reuters or Bloomberg, or by direct reference to the stock exchange.

Method (ii): Quoted prices for similar investments actively traded in recognised financial markets with adjustment to reflect any differences. Such adjustments are required to reflect factors specific to the asset, such as the:

- condition or location
- extent to which inputs relate to items that are comparable to the asset
- volume or level of activity in the markets within which the inputs are observed.

Method (iii): Quoted prices for identical or similar assets in markets that are not active;
Inputs other than quoted prices that are observable for the asset, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads;
Market-corroborated inputs, which are based on or supported by observable market data. These markets inputs will be adjusted to reflect factors specific to the asset, such as the:

- condition or location
- extent to which inputs relate to items that are comparable to the asset
- volume or level of activity in the markets within which the inputs are observed.

Where there is little, if any, market activity for the asset or market information for the inputs to any valuation models at the measurement date, unobservable inputs are required.

These inputs reflect the assumptions the Group considers that market participants would use in pricing the asset, including assumptions about risk inherent in the specific valuation method used to measure fair value and the risk inherent in the inputs of that valuation method.

An active market is one in which similar arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible.

Management review the fair value of the SWE's financial assets and the sensitivities to these inputs on a regular basis through expert judgement reviews, valuation steering groups and a fair value pricing committee.

D.1.2.1 Deferred Tax Assets

1) Recognised deferred tax assets

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts within the Solvency II balance sheet at the reporting date.

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 at the reporting date.

The treatment of deferred tax assets and liabilities is detailed in section D.3.1.3.

2) Unrecognised deferred tax assets

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

Deferred tax assets are recognised in respect of trading losses only if there is sufficient certainty as to the availability of future profits within the next 17 years.

D.1.2.2 Bonds

Bonds are valued at fair value.

The fair value of financial investments refers to value determined with reference to:
a) quoted (unadjusted) prices in active markets;
b) when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets.

D.1.2.3 Collective Investments

The Group sponsors a range of collective investment vehicles and limited partnerships where it acts as the decision maker over the investment activities and markets the funds under one of LBG's brands.

These pooled fund vehicles, such as unit trusts, OEICs (open ended investment companies) and SICAVs (*Société d'Investissement à Capital Variable*) then invest in underlying assets of varying classes.

The significant majority of holdings are in active market quoted unit trusts, OEICs and SICAVs. There are no non-quoted investments included within the collective investments category.

Investments in collective investment vehicles are primarily held to match policyholder liabilities and most of the financial risk (possible decrease in the value of SWE's investment covering SWE's liabilities to the policyholders) is reinsured to SWL.

The fair value of the SWE holdings as displayed in the table below is determined using the last published price applicable at the reporting date. The Group earns fees from managing the investments of these funds.

€	31/12/2023	31/12/2024
Collective investments		
Method (i)	1,715,374,045	1,679,425,983
Method (ii)	0	0
Method (iii)	0	0
Total collective investments	**1,715,374,045**	**1,679,425,983**

D.1.2.4 Derivatives

Derivatives (including Swaps) are valued at fair value as defined in section D.1.2.2 “Bonds”.

D.1.2.5 Assets held for unit-linked contracts

These assets comprise the same investment asset classes described throughout this section, applying the same valuation principles.

These assets are segregated to enable direct matching to unit-linked policyholder liabilities.

D.1.2.6 Reinsurance recoverables

Represents the share of technical provisions for reinsured business determined in a manner consistent with the underlying contractual agreement and the underlying gross business data per treaty, explained in Section D.2.

D.1.2.7 Insurance receivables

These balances represent monies owed in the course of SWE's insurance business and are determined to be short term in nature and therefore recorded in the balance sheet at the contractual value which represents a value consistent with Solvency II principles. They refer to outstanding premiums and commissions receivable at the balance sheet date.

D.1.2.8 Trade receivables

Trade receivables are other amounts which are receivable by SWE. They are recorded in the balance sheet at their contractual value at the reporting date, which represents a value consistent with Solvency II principles. The main component of trade receivables relates to an indemnity from SWL to SWE in respect of litigation as detailed in Section D.3.

D.1.2.9 Cash and cash equivalents

Cash and cash equivalents include cash at bank, short-term highly liquid investments with original maturities of three months or less and bank overdrafts where a legal right of set off exists. Cash is carried within the Solvency II balance sheet at a value not less than the amount payable on demand, which represents a value consistent with Solvency II principles.

D.1.3 Variation from values assigned in the financial statements

There are no material differences in the valuation techniques which have been adopted for Solvency II and those used to prepare the financial statements under Luxembourg accounting principles.

D.1.4 Changes to basis of recognition or valuation of assets during the reporting period

There have been no other changes to the basis of recognition or valuation of assets during the reporting period.

D.2 Technical provisions

D.2.1 Value of technical provisions

The table below shows the technical provisions for SWE, split by business category and gross of reinsurance. Note that in the QRTs for SWE we classify all contracts, and hence technical provisions, as having an option or guarantee as we deem that all products have a degree of an option or guarantee (for example, vested annuities are guaranteed to be paid until death, for all other policies policyholders have the option to surrender, etc).

Life Insurance Gross Technical Provisions, €	31/12/2023	31/12/2024
a) With-Profit (Unitised WP and Vested Annuities)		
Best Estimates of the Liabilities	1,472,890,639	1,470,355,739
Risk Margin	57,398,353	57,005,831
Total With-Profit	**1,530,288,992**	**1,527,361,570**
b) Unit-linked		
Best Estimates of the Liabilities	326,566,545	336,451,127
Risk Margin	9,983,070	10,116,582
Total Unit-Linked	**336,549,614**	**346,567,709**
Total (With-Profit & Unit-Linked)		
Best Estimates of the Liabilities	1,799,457,184	1,806,806,866
Risk Margin	67,381,422	67,122,414
Total With-Profit and Unit-Linked	**1,866,838,606**	**1,873,929,279**

D.2.2 Methodology and assumptions

The Solvency II technical provisions represent the value of the insurance company's obligations if they were to be transferred to a third party at the valuation date. The value of the technical provisions is the sum of the BEL and Risk Margin. There are no Technical Provisions calculated as a whole.

D.2.2.1 Best Estimate Liability methodology

The BEL is intended to correspond to the probability weighted average of the present value of future cashflows on a market consistent basis. The cashflows include the expected future values of

- Payments to policyholders (e.g. claims, maturity payments, annuity payments)
- Expenses incurred administering the business
- Investment expenses incurred

  Less
- Premiums to be collected from policyholders
- Charges received from policies (e.g. management fees, loadings covering optional non-linked benefits)

  Plus or less
- Taxation

The projection of future cash flows is performed using best estimate assumptions, which are covered in more detail in Section D.2.2.3. Discount rates are determined on a market consistent basis using the relevant risk-free term structure as specified by EIOPA. The approach taken to determine the BEL varies by type of product as discussed below.

a) Unit-linked business

Best estimates for Unit-linked policies are valued as the sum of

(i) the "SII Investment BEL": Best Estimate of future payments to beneficiaries, that is, the bid value of the units allocated to those policies (*including the value of biting guarantees*), plus the value of potential financial guarantees that could bite in the future;

(ii) the "Non Linked Reserve BEL": covering future expenses net of future management charges (fees) and other cash outflows (*optional death or "Waiver of Contributions" benefits*), also net of future loadings).

The value of financial guarantees (that exist only for Guaranteed Access Policies) and non-unit cash flows is calculated by projecting future cash flows using realistic assumptions, taking into account the contract boundary (see below) and discounting using the appropriate EIOPA risk-free interest rates curves.

There is no minimum value to the Solvency II TPs and so the resulting BEL could be negative.

b) With-Profits business: Unitised With-Profit Products and Vested Annuities

Best estimates for with-profit policies are also valued as the sum of the "SII Investment BEL" (*sum of the "Asset shares" and "Future policy related liabilities" (FPRL), as defined below*) and the "Non Linked Reserve BEL" (*Same as above*).

So, for With-Profits (WP) business, BEL comprise:

- The Accumulated Asset Shares;
- Future policy related liabilities ("FPRL");
- The "Non Linked Reserve BEL" (See above).

Accumulated asset shares represent

- For Unitised With-Profit Business: the actual investment performance of the policyholder's With Profit investment assets over the period from the start of the investment, appropriately adjusted to allow for past deductions to support the guarantees, the management charges ("Fees") and the net past cost of smoothing across the whole Clerical Medical With Profit Fund;
- For vested with-profit annuities: the present value of expected annuity payments on a best estimate basis (guaranteed benefits and future bonuses discounted back to the valuation date using the EIOPA Euro risk free curve).

Future policy related liabilities (FPRL) represent the expected present value (which is calculated at CM-WPF level and may be negative for some subsets of it, including SWE) of future cost of providing benefits in excess of the accumulated asset shares, including the cost for the provision of options and guarantees, net of the planned deductions from policies for the costs of guarantees, options and smoothing.

There are two **reinsurance arrangements** with SWL, a first one for the Unitised with-profit (UWP) contracts and the bonus pool set aside for vested annuities and a second one, which is specific for the guaranteed future payments to the annuitants. So, for UWP business still in force, the Clerical Medical With-Profits fund (CMWPF) of SWL receives premiums from SWE, calculates and holds asset shares with an additional reserve to cover the cost of provision of guarantees (FPRL), net of the planned deductions from policies for the costs of guarantees and smoothing.

If guarantees bite, then the CMWP fund of SWL pays the difference rather than SWE.

c) All products

Contract boundaries: The Solvency II regulations state that future premiums to be considered within the BEL and Risk Margin are those that fall within the "contract boundary".

The contract boundary varies by product, depending on the nature of the benefits. It may be the valuation date, the next policy anniversary or the maturity date.

Most of the SWE business is classified as being on a long contract boundary due to the life cover or guarantees provided contingent on premiums continuing to be paid. This includes the unit-linked component of hybrid contracts (i.e. contracts invested in both unit-linked and unitised with-profit funds).

A small subset of unit-linked products are classified as being on a short contract boundary as there is no life cover or guarantee on the product.

Homogenous risk groups:

A particular concept within the Solvency II Directive is that of separating the business into "homogeneous risk groups" (HRGs) for the purposes of calculating the Technical Provisions and assessing the capital requirements.

In practical terms, this means splitting the business into small enough groups so that assumptions can be set at a level at which they will sufficiently represent the business.

Homogenous Risk Groups used to calculate the Technical Provisions are based on the classification of products used previously within the Solvency I PRA Returns.

This approach has been adopted because they are familiar to external users of public disclosures and provide a useful level of granularity to understand the business that has been written by the entity.

In addition, the concept of "homogeneity" is reflected within our assumption setting process where we actively consider the groupings of business to be used in setting assumptions.

It is also reflected in the way in which individual unitised with-profit policies are aggregated together into representative "grouped policy model points" for modelling purposes (this "grouping" is done in order to reduce the run times associated with the complex modelling techniques that are required to value the options and guarantees embedded within the unitised with-profit contracts).

Grouping:

The BEL is determined separately for each policy with the exception of with-profit business where policies are grouped by "Homogeneous Risk Groups" due to the large number of scenarios required to be evaluated.

Unbundling:

In line with the Solvency II unbundling requirements, it has been assumed that hybrid unit-linked/unitised with-profit policies must be unbundled. However, it is not possible to unbundle the following policies due to the integration of insurance covers with the saving element:

- Unit-linked/unitised with profit policies with integrated life/critical illness cover,
- Unitised contracts with integrated waiver of premium cover.

Recoverables from reinsurance contracts and special purpose vehicles

The reinsurance arrangement with SWL is described above. Two non-material external reinsurance arrangements are in place, whereby life, critical illness and waiver of premium benefits are reinsured.

There are no special purpose vehicles within SWE.

D.2.2.2 Risk Margin methodology

The Risk Margin component exists to adjust the BEL value so that the total technical provisions reflect the price for risk that a potential purchaser would take into account when acquiring a book of insurance business.

This is derived by determining the cost of capital associated with the capital requirements that the third party would be required to hold during the run-off of the business (assuming that the acquirer took steps to minimise its capital requirements).

The Risk Margin is calculated by projecting the run-off of the non-hedgeable SCR risks, applying the 6% cost of capital defined by EIOPA to the projected values and discounting using the risk-free rate.

D.2.2.3 Key assumptions in deriving the technical provisions for Life business

As covered in the Best Estimate Liability methodology section above, future cash flows are projected with an allowance for best estimate demographic and expense assumptions.

The key best estimate assumptions are described below. Appendix 2 contains a summary of the key best estimate assumptions.

Discount rate

Solvency II liabilities are valued on a market consistent basis using

- a EUR risk-free yield curve for Euro denominated cashflows and
- a GBP risk-free yield curve for the future cashflows which are denominated in GBP (note that this relates only for some of SWE's future expenses).

Lapses

Lapse assumptions are significant for products where income from future charges is dependent on the continuation of premium payments and/or the policy remaining in force.

Experience is reviewed annually to set the assumptions. Assumptions are set by country and contract type (single/regular premium). Where the information is available, assumptions are based on the average of recent experience, typically over the last four years. Where data is not available, or if past data is not deemed to be representative of the future due to changes in the business and/or regulatory environment, expert judgement is applied in order to set appropriate rates. All such judgements are set by suitably qualified subject matter experts.

Longevity

Future longevity is a key assumption for the vested with-profit annuity business, as policyholders living longer than expected will result in more annuity payments being paid than anticipated, resulting in higher technical provisions.

Expenses

Future cash flows include allowance for expected levels of maintenance and claim / benefits expenses. The levels of expenses are based on the year prior to the valuation date. Adjustments are applied for any business plans where the impacts are starting to materialise.

Non-recurring expenses, such as project related costs, are excluded from the expenses allocated to the "per policy" assumptions. Renewal expenses are assumed to increase in line with the relevant price inflation. SWE incurs the majority of its expenses in Euro, but some GBP expenses are incurred via functions provided by the wider group. Separate reference indices are used for the Euro and GBP expenses. The UK component contains an additional allowance for salary growth in excess of the reference index.

Matching adjustment
SWE does not use the matching adjustment.

Volatility adjustment
SWE does not use the volatility adjustment.

Transitional risk-free interest rate-term structure
SWE does not use the transitional risk-free interest rate-term structure.

D.2.3 Simplifications

There are areas in the valuation of the BEL and Risk Margin where simplifications are adopted after considering the impact of the simplification and proportionality.

D.2.3.1 Best Estimate Liabilities

Probability weighted average

Best Estimate Liabilities (BEL) are intended to represent the probability weighted average of the future cash flows. This is because, for certain risks the movement in the BEL is not symmetric with respect to changes in the best estimate assumptions, even if the distribution for the risk itself is symmetric.

Therefore, the liabilities calculated using the best estimate assumption may be bigger or smaller than a weighted average.

However, SWE's methodology does make the simplifying assumption that a projection using best estimate non-economic assumptions will yield a probability weighted average.

This simplification is made for practical reasons, and is not expected to be significant, and is in line with generally accepted industry practice.

Dynamic policyholder behaviour

Policyholder behaviour is not modelled dynamically. It is allowed for in the deterministic valuation models used for the calculation of the BEL by using only deterministic best estimate assumptions relating to the expected take-up rate of options in the future.

Whilst these assumptions will have regard to the expected future policyholder behaviour given past experience and current conditions, dynamic future policyholder behaviour is not directly allowed for, which is in line with industry practice.

Incorporating dynamic policyholder behaviour would require stochastic modelling which is not deemed proportionate, particularly because there is insufficient empirical evidence from which realistic dynamic policyholder actions could reasonably be determined.

It is therefore considered to be more appropriate that the uncertainty associated with dynamic policyholder behaviour is captured implicitly through the derivation of best estimate assumptions, as they are set based on historic experience, along with there being some further implicit allowance in the Risk Margin (which includes a cost of capital charge on adverse policyholder behaviour).

With-Profits business

Simplifications relating to management actions and investment strategy are made in the calculation of the UWP reinsurance asset.

D.2.3.2 Risk Margin

The theoretical approach to calculating the Risk Margin would require all future 1-in-200 capital requirements to be calculated. Undertaking such a calculation would be so computationally intensive that it is essentially impossible to implement from a practical perspective. The industry has therefore developed approaches to simplify the calculation.

The Risk Margin is calculated by projecting the non-hedgeable SCR, assuming that diversified risk exposures for each non-hedgeable risk type and each class of business run off in proportion to a suitable driver.

In addition, the calculation of the Risk Margin assumes that the reference entity taking on the business of SWE would be able to invest its assets in such a way as to remove all market risk. This is a simplifying assumption for a complex calculation.

D.2.4 Uncertainty

There will always be a degree of uncertainty in setting assumptions for the calculation of technical provisions.

In some cases there is little uncertainty as assumptions may be largely prescribed under the regulations, particularly for market risks. In other cases, there will be more significant uncertainty and there will need to be a balance between using information from past experience, current conditions and future expectations.

It may be necessary to make expert judgements if it is deemed inappropriate to rely on the available data alone and there may be a range of plausible outcomes.

It is recognised that there is subjectivity in deciding upon the relevance of the data for

- representing the current risk exposure,
- the time period of historical data to use in the analysis,
- in the grouping of data and
- whether past experience is an appropriate guide to the future expectations.

There is also subjectivity in the view of how potential future changes in social, regulatory, economic and business conditions might impact on experience and whether any adjustments might be required.

The majority of assumptions are set deterministically.

However in the with-profit fund cashflows economic assumptions are modelled stochastically to appropriately capture the cost of embedded options and guarantees with financial risk factors (e.g. equity, interest rates etc.) whereas non-financial risk factors (e.g. longevity, persistency etc.) are modelled deterministically using best estimate assumptions.

For example, in setting best estimate lapse assumptions, judgements are made in selecting the period over which to average historical experience.

This judgement reflects a balance between the need to incorporate sufficient experience for the data to be credible whilst also placing greater emphasis on more recent (and hence relevant) experience.

In addition product types with similar features and which might be expected to have similar experience going forward are also grouped.

D.2.5 Material differences between LUX GAAP and Solvency II

As at 31 December 2024, for SWE, the movements from the LUX GAAP reserves reported in the financial statements to the Solvency II technical provisions are provided below, split by line of business.

Technical provisions as at 31/12/2024, €	With-Profit Products	Unit-Linked Products	Total
LUX GAAP Framework			
Technical Provisions (Gross of reinsurance)	**1,707,254,640**	**264,533,230**	**1,971,787,871**
Reinsurance recoverables	1,465,069,115	0	1,465,069,115
Technical provisions (net of reinsurance)	**242,185,525**	**264,533,230**	**506,718,755**
Solvency II Adjustments			
1) Future expenses and Financial Guarantees related to Unit-Linked Products but included in the category "C.II. (With Profit) Life assurance Technical Provision" of the Lux GAAP Balance Sheet	-69,482,569	69,482,569	0
* *Future expenses (Gross = Net of reinsurance)*	*-53,385,569*	*53,385,569*	*0*
* *Financial Guarantees (Gross = Net of reinsurance)*	*-16,097,000*	*16,097,000*	*0*
2) Less VIF (Net of reinsurance)	-154,096,048	2,650,310	-151,445,738
3) Allow for contract boundaries (Net of reinsurance)	0	-62,674	-62,674
4) Risk Margin (Gross = Net of reinsurance)	57,005,831	10,116,582	67,122,414
Solvency II Framework			
Technical provisions (net of reinsurance)	**75,612,739**	**346,720,017**	**422,332,756**
5) Reinsurance recoverables (see Section D.2.2.1)	1,451,748,831	-152,308	1,451,596,523
Technical Provisions (Gross of reinsurance)	**1,527,361,570**	**346,567,709**	**1,873,929,279**

1. In SWE's Lux GAAP balance sheet, future expenses and financial guarantees related to Unit-Linked Products are allocated to the category "*C.II. Life assurance T.P.*" and not to the category "*D. Technical provisions for life assurance policies where the investment risk is borne by the policyholders*". This correction is required to avoid, in the S.II framework, underestimating UL TP's and overestimating WP TP's.
2. The Value in Force (which represents the value generated from the in force business, i.e. Present value of Future profits less Time Value of Options and Guarantees and Cost of Capital) needs to be deducted from the LUX GAAP TPs, which are valued on a prudent basis (whereas Solvency II TPs are valued on a best estimate basis)
3. The Solvency II definition of contract boundaries differs from LUX GAAP. Solvency II does not allow for future premiums falling outside the contract boundary for a subset of Unit linked business whereas LUX GAAP allows for all expected future premiums
4. Addition of the Risk Margin is required for the Solvency II technical provisions
5. The UL reinsurance value is shown as a negative amount (2024: €-152,308, 2023: € -201,601) as SWE expects to pay more in reinsurance premiums (2024: € 360,150, 2023: € 485,978), than it should recover from the reinsurer (2024: € 207,842, 2023: € 284,378).

D.3 Other Liabilities

D.3.1 Other Liabilities Valuation under Solvency II

The amounts recognised in SWE's balance sheet are shown in the table below. The commentary which follows sets out the nature of each class of liability and its valuation principles, analysed at a level reflecting the materiality, nature, function and inherent risk of each type of liability.

Other liabilities, €	31/12/2023	31/12/2024
Provisions other than technical provisions	60,222,704	60,436,257
Deposits from Reinsurers	1,433,561,026	1,437,267,205
Net Deferred tax liabilities (DTL, *)	6,262,044	5,820,946
Derivatives	131,240,258	137,425,413
Debts owed to credit institutions	70,530,805	50,625,175
Insurance and intermediaries payables	21,119,923	31,832,680
Trade payables	29,988,328	23,668,228
Total other liabilities	**1,752,925,088**	**1,747,075,903**

SWE had no subordinated liabilities during, or at the end of the reporting period. Other liabilities are recorded at fair value as required under Solvency II principles, the underlying concept being that items are valued at an amount for which they could be exchanged, transferred or settled, between knowledgeable willing parties in an arm's length transaction.

In general, these liability values are consistent with Luxembourg accounting principles, which underpin the valuation in the individual company financial statements. Any material differences between valuation for solvency purposes and the valuation basis used in the financial statements are detailed in Section D.3.2.

The Board of SWE may make use of assumptions, judgement or estimation in determining the reported value of other liabilities. Any such assumptions, judgement or estimation are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Where the valuation of specific liabilities has been determined by way of assumptions, judgement or estimation, commentary is given below on how the value has been derived.

D.3.1.1 Provisions other than Technical Provisions: Provision for Litigation Risk

This provision (table below) relates to claims from customers with policies transferred to the Company by SWL, which it had issued under its former name of Clerical Medical Investment Group Limited.

€	31/12/2023	31/12/2024
Insurance business litigation	60,222,704	60,436,257
Total provisions	**60,222,704**	**60,436,257**

An intercompany balance representing the amount recoverable under the indemnity agreement entered into with SWL is included within 'receivables (trade not insurance)'.

The validity of the claims facing SWE depends upon the facts and circumstances in respect of each claim. As a result the ultimate financial effect, which could be significantly different from the current provision, will only be known once all relevant claims have been resolved.

D.3.1.2 Deposits from Reinsurers

Immediately following the portfolio transfer, SWE entered into a reinsurance agreement with its parent company SWL, whereby all of the risks relating to contracts with a profit sharing feature were reinsured back to SWL.

This arrangement enables customers to keep their investments in the SWL Clerical Medical With-Profits Fund. Although the investment components of the policies (and the associated risks) are reinsured, policy charges are retained by SWE to meet ongoing expenses and the cost of additional risk benefits.

To mitigate the counterparty risk arising from this reinsurance arrangement, a security arrangement has also been put in place to ensure the transferring policyholders are ranked alongside other SWL policyholders and their status preserved.

To comply with the tied asset requirements in the Grand Duchy of Luxembourg, SWE withheld the initial reinsurance premium payable to SWL. Consequently, SWE recognised a liability under ‘deposits from reinsurers’: the Funds Withheld (“FWH”).

The assets covering SWE’s FWH are legally held by SWE and are represented on the Asset side of its balance sheet (“Reinsurer’s shares of technical provisions”).

The amount of these assets withheld by SWE and, as a consequence, this liability is re-measured and rebalanced quarterly and set to equal to the higher of

- the Solvency II Best Estimate Liabilities backing the reinsured business (excluding the with-profit estate) and
- the Luxembourg GAAP reserves.

D.3.1.3 Deferred Tax Liabilities

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts within the Solvency II balance sheet at the reporting date.

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 at the reporting date. SWE recognises current and deferred tax assets and liabilities in line with IAS 12 “Income Taxes”.

In recognising these positions, management takes into account the likely impact of any tax issues that are subject to ongoing discussion with the Luxembourg Inland Revenue (ACD) and other tax authorities.

With regard to SWE’s deferred tax assets, a significant feature is the management judgement applied in determining the timing, sensitivities and probability of them crystallising. This judgement is based on tax forecasts reflecting new business assumptions, sensitivities and proposed management actions.

Deferred tax assets and liabilities (DTA/DTL) are undiscounted although those relating to the BEL and risk margin are based on the discounted gross asset/liability. Deferred tax assets and liabilities are offset when there is a legally enforceable right and when the deferred taxes relate to the same fiscal authority. As a result, SWE recognised on 31/12/2024 a net deferred tax liability of € 5,820,946 (*31/12/2023: 6,262,044*).

None of the deferred tax assets and liabilities above have an expiry date except the recovery of taxes on losses carry forward which are limited to 17 years in Luxembourg.

As of 31/12/2024, the following elements of DTA/DTL generate a net deferred tax liability, which, as a reminder, reduces both SWE's available own funds and solvency capital requirements.

Gross Deferred Tax Asset resulting from financial loss carried forward, €	**31/12/2023**	**31/12/2024**
	13,881,009	**14,322,000**
Timing differences resulting from basis changes for technical provisions, €	**31/12/2023**	**31/12/2024**
Difference between SII BEL and tax basis (Lux GAAP) policyholder liabilities (*Source of DTL*)	36,947,979	36,165,066
Risk margin (*Source of DTA*)	-16,804,926	-16,022,120
Gross Deferred Tax Liability	**20,143,053**	**20,142,946**
Net DTA / DTL (as in SII Balance Sheet) , €	**31/12/2023**	**31/12/2024**
Net Deferred Tax Asset	**0**	**0**
Net Deferred Tax Liability	**6,262,044**	**5,820,946**
Loss Absorbing Capacity of the DT	**6,262,044**	**5,820,946**

D.3.1.4 Derivatives

Derivatives (including Swaps) are valued at fair value. The fair value of other financial investments (including derivatives) refers to value determined with reference to:

a) quoted (unadjusted) prices in active markets;
b) when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets.

D.3.1.5 Debts owed to credit institutions

Amounts owed to credit institutions represent the liability to pay back any cash received on OTC bilateral trades and variation of margin received on centrally cleared trades.

D.3.1.6 Insurance and intermediaries payables

These balances represent monies owed in the course of SWE's direct business and are determined to be short term in nature and therefore recorded in the balance sheet at the contractual value. They refer predominantly to outstanding claims and commission at the balance sheet date.

D.3.1.7 Trade payables

Amounts which are payable to suppliers of SWE and which are expected to be settled in the short term, in less than one year. They are therefore recorded in the balance sheet at their contractual value at the reporting date, which represents a value consistent with Solvency II principles.

D.3.2 Variation from values assigned in the financial statements

The material differences in the valuation of other liabilities between the Solvency II balance sheet and the financial statements concern Deferred tax liabilities: these will differ between the financial statements and Solvency II valuation basis, reflecting the difference in the underlying tax timing differences affected by the differences between Solvency II technical provisions and Lux GAAP liabilities described in Section D.2.

D.4 Alternative methods for valuation

Any alternative valuation methods applied in determining the fair value of assets are set out for each asset category in Section D.1.

SWE adopts the principle of maximising the use of relevant observable inputs and limits (wherever necessary) the use of unobservable inputs in the calculation of the assets and liabilities.

As there is no active market for the SWE technical provisions, the ‘income’ approach to valuation is adopted i.e. using a discounted cashflow approach. Discount rates are derived from the EIOPA risk free curve.

The assumptions underlying this valuation approach are documented in Section D.2 of this report.

Valuation uncertainty is assessed via sensitivity testing. Sensitivity tested values are compared with reported balance sheet values and to historical results, and validated to confirm reasonableness.

All methodologies and assumptions are approved by the SWE Board. The valuation methodology and assumptions are periodically reviewed for appropriateness in view of company experience.

D.5 Any other material information

There is no other material information to report.

E. Capital Management

E.1 Own funds

E.1.1 Objectives, policies and processes employed for managing own funds

For the purposes of Solvency II, insurers must maintain sufficient Own Funds, of appropriate quality, to cover the regulatory Solvency Capital Requirement ('SCR'). Where a firm does not have sufficient Own Funds, it must submit a recovery plan to the CAA to restore coverage of the SCR within six months or, in the case where the Own Funds cannot cover the Minimum Capital Requirement ('MCR'), a plan to restore coverage of the MCR within three months.

SWE's objectives when managing Own Funds are:

- To have sufficient Own Funds to safeguard the Company's ability to continue ensuring the orderly run-off of the transferred portfolio, providing benefits to policyholders as they fall due, so that it can continue to provide returns for the shareholder and benefits for other stakeholders.
- To comply with all regulatory capital requirements as set out under Solvency II.
- To provide an adequate return to the shareholder by pricing insurance and investment contracts according to the level of risk and capital associated with the business written.
- In respect of with-profit business, to continue to meet the requirements of the Part VII Scheme of Transfer effected on 29 March 2019.
- To maintain an appropriate quality of Own Funds.

The capital management strategy is such that SWE will hold additional buffer capital in line with the stated risk appetite for the business. Any surplus Own Funds above the capital buffer is available for distribution to the parent to the extent it is not required for other purposes over the 5-year business planning period.

As at 31 December 2024 SWE's solvency ratio was and is expected to remain well above internal and regulatory requirements.

The capital management strategy is aligned to the requirements of the Lloyds Banking Group Capital Policy. Policy and procedures are operated within SWE to comply with the Group Capital Policy and these include:

- Setting SWE Risk Appetite.
- Managing Own Funds within the SWE Risk Appetite.
- Monitoring Own Funds against Risk Appetite metrics.
- Maintaining a capital buffer in conjunction with minimum limits relating to capital quality.
- Future capital projections are produced annually as part of the 5 Year Operating Plan ('5YOP') and summarised within the ORSA. A 'forward looking' capital assessment is compared to risk appetite under a range of stress scenarios, with management plans established as appropriate where a breach of risk appetite is projected to occur.
- Capital stress testing is undertaken on a regular basis. In particular, stress testing is completed annually as part of the 4YOP and ORSA report (SWE's 2024 stress test focused on ICT risks: see section "C.7.2 Stress testing: sensitivity and scenario analysis" of this report).
- Regulatory Solvency Capital Requirements are measured using the SCR Standard Formula.
- There have been no material changes to the policies, processes and objectives for management of Own Funds over the reporting period. Further details of the role of the SWE Board and Risk Appetite can be found in Section B of this report.

E.1.2 Own Funds Components: nature, amount and quality by Tier

E.1.2.1 Excess of Assets over Liabilities

The excess of assets over liabilities (*which must be reduced by foreseeable dividend payments*) in SWE's Solvency II balance sheet (as described in Section D of this report) forms the basis of the available and eligible own funds to cover both the SCR and the MCR.

Not all of the items comprising Own Funds have the same ability to absorb losses. It is therefore necessary to classify the Own Funds into different tiers. There are two main criteria used to determine the classification of Own Funds into the tiering levels. These criteria are:

- how available is the item under both going-concern and winding up scenarios;
- how does it rank in terms of subordination relative to policyholder liabilities.

Depending on how an item matches these criteria, it is then classed as Tier 1, Tier 2 or Tier 3, with Tier 1 having the greatest loss absorbing capacity (*and hence is the highest quality capital such as paid-in ordinary share capital*). Target levels of capital are determined for each tier such that there is not expected to be a de-recognition of capital in the event of a stress, calibrated to a level consistent with SWE's internal risk appetite.

E.1.2.2 Other Basic Own Funds Items

Equity: Subscribed / Ordinary Share Capital and Share Premium account

The share capital at 31/12/2023 comprises 6m shares of €1 each, issued and fully paid and a share premium of **€205m**. The share capital is undated, subordinate to all other liabilities and is immediately available to absorb losses. Distributions can be cancelled where there is non-compliance with the SCR or where payment of the distribution would result in non-compliance with the SCR.

As at 31/12/2024, subscribed capital accounts for € 6 m, and share Premium, for € 205 m. Both elements are classified as **unrestricted Tier 1**.

Net Deferred Tax Assets (Net DTA)

Please refer to sections D.1.2.1 and D.3.1.3 above in this report for additional information on the way Net DTAs are calculated. In accordance with Solvency II regulation, Net DTA (only when greater than zero) is classified as a **"Tier 3"** element of available own fund, eligible to the cover of the SCR but not the MCR.

E.1.2.3 Reconciliation reserve: definition

The reconciliation reserve represents the Solvency II total excess of assets over liabilities (*reduced by foreseeable dividend payments)*, minus the accounting "Basic Own Funds items" (Including Net DTA). The table below gives its evolution in 2023 and 2024.

When this reserve is positive, the company has full flexibility on the payment of any dividends from the reconciliation reserve and it is subordinate to all other liabilities. It is therefore immediately available for loss absorption, and is classified as **unrestricted Tier 1**, in line with the ordinary share capital. When it is negative as this is the case in 2023 and 2024, it simply reduces the amount of unrestricted Tier 1 SWE's own funds.

Reconciliation Reserve , €	31/12/2023	31/12/2024
SII Excess of assets over liabilities => (+)	208,892,074	172,902,025
Foreseeable dividends => (-)	0	0
Other basic own fund items => (-)	211,000,000	211,000,000
Ordinary share capital	*6,000,000*	*6,000,000*
Share premium account	*205,000,000*	*205,000,000*
Net Deferred Tax Assets	*0*	*0*
Reconciliation reserve	**-2,107,926**	**-38,097,975**

E.1.3 Eligible Amount of Own Funds to cover the SCR classified by Tier

The excess of assets over liabilities in the reported balance sheet position of SWE as described in Section D of this report, forms the basis of the own funds available and eligible to meet the SCR.

The components of Solvency II Available and Eligible Own Funds, their nature and quality are detailed in the table below. SWE Own Funds are all unrestricted Tier 1, except the amount of net deferred tax asset, which, in accordance with Solvency II regulation, is classified as Tier 3.

Own Funds components, €	31/12/2023	31/12/2024
Tier 1 (Unrestricted)	**208,892,074**	**172,902,025**
Ordinary share capital	*6,000,000*	*6,000,000*
Share premium account	*205,000,000*	*205,000,000*
Reconciliation reserve	*-2,107,926*	*-38,097,975*
Tier 2	**0**	**0**
- Not applicable	*0*	*0*
Tier 3	**0**	**0**
Net Deferred Tax Assets	*0*	*0*
Available Own Funds to cover SCR	208,892,074	172,902,025
Eligible Own Funds to cover SCR	**208,892,074**	**172,902,025**

There are at SWE

- no Ancillary Own Funds,
- no Own Funds items subject to Solvency II transitional arrangements
- no Own Funds items subject to any restriction affecting their availability or transferability.

The evolution of Eligible Own Funds and SCR for SWE are shown in the table below.
No Tier limits apply to SWE as at 31 December 2024.
SWE retains on a continuous basis sufficient capital to cover the SCR throughout the reporting period.

€	31/12/2023	31/12/2024
Eligible Own Funds to cover SCR	208,892,074	172,902,025
SCR	94,017,094	96,949,985
Ratio of Eligible Own Funds to SCR	**2.22**	**1.78**

E.1.4 Eligible Amount of Own Funds to cover the MCR classified by Tier

The Eligible Own Funds and MCR for SWE are shown in the table below.

SWE retains on a continuous basis sufficient capital to cover the MCR throughout the reporting period.

€	31/12/2023	31/12/2024
Eligible Own Funds to cover MCR	208,892,074	172,902,025
MCR	23,504,273	24,237,496
Ratio of Eligible Own Funds to MCR	**8.89**	**7.13**

E.1.5 Material differences between Equity (as shown in the Financial Statements) and the Excess of Assets over Liabilities (as calculated for Solvency Purposes)

The table below presents a comparison of equity and reserves shown in SWE financial statements and the excess of assets over liabilities calculated for solvency purposes.

€	31/12/2023	31/12/2024
Equity per LUX GAAP financial statements	**135,000,152**	**95,829,691**
Valuation differences (SII - Lux GAAP) *Please refer also to descriptions given in Section D.2*		
Deferred tax Assets *(SII Framework only)*		
Reinsurance Recoverables	*-14,700,676*	*-13,472,592*
Receivables (trade, not insurance)		*56,407*
All Assets	***-14,700,676***	***-13,416,185***
Technical provisions	*-94,854,641*	*-97,858,592*
** Best Estimates of Liabilities Minus LUX GAAP TP*	*-162,236,063*	*-164,981,005*
** Risk Margin (Solvency II Framework only)*	*67,381,422*	*67,122,414*
Deferred tax Liabilities *(Solvency II Framework only)*	*6,262,044*	*5,820,946*
Others	*0*	*1,549,126*
All Liabilities	***-88,592,597***	***-90,488,520***
Excess of Assets over Liabilities **(Solvency II balance sheet)**	**208,892,074**	**172,902,025**

E.2 SCR and MCR

E.2.1 Solvency Capital Requirement ('SCR')

E.2.1.1 Period-End Amounts (Total and split by Risk Module of the Standard Formula)

The SCR for SWE has been calculated using the Standard Formula approach set out in the Directive. The resulting capital requirements at 31 December 2023 and 2024 are as follows:

Solvency Capital Requirement €	**31/12/2023**	**31/12/2024**
Market risk	40,936,971	43,343,925
Counterparty default risk	15,862,271	14,735,912
Life underwriting risk	67,076,112	68,609,558
Diversification within basic SCR	*-30,836,304*	*-31,217,480*
Basic SCR	**93,039,050**	**95,471,915**
Operational risk	7,240,087	7,299,017
Loss absorbing capacity of deferred taxes	-6,262,044	-5,820,946
Total SCR	**94,017,094**	**96,949,985**

E.2.1.2 Material changes over the reporting period and associated reasons

Changes observed during the reporting period are shown and explained in Section E.6.1 of this report.

E.2.1.3 Use of simplifications within the Standard Formula

There are no risk modules or sub-modules of the Standard Formula calculation for which the Company applies simplified calculations.

E.2.1.4 Use of Undertaking-Specific Parameters

The Company does not use any undertaking-specific parameters within the Standard Formula calculation.

E.2.2 Minimum Capital Requirement ('MCR')

The MCR represents the minimum level below which the amount of financial resources should not fall.

It is calculated in accordance with a formula prescribed in the Solvency II regulations and is subject to a floor and a cap equal to 25% and 45% of the SCR respectively.

It is based on factors applied to the technical provisions and capital at risk as at the reporting date.

E.2.2.1 Period-End Amounts calculated and Inputs used

The components of the calculation of the MCR as at 31 December 2023 and 2024 are presented below. For SWE the minimum 25% floor of the SCR bites compared to the linear component.

Minimum Capital Requirement €	**31/12/2023**	**31/12/2024**
Linear MCR	2,834,946	3,107,133
SCR	94,017,094	96,949,985
MCR Cap	42,307,692	43,627,493
MCR Floor	23,504,273	24,237,496
MCR	**23,504,273**	**24,237,496**

E.2.2.2 Material changes over the reporting period and associated reasons

The MCR keeps being based on the floor of the SCR and as such, the change in MCR over this period is driven by the same factors as the change in SCR.

E.2.3 Loss Absorbing Capacity of Deferred Taxes

The amount by which the SCR has been adjusted in respect of the loss-absorbing capacity of deferred taxes (LAC DT) at 31 December 2024 was € 5,820,946 (*31/12/2023: € 6,262,044*). As a reminder, LAC DT was set to zero at yearend 2022, when SWE recognised a positive net DTA.

E.3 Use of the duration-based equity risk sub-module

SWE does not use the duration-based equity risk sub-module in the calculation of the SCR (option set out in Article 304 of Directive 2009/138/EC).

E.4 Differences standard formula / internal model

SWE calculates its SCR in conformity with the Standard Formula and does not use any partial or full internal model.

E.5 Non-compliance with the MCR / SCR

SWE retained sufficient capital to cover both the MCR and the SCR throughout the reporting period.

E.6 Any other information

E.6.1 Capital Roll-Forward

The Group to which SWE belongs is a member of the CFO Forum ('CFOF'). In 2018, the CFOF agreed a structure and content for a common "roll-forward" disclosure.

The aim of the table below is to provide users of the disclosures with sufficient information to understand the movements in the Solvency II capital position.

Capital Roll-Forward Table (As proposed by CFOF Solvency II Disclosures Working Group)

Capital Roll-Forward (€ m)	Eligible Own Funds	SCR
Initial Calculation as at 31 December 2023	209	94
Mergers, acquisitions & disposals		
Regulatory & other model changes		
Operating impacts:		
New business contribution	0	0
Expected in-force contribution	(*1) -13	-4
Assumption changes & experience variances	(*2) -28	(*3) 7
Debt costs	0	0
Market variances	(*4) 5	0
Material miscellaneous items		
Other non-operating changes		
Capital management		
Closing balance as at 31 December 2024	**173**	**97**

Notes

(*1): Negative Eligible Own Funds expected return due to project expenses in 2024.
(*2): Mainly: Impacts of Annual Business Review (most of which was expenses) and one-offs, mostly Risk Margin impact of the mortality charge change
(*3): SCR assumption change and Expense variances value are mainly driven by the update to the asset mix of the invested funds and the mortality charge change.
(*4): Includes investment return, yields and inflation (net of hedge movements)

E.6.2 Others

All important information regarding the capital management of SWE has been addressed in the sections above.

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List of Appendices

Appendix 1: Abbreviation List

Appendix 2: Technical provisions – Assumptions

Appendix 3: Quantitative Reporting Templates (All amounts in euro)

Appendix 1: Abbreviations List

4YOP : Four-Year Operating Plan

(SWE)AC: SWE Audit Committee

AML: Anti Money Laundering

BaFin: Bundesanstalt für Finanzdienstleistungsaufsicht, the financial regulatory authority for Germany

BAU: Business As Usual

BE(L): Best Estimate (of Liabilities)

BoD : Board of Directors

CAA: Commissariat Aux Assurances

CM(IG): Clerical Medical (Insurance Group)

CTF: Counter Terrorism Financing

DORA: Digital Operational Resilience Act

EIOPA : European Insurance and Occupational Pensions Authority

EUC: End User Computing

GAAP: Generally Accepted Accounting Principles

HLSM: Heidelberg Leben Service Management

HRG: Homogeneous Risk Groups

ICT: Information & Communication Technologies

IM: Internal Model (the one from SWL, approved by the PRA)

IP&I: Insurance, Pensions and Investments (one of the seven Business Units within LBG)

IP&IALCO: Insurance, Pensions & Investment –Liability Committee

IP&IRC: Insurance, Pensions & Investment Risk Committee

IT: Information Technology

IVASS: Istituto per la vigilanza sulle assicurazioni, Institute for the Supervision of Insurance in Italy

LAC DT / TP : Loss Absorbing Capacity of Deferred Taxes / Technical Provisions

LBG: Lloyds Banking Group

LoD: Line of Defence

LRM: Legal Regulatory and /or Mandatory

LVBS: LV Bestandsservice GmbH (a subsidiary of HLSM)

MLRO: Money Laundering Reporting Officer

MuCR: Mulberry Capital Requirement

OF: Own Funds

ORSA: Own Risk & Solvency Assessment

PAM: Pack Assurance Management

PRA: Prudential Control Authority

QRT: Quantitative Reporting Template (=> Pillar 3 Solvency II, Pillar 1 Figures)

RASCI: Responsible (=> Performer), Accountable (=> Approver), Concerned, Support, Informed

RAS: Risk Appetite Statement

RM: Risk Margin

RM(F): Risk Management (Framework)

RSR : Regulatory Solvency Report

SCR: Solvency capital Requirement (In this report, otherwise mentionned : Pillar 1 Standard Formula)

SF: Standard Formula (=> SCR Calculation)

SFCR: Solvency & Financial Conditions Report

SoG: System of Governance

SWE (MC) : Scottish Widows Europe (Management Committee)

SWG, SWL: Scottish Widows Group, Scottish Widows Limited

TP: Technical Provisions

UL: Unit Linked

UWP: Unitised With Profit

Appendix 2: Technical provisions – Assumptions

Key assumptions in deriving the technical provisions

Section D.2.2 covers the approach taken to determine key best estimate assumptions used for calculating the technical provisions at 31/12/2024. Sample assumptions have been provided below.

Lapses

These assumptions reflect the future rates at which policies are expected to lapse. These are significant assumptions for unit-linked products where income from future charges is dependent on the continuation of premium payments and/or the policy remaining in force.

For UWP products there are specific lapse rate assumptions to reflect product features, such as the minimum investment term for single premium business.

	Unit-linked		UWP
Policy Year	Regular Premium	Single Premium	Single Premium
1	7.90%	6.60%	7.90%
5	7.90%	6.60%	7.90%
10	7.90%	6.60%	7.90%
15	5.90%	6.60%	5.90%
20	3.80%	6.70%	3.80%

Longevity

Future longevity is a key assumption for annuity business, which is within the ‘Other’ line of business, as policyholders living longer than expected will result in more annuity payments being paid than anticipated, resulting in higher technical provisions.

Products	Assumptions
Vested with-profits annuity business	Base: 100% DAV2004R (2nd order) Improvements: CMI21, 7.25, 1.90% LTR - 0.2A M, 0.3A F
Other products	34% AM80 Ultimate for males 41% AF80 Ultimate for females

Appendix 3: Quantitative Reporting Templates- Year-End 2024 *(All amounts in euro)*

	S.02.01.01		
	Balance sheet		
		Solvency II value	**Statutory accounts value**
	Assets	C0010	C0020
R0010	Goodwill		
R0020	Deferred acquisition costs		
R0030	Intangible assets		
R0040	Deferred tax assets		
R0050	Pension benefit surplus		
R0060	Property, plant & equipment held for own use	0	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,781,066,111	1,781,066,111
R0080	*Property (other than for own use)*	0	
R0090	*Holdings in related undertakings, including participations*	0	
R0100	*Equities*	0	0
R0110	*Equities - listed*		
R0120	*Equities - unlisted*		
R0130	*Bonds*	37,315,306	37,315,306
R0140	*Government Bonds*	37,315,306	37,315,306
R0150	*Corporate Bonds*	0	
R0160	*Structured notes*	0	
R0170	*Collateralised securities*	0	
R0180	*Collective Investments Undertakings*	1,679,425,983	1,679,425,983
R0190	*Derivatives*	64,324,822	64,324,822
R0200	*Deposits other than cash equivalents*	0	
R0210	*Other investments*	0	
R0220	Assets held for index-linked and unit-linked contracts	264,533,231	264,533,231
R0230	Loans and mortgages	0	0
R0240	*Loans on policies*		
R0250	*Loans and mortgages to individuals*		
R0260	*Other loans and mortgages*		
R0270	Reinsurance recoverables from:	1,451,596,523	1,465,069,115
R0280	*Non-life and health similar to non-life*	0	0
R0290	*Non-life excluding health*		
R0300	*Health similar to non-life*		
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	1,451,748,831	1,465,069,115
R0320	*Health similar to life*	0	
R0330	*Life excluding health and index-linked and unit-linked*	1,451,748,831	1,465,069,115
R0340	*Life index-linked and unit-linked*	-152,308	
R0350	Deposits to cedants	0	
R0360	Insurance and intermediaries receivables	7,812,678	7,812,678
R0370	Reinsurance receivables	82,600	82,600
R0380	Receivables (trade, not insurance)	83,948,748	83,892,341
R0390	Own shares (held directly)		
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	
R0410	Cash and cash equivalents	204,867,317	204,867,317
R0420	Any other assets, not elsewhere shown		
R0500	**Total assets**	3,793,907,208	3,807,323,394

		Solvency II value	Statutory accounts value
	Liabilities	C0010	C0020
R0510	Technical provisions - non-life	0	0
R0520	*Technical provisions - non-life (excluding health)*	0	
R0530	*TP calculated as a whole*		
R0540	*Best Estimate*		
R0550	*Risk margin*		
R0560	*Technical provisions - health (similar to non-life)*	0	
R0570	*TP calculated as a whole*		
R0580	*Best Estimate*		
R0590	*Risk margin*		
R0600	Technical provisions - life (excluding index-linked and unit-linked)	1,527,361,570	1,707,254,640
R0610	*Technical provisions - health (similar to life)*	0	
R0620	*TP calculated as a whole*	0	
R0630	*Best Estimate*		
R0640	*Risk margin*		
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	1,527,361,570	1,707,254,640
R0660	*TP calculated as a whole*		
R0670	*Best Estimate*	1,470,355,739	
R0680	*Risk margin*	57,005,831	
R0690	Technical provisions - index-linked and unit-linked	346,567,709	264,533,230
R0700	*TP calculated as a whole*	0	
R0710	*Best Estimate*	336,451,127	
R0720	*Risk margin*	10,116,582	
R0730	Other technical provisions		
R0740	Contingent liabilities	0	
R0750	Provisions other than technical provisions	60,436,257	60,436,257
R0760	Pension benefit obligations		
R0770	Deposits from reinsurers	1,437,267,205	1,437,267,205
R0780	Deferred tax liabilities	5,820,946	
R0790	Derivatives	137,425,413	
R0800	Debts owed to credit institutions	50,625,175	188,050,588
R0810	Financial liabilities other than debts owed to credit institutions		
R0820	Insurance & intermediaries payables	31,832,680	31,832,680
R0830	Reinsurance payables		
R0840	Payables (trade, not insurance)	23,668,228	22,119,102
R0850	Subordinated liabilities	0	0
R0860	*Subordinated liabilities not in BOF*		
R0870	*Subordinated liabilities in BOF*	0	
R0880	Any other liabilities, not elsewhere shown		
R0900	**Total liabilities**	3,621,005,183	3,711,493,702
R1000	**Excess of assets over liabilities**	172,902,025	95,829,691

	S.05.01.01			
	Premiums, claims and expenses by line of business			
	Life	Line of Business for: life insurance obligations		Total
		Insurance with profit participation	Index-linked and unit-linked insurance	
		C0220	C0230	C0300
	Premiums written			
R1410	*Gross*	66,555,988	11,879,034	78,435,022
R1420	*Reinsurers' share*	59,807,595	23,444	59,831,039
R1500	*Net*	6,748,393	11,855,590	18,603,983
	Premiums earned			
R1510	*Gross*	66,555,988	11,879,034	78,435,022
R1520	*Reinsurers' share*	59,807,595	23,444	59,831,039
R1600	*Net*	6,748,393	11,855,590	18,603,983
	Claims incurred			
R1610	*Gross*	195,179,233	24,485,874	219,665,107
R1620	*Reinsurers' share*	194,005,939	16,070	194,022,008
R1700	*Net*	1,173,295	24,469,805	25,643,099
R1900	**Expenses incurred**	120,393,824	33,704,418	154,098,243
	Administrative expenses			
R1910	*Gross*	438,858	8,367,667	8,806,525
R1920	*Reinsurers' share*			0
R2000	*Net*	438,858	8,367,667	8,806,525
	Investment management expenses			
R2010	*Gross*	106,228,080	61,662	106,289,742
R2020	*Reinsurers' share*			0
R2100	*Net*	106,228,080	61,662	106,289,742
	Claims management expenses			
R2110	*Gross*	251,453	31,546	282,999
R2120	*Reinsurers' share*			0
R2200	*Net*	251,453	31,546	282,999
	Acquisition expenses			
R2210	*Gross*	9,873,653	1,762,268	11,635,921
R2220	*Reinsurers' share*			0
R2300	*Net*	9,873,653	1,762,268	11,635,921
	Overhead expenses			
R2310	*Gross*	3,601,779	23,481,276	27,083,056
R2320	*Reinsurers' share*			0
R2400	*Net*	3,601,779	23,481,276	27,083,056
R2510	**Balance - other technical expenses/income**			-19,439,051
R2600	**Total technical expenses**			134,659,191
R2700	**Total amount of surrenders**	92,193,850	16,260,889	108,454,738

S.12.01.01
Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Total (Life other than health insurance, incl Unit-linked)
				Contracts without options and guarantees	Contracts with options or guarantees	
		C0020	C0030	C0040	C0050	C0150
R0010	**Technical provisions calculated as a whole**					0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole					0
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
R0030	**Gross Best Estimate**	1,470,355,739			336,451,127	1,806,806,866
R0040	Total recoverables from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	1,451,748,831		0	-152,308	1,451,596,523
R0050	*Recoverables from reinsurance (except SPV and Finite Re) before adjustment for expected losses*	1,451,748,831			-152,308	1,451,596,523
R0060	*Recoverables from SPV before adjustment for expected losses*					0
R0070	*Recoverables from Finite Re before adjustment for expected losses*					0
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	1,451,748,831			-152,308	1,451,596,523
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	18,606,908		0	336,603,434	355,210,342
R0100	**Risk margin**	57,005,831	10,116,582			67,122,414
	Amount of the transitional on Technical Provisions					
R0110	Technical Provisions calculated as a whole					0
R0120	Best estimate					0
R0130	Risk margin					0
R0200	**Technical provisions - total**	1,527,361,570	346,567,709			1,873,929,279
R0210	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	75,612,739	346,720,017			422,332,756
R0220	**Best estimate of products with a surrender option**	1,378,224,129	163,146,369			1,541,370,498
	Gross BE for cash flow					
	Cash out-flows					
R0230	*Future guaranteed and discretionary benefits*		282,955,791			1,866,856,996
R0240	*Future guaranteed benefits*	789,205,715				789,205,715
R0250	*Future discretionary benefits*	794,695,490				794,695,490
R0260	*Future expenses and other cash out-flows*	290,482,873	90,562,527			381,045,400
	Cash in-flows					
R0270	*Future premiums*	404,028,338	37,067,191			441,095,530
R0280	*Other cash in-flows*					0
R0290	**Percentage of gross Best Estimate calculated using approximations**					
R0300	**Surrender value**	1,347,553,045	165,689,536			1,513,242,582
R0310	**Best estimate subject to transitional of the interest rate**					0
R0320	Technical provisions without transitional on interest rate					0
R0330	**Best estimate subject to volatility adjustment**					0
R0340	Technical provisions without volatility adjustment and without others transitional measures	1,527,361,570	346,567,709			1,873,929,279
R0350	**Best estimate subject to matching adjustment**					0
R0360	Technical provisions without matching adjustment and without all the others	1,527,361,570	346,567,709			1,873,929,279
R0370	**Expected profits included in future premiums (EPIFP)**	6,338,400	2,587,618			8,926,019

	S.23.01.01					
	Own Funds					
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	6,000,000	6,000,000		0	
R0030	Share premium account related to ordinary share capital	205,000,000	205,000,000		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-38,097,975	-38,097,975			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0				
R0290	**Total basic own funds after deductions**	172,902,025	172,902,025	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	172,902,025	172,902,025	0	0	0
R0510	Total available own funds to meet the MCR	172,902,025	172,902,025	0	0	
R0540	Total eligible own funds to meet the SCR	172,902,025	172,902,025	0	0	0
R0550	Total eligible own funds to meet the MCR	172,902,025	172,902,025	0	0	
R0580	**SCR**	96,949,985				
R0600	**MCR**	24,237,496				
R0620	**Ratio of Eligible own funds to SCR**	1.78				
R0640	**Ratio of Eligible own funds to MCR**	7.13				
		Value				
	Reconciliation reserve	C0060				
R0700	Excess of assets over liabilities	172,902,025.42				
R0710	Own shares (held directly and indirectly)	0.00				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	211,000,000.00				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	0.00				
R0760	**Reconciliation reserve**	-38,097,974.58				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	8,926,018.51				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	8,926,018.51				

S.25.01.01

Solvency Capital Requirement - for undertakings on Standard Formula

Z0010	Article 112	**Regular reporting**		
		Net solvency capital requirement	**Gross solvency capital requirement**	**Allocation from adjustments due to RFF and Matching adjustments portfolios**
		C0030	C0040	C0050
R0010	Market risk	43,343,925	43,343,925	0
R0020	Counterparty default risk	14,735,912	14,735,912	0
R0030	Life underwriting risk	68,609,558	68,609,558	0
R0040	Health underwriting risk			0
R0050	Non-life underwriting risk		0	0
R0060	Diversification	-31,217,480	-31,217,480	
R0070	Intangible asset risk	0	0	
R0100	**Basic Solvency Capital Requirement**	95,471,915	95,471,915	

	Calculation of Solvency Capital Requirement	C0100
R0120	Adjustment due to RFF/MAP nSCR aggregation	
R0130	Operational risk	7,299,017
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-5,820,946
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	96,949,985
R0210	Capital add-ons already set	0
R0211	of which, capital add-ons already set - Article 37 (1) Type a	
R0212	of which, capital add-ons already set - Article 37 (1) Type b	
R0213	of which, capital add-ons already set - Article 37 (1) Type c	
R0214	of which, capital add-ons already set - Article 37 (1) Type d	
R0220	**Solvency capital requirement**	96,949,985
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring-fenced funds	
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
R0450	Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	4
R0460	Net future discretionary benefits	
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Yes

	Calculation of loss absorbing capacity of deferred taxes	**Before the shock**	**After the shock**	**LAC DT**
		C0110	C0120	C0130
R0600	**DTA**	0		
R0610	DTA carry forward			
R0620	DTA due to deductible temporary differences			
R0630	**DTL**	5,820,946		
R0640	**LAC DT**			-5,820,946
R0650	LAC DT justified by reversion of deferred tax liabilities			-5,820,946
R0660	LAC DT justified by reference to probable future taxable economic profit			
R0670	LAC DT justified by carry back, current year			
R0680	LAC DT justified by carry back, future years			
R0690	Maximum LAC DT			-24,531,421

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010		
R0010	MCR_{NL} Result	0.00		
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole	**Net (of reinsurance) written premiums in the last 12 months**
			C0020	C0030
R0020	Medical expense insurance and proportional reinsurance			
R0030	Income protection insurance and proportional reinsurance			
R0040	Workers' compensation insurance and proportional reinsurance			
R0050	Motor vehicle liability insurance and proportional reinsurance			
R0060	Other motor insurance and proportional reinsurance			
R0070	Marine, aviation and transport insurance and proportional reinsurance			
R0080	Fire and other damage to property insurance and proportional reinsurance			
R0090	General liability insurance and proportional reinsurance			
R0100	Credit and suretyship insurance and proportional reinsurance			
R0110	Legal expenses insurance and proportional reinsurance			
R0120	Assistance and proportional reinsurance			
R0130	Miscellaneous financial loss insurance and proportional reinsurance			
R0140	Non-proportional health reinsurance			
R0150	Non-proportional casualty reinsurance			
R0160	Non-proportional marine, aviation and transport reinsurance			
R0170	Non-proportional property reinsurance			

	Linear formula component for life insurance and reinsurance obligations	C0040		
R0200	MCR_{L} Result	3,107,133		
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole	**Net (of reinsurance/SPV) total capital at risk**
			C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		18,606,908	
R0220	Obligations with profit participation - future discretionary benefits			
R0230	Index-linked and unit-linked insurance obligations		336,603,434	
R0240	Other life (re)insurance and health (re)insurance obligations			
R0250	Total capital at risk for all life (re)insurance obligations			89,219,405

	Overall MCR calculation	C0070
R0300	Linear MCR	3,107,133
R0310	SCR	96,949,985
R0320	MCR cap	43,627,493
R0330	MCR floor	24,237,496
R0340	Combined MCR	24,237,496
R0350	Absolute floor of the MCR	4,000,000
R0400	**Minimum Capital Requirement**	24,237,496

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