

# Aegon UK Group

## Solvency and Financial Condition Report

### 2023

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## Scope of the Report

Following changes to the Solvency II (SII) Pillar 3 regulatory reporting requirements, as from 31 December 2023, firms are no longer required to produce the Regular Supervisory Report (RSR) which was a private report to the supervisor and not disclosed publicly. Firms are required to continue producing the **Solvency and Financial Condition Report (SFCR)** containing both qualitative and quantitative information, and to disclose this report publicly and to the Prudential Regulation Authority (PRA) on an annual basis.

This report is Aegon UK Group's ('AUK Group') SFCR for the year ending December 31, 2023. This report informs AUK Group's stakeholders about the Group's:

- Business and performance (section A of the report);
- System of governance (section B of the report);
- Risk profile (section C of the report);
- Valuation for solvency purposes (section D of the report); and
- Capital management (section E of the report).

## Basis of Preparation

This report is prepared in accordance with the requirements of Solvency II Directive and Delegated Regulation (in particular article 51 of the Solvency II Directive and articles 290-298 of the Delegated Regulation, and relevant European Insurance and Occupational Pensions Authority (EIOPA) Guidelines, in particular 'Guidelines on reporting and public disclosure' (EIOPA-BoS-15/109) as issued by EIOPA. Following the UK's withdrawal from the European Union, AUK Group must comply with the Solvency II regulatory regime as adopted in the UK. In this document, references to requirements set out in the Solvency II Directive, Delegated Regulation and EIOPA guidelines should be interpreted as requirements that apply as at 31 December 2023 under the corresponding version of those documents as adopted by the UK.

Aegon UK plc and its subsidiaries are referred to in this document as 'AUK Group' or 'the Group'. A set of acronyms and glossary of terms can be found in Appendices A and B of this document.

The Group's 2022 regulatory solvency requirements were calculated on a UK Standard Formula basis (SF) as at 31 December 2022. The Group changed to report on a UK Partial Internal Model (PIM) basis with effect from Q1 2023 following approval by the PRA on 16 March 2023. The prior period results have been restated on a PIM basis to aid comparison, where available.

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

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

The 2023 SFCR of AUK Group has been prepared and disclosed under the responsibility of the AUK Group Board. The Group is required to ensure that its SFCR is subject to approval by its governing body and that the governing body takes responsibility for ensuring that the SFCR has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations.

## Summary

### Introduction

The AUK Group comprises Scottish Equitable plc (SE plc), AUK Investment Group, Pension Geeks, and AUK Corporate Services Limited. SE plc is the only regulated insurance entity in the Group and writes all pensions and insurance business in the UK.

The AUK Investment Group is wholly comprised by Aegon UK Investment Holdings Limited and its subsidiaries; Cofunds Ltd, Aegon Investment Solutions Limited, Aegon Investments Limited and Momentum Group Ltd, which in turn has two subsidiaries Origen Financial Services Limited and Origen Limited.

Pension Geeks Ltd is an unregulated service company specialising in connecting people with their finances through innovative techniques, communication, and events.

Aegon UK Corporate Services Ltd is a service company which employs the staff of the Group.

The AUK Group is a subsidiary of Aegon Europe Holding B.V. and is a core business of the Aegon Group, one of the world's leading providers of life insurance and pensions operations and is also active in savings and asset management operations, accident and health insurance and general insurance. Aegon Group focuses on two core markets (the United States and the United Kingdom), three growth markets (Spain & Portugal, China, and Brazil) and one global asset manager. Until 30 September 2023 the ultimate parent undertaking was Aegon N.V. which was incorporated in the Netherlands. As part of the ultimate parent undertaking's re-domiciliation process to Bermuda, the ultimate parent undertaking was first converted into a Luxembourg entity, Aegon S.A. on 30 September 2023 before it was subsequently converted into the Bermuda company, Aegon Ltd. on the same day.

The Aegon Group headquarters are currently located in The Hague, the Netherlands. From the beginning of 2025, the World Trade Center, Schiphol, will host all staff from Aegon's headquarters and employees of the Dutch part of Aegon Asset Management.

Aegon operates in a fast-changing environment, in which we face new challenges but also opportunities. Aegon aims to play a key role in shaping a thriving and sustainable society by delivering on our purpose of Helping people live their best lives. Aegon's strategy is not just about strengthening our operational and financial performance, but also strives to have a positive impact on society at large, including by managing our direct operations and our investment activities as sustainably and responsibly as possible.

## A. Business and Performance

### *Group overview*

The Aegon UK Group is one of the UK's leading providers of corporate and individual pensions, protection products, savings and investment products. The largest operating subsidiaries in the Aegon UK Group are Scottish Equitable plc and Cofunds Limited. The Group is primarily a long-term savings and protection business, supporting customers who are retired or saving for their retirement. Products are sold through its online platform, which enable advisors, employers, and individuals to buy and manage investments online, and to also have a single view of investments.

### *Strategic overview*

On 4 April 2023 the Group announced the sale of its UK individual protection book to Royal London. Under the terms of the agreement the Group has initially reinsured the portfolio to Royal London, which will be followed by a Part VII transfer of the legal ownership of the individual protection book in 2024. The transfer is subject to court approval. The Company's individual protection business is a portfolio of life, critical illness, and income protection policies for 400,000 high-net worth individual customers, that was sold through independent financial advisers. The portfolio closed to new business on 4 April 2023. The transaction does not have a material financial impact on the capital position, nor the risk profile, of the Group.

The Group has an established advisory business in Origen Financial Services Limited (a subsidiary of Aegon UK plc), providing independent advice directly to high net worth clients. In August 2023, Aegon agreed a transaction with the Nationwide Building Society (NBS), which concluded on 1 February 2024, to transfer NBS's financial planning service. The agreement extends the existing strategic partnership, with the transfer of c. 300 staff to Origen Financial Services Limited (a subsidiary of the Company) along with the agreement of a new introducer arrangement for those advisers to continue to provide services to Nationwide customers. The transaction does not have a material financial impact on the capital position, nor the risk profile, of the Group.

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

The Directors consider that the Group has the plans and resources to manage its business risks successfully despite this economic and regulatory uncertainty through its plans for focussing on investing in growing the customer base, improving customer retention, and growing margins.

A key element of the Group's strategy is to maintain capital at an appropriate level as protection for policyholders. The key performance indicator for Solvency II is the Solvency II surplus ratio which at 31 December 2023 is 197% (2022: 178%, restated on PIM basis). The key driver for the increase in ratio was the UK Solvency II Risk Margin reform effective from 31 December 2023. Other drivers include ongoing capital generation and impacts from market movements and de-risking activities. This was partially offset by dividends paid, new business strain and an update to expense assumptions.

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

## **B. System of Governance**

### *Corporate governance*

The Group ownership structure is presented in section A.1.4 Ownership Structure. Our corporate governance structure is in place to ensure the safe and efficient management of the Group, its operations, and to protect the interests of its customers.

The Aegon UK Group Board (AUKGB) is the statutory board of Aegon UK plc, Scottish Equitable plc, Scottish Equitable Holdings Limited, Aegon UK Investment Holdings Limited, Cofunds Limited and Aegon Investments Limited. It has oversight of the Group and assumes overall management responsibilities for the Group. The AUKGB has delegated responsibilities to committees of the Board, and the Board and its committees form the Administrative, Management, or Supervisory Body (AMSB).

Specifically the AMSB includes:

- AUKGB
- AUKG Executive Committee
- AUKG Audit Committee
- AUKG Investment Committee
- AUKG Board Risk and Capital Committee
- AUKG Remuneration Committee (“REMCO”)
- AUKG Nomination Committee
- With-Profits Forum (WPF)

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

#### *Risk management*

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

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

#### *Control environment*

In addition to risk management, AUK Group’s Solvency II control environment consists of an internal control system, which includes the Compliance function, the Actuarial Function and the Internal Audit function. The internal control system serves to facilitate compliance with applicable laws, regulation, and administrative processes and it provides for an adequate control environment including appropriate control activities for key processes. The Actuarial Function has end-to-end accountability for the adequacy and reliability of reported technical provisions, including policy setting and monitoring of compliance regarding actuarial risk tolerances. AUK Group’s Internal Audit function is independent and objective in performing its duties in evaluating the effectiveness of AUK Group’s internal control system.

Full details on AUK Group’s system of governance are described in Chapter B. System of Governance.

## **C. Risk Profile**

#### *Key risks*

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

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

### Solvency Capital Requirement for AUK Group (unaudited)

Amounts in GBP Millions		2023
C.2 Market risk	Market Risk (SF)	35.2
	Market Risk (IM)	1,035.0
C.3 Credit risk*	Counterparty default risk (SF)	65.7
C.1 Underwriting risk	Life underwriting risk (SF)	16.7
	Life underwriting risk (IM)	1,270.1
	Health underwriting risk (SF)	0.7
C.5 Operational risk	Operational risk (IM)	305.7
	LAC-TP **	(88.1)
C.6 Other material risk	LAC-DT	(391.9)
<b>Total undiversified components</b>		<b>2,249.2</b>
Diversification ***		(1,032.4)
Capital requirement for other financial sectors		73.7
<b>PIM SCR*</b>		<b>1,290.4</b>

Note: The detailed split shown above for 2023 is not available for 2022 PIM SCR as this was calculated on a Standard Formula basis. The equivalent total for 2022 on a PIM SCR basis was £1,295.9m.

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

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

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

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

### Market Risk

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

The market risks (excluding Credit risk, which is considered separately) that are most material to AUK's insurance business are Equity and Interest Rate risks.

- Equity falls result in a reduction in Own Funds, as the value of future profits falls.
- The cash balances on SE plc Platform business earn interest at a corporate rate, reflecting our global corporate banking partnership with HSBC. An allowance for retention of some of the interest earned on these cash balances has been included in the Group's 2023 Solvency II balance sheet, which introduces a new exposure to changes in interest rates. Interest rate falls result in a reduction in Own Funds, driven by the negative impact of lower interest on cash balances.



AUK Group continues to run an active Unit Matching programme in SE plc as a means of hedging the equity market risk exposure that arises through the value of future fee income in SE plc, and the programme was extended in 2023 to include the TargetPlan book. We continue to supplement this hedging with equity put options.

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

#### *Credit Risk*

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

#### *Underwriting Risk*

Through SE plc, AUK Group writes primarily unit-linked retirement savings contracts. The Group's principal underwriting risk exposures therefore arise from risks that could adversely affect the value of future charge income in excess of costs relating to those contracts, namely persistency risk and expense risk. With an update to our year end best estimate expense and persistency assumptions as well as market movements over the year, we have seen a marginal increase in persistency and expense risk in 2023. The decrease in Standard Formula underwriting risk reflects the impact of the reinsurance agreement between SE plc and Royal London.

In the investment group AUKIG, the underwriting risk extends to lower profitability and loss of large institutional or large retail accounts.

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

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

#### *Operational Risk*

The operational risk capital requirement increased over 2023, primarily reflecting an increase in the assessed exposure of risk to cybercrime and an increase in the assessed impact of potential fines for products not performing in line with expectations.

#### *Risk Management*

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

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

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

### *Climate change risk*

The Group can support the transition to a climate resilient economy and a net zero world using both sides of its balance sheet. We finance the upside through our responsible investment framework, while mitigating the downside through integrating ESG into our risk management processes, and the savings and protection solutions we provide. The influence, both positive and negative, we can have as an investor is significant, and we have committed to transitioning our general account investment portfolio to net-zero greenhouse gas (GHG) emissions by 2050.

During 2023, Aegon UK became a founding signatory of the Mansion House Compact agreement. The Compact is a voluntary, industry-led expression of intent to take meaningful action to secure better outcomes for UK pension savers through increased investment in unlisted equities.

The Group does not operate energy or resource intensive processes as part of its direct business operations and is not aware of any incidents relating to these activities impacting the natural environment. Aegon's UK business operations have been carbon-neutral since 2016, which has been achieved by substituting its energy consumption with renewable sources and offsetting its remaining carbon emissions. We have selected carbon offset projects in close consultation with our customers, and to align the socio-economic benefits they bring in connection with our purpose.

In line with the net-zero commitment announced in November 2021, Aegon has set a supporting operational greenhouse gas emission reduction target to reduce the carbon footprint of its operational activities by 25% by 2025 (i.e. before the impact of green energy procurement and carbon offsetting has been applied). We expect the companies we invest in to have similar ambitions and, while our operational footprint as a business is relatively small, it is important that we set a good example. The Group supports the increased regulatory oversight of climate risk in the UK and the recommendations set out by the Taskforce for Climate-Related Financial Disclosures (TCFD), and Aegon UK published a climate-related financial disclosure report on its website which includes a section on Risk Management. We also recognise the growing expectations of our stakeholders to mitigate the threats presented by climate change and inequality, and to capture the opportunities offered by moving to a more sustainable and equal world.

On 30 August 2023, Aegon UK was accepted as a signatory to the Financial Reporting Council's (FRC) UK Stewardship Code. The code is recognised globally as a best-practice benchmark in investment, setting high standards for those investing money on behalf of UK savers and pensioners, and it aims to improve the quality of stewardship practices by asset owners, managers and service providers.

Full details of AUK Group's risk profile are described in Chapter C. Risk Profile.

## **D. Valuation for Solvency Purposes**

### *Valuation*

The valuation of assets and technical provisions for Solvency II purposes are derived predominantly from the same data and models as used in preparation of the AUK Group Consolidated Statutory Accounts, and a key internal process control is to reconcile from the audited Statutory Accounts to the valuation of assets and technical provisions for Solvency II reporting. Full details of the reconciliation between AUK Group's International Accounting Standards in conformity with the requirements of the Companies Act 2006 balance sheet and its Solvency II balance sheet are described in Chapter D. Valuation for Solvency Purposes.

## E. Capital Management

### Overview of 2023 and key results

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

The Group's regulatory solvency requirements have been calculated on a Solvency II Partial Internal Model basis (PIM) as at 31 December 2023, following approval by the PRA on 16 March 2023. As previously noted, the prior period results have been restated on a PIM basis to aid comparison.

### Solvency II key figures

Amounts in GBP millions	2023	2022	%
<b>Solvency Capital Requirement (SCR)</b>			
Eligible own funds to meet the SCR *	2,536.7	2,304.0	10%
SCR **	1,290.4	1,295.9	(0%)
<b>Solvency II ratio</b>	<b>197%</b>	<b>178%</b>	<b>10%</b>
<b>Minimum Capital Requirement (MCR)</b>			
Eligible own funds to meet the MCR *	2,444.8	2,183.7	10%
MCR	580.7	531.6	10%

\* the Own Funds are all unrestricted Tier 1 capital

\*\* unaudited

The year-end Solvency II ratio is 197% (2022: 178%, restated on PIM basis) for the Group representing the Own Funds as a ratio of the SCR.

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

This is a strong capital position evidencing our ability to meet policyholder obligations when they fall due, even under stressed conditions. Furthermore, this level of capital is above the target Operating Level per the Capital Management Policy and the Group is projected to maintain a healthy capital position. This allows the Group to make further investment in the business, provide dividend payments to its shareholder, whilst ensuring a strong level of protection to its policyholders. There have not been any instances during 2023 where the estimated Group Solvency II ratio was below the SCR, nor the MCR level.

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

### Solvency II ratio - impact of adjustments

	2023
Actual Solvency II ratio	197%
Solvency II ratio without volatility adjustment	197%
Solvency II ratio without volatility and matching adjustments	192%

Note: 2022 numbers on a PIM basis are not available

#### *Use of transitional measures*

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

Full details on AUK Group's Own Funds and SCR are provided in Chapter E. Capital Management.

# A. Business and Performance

## A.1 Business

### A.1.1 Overview

Aegon UK plc and its subsidiaries form Aegon UK Group which operate under the laws of Scotland and the laws of England and Wales. Aegon UK plc is a public limited company domiciled and incorporated in England, its and subsidiaries registered addresses are noted in section A.1.5. The Group is not directly listed, but its governance aims to adhere to the principles of the UK Corporate Governance Code.

The results of the Group are consolidated in the financial statements of Aegon Ltd., the ultimate parent company incorporated in Bermuda. The group financial statements of Aegon Ltd. are available from the Company Secretary, Aegon UK plc, Edinburgh Park, Edinburgh, EH12 9SE. Until 30 September 2023 the ultimate parent undertaking was Aegon N.V. which was incorporated in the Netherlands. As part of the ultimate parent undertaking's re-domiciliation process to Bermuda, the ultimate parent undertaking was first converted into a Luxembourg entity, Aegon S.A. on 30 September 2023 before it was subsequently converted into the Bermuda company, Aegon Ltd. on the same day.

The Group's principal activity is the provision of corporate and individual pensions, protection products, and savings and investment products in the UK. AUK Group is predominantly a long-term savings and protection business, supporting customers who are retired or saving for their retirement. Products are sold through its online platform, which enable advisors, employers, and individuals to buy and manage investments online, and to also have a single view of investments. In April 2023 it announced an agreement to sell its UK individual protection book to Royal London.

In 2023 Aegon agreed a transaction with the Nationwide Building Society which will see the existing product manufacturing partnership extended with the transfer of c.300 staff to Origen, including Nationwide Financial Planning Managers, along with the agreement of a new introducer arrangement for those advisers to continue to provide services to Nationwide customers. The transaction concluded on 1 February 2024.

### A.1.2 Regulators and auditor

The authorities responsible for regulatory supervision of AUK Group are:

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

The authority responsible for group supervision of Aegon Ltd. is:

- Bermuda Monetary Authority  
Address : BMA House, 43 Victoria Street, Hamilton, Bermuda  
Telephone : +1 441 295 5278

The Bermuda Monetary Authority (BMA) became Aegon's group supervisor with effect from 1 October 2023.

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

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

### A.1.3 Solvency II key figures

For AUK Group, the Own Funds is the excess of assets over liabilities of the Group valued on a Solvency II basis, subject to adjustment for non-available assets. The Group holds capital to protect the interests of its policyholders, investors and other stakeholders. Under Solvency II, the Solvency Capital Requirement ('SCR') represents the amount of capital that the Group must hold, in addition to the assets backing the technical provisions, in order to ensure that it will still be in a position, with a probability of at least 99.5%, to meet its obligations to policyholders and beneficiaries over the following 12 months. The minimum level and composition of an insurer's Own Funds is then determined by reference to its SCR. The Group's regulatory solvency requirements have been calculated on a UK Partial Internal Model basis with effect from Q1 2023.

In the following table the Solvency II key figures for AUK Group are presented:

<b>Solvency Capital Requirement</b>			
Amounts in GBP millions	<b>2023</b>	<b>2022</b>	%
Eligible own funds to meet the SCR	2,536.7	2,304.0	10%
SCR*	1,290.4	1,295.9	(0%)
<b>Solvency II ratio</b>	<b>197%</b>	<b>178%</b>	

\* SCR is unaudited

The 2023 Solvency II ratio is 197% (2022: 178%, restated on PIM basis) which is above our target Operating Level. The key driver for the increase in ratio was the UK Solvency II Risk Margin reform effective from 31 December 2023. Other drivers include ongoing capital generation and impacts from market movements and de-risking activities. This was partially offset by dividends paid, new business strain and an update to expense assumptions. The composition of the Group's Own Funds is discussed in more detail in Section E.1 of this report.

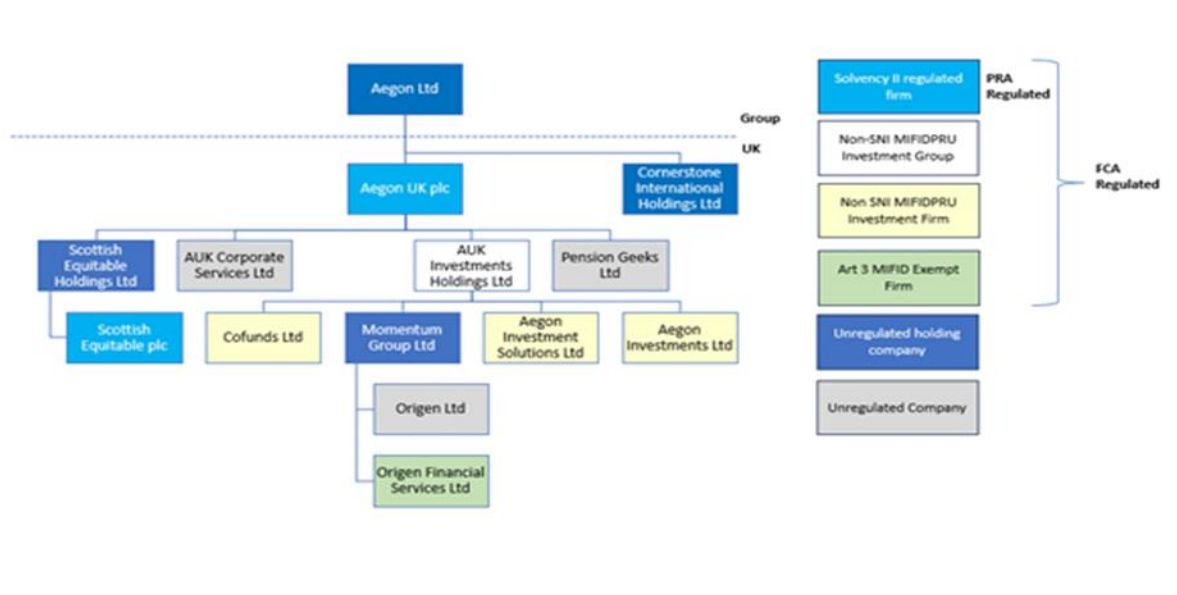
The Solvency II ratio (Own Funds/SCR) is a key performance indicator for the business. A higher Solvency II ratio provides a strong indication of the level of excess assets in the Group and hence the ability to utilise those assets to invest further in the business or to make dividend payments to the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

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

### A.1.4 Ownership Structure

Until 30 September 2023, AUK Group was a wholly owned subsidiary of Aegon N.V. On 1 October 2023, Aegon Group changed its supervisor from the Dutch National Bank (DNB) to the Bermuda Monetary Authority (BMA), and Aegon N.V. converted into the Bermudian company, Aegon Ltd.

The following structure chart illustrates the Group within the wider Aegon UK and Aegon Group structure (simplified):



Aegon UK plc is the top-level UK holding company comprising SE plc, AUK Investment Group, Pension Geeks, and AUK Corporate Services Limited. The PRA exercise group supervision at the level of AUK Group. AUK plc is not formally regulated by the PRA.

Other than the change of ultimate parent undertaking due to re-incorporation in Bermuda, there were no changes to the Group structure during 2023. AUK Investment Solutions Ltd became a non-SNI MIFIDPRU firm when it passed the threshold in November 2023, with status being confirmed in January 2024.

#### A.1.4.1 Immediate parent undertaking

Aegon UK plc is a wholly owned subsidiary of Aegon Europe Holding B.V., which is a wholly owned subsidiary of Aegon Ltd., the ultimate parent Group of the Aegon Group. Aegon UK plc and Aegon Ltd. are public limited liability companies, Aegon Europe Holding B.V. is a private limited liability Group.

#### A.1.4.2 Ultimate parent undertaking

The results of the Group are consolidated in the financial statements of Aegon Ltd., the ultimate parent company incorporated in Bermuda. The group financial statements of Aegon Ltd. are available from the Company Secretary, Aegon UK plc, Edinburgh Park, Edinburgh, EH12 9SE, or from its website [www.aegon.com](http://www.aegon.com). Until 30 September 2023 the ultimate parent undertaking was Aegon N.V. which was incorporated in the Netherlands. As part of the ultimate parent undertaking's re-domiciliation process to Bermuda, the ultimate parent undertaking was first converted into a Luxembourg entity, Aegon S.A. on 30 September 2023 before it was subsequently converted into the Bermuda company, Aegon Ltd. on the same day.

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

The parent company AUK plc has the following wholly owned, directly or indirectly, subsidiary undertakings operating in the UK which are involved in insurance or reinsurance business, pensions, asset management or services related to these activities. An asterisk (\*) indicates holdings not held directly by the parent company.

Name	Principal Activity	Holding %	Registered Address
Scottish Equitable Holdings Limited	Holding Company	100	Aegon Lochside Crescent, Edinburgh Scotland EH12 9SE
Scottish Equitable plc*	Life Assurance, pension and other Long-term insurance business	100	
Aegon Investment Solutions Limited*	Sale of investment products	100	
Aegon Investment Solutions Limited – Nominee 1 (Gross) Ltd	Nominee (dormant)	100	
Aegon Investment Solutions Limited – Nominee 2 (Net) Ltd	Nominee (dormant)	100	
Aegon SIPP Nominee Limited	Nominee (dormant)	100	
Aegon SIPP Nominee 2 Limited	Nominee (dormant)	100	
Aegon UK Corporate Services Limited	Management Services	100	
Aegon Investment Solutions Limited – Nominee 3 (ISA) Ltd	Nominee (dormant)	100	
Scottish Equitable (Managed Funds) Ltd*	Reassurance of life assurance business (until 31 December 2009) (dormant)	100	
Aegon Pension Trustee Limited	Trustee (dormant)	100	Level 26, The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB
Aegon UK Property Fund Limited	Property holding company (dormant)	100	
Aegon SIPP Guarantee Nominee Ltd	Nominee (dormant)	100	
Newcast Property Developments (ONE) Limited*	Property holding company (dormant)	100	
Newcast Property Developments (TWO) Limited*	Property holding company (dormant)	100	
Cofunds Limited*	Sale of investment products	100	
Cofunds Nominees Limited*	Nominee (dormant)	100	
Dorset Nominees Limited*	Nominee (dormant)	100	
Minster Nominees Limited*	Nominee (dormant)	100	
Lochside Nominees Ltd*	Nominee (dormant)	100	
Victoria Nominees Limited*	Nominee (dormant)	100	
Andrews Nominees Limited*	Nominee (dormant)	100	
Aegon Investments Limited *	Fund Management Activities	100	
Aegon UK Investment Holdings Limited	Holding Company	100	
Pension Geeks Limited	Engagement business	100	
Momentum Group Limited*	Holding Company	100	Ascent 4, 2 Gladiator Way Farnborough Hampshire GU14 6XN
Origen Limited*	Management Services	100	
Origen Financial Services Limited*	Independent Financial Advisers	100	
Origen Trustee Services Limited*	Trustee (dormant)	100	

The investment in Tenet Group Limited is not considered to be a material associate. The investment was fully impaired in 2022 and 2023.

Name	Principal Activity	Holding %	Registered Address
Tenet Group Limited	Independent Financial Advisers	22.04%	5 Lister Hill, Horsforth, Leeds, West Yorkshire, LS18 5AZ

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

The AUK Group is one of the UK's leading providers of corporate and individual pensions, protection products and investment products. The largest operating subsidiaries in the Aegon UK Group are Scottish Equitable plc and Cofunds Limited.

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

The Group's material lines of business are:

- Unit-Linked Savings ("Unit-Linked")
- With-Profits ("Insurance with-profit participation/Other Life")
- Protection ("Health and Other Life")
- Annuities ("Other Life")
- Provision of a consolidated investment platform ("Non-Insurance, investment related")



- Advisory services providing financial planning advice (“Non-Insurance, investment related”).

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

The Unit-Linked savings portfolio includes c. £78bn (2022 c. £70bn) of policyholder savings which are invested in a range of funds offered to our customers. The portfolio includes unit-linked savings on both traditional systems as well as our digital systems.

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

The Group offers a range of protection products including life insurance, critical illness, and income protection. In April 2023 it announced an agreement to sell its UK individual protection portfolio to Royal London and closed the portfolio to new business.

The Group also provides a consolidated investment platform, which aims to make investing easier for its intermediary and institutional customers and the investors they serve. The proposition is multi-dimensional, providing administrative services to a diverse range of clients such as financial advisers and wealth managers, intermediaries offering self-directed solutions, major institutions, Building Societies, other platforms and funds.

#### **A.1.7 Employees**

The average monthly number of employees during the year was 2,323 (2022: 2,267) employed through an AUK Group subsidiary, Aegon UK Corporate Services Limited, the costs being re-charged to other companies within the Group.

#### **A.1.8 Related party transactions**

This section provides information about the material transactions during the reporting period with AUK Group’s shareholders, with persons who exercise influence on AUK Group i.e., members of the Executive or Management Board. The second part of this section provides information on relevant operations and transactions within the Group.

Referring to section A.1.4 Ownership Structure, AUK Group is a wholly owned subsidiary of Aegon Ltd. Dividends amounting to £112m were paid by AUK Group to its parent company during 2023 (2022: £100m).

#### **Material transactions with persons who exercise a significant influence on the undertaking**

The transactions with Key Management during 2023 consisted of transactions related to remuneration of the active and retired members of the Executive and Management Board.

#### **Key Management**

The total remuneration expenses of AUK Group’s Management consisting of the Executive and Management Board members in 2023 was £3.5m including bonuses (2022: £3.2m), £0.7m in fees (2022: £0.8m), and £0.1m in pension contributions (2022: £0.1m). Two Directors (2022: one) received Aegon Ltd. shares in relation to long-term incentive schemes during the year. The remuneration expenses include the highest paid director who received remuneration of £1.4m including bonuses during the year (2022: £1.4m).

## Relevant operations and transactions within the Group

AUK Group facilitates intra-group transactions (IGTs) to support intra-group efficiencies, including optimising economies of scale, processes, liquidity and capital management. Due to the nature of these activities, there is interaction with business units and affiliates within the Group, resulting in a diverse set of IGTs. These include intercompany loans, expense recharging and guarantees.

### Loans

AUK Group utilises intercompany loans for operational liquidity and capital purposes. Within the Group, there are no material uncollateralised intra-group loans.

### Guarantees

AUK Group and its subsidiaries provide guarantees for performance under contracts for certain aspects of the business transacted withing the Group. The agreements include, but are not limited to, letters of credit, maintenance of liquidity, capital and net worth maintenance agreements. The performance of these various entities under the terms of the agreements are regularly assessed to ensure that the entity has sufficient resources on a best estimate basis to meet the obligations guaranteed under the agreement. As a result, there is minimum exposure for these guarantees to the group.

## A.2 Underwriting performance

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

Since the Group prepares its financial statements in accordance with IFRS, the underwriting performance information given in this section is on an IFRS basis including the initial adoption of IFRS 9 and IFRS 17 that became effective on January 1, 2023. The table below shows the Company's underwriting performance as included in the statutory accounts:

### A.2.1 Underwriting performance

#### Underwriting performance

Amounts in GBP millions	2023	2022	%
<b>Insurance service result</b>	<b>179.1</b>	223.9	<b>(20%)</b>
<b>Insurance net investment result</b>	<b>(24.7)</b>	(84.8)	<b>71%</b>
<b>Other net investment result</b>	<b>18.6</b>	(20.7)	<b>190%</b>
<b>Other result</b>	<b>(124.8)</b>	(72.0)	<b>(73%)</b>
<b>Income tax (expense)/credit</b>	<b>(23.7)</b>	5.5	<b>(529%)</b>
<b>Result after tax</b>	<b>24.5</b>	<b>51.9</b>	<b>53%</b>

As shown above, performance can be split into 4 distinct categories and income tax.

#### A.2.1.1 Insurance service result

The insurance service result combining insurance business revenue with insurance service expenses and net expenses on reinsurance held.

#### Insurance service result

Amounts in GBP millions	2023	2022	%
Insurance revenue	<b>584.0</b>	598.9	<b>(2%)</b>
Insurance service expenses	<b>(352.9)</b>	(378.4)	<b>7%</b>
Net expenses on reinsurance held	<b>(52.0)</b>	3.4	<b>(1629%)</b>
<b>Insurance service result</b>	<b>179.1</b>	<b>223.9</b>	<b>(20%)</b>

The total insurance revenue recognised over the duration of a group of contracts is equal to the amount of premiums received, adjusted for a financing effect and excluding any non-distinct investment components. For contracts with discretionary participation features (DPF), it includes the variable fees that AUK Group expects to receive.

Insurance service expenses arise as the Group provides coverage and other services under issued insurance contracts and investment contracts with DPF.

Net expenses on reinsurance held whereby the Group recognises an allocation of reinsurance premiums paid in profit or loss as it receives services under groups of reinsurance contracts.

### A.2.1.2 Insurance net investment result

The insurance net investment result combining insurance business related investment returns with net insurance finance on reinsurance held.

#### Insurance net investment result

Amounts in GBP millions	2023	2022	%
Interest revenue on financial instruments calculated using the effective interest method	21.8	4.6	374%
Interest revenue on financial instruments measured at FVTPL	344.2	307.0	12%
Other investment income	1,107.3	991.1	12%
Results from financial transactions	3,495.1	(8,889.3)	139%
Insurance finance income/(expenses)	(4,998.7)	7,631.9	(165%)
Net insurance finance income/(expenses) on reinsurance held	5.6	(130.1)	104%
Interest expense	-	-	
<b>Insurance net investment result</b>	<b>(24.7)</b>	<b>(84.8)</b>	<b>71%</b>

The table above shows interest, dividend and return on investments in relation to assets held to cover insurance liabilities. The insurance finance income relates to the change in insurance liabilities and the net insurance finance income on reinsurance held relates to the change in insurance related reinsurance assets.

### A.2.1.3 Other net investment result

The other net investment result combining investment business returns with change in investment contract liabilities without DPF.

#### Other net investment result

Amounts in GBP millions	2023	2022	%
Interest revenue on financial instruments calculated using the effective interest method	28.4	5.6	407%
Interest revenue on financial instruments measured at FVTPL	78.2	33.2	136%
Other investment income	480.1	313.8	53%
Results from financial transactions	2,815.8	(3,635.5)	177%
Other net investment result -			
Impairment losses / (reversals)	-	(3.3)	100%
Net change in investment contract liabilities without DPF	(3,381.4)	3,266.5	(204%)
Interest expense	(2.5)	(1.0)	(147%)
<b>Insurance net investment result</b>	<b>18.6</b>	<b>(20.7)</b>	<b>190%</b>

The figures above show interest, dividend and return on investments in relation to assets held to cover non-insurance liabilities. The net change in investment contract liabilities without DPF relates to the change in non-insurance liabilities.

### A.2.1.4 Other result

The other result which combines fee and commission income with other operating expenses.

#### Other result

Amounts in GBP millions	2023	2022	%
Fees and commission income	186.3	185.7	0%
Other operating expenses	(314.6)	(261.2)	(20%)
Other income/(charges)	3.5	3.5	(1%)
<b>Other result</b>	<b>(124.8)</b>	<b>(72.0)</b>	<b>(73%)</b>

Fees and commission income relates to fee income on investment contract business, while other income principally relates to Fee income received for the platform assets under management. Other operating expenses are in respect of non-insurance related costs.

### A.2.2 Underwriting performance Solvency II

Disclosure requirements differ between Statutory Accounts Income Statement and Solvency II Premiums, Claims and Expenses, whereby the Solvency II definition of an 'insurance contract' for Solvency II reporting purposes is based on the Delegated Regulation as endorsed by the European Union, rather than the distinction between investment and insurance contracts under IFRS 9 and IFRS17.

The table below shows the Company's premiums, claims, and expenses split by Solvency II lines of business. Materially, there is no timing difference between premiums written and premiums earned.

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

2023			
Amounts in GBP millions	Premium written	Claims incurred	Expenses incurred
<b>Life</b>			
Health insurance	8.0	4.1	5.4
Insurance with profit participation	19.0	341.8	5.6
Index-linked and unit-linked insurance	10,557.6	10,323.9	309.4
Other life insurance	9.7	26.2	50.1
<b>Total</b>	<b>10,594.3</b>	<b>10,696.0</b>	<b>370.5</b>
2022			
Amounts in GBP millions	Premium written	Claims incurred	Expenses incurred
<b>Life</b>			
Health insurance	8.7	3.9	6.3
Insurance with profit participation	24.9	374.0	5.9
Index-linked and unit-linked insurance	8,095.9	7,579.9	309.3
Other life insurance	81.6	64.9	60.4
<b>Total</b>	<b>8,211.1</b>	<b>8,022.7</b>	<b>381.9</b>

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

## A.3 Investment performance

### A.3.1 Insurance investment return

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

#### Insurance investment return

Amounts in GBP millions	2023	2022	%
Interest revenue on financial statements calculated using the effective interest method	21.8	4.6	374%
Interest revenue on financial instruments measured at FVTPL	344.2	307.0	12%
Other investment income	1,107.3	991.1	12%
Results from financial transactions	3,495.1	(8,889.3)	139%
Impairment losses/(gains)	-	-	-
Interest expenses	-	-	-
<b>Total insurance investment return</b>	<b>4,968.4</b>	<b>(7,586.6)</b>	<b>165%</b>

#### A.3.1.1 Interest revenue on financial statements calculated using the effective interest method

##### Interest revenue on financial statements calculated using the effective interest method

Amounts in GBP millions	2023	2022	%
Debt securities and money market instruments	0.1	-	100%
Loans	21.7	-	100%
Other	-	4.6	(100%)
<b>Total interest revenue on financial statements calculated using the effective interest method</b>	<b>21.8</b>	<b>4.6</b>	<b>374%</b>

#### A.3.1.2 Interest revenue on financial instruments measured at FVTPL

##### Interest revenue on financial instruments measured at FVTPL

Amounts in GBP millions	2023	2022	%
Derivatives to which hedge accounting was not applied	-	-	-
Non-derivative assets applying the fair value option	344.2	307.0	12%
<b>Total interest revenue on financial instruments measured at FVTPL</b>	<b>344.2</b>	<b>307.0</b>	<b>12%</b>

#### A.3.1.3 Other investment income

##### Other investment income

Amounts in GBP millions	2023	2022	%
Dividend income	1,078.0	959.3	12%
Rental income	29.3	31.8	(8%)
<b>Total other investment income</b>	<b>1,107.3</b>	<b>991.1</b>	<b>12%</b>

### A.3.1.4 Results from other transactions

#### Results from other transactions

Amounts in GBP millions	2023	2022	%
<b>Net fair value change of financial investments at fair value through profit or loss, other than derivatives</b>			
Shares	1,046.9	(2,051.0)	151%
Debt securities and money market investments	98.8	(1,824.6)	105%
Unconsolidated investment funds	2,530.1	(4,271.4)	159%
Other	-	-	-
	<b>3,675.8</b>	<b>(8,147.0)</b>	<b>145%</b>
<b>Net fair value change of derivatives</b>			
Economic hedges where no hedge accounting is applied	(141.0)	(695.0)	80%
	<b>(141.0)</b>	<b>(695.0)</b>	<b>80%</b>
<b>Other</b>			
Gains/(losses) on investments in real estate	(39.7)	(47.3)	16%
	<b>(39.7)</b>	<b>(47.3)</b>	<b>16%</b>
<b>Total results from other transactions</b>	<b>3,495.1</b>	<b>(8,889.3)</b>	<b>139%</b>

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

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

### A.3.2 Other net investment result

This section provides an overview of the investment performance included in the other net investment result.

#### Other net investment result

Amounts in GBP millions	2023	2022	%
Interest revenue on financial statements calculated using the effective interest method	28.4	5.6	407%
Interest revenue on financial instruments measured at FVTPL	78.2	33.2	136%
Other investment income	480.1	313.8	53%
Results from financial transactions	2,815.8	(3,635.5)	177%
Impairment losses/(gains)	-	(3.3)	100%
Net change in investment contract liabilities without DPF	(3,381.4)	3,266.5	(204%)
Interest expenses	(2.5)	(1.0)	(147%)
<b>Total other net investment result</b>	<b>18.6</b>	<b>(20.7)</b>	<b>190%</b>

### A.3.2.1 Interest revenue on financial statements calculated using the effective interest method

#### Interest revenue on financial statements calculated using the effective interest method

Amounts in GBP millions	2023	2022	%
Debt securities and money market instruments	-	-	-
Loans	-	-	-
Other	28.4	5.6	407%
<b>Total interest revenue on financial statements calculated using the effective interest method</b>	<b>28.4</b>	<b>5.6</b>	<b>407%</b>

### A.3.2.2 Interest revenue on financial instruments measured at FVTPL

#### Interest revenue on financial instruments measured at FVTPL

Amounts in GBP millions	2023	2022	%
Derivatives to which hedge accounting was not applied	-	-	-
Non-derivative assets applying the fair value option	78.2	33.2	136%
Non-derivative assets	-	-	-
<b>Total interest revenue on financial instruments measured at FVTPL</b>	<b>78.2</b>	<b>33.2</b>	<b>136%</b>

### A.3.2.3 Other investment income

#### Other investment income

Amounts in GBP millions	2023	2022	%
Dividend income	476.6	312.1	53%
Rental income	3.5	1.7	106%
<b>Total other investment income</b>	<b>480.1</b>	<b>313.8</b>	<b>53%</b>

### A.3.2.4 Results from other transactions

#### Results from other transactions

Amounts in GBP millions	2023	2022	%
<b>Net fair value change of financial investments at fair value</b>			
Shares	171.6	(155.6)	210%
Debt securities and money market	11.5	(138.1)	108%
Unconsolidated investment funds	2,659.0	(3,341.2)	180%
Other	-	-	-
	<b>2,842.1</b>	<b>(3,634.9)</b>	<b>178%</b>
<b>Net fair value change of derivatives</b>			
Economic hedges where no hedge accounting	(21.0)	4.2	(600%)
	<b>(21.0)</b>	<b>4.2</b>	<b>(600%)</b>
<b>Other</b>			
Gains/(losses) on investments in real estate	(5.2)	(5.1)	(2%)
Net gains/(losses) on currency	(0.1)	0.3	(133%)
	<b>(5.3)</b>	<b>(4.8)</b>	<b>(10%)</b>
<b>Total results from other transactions</b>	<b>2,815.8</b>	<b>(3,635.5)</b>	<b>177%</b>

Equity markets increased substantially during 2023, the FTSE All-Share index rose +3.85%, Euro Stoxx 50 +19.19% and S&P 500 +24.23%, conversely, they decreased substantially during 2022, the FTSE All-Share index fell -3.16%, Euro Stoxx 50 -11.74% and S&P 500 -19.44%. This has led to an increase in net fair value change on shares and separate accounts and unconsolidated investment funds.

### A.3.3 Collateralised securities

Investments include collateralised securities held in the AUK Group general account as follows.

#### Collateralised securities

Amounts in GBP millions	2023	2022	%
Commercial mortgage backed securities (CMBS)	63.0	83.5	(25%)
Asset backed securities - other (ABS)	45.7	47.4	(4%)
<b>Total</b>	<b>108.7</b>	<b>130.9</b>	<b>(17%)</b>

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

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

### A.4 Performance of other activities

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

#### Performance of other activities

Amounts in GBP millions	2023	2022	%
Fee and commission income	186.3	185.7	0%
<b>Total performance of other activities</b>	<b>186.3</b>	<b>185.7</b>	<b>0%</b>

#### Fee and commission income

Amounts in GBP millions	2023	2022	%
Fee income from asset management	80.8	86.0	(6%)
Commission income	18.6	19.7	(5%)
Fee income from investment contracts without DPF	82.7	76.9	7%
Other	4.2	3.2	33%
<b>Total fee and commission income</b>	<b>186.3</b>	<b>185.7</b>	<b>0%</b>

#### Included in fees and commission income:

Fees on trust and fiduciary activities	163.5	162.9	0%
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Fees and commissions from investment management services and mutual funds are recognised as revenue over the period in which the services are performed or for sales activities where services have been rendered.

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

#### A.4.2 Material leasing arrangements

As lessor, the Group has investments in real estate of c. £375m (2022: c. £393m). The investment properties are fully leased out under cancellable operating leases. This is split over a range of commercial properties.

Under accounting standard IFRS16 Leases, lessees are required to recognise all leases other than short term leases on the balance sheet which reflect the company's right to use an asset for a period of time and the associated liability for payments. The remaining contractual maturity of the lease liability is set out in the table below.

#### Future lease payments

Amounts in GBP millions	2023			2022		
	Not later than 1 year	1-5 years	Later than 5 years	Not later than 1 year	1-5 years	Later than 5 years
Lease liabilities	10.8	41.8	88.8	10.0	40.0	96.8

#### A.5 Any other information

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

# B. System of Governance

## B.1 General Information on the System of Governance

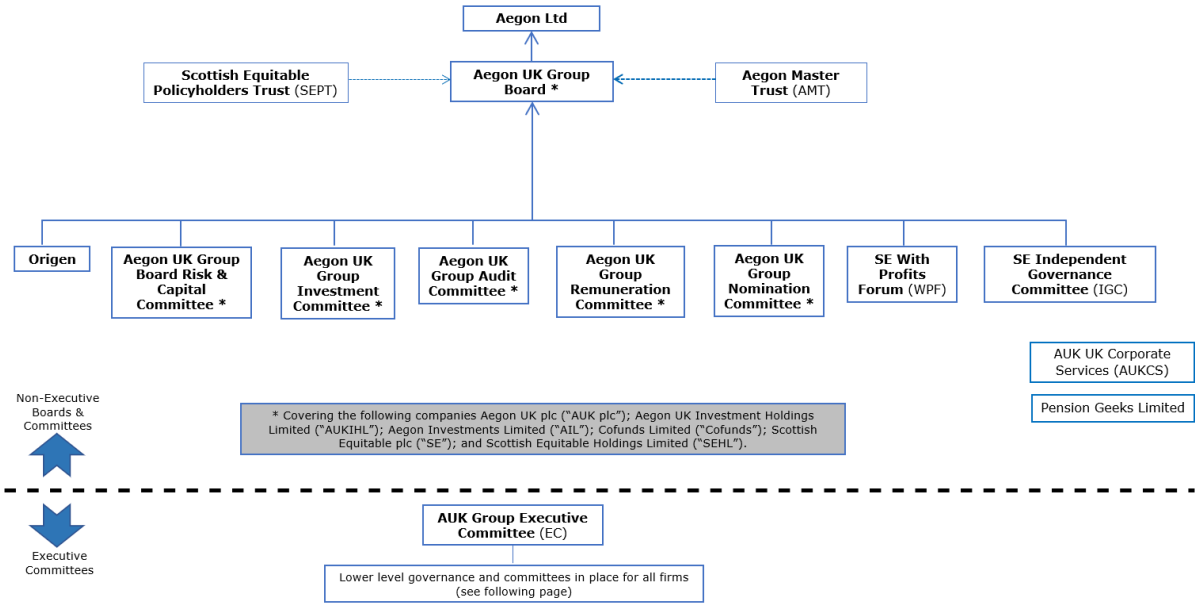
### B.1.1 Corporate governance

The ownership and regulatory structure of AUK Group is shown in section A.1.4 Ownership Structure. Our corporate governance structure is in place to ensure the safe and efficient management of the Group, its operations and to protect the interests of its customers.

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

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

### AUK Board Governance Structure



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

#### B.1.1.1 AUK Group Board

The Aegon UK Group Board (AUKGB) is the statutory board of Aegon UK plc, Scottish Equitable plc, Scottish Equitable Holdings Limited, Aegon UK Investment Holdings Limited, Cofunds Limited and Aegon Investments Limited. It has oversight of the Group and assumes overall management responsibilities for the Group.

The AUKGB is responsible for promoting the long-term sustainable success of each Company, generating value for the shareholder and contributing to wider society. Its role is to provide leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. The AUKGB must take into account the interests of stakeholders – the shareholder, customers, employees, regulators and others.

The AUKGB's responsibilities include, without limitation:

- Strategy and Medium-Term Plan ("MTP") development and approval;
- Overseeing delivery of MTP including overall financials and performance as reported to Aegon Ltd.;
- Capital and liquidity management and management of risk profile (including for SE the internal model);
- Control environment;
- Each Company's capital and liquidity position;
- Overseeing Aegon UK's approach to sustainability and stewardship and in particular its responsible investment and stewardship commitments;
- Oversight of Aegon UK's approach to the FCA's Consumer Duty in relation to ensuring customer outcomes are central to the Companies' strategy, policies, and controls; and review and approve on behalf of each FCA regulated firm at least annually its assessment of whether customer outcomes are consistent with the FCA's Consumer Duty and agree any action required to address any identified risks or issues;
- Outsourcer and other third party management;
- Market positioning of Aegon UK's proposition;
- Aegon UK's overall customer proposition (including customer experience, treatment and outcomes);
- Oversight of Change;
- People, talent and culture;
- Strategic relationships with stakeholders;
- PRA and FCA regulatory compliance and relationship and interactions;
- Aegon Ltd. policy compliance and determining Aegon UK policies and overseeing Aegon UK policy compliance; and
- Overseeing Aegon UK's responsibilities as principal employer of the Aegon UK Defined Benefit Pension Scheme.

In respect of strategy and MTP development the AUKGB together with the AUKGB Executive Committee will set the strategy for the AUKGB. The delivery of this strategy will be managed by the Aegon UK Group Board Executive Committee under the oversight of the AUKGB.

Save for those matters (the "Reserved Matters") which require the prior written approval of the Executive Board and/or the Supervisory Board of Aegon Ltd. set out in the paper distributed by Aegon Ltd. entitled "Aegon Approval Requirements" (as updated from time to time), the AUKGB has the authority to approve all matters, regardless of whether such matter(s) has been delegated to a committee or sub-committee.

The AUKGB should make proposals/recommendations to Aegon Ltd. in relation to the Reserved Matters.

#### Delegated Authorities

- The matters set out in the Aegon UK Group Board Audit Committee terms of reference are delegated to the Aegon UK Group Audit Committee (the "GAC").
- The matters set out in the Aegon UK Group Board Remuneration Committee terms of reference are delegated to the Aegon UK Group Remuneration Committee (the "REMCO").
- The matters set out in the Aegon UK Group Board Nomination Committee terms of reference are delegated to the Aegon UK Group Nomination Committee (the "NOMCO").
- The matters set out in the Aegon UK Group Board Investment Committee terms of reference are delegated to the Aegon UK Group Investment Committee (the "IC").

- The matters set out in the Aegon UK Group Board Executive Committee terms of reference are delegated to the Aegon UK Group Executive Committee (the “EC”).
- In respect of SE, the matters set out in the With-Profits Forum (“WPF”) terms of reference are delegated by the SE Board to the WPF.

The AUKGB has established an Independent Governance Committee (IGC) with the purpose, in summary, of representing the interests of workplace pension scheme members.

The AUKGB also receives independent advice in relation to the management of its with-profits business from the Board of Directors of Scottish Equitable Policyholders Trust Limited (SEPT) to which it has given the responsibility of acting as SE’s With-Profits Committee.

*B.1.1.2 AUKGB Executive Committee (EC)*

The purpose of the EC is to provide executive management on behalf of the AUKGB and the Board of Directors of Aegon Investment Solutions Limited (“AISL”).

The AUKGB and Board of AISL is entrusted with the task of supervising and advising the EC on the management of the Aegon UK group, as well as overseeing the strategy of the Aegon UK group and the general course of its business.

The EC’s role includes making decisions to enable each Company to discharge its legal and regulatory obligations in accordance with the applicable legal and regulatory regime and promote the long-term sustainable success of each Company, generating value for the shareholder and contributing to wider society.

In addition, the EC will act on behalf of the relevant Trustees of the trust-based pension schemes of the Aegon UK group.

*B.1.1.3 AUKGB Audit Committee (Committee of the Board)*

The Aegon UK Group Board Audit Committee is a committee of the AUKGB from which it derived authority and to which it regularly reports. The Committee is concerned with the business of each of the companies within the remit of the AUKGB:

- Aegon UK plc (“AUK plc”)
- Aegon UK Investment Holdings Limited (“AUKIHL”)
- Aegon Investments Limited (“AIL”)
- Cofunds Limited (“Cofunds”)
- Scottish Equitable plc (“SE”)
- Scottish Equitable Holdings Limited (“SEHL”)

(together the “**Companies**” and each a “**Company**”).

The Committee has authority to investigate any matters within its responsibilities and to obtain such information and explanations as it may require from any director, officer, or employee of the companies. The Committee may call any employee to answer questions at a meeting of the Committee as and when required.

The responsibilities of the Committee include Internal Controls; Financial Reporting; External Audit; Internal Audit; Private Sessions, Litigation; Whistleblowing and Fraud; Regulatory Risk; Reporting, Client Assets Sourcebook (CASS) and other matters. Whistleblowing arrangements in the firm are governed by the Audit Committee.

*B.1.1.4 AUK Group Board Risk and Capital Committee (Committee of the Board)*

The AUK Group Board Risk and Capital Committee is a committee of the AUKGB from which it derives its authority and to which it regularly reports. Its purpose is to provide oversight, approvals on behalf of, and make recommendations to, the AUK Group Board, in respect of risk and certain capital matters for the companies within the remit of the AUKGB.

The Committee has authority to investigate any matters within its responsibilities and to request the attendance and/or obtain such information as it may require from any director, officer or employee of Aegon UK Group, in order to perform its duties.

The primary responsibilities of the AUK Group Board Risk and Capital Committee are Risk Management and Capital and Liquidity Management.

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

*B.1.1.5 AUKGB Remuneration Committee (Committee of the Board)*

The Remuneration Committee (“REMCO”) is appointed by the AUKGB. The purpose of REMCO is:

- to make recommendations on the remuneration philosophy of Aegon UK including the framework for the remuneration of the Aegon UK executives and to determine and review remuneration packages. In particular, REMCO will establish overarching principles and parameters for a remuneration policy on an Aegon UK wide basis to ensure REMCO has appropriate oversight and sufficient understanding of overall remuneration policy;
- to determine and regularly review specified remuneration packages, including incentive structures and awards, pension rights and any compensation payments, for each of the executive directors, the members of the Aegon UK Executive Committee and the Company Secretary;
- to regularly review (but not determine) specified remuneration packages, including incentive structures and awards, pension rights and any compensation payments for Material Risk Taker (as defined in the Conflict of Interest Policy) and other senior executives whose remuneration is not subject to paragraph above (which are those employees who exercise a significant influence function or whose activities could have a significant impact on the risk profile of the entity).

*B.1.1.6 Nomination Committee (Committee of the Board)*

The Nomination Committee is appointed by the AUKGB. The purpose of the Nomination Committee is:

- to make recommendations in relation to the appointment of executive and non-executive directors and direct reports of the Aegon UK Chief Executive Officer; and
- to lead the process for appointments to the AUKGB, to review the composition of and succession to the AUKGB and recommend the appointment of executive and non-executive directors following a formal and rigorous review process. This involves an on-going assessment of the overall balance and performance of the AUKGB and its individual members, ensuring a strong and effective executive and non-executive team is in place.

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

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

Decisions made on matters within the remit of the WPF are reported to the AUKGB.

Responsibilities in relation to the following matters have been delegated to the WPF by the AUKGB:

- Annual Bonus Policy;
- Terminal bonus and Market Value Reduction (MVR) policy;
- Investment Policy and Strategy;
- Principles and Practices of Financial Management (PPFM) compliance;
- Scheme compliance;
- Estate distribution and guarantee charge;
- Maintenance of the PPFMs;
- Treating Customers Fairly;
- Annual Report to With-Profits policyholders;
- Solvency position;
- Management Actions;
- Identification of With-Profits Sub-Funds;
- Investment Decisions;
- Incident Resolution; and
- Discretionary Benefits.

In relation to Risk management, the WPF will undertake the following tasks/functions in relation to the with-profits funds of the Company:

- Review and recommend for approval, by the AUKGB, With-Profits specific risk appetite statements (including defining the preferred management actions allowed for in solvency testing), ensure there are effective mechanisms to monitor against stated appetites and approve change or waiver requests;
- Receive and review risks reports, the With Profits section of the ORSA and, where requested, risk-specific reports and analyses relevant to the WPSF, challenging the assessment, measurement and management actions in relation to these risks. In particular assess risk appetite and policy breaches and ensure appropriate action is being undertaken to address the issue;
- Review and approve the approach to and management of material risks to the WPSF. This includes the review of asset risk and insurance risk exposures and appropriate techniques to manage these exposures including, but not limited to, reinsurance arrangements and hedging transactions.

Additional matters may be delegated by the AUKGB to the WPF from time to time.

To ensure that the WPF is fully aware of the considerations taken into account by and conclusions of SEPT which also performs the role of with-profits committee for Scottish Equitable plc, the majority of each meeting may take place with SEPT members in attendance, and WPF members are encouraged to attend SEPT meetings when invited to do so.

#### *B.1.1.8 Executive Risk and Capital Committee (ERCC)*

The ERCC is a second line committee established to monitor, oversee and challenge the management of risk and capital issues, challenge and recommend risk policy, direct corrective action or escalate issues to the Aegon UK Group Executive Committee, the Aegon UK plc Board Risk and Capital Committee, the Aegon UK Group Audit Committee and the Aegon UK Corporate Services Limited Board as appropriate.

#### *B.1.1.9 Model Management Committee (MMC)*

The MMC is a sub-committee of ERCC with a remit to monitor and control the management of/or change to AUK models as stipulated in the Model Risk Management Framework, ensuring the ongoing appropriateness of the models, and escalating issues to the AUK Model Validation Committee (“UK MVC”), Executive Risk & Capital Committee (“ERCC”), the AUK Boards or the Board Risk and Capital Committee (“BRCC”) or the ERM Framework Accounting and Actuarial Committee (“ERMAAC”) as appropriate.

#### *B.1.1.10 Management Investment Committee (MIC)*

To consider, oversee and make recommendations to the Aegon UK Group Executive Committee (the “EC”) on all matters relating to investments of Scottish Equitable plc (“SE”), all matters relating to the investments made available by Cofunds Ltd (“Cofunds”), all matters relating to the investments made available by Aegon Investment Solutions Limited (“AISL”), all matters relating to the investments managed by Aegon Investments Limited (“AIL”) and all matters relating to investments of Aegon UK plc.

Investment governance within the responsibility of the MIC covers SE’s general accounts assets, SE’s with profits fund assets, SE’s unit linked assets (including those not managed by Aegon Asset Management) and the management of Aegon OEIC fund assets by AIL. The MIC has authority to make decisions in relation to certain matters delegated to it. Matters which have not been resolved to the satisfaction of the MIC are to be escalated to the EC.

#### *B.1.1.11 Key functions*

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

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

- *Risk management*  
The Company Chief Risk Officer (CRO) is the function holder for risk management.
- *Compliance*  
The Company CRO is also the key function holder for Solvency II Compliance. This is a 2<sup>nd</sup> line role given Solvency II independence requirements.
- *Internal Audit*  
The Chief Internal Auditor (UK) is the function holder for Internal Audit. In line with the requirements, Internal Audit is fully objective and independent from all other functions. The Chief Internal Auditor (UK) has an escalation path and primary reporting line to the Chair of the Aegon UK Group Audit Committee. In addition, the Chief Internal Auditor (UK) has an escalation path to the Group Chief Audit Executive and UK Chief Executive Officer.
- *Actuarial function*  
The Chief Actuary is the Head of the Actuarial Function which sits in the 1<sup>st</sup> line.

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

## **B.1.2 Remuneration policy**

### *B.1.2.1 AUKG Remuneration Committee*

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

### *B.1.2.2 Aegon Group Global Remuneration Framework*

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

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

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

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

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

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

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



### *B.1.2.3 Fixed and Variable Compensation*

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

Variable Compensation paid to AUKG employees is from a bonus pool determined by company performance. The funding of the pool is determined by performance against financial and non-financial indicators which are agreed by the REMCO at the start of each performance year, and which are aligned to AUKG and Aegon Group's Medium-Term Plan.

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

### **B.1.3 Material transactions with shareholders**

Dividends amounting to £112m were paid by AUK Group to its parent company during 2023 (2022: £100m).

## **B.2 Fit and proper requirements**

### **B.2.1 Requirements**

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

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

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

The Board should have at its disposal:

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

- an understanding of public policy, regulatory and legal matters, corporate governance and social, ethical and professional standards; and
- experience and knowledge in the area of executive remuneration.

#### *B.2.1.1 Vetting and verification of Approved Individuals*

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

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

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

#### *B.2.1.2 Criminal Record Checks*

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

#### *B.2.1.3 Maintenance of clear organisational accountabilities*

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

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

<b>Name</b>	<b>SMF position held</b>	<b>Role</b>
Mike Holliday-Williams	SMF1/SMF3	Chief Executive Function/Executive Director
Jim Ewing	SMF2/SMF3	Chief Finance Function/ Executive Director
Alison Morris	SMF4	Chief Risk Function
Mohit Dhingra	SMF5	Head of Internal Audit Function
Duncan Russell	SMF7	Group Entity Senior Manager
Christina McComb	SMF9/SMF13	Chair/Chair of the Nomination Committee
Mike Davies	SMF10	Chair of the Risk & Capital Committee
Helen Heslop	SMF11	Chair of the Audit Committee
Theresa Froehlich	SMF12	Chair of the Remuneration Committee

Brian Duffin	SMF15	Chair of the With-Profits Committee
Sharon Thomas	SMF16/SMF17	Compliance Oversight/Money Laundering Reporting Officer
Dougy Grant	SMF18	Other Overall Responsibility
Ronnie Taylor	SMF18	Other Overall Responsibility
Andrew Manson	SMF18	Other Overall Responsibility
Brian Christie	SMF18	Other Overall Responsibility
Sarah Barry	SMF18	Other Overall Responsibility
James MacKenzie	SMF18	Other Overall Responsibility
Leigh-Ann Plenderleith	SMF20	Chief Actuary Function
Alan McBride	SMF20a	With-Profits Actuary Function

Note: Christina McComb became Chair/Chair of the Nomination Committee on 22 January 2024 following resignation of Mike Rogers.

### B.2.2 Process for assessment

The FCA and PRA Senior Manager and Certification Regime (SMCR) (for insurers) seeks to ensure that the senior persons who are running insurers, or who have responsibility for key functions at those firms, behave with integrity, honesty, and skill.

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

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

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

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

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

### B.3.1 Risk management system

#### B.3.1.1 AUK Group's Enterprise Risk Management Framework

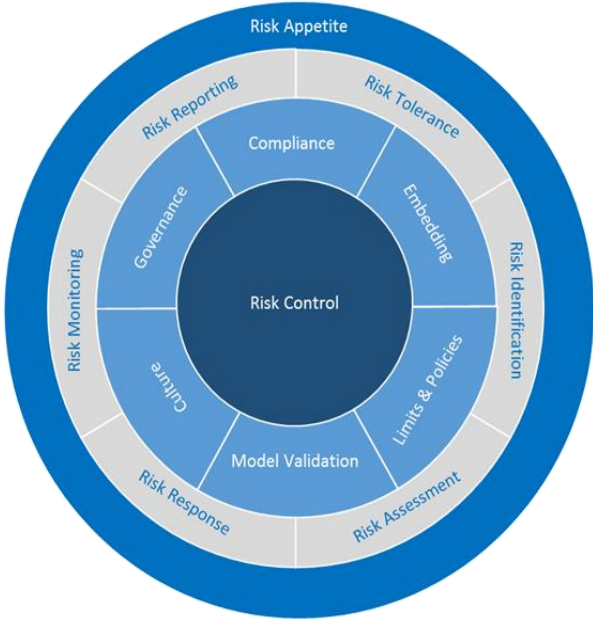
This section includes a description of the Group's Enterprise Risk Management (ERM) framework including risk appetite, risk tolerance, risk identification, risk assessment, risk response, risk reporting and monitoring, and risk control.

For Aegon, enterprise risk management involves:

- Understanding risks the Group faces.
- Maintaining a Group-wide framework through which risk return trade-offs can be assessed.
- Maintaining risk tolerances, risk indicators and supporting policies, for the level of exposure to a particular risk or combination of risks.
- Monitoring risk exposure and actively maintaining oversight over the Group's overall risk and solvency positions.

The ERM framework is represented by the diagram shown:

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



**Risk Appetite and Risk Tolerance:** The Group sets a risk appetite for the business which articulates its risk objectives and attached limits for the key risks. This is articulated in the form of a risk appetite (the directional and core strategic view of risk) and the risk tolerance (setting out clear limits which are monitored against solvency, liquidity, continuity, balanced exposures, business performance, sustainability, controlling effectively, with profits and protection reinsurance counterparty exposure). Risk tolerance places reliance on the ability to enter into run-off safely. Risk appetite and tolerance is reviewed on an annual basis.

**Risk Identification:** The Group aligns to the Aegon Group Risk Universe which captures all material risk that the Group is exposed to. An emerging risk process is in place to ensure the

appropriateness of the risk universe and the risk management framework.

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

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

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

*B.3.1.2 Aegon’s risk governance framework*

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

*B.3.1.2.1 Risk Management Function*

The UK Risk function is led by the UK Chief Risk Officer who has reporting lines to the Group CRO and the UK CEO. Together with the Group Risk department of Aegon Ltd. and the Risk and Capital Committee this forms the second line of defence of the Group.

The main roles and responsibilities of the Risk function include:

- Development and maintenance of the ERM framework, which facilitates the identification, measurement, and management of risk, provides integrity of models and cash flows in the Group and protects the Group’s reputation.
- Sharing of good practices and working together on relevant case studies/external standards in order to develop, adopt and maintain relevant standards of practice throughout Aegon.

- Support implementation of the ERM framework, risk methodology and standards of practice where needed.
- Provide subject matter expertise to businesses through review of key initiatives, assumptions, and results across all important reporting metrics. Monitor risk exposures and compliance with aspects of risk policies, in particular risk tolerance and risk policy limits.
- Ensure appropriate risk management information is prepared for use by the Management Committees, EC, and the Aegon UK Group Board Risk and Capital Committee.
- Oversight for material risk, balance sheet, and commercial decisions taken throughout the Group.
- Own and oversee the implementation of the AUK Group PIM.

The UK CRO leads the UK Risk function, is a member of the EC and attends the Aegon UK Group Board Risk and Capital Committee and Audit Committee.

The main objectives of the UK CRO are to:

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

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

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

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

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

The UK CFO is responsible for implementing the PIM methodologies supported by the Actuarial Function.

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

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

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

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

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

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

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

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

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

MMC monitors and controls the management of/or change to the Group's models as stipulated in the Model Risk Management Framework, ensuring the ongoing appropriateness of the models, and escalating issues to the ERCC, or the EC as appropriate. Internal Model applications and major changes are approved by the AUK Group Board following review and recommendation from MMC, ERCC, EC and the Aegon UK Group Board Risk and Capital Committee.

**B.3.2 Own Risk and Solvency Assessment**

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

*B.3.2.1 ORSA process overview*

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

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

All of the above must be evidenced.

**AUK Group’s ORSA process overview:**



*B.3.2.2 ORSA Governance*

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

### **Executive Committee**

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

### **AUK Group Board**

In the context of the ORSA, the AUK Group Board is responsible for the AUK Group elements of: (i) Challenge and approval of the MTP results, (ii) final sign-off of the ORSA report, (iii) discuss and approve quarterly risk reporting and capital reporting results, (iv) approval of the Capital Management and Dividend Policy, including approval of the Extreme Event scenarios, (v) approval of Risk Appetite, and (vi) approval of ORSA policy; and (vii) approval of Quarterly Risk and Capital reporting results.

#### *B.3.2.3 Chronological execution of the ORSA*

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

#### *B.3.2.4 Capital Management*

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

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

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

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

## **B.4 Internal Control system**

### **B.4.1 Internal Control system**

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

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



#### *B.4.1.1 Enterprise Risk Management Framework*

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

#### *B.4.1.2 Implementation within AUK Group*

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

#### **1<sup>st</sup> Line of Defence Internal Control Activities**

A number of activities across the 1<sup>st</sup> line of defence comprise the Internal Control Framework:

- Financial Control Standards outline the required process, high-level controls and governance relating to processes undertaken within Finance. The standards have been written to ensure a core understanding of the core principles for ensuring robust processes are in place with a suitable controls framework.
- A Sarbanes Oxley (SOx) compliance programme is managed by the Finance Function, in accordance with regulatory requirements and the Group SOx methodology.
- A Quality Model is in place within the administration functions to ensure accurate and appropriate processing of customer data.
- A suite of policies which are regularly reviewed and refreshed through governance are adopted to manage the risks that arise in the running of the business in a consistent manner within AUK Group's risk appetite. All employees are required to operate within the policy guidelines.
- Risk and assurance actions are recorded, tracked and monitored through the risk system and are subject to oversight from the structure of governance committees and Boards which regularly review and challenge risk MI as well as monitoring compliance with the ERM framework.
- A formal review of risk and control activities (including administrative and accounting procedures) is undertaken by accountable executive and control function holders on a semi-annual basis, culminating in the completion of an Internal Control Certificate which supports the signing of the Governing Body Certification in the SFCR that Aegon UK Group has complied in all material respects with the PRA rules.
- Information Security Compliance checks are performed in compliance with the Aegon Group Information Security Policy and minimum standards which is monitored through the use of the Enterprise Information Risk Management Application.
- Business continuity testing is in place and regularly tested in accordance with the Business Continuity Policy and the IT Risk Management Policy.
- All staff are required to complete mandatory computer-based training / eLearning modules on a regular basis to ensure they have an understanding of all key requirements including legislative, regulatory, and the Aegon Group Code of Conduct.
- AUK undertakes an annual employee engagement survey. Risk Culture is an important element of the survey and appropriate actions are put in place to ensure that a strong risk culture is maintained.

#### **2<sup>nd</sup> Line of Defence Internal Control Activities**

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

Reporting on the internal control framework activities as detailed above is covered in quarterly risk management information which is provided to the Aegon UK Group Board Risk and Capital Committee.

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

- Independent assurance over the robustness and appropriateness of the PIM through Independent Model Validation
- Review and challenge of Solvency II results reporting.
- Specific and thematic reviews are undertaken on a regular basis under a Regulatory Risk Monitoring programme within AUK Group.

### ***3rd Line of Defence Internal Control Activities***

The Internal Audit function is independent of senior management, which has responsibility for the first and second lines of defence and is therefore able to provide independent assurance opinions on the effectiveness of the systems of internal control, risk management, and governance. The Internal Audit function provides independent assurance over the internal controls by undertaking specific and thematic reviews in line with guidance from the Institute of Internal Auditors.

## **B.4.2 Compliance**

### ***B.4.2.1 Objective of the function***

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

### ***B.4.2.2 Compliance Risk***

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

### ***B.4.2.3 Compliance Risk Appetite***

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

### ***B.4.2.4 Tolerance***

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

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

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

#### *B.4.2.5 Role of the Compliance Function*

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

- Advises the Board, Audit and Board Risk & Capital Committee on the assessment and definition of the Compliance Risk Appetite and the risk tolerance levels;
- Advises on the acceptance of specific risk events based upon impact analysis;
- Raises awareness of Compliance Risk Appetite and established good business practices;
- Supports Management by identifying, assessing and overseeing the mitigation of Compliance Risks; and
- Reports on compliance matters that warrant the attention of the Board. Such reports must include as a minimum exceeded compliance risk tolerance levels and unacceptable business practices.

#### *B.4.2.6 Group and local Compliance Functions*

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

## **B.5 Internal Audit function**

### **B.5.1 Internal Audit function**

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

To ensure the appropriate influence, authority, independent position and direct access to the appropriate parts of the organisation, the Chief Internal Auditor (UK) has an escalation path and primary reporting line to the Chair of the Aegon UK Group Board Audit Committee and a secondary reporting and escalation line to the Global Chief Internal Audit Executive and a reporting line to the UK Chief Executive Officer.

Internal Audit's main tasks and responsibilities are to:

- Prepare and execute a risk-based audit plan which is approved by the AUKGB Audit Committee.
- Identify, and agree with management, opportunities to improve internal controls, risk management and governance processes and verify that such improvements are implemented properly and within a reasonable period of time. Ensure that these are brought to the attention of the Audit Committee, as appropriate.
- Provide a global perspective on thematic topics across Group and Business Unit level by performing end-to-end audits.
- Assist in the investigation of significant suspected fraudulent activities within Aegon or conduct special reviews or consulting which may not usually be included in the scope of Internal Audit and notify the Audit Committee of the results of these activities.

- Issue periodic reports to management and Audit Committee, summarising the progress and results of the annual audit plan, as well as on the sufficiency of Internal Audit resources.
- Provide periodic reporting on issue and action tracking.
- Assemble and maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of the Audit Charter.
- Ensure the Audit Committee (and wider senior management) are kept informed of emerging trends and successful practices in internal auditing.
- Consider the scope of work of the external auditors, regulators, and internal compliance and risk management teams, as appropriate, for the purpose of providing optimal audit coverage to the organisation at a reasonable overall cost.
- Coordinate and work together with other control and monitoring functions (e.g. Risk Management, Compliance, and external auditors).
- Execute audits on the functioning of the first and second lines of defence.
- Promptly report any major problem or incident which could significantly impact the risk profile or financial position of Aegon to the Board of Directors and the Audit Committee.
- Administer the AUK Speak Up policy and independently investigate Speak Up disclosures and reportable concerns as they arise. Report annually outcomes of Speak Up investigations to the Audit Committee.

### **B.5.2 Independence and Objectivity of the Internal Audit function**

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

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

Internal Audit avoids any conflicts of interest and accesses the expertise and knowledge necessary to undertake work in respect of specialist business functions. Skills, competencies, and independence of the Internal Audit team are assessed on an annual basis. If new joiners or external resources are engaged, their skills and conflicts of interest are assessed prior to being involved in the duties of Internal Audit. These resources are appropriately assigned to audit teams or to otherwise assist the internal auditors and comply with the principles of the Audit Charter.

Internal Audit do not perform any operational roles in areas where they are required to provide assurance. Internal Audit personnel do not perform reviews of business areas or functions in which they have had management or operational responsibility in the last 12 months or are otherwise conflicted. In respect of the Speak Up policy, Internal Audit administer this on behalf of the Board, to provide staff with independent channels of communication to raise concerns and to investigate those raised. Separate arrangements are made by the Board for periodic assurance over Speak Up procedures.

### **B.6 Actuarial Function**

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

The AUK Actuarial Function performs the following tasks in respect of SE plc which are required by the Solvency II Directive (Article 48), Solvency II Implementing Measures (Article 272) and Guidance, and PRA rules:

- Coordinate the calculation of Technical Provisions;
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of Technical Provisions;
- Assess the sufficiency and quality of the data used in the calculation of Technical Provisions;
- Assess whether the information technology systems used in the calculation of Technical Provisions sufficiently support the actuarial and statistical procedures;
- Compare best estimates against experience;
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of Technical Provisions;
- Oversee the calculation of Technical Provisions in cases where there is insufficient data of appropriate quality to apply a reliable actuarial method and appropriate approximations are used for the calculation of the best estimate;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements;
- Contribute to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements and to the Own Risk and Solvency Assessment;
- Produce a written report to be submitted to the AUK Group Board at least annually documenting all tasks that have been undertaken by the actuarial function and their results, and clearly identifying any deficiencies and giving recommendations as to how such deficiencies should be remedied.

In addition to the above tasks, the Actuarial Function performs for Aegon UK Group the following tasks not specified in the UK Solvency II regulations:

- Recommend the methodology, assumptions and results of the Internal Model SCR calculations and associated stress and scenario testing;
- Perform the capital and liquidity calculations and projections used in the business planning, capital reporting, capital management, ORSA and stress and sensitivity testing;
- Monitor and manage the capital/solvency positions and risks of AUK plc, of SE plc, and of the AUK Investment Group (AUKIG) entities to support the Board in ensuring that the entities in the AUK Group remain solvent at all times;
- Deliver the AUKIG Internal Capital Adequacy and Risk Assessment (ICARA) report;
- Assess the affordability of the recommended dividends to be paid from SE plc to AUK plc, or between other legal entities within the AUK Group, and from AUK plc to Aegon Ltd and, if necessary, the level and type of any proposed capital-raising or injections required;
- Monitor and manage liquidity risk within the AUK Group;
- Recommend the Asset Liability Management strategy and investment guidelines for with profits and shareholder funds (non-unit-linked) and oversee the implementation of the approved strategy;
- Through the With-Profits Actuary Function, manage the with profits sub fund, including recommending bonus rates, the rate of estate distribution, investment strategy and other with profits management actions;
- Recommend to the AUK Group Board the methodology for management actions including estate distribution and bonuses;
- Provide input to AUK strategy development and key strategic decisions;
- Manage the AUK defined benefit pension scheme on behalf of AUK;
- Lead and support Finance-led projects;

- Prescribed Responsibility for the Financial Risks from Climate Change;
- Input to, and ensure compliance with, relevant UK and Group policies in relation to the above activities (e.g. Capital Management Policy, Market Risk Policy, etc.)

## **B.7 Outsourcing**

### **B.7.1 External outsourcing arrangements**

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

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

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

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

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

The Group’s main external critical supplier arrangements are UK operations supporting our Traditional Products operations, mail/print services, investment fund processing, Protection operations and Platform technology development support. The Group also has external critical supplier arrangements outside the UK, primarily in India and USA, supporting back-office operations, data processing, and technology platforms.

### **B.7.2 Intra-group outsourcing arrangements**

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

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

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

### **B.7.3 Material intra-group outsourcing arrangements**

The material intra-group outsourcing arrangements at AUK Group level are:

- An intra-group agreement between Aegon UK Corporate Services Ltd and AUK Group entities relating to operating expenses and overhead expense recharges.

### **B.8 Any other information**

All material information regarding the Systems of Governance for AUK Group is covered earlier in this section. The Systems of Governance described are fully embedded in the business. To ensure the Systems of Governance are operating effectively, a regular cycle of Board effectiveness and Terms of Reference compliance is undertaken. The 2023 reviews concluded that there are no material concerns regarding the overall design, or operation, of the System of Governance.

## C. Risk Profile

### General

#### ***Risk exposure***

As an insurance group, AUK Group is exposed to a variety of risks. Some of the Group's largest exposures are to changes in financial markets (e.g. interest rate and equity market risks) that affect the value of the investments held, and the liabilities from products that the Group sells. Other risks include insurance related risks, such as changes in mortality and the persistency rates as well as the operating expenses for the business. In the investment group, this extends to lower profitability and loss of large institutional or large retail accounts. The AUK group is also exposed to operational risk as described in section C.5.

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

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

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

In this section we make a distinction between Aegon UK Investment Group ('**AUKIG**') and the insurance entity **SE plc**. Within SE plc, we make a distinction between the **Non-Profit Sub-Fund (NPSF)**, wholly owned by the shareholder, and the **With-Profits Sub-Fund (WPSF)** where the profits arising in the fund, but also the risk exposures, reside with the with-profits policyholders (unless otherwise stated).

In 2022, the PRA notified Aegon UK of their decision to exercise supervision of AUK Group from year-end 2022 onwards. Consequently, Solvency II results for AUK Group were reported to PRA for the first time for year end 2022. The Group's regulatory solvency requirements were calculated on a UK Standard Formula basis (SF) as at 31 December 2022. The Group changed to report on a UK Partial Internal Model (PIM) basis with effect from Q1 2023 following approval by the PRA on 16 March 2023. The prior period results in this document have been restated on a PIM basis to aid comparison, where available.

The Investment Firm Prudential Regime (IFPR) became effective for AUKIG from January 2022. Under the IFPR, the AUKIG 'Internal Capital Adequacy Assessment Process' (ICAAP) is replaced by 'Internal Capital Adequacy and Risk Assessment' (ICARA). The underlying risk profile of the business remains the same. The inaugural ICARA for 2022 was approved in February 2023. As at 31 December 2023, the 2022 ICARA is the relevant assessment of capital for the AUKIG.



### ***Risk concentration***

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

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

Moreover, concentration of financial risks is measured in the AUK Group business planning cycle. As part of business planning, the resilience of AUK Group's business strategy is tested in adverse scenarios:

- Plausible Adverse Scenario, reflecting a downturn in financial markets, combined with non-financial stresses.
- Stagflation Scenario, reflecting market stresses in a high inflation scenario (higher inflation, interest rates, credit spreads and an equity downwards shock) and non-market stresses.

No allowance is made in these adverse scenarios for management actions that are available to mitigate the impact of the scenarios.

### ***Risk mitigation***

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

Reinsurance is actively adopted for the Protection products. Following the agreement to sell the individual protection book to Royal London, SE plc entered into a separate reinsurance agreement with Royal London until the Part VII transfer takes place following court approval of the transfer.

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

### ***Risk sensitivities***

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

Results of AUK Group's sensitivity analyses, as at 31 December 2023, are presented throughout this section to show the estimated sensitivity of the Solvency II financial strength to various potential risk events. Management action is taken into account to the extent that it is part of Aegon's regular policies and procedures, such as established hedging programmes. The sensitivities are updated on a quarterly basis and form a key component of the ORSA.

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

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

The risk factors identified as for the ICARA derives directly from the Aegon Enterprise Risk Management Framework, and so are consistent with the risk factors adopted in the insurance companies for capital assessment under Solvency II.

The table below shows the breakdown of the PIM SCR components by risk module. The total net SCR after diversification is £1,290m (unaudited).

### Solvency Capital Requirement for AUK Group (unaudited)

Amounts in GBP Millions		2023
C.2 Market risk	Market Risk (SF)	35.2
	Market Risk (IM)	1,035.0
C.3 Credit risk*	Counterparty default risk (SF)	65.7
C.1 Underwriting risk	Life underwriting risk (SF)	16.7
	Life underwriting risk (IM)	1,270.1
	Health underwriting risk (SF)	0.7
C.5 Operational risk	Operational risk (IM)	305.7
	LAC-TP **	(88.1)
C.6 Other material risk	LAC-DT	(391.9)
<b>Total undiversified components</b>		<b>2,249.2</b>
Diversification ***		(1,032.4)
Capital requirement for other financial sectors		73.7
<b>PIM SCR*</b>		<b>1,290.4</b>

Note: The detailed split shown above for 2023 is not available for 2022 PIM SCR as this was calculated on a Standard Formula basis. The equivalent total for 2022 on a PIM SCR basis was £1,295.9m

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

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

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

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

### ***Significant risk exposure change in the period***

In 2023, as part of the equity hedging strategy, SE plc continued with the active Unit Matching programme, rebalancing quarterly to re-align with risk appetite and extended the programme to include the TargetPlan book increasing overall Unit Matching by over 10%. Increasing Unit Matching enabled a 50% reduction to the equity put options held whilst maintaining a similar level of equity risk exposure. The remaining equity put options held were re-struck at 80% 'moneyness' in Q4 2023.

The cash balances on AUK Group Platform business earn interest at a corporate rate, reflecting our global corporate banking partnership with HSBC. An allowance for retention of some of the interest earned on these cash balances has been included in the Group's 2023 Solvency II balance sheet, which introduces a new exposure to changes in interest rates. Interest rate falls result in a reduction in Own Funds, driven by the negative impact of lower interest on cash balances. An opposite impact is seen with increases in interest rates.

### **Prudent Person Principle**

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

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

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

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

### **Off-balance positions and Special Purpose Vehicles**

There are no significant off-balance sheet positions for the Group. The Group does not currently utilise Special Purpose Vehicles.

## **C.1 Underwriting risk**

### **C.1.1 Underwriting risk description**

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

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

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

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

**C.1.2 Underwriting risk assessment**

AUK Group is exposed to underwriting risk as follows:

Risk	Exposures
Longevity	SE plc: <ul style="list-style-type: none"> <li>• Value of NPSF inwardly reinsured annuities from Phoenix Group</li> <li>• Value of Guaranteed Annuity Options and Guaranteed Minimum Pensions in the WPSF</li> </ul> AUKIG: <ul style="list-style-type: none"> <li>• Not applicable in AUKIG firms</li> </ul> AUK: <ul style="list-style-type: none"> <li>• Value of liabilities of the staff defined benefit pension scheme</li> </ul>
Mortality	SE plc: <ul style="list-style-type: none"> <li>• Value of individual protection liabilities (the Company is reinsuring this portfolio of business to Royal London until Part VII transfer is approved)</li> <li>• Value of future fee income on NPSF unit-linked Traditional Products and Platform business</li> </ul> AUKIG: <ul style="list-style-type: none"> <li>• Not applicable in AUKIG firms</li> </ul>
Life Catastrophe	SE plc: <ul style="list-style-type: none"> <li>• Value of individual protection liabilities (the Company is reinsuring this portfolio of business to Royal London until Part VII transfer is approved)</li> <li>• Value of future fee income on NPSF unit-linked Traditional Products and Platform business</li> </ul>

	AUKIG: <ul style="list-style-type: none"> <li>• Not applicable in AUKIG firms</li> </ul>
Morbidity	SE plc: <ul style="list-style-type: none"> <li>• Value of individual protection liabilities (the Company is reinsuring this portfolio of business to Royal London until Part VII transfer is approved)</li> </ul> AUKIG: <ul style="list-style-type: none"> <li>• Not applicable in AUKIG firms</li> </ul>
Lapse / Policyholder Behaviour	SE plc: <ul style="list-style-type: none"> <li>• Value of NPSF unit-linked Traditional Products and Platform business</li> <li>• Value of individual protection liabilities</li> <li>• Value of net cost of guarantees in the WPSF</li> <li>• Value of Guaranteed Annuity Options (GAOs) in the WPSF</li> </ul> AUKIG: <ul style="list-style-type: none"> <li>• Value of future fee income</li> </ul>
Expenses	SE plc <ul style="list-style-type: none"> <li>• Value of future expenses in the NPSF</li> </ul> AUKIG: <ul style="list-style-type: none"> <li>• Value of future expenses</li> </ul>

Risk exposure is measured using the Solvency II PIM and ICARA for each risk type for SE plc and AUKIG respectively.

**Risk profile change in period:**

Following the agreement to sell the individual protection book to Royal London, SE plc entered into a separate reinsurance agreement with Royal London until the Part VII transfer takes place following court approval of the transfer. This agreement transfers the risks and rewards of the underlying contracts and associated cash flows from the existing reinsurance contracts held by the Group. The existing net level premium quota share reinsurance contracts remain in place until the transfer. The transaction does not have a material financial impact on the capital position, or the risk profile, of the Group.

*Assumption update*

All material non-economic assumptions were reviewed in Q4 2023, with revisions effective from 31 December 2023. The most material changes following the review included:

- The unit-linked persistency assumptions were updated. The updated assumptions include allowances for the anticipated impacts of the cost-of-living crisis and Pensions Dashboard on policyholder behaviour.
- The maintenance expense assumptions were reviewed to reflect an updated cost analysis and our best estimate view of the effects of a number of cost management initiatives. The updated assumptions remove areas of stretch in the Medium Term Plan to give our best estimate view, including, for example, adjustments to the level of inflation that can be absorbed by the business.
- The longevity assumptions were updated to be based on the latest CMI\_2022 model using core parameterisation.

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

### C.1.3 Risk concentration

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

### C.1.4 Risk mitigation

#### *Mortality and Morbidity*

The general approach adopted by the Group in relation to the Protection portfolio is to limit risk through widespread use of reinsurance. Following the agreement to sell the individual protection book to Royal London, SE plc entered into a separate reinsurance agreement with Royal London until the Part VII transfer takes place following court approval of the transfer.

#### *Expense Risk*

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

#### *Lapse Risk*

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

#### *Longevity Risk*

The only annuity business remaining during 2023 was an inward reinsurance from Phoenix Group. No new annuity business is written in Aegon UK Group, with an arrangement in place under which Legal & General may provide annuities arising from vesting policies. This significantly reduces the Group's exposure to longevity risk.

### C.1.5 Risk sensitivity

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

Based on stress scenarios calibrated according to the Aegon UK Group PIM and allowing for the impact of risk mitigating strategies, the potential losses that may arise from key underwriting risks have been assessed as part of the ORSA and are set out below. The sensitivities represent an increase or decrease in lapse rates, a decrease in mortality rates over best estimate and an increase in expenses, resulting in an increase/decrease in solvency ratio. Delta shows the impact on solvency position at Q4 2023 applied to the pre-stress solvency ratio at Q4 2023 (197%).

#### **Risk Sensitivity**

Amounts in GBP millions	<b>Own Funds</b>	<b>SCR</b>	<b>Ratio</b>	<b>Delta</b>
<b>Underwriting</b>				
20% increase in lapse rates	(275.7)	(94.8)	189%	(7%)
20% decrease in lapse rates	373.8	111.0	208%	11%
5% decrease in mortality	(3.5)	4.8	196%	(1%)
<b>Expenses</b>				
5% increase in expenses	(58.3)	(6.6)	193%	(4%)

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

Own Funds are exposed to improved longevity. In this case, the SCR increases as improved longevity increases exposure to further stresses. This scenario results in a decrease in solvency ratio. The expense sensitivity also leads to a decrease in ratio driven by the decrease in Own Funds.

**C.2 Market risk**

**C.2.1 Market risk description**

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

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

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

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

## C.2.2 Market risk assessment

AUK Group is exposed to market risk as follows:

Risk	Exposures
Equity Risk	<p>SE plc:</p> <ul style="list-style-type: none"> <li>• The value of future fee income on NPSF unit-linked Traditional Products, TargetPlan and Platform business to the extent that the underlying assets are invested in equities.</li> <li>• The cost of investment guarantees in the WPSF.</li> <li>• Equity holdings in the Staff Pension Scheme.</li> <li>• Shareholder equity holdings, e.g. seed investment in AIL funds.</li> </ul> <p>AUKIG:</p> <ul style="list-style-type: none"> <li>• The value of future fee income.</li> </ul>
Alternative Investment Risk	<p>SE plc:</p> <ul style="list-style-type: none"> <li>• The value of future fee income less expenses on NPSF unit-linked Traditional Products, TargetPlan and Platform business to the extent that the underlying assets are invested in property and other alternative investments.</li> <li>• The cost of investment guarantees in the WPSF.</li> </ul> <p>AUKIG:</p> <ul style="list-style-type: none"> <li>• The value of future fee income.</li> </ul>
Equity Volatility Risk	<p>SE plc</p> <ul style="list-style-type: none"> <li>• The value of investment guarantees in the WPSF.</li> <li>• The value of hedging instruments held to protect the value of fee income from the NPSF unit-linked Traditional Products, TargetPlan and Platform business.</li> </ul> <p>AUKIG:</p> <ul style="list-style-type: none"> <li>• Not applicable in AUKIG firms.</li> </ul>
Interest Rate Risk	<p>SE plc:</p> <ul style="list-style-type: none"> <li>• The value of future fee income and expenses on NPSF unit-linked Traditional Products, TargetPlan and Platform business.</li> <li>• The value of future interest on cash balances retained on Platform business.</li> <li>• The cost of investment guarantees in the WPSF, including those related to Guaranteed Annuity Options and Guaranteed Minimum Pensions.</li> <li>• Mismatches between asset and liability cash flows in respect of annuity business and Staff Pension Scheme.</li> <li>• Change in value in other assets within Own Funds.</li> <li>• The value of hedging instruments held to protect against interest rate movements.</li> </ul> <p>AUKIG:</p> <ul style="list-style-type: none"> <li>• The value of future fee income.</li> <li>• The value of future interest on cash at bank.</li> </ul> <p>AUK:</p> <ul style="list-style-type: none"> <li>• At AUK level there is additional volatility from the Staff Pension Scheme arising from specifics of the Solvency II treatment – notably the IAS19 valuation approach and the requirement to cap the recognition of any surplus at the SCR attributable to the Scheme.</li> </ul>



Risk	Exposures
Inflation Risk	SE plc: <ul style="list-style-type: none"> <li>• The value of provisions held to cover the expected future cost of maintaining business already written may go up if we expect future inflation to be higher.</li> <li>• The value of benefit commitments made to policyholders which are linked to inflation may go up if we expect future inflation to be higher.</li> <li>• The value of obligations under the Staff Pension Scheme may increase if we expect future inflation to be higher.</li> <li>• The value of hedging instruments held to protect against inflation rate movements</li> </ul>
Currency Risk	SE plc: <ul style="list-style-type: none"> <li>• The value of future fee income on the value of overseas investments in customer funds.</li> </ul> AUKIG: <ul style="list-style-type: none"> <li>• The value of future fee income on the value of overseas investments in customer funds.</li> <li>• The value of non-sterling cash balances held by AUKIG entities.</li> </ul>

Risk exposure is measured using the Solvency II PIM and ICARA for each risk type for SE plc and AUKIG respectively.

#### **Risk profile change in period:**

In 2023 as part of the equity hedging strategy, AUK Group continued with the active Unit Matching programme, rebalancing quarterly to re-align with risk appetite and extending the programme to include the TargetPlan book. This increased overall Unit Matching by over 10%. As a result, the level of equity puts held was reduced by 50% with remaining equity puts restruck at 80% during Q4 2023 to give a similar overall level of hedging against equity risk as the previous year and consistent with the assumption in the AUK Group business planning cycle.

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

The cash balances on AUK Group Platform business earn interest at a corporate rate, reflecting our global corporate banking partnership with HSBC. An allowance for retention of some of the interest earned on these cash balances has been included in the Group's 2023 Solvency II balance sheet, which introduces a new exposure to changes in interest rates. Interest rate falls result in a reduction in Own Funds, driven by the negative impact of lower interest on cash balances. An opposite impact is seen with increases in interest rates.

#### **C.2.3 Risk concentration**

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

#### **C.2.4 Risk mitigation**

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

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

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

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

AUK Group also maintains an equity hedging strategy which combines a portfolio of put options and a Unit Matching programme. Unit Matching is targeted to hedge a proportion of expected fee income over the medium term, with rebalancing being reviewed quarterly. The portfolio of put options are held and rebalanced on an annual basis to ensure residual equity risk remains below our limit for equity exposure. In 2023 the level of Unit Matching was increased with the level of equity puts reduced to maintain a similar level of equity risk exposure. We have a potential management action available to increase the level of Unit Matching should more equity risk hedging be required – this is our preference over an increased level of equity put options.

The cost of guarantees in the WPSF are hedged using portfolios of interest rate derivatives designed to protect the fund against certain market movements. The volume of interest rate derivatives held by the WPSF was reduced over 2023.

### C.2.5 Risk sensitivity

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

Based on stress scenarios calibrated according to the Aegon PIM, and allowing for the impact of the risk mitigating strategies, the potential losses that may arise from key market risks have been assessed as set out below. The sensitivities show the impact that a range of stress events could have on overall solvency coverage of AUK Group. Delta shows the impact on solvency position at Q4 2023 applied to the pre-stress solvency ratio at Q4 2023 (197%).

#### Risk Sensitivity

Amounts in GBP millions	Own Funds	SCR	Ratio	Delta
<b>Interest</b>				
Interest rate curve -1%	1.3	19.6	194%	(3%)
Interest rate curve +1%	4.3	(0.4)	197%	0%
<b>Equity</b>				
25% increase in equities	322.0	220.7	189%	(7%)
25% decline in equities	(313.1)	(205.3)	205%	8%

The solvency ratio decreases slightly when interest rates fall. Own Funds increase marginally in this scenario with the reduction in value of future interest on cash balances retained by AUK Group on Platform business being offset by changes in the value of the interest and inflation swaps. The Staff Pension Scheme is almost fully hedged against interest rate risk and there is no exposure to interest rate risk on the individual protection book after allowance for the Part VII transfer to Royal London. The SCR increases when interest rates fall, primarily due to increases in longevity and expense capital. Also, an SCR for WPSF is introduced as the value of the management actions are not sufficient to meet the possible SCR losses when interest rates fall by 1%.

Conversely, the solvency ratio marginally increases when interest rates rise. Own Funds increase and SCR decreases, reflecting the same drivers as the interest rate fall scenario. The movements are not symmetrical given the smaller change to Risk Margin when interest rates rise. When interest rates fall the WPSF has no SCR, like the base scenario, as the value of management actions are sufficient to meet the possible losses.

Similar to lapse risk, when the value of equities falls there is a reduction in Own Funds as the value of future profits i.e. charges on unit linked business falls. The SCR also reduces because there is then less exposure to further stress. Overall, the solvency ratio increases in this scenario.

Exposures to other market risks are less material.

### C.3 Credit risk

#### C.3.1 Credit risk description

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

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

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

#### C.3.2 Credit risk assessment

AUK Group is exposed to credit risk as follows:

Risk	Exposures
Credit Risk	<p>SE plc:</p> <ul style="list-style-type: none"> <li>The value of bonds and similar fixed income assets held to cover insurance liabilities, including those in respect of annuity business and the WPSF asset shares.</li> <li>The value of bonds and similar fixed income assets held to meet business expenses (including Unit Matching buyback commitments and project costs) as they arise.</li> <li>The value of future fee income on NPSF unit-linked Traditional Products and Platform business to the extent that the underlying assets are invested in bonds and similar fixed income assets.</li> </ul>

Risk	Exposures
	<p>AUKIG:</p> <ul style="list-style-type: none"> <li>The value of future fee income on Cofunds and AISL business to the extent that the underlying assets are invested in bonds and similar fixed income assets.</li> </ul> <p>AUK:</p> <ul style="list-style-type: none"> <li>The value of bonds and similar fixed income assets held in the Staff Pension Scheme.</li> <li>Changes in the discount rate used to determine the value of the Staff Pension Scheme liabilities under International Accounting Standard (IAS) 19.</li> </ul>
Counterparty Risk	<ul style="list-style-type: none"> <li>The value of expected recoveries from reinsurance counterparties, including those in respect of reinsured external fund links and protection.</li> <li>The value of any derivative assets, net of any collateral held in respect of these positions.</li> <li>The value of cash deposits held. For SE plc, cash deposits are held within the Aegon Enhanced fund but for AUKIG entities significant levels of cash are held in operating accounts owned by counterparties due to operating model requirements.</li> </ul>

Credit and counterparty risk exposures in AUK Group arise from a number of sources.

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

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

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

AUK Group has reinsurance arrangements in respect of protection insurance business with a small number of key counterparties. To support the 2024-26 Medium Term Plan, the AUKGB and Aegon Group have agreed to maintain an increased risk appetite, for the period until the Part VII transfer takes place following court approval of the transfer, for our panel of key counterparties.

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

Due to the operating model for AUK Insurance Group entities, significant levels of cash are held in operating accounts owned by counterparties. To manage the counterparty risk, counterparty exposure is managed within limits set out in the Aegon Group Credit Name Limit policy.

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

**Risk profile change in period:**

The Group continues to hold a proportion of surplus liquidity in short-term bonds, rather than entirely cash and gilts, to seek higher returns on these surplus assets. This initiative increases credit risk, though not materially.

The Group’s individual protection business portfolio closed to new business on 4 April 2023. The transaction does not have a material financial impact on the capital position, nor the risk profile, of the Group.

**C.3.3 Risk concentration**

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

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

Amounts in GBP millions	2023	2022
AAA	33.2	48.5
AA	445.4	408.9
A	353.2	395.6
BBB	107.6	108.9
BB	0.7	0.7
Assets not rated	10.0	22.9
<b>Total Assets by Credit Risk</b>	<b>950.1</b>	<b>985.5</b>

**Financial assets above comprise:**

Amounts in GBP millions	2023	2022
Derivative financial instruments	10.0	22.9
Debt securities and money market investments	777.7	799.0
Cash and cash equivalents	162.4	163.6
<b>Total Assets by Category</b>	<b>950.1</b>	<b>985.5</b>

### Credit Exposures by Sector for Debt securities and money market investments

Amounts in GBP millions	2023	2022
Asset-backed securities: Asset-backed securities - Other	45.7	47.4
Commercial mortgage-backed securities	63.0	83.5
Financial	182.7	180.8
Industrial	129.6	139.3
Utility	63.5	61.6
Sovereign exposure	293.2	286.4
<b>Total Credit Risk Concentrations for Debt securities and MMI</b>	<b>777.7</b>	<b>799.0</b>

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

Aegon Group Credit Name Limit Policy also applies to the reinsurance arrangements in respect of protection insurance business. Broadly, the exposure limit to each insurer is based on their external credit rating. However, we have specific agreement from Aegon Group for certain extended limits (reviewed annually) which take in to account the more limited range of reinsurers and the need to support continued protection insurance new business activity to support the Medium-Term Plan.

Exposure to reinsured externally managed unit-linked investment funds is also monitored in line with the Aegon Group Credit Name Policy. Where external credit ratings are not available for counterparties the credit rating used to determine their exposure limit is based on the published SCR in their most recently available SFCR in line with Standard Formula rules.

#### C.3.4 Risk mitigation

##### **Credit Risk**

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

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

##### **Counterparty Risk**

Counterparty exposures arising through derivative or reinsurance arrangements are mitigated wherever possible through appropriate collateral arrangements. All derivative positions are either subject to Central Clearing arrangements or established under industry standard International Swaps and Derivatives Association/Credit Support Annex terms and are fully collateralised.

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

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

### C.3.5 Risk sensitivity

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

Based on stress scenarios calibrated according to the AUK Group PIM and allowing for the impact of risk mitigating strategies, the potential losses that may arise from key credit risks have been assessed as set out below. The sensitivities represent an increase or decrease in the credit spreads, resulting to an increase/decrease in solvency ratio. Delta shows the impact on solvency position at Q4 2023 applied to the pre-stress solvency ratio at Q4 2023 (197%).

#### Risk Sensitivity

Amounts in GBP millions	Own Funds	SCR	Ratio	Delta
<b>Credit</b>				
Non-government bond spreads -0.50%	16.5	10.0	196%	(0%)
Non-government bond spreads +0.50%	(4.9)	2.4	196%	(1%)

Credit exposure has reduced over 2023 due to de-risking in the Staff Pension Scheme, which remains in surplus under both a 50bps increase and 50bps decrease in spreads and the change in Own Funds in each scenario is attributable to unitised business. The SCR impacts are also reduced compared with prior years due to the de-risking in the Pension Scheme. The SCR increases when credit spreads narrow due to the reduced absorbency from the IAS19 surplus in the Staff Pension Scheme. There is less benefit from increased loss absorbency when spreads widen with fewer remaining Staff Pension Scheme losses to cover in the base SCR.

## C.4 Liquidity risk

### C.4.1 Liquidity risk description

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

AUK Group's liquidity risk does not give rise to a capital requirement.

### C.4.2 Liquidity risk assessment

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

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

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

The AUKIG entities, Cofunds and AISL, are bound by the requirements of CASS regulations which set out the framework under which firms can hold and manage Client Assets. In the context of liquidity risk management CASS 6 (governing the holding of client assets) and CASS 7 (governing the holding of client monies) are of particular importance and a key source of liquidity risk. Under the CASS rules, client money accounts cannot be overdrawn and this means that corporate cash is required to deal with any timing mismatches in the settling of trades and purchases.

To monitor operational liquidity risks in Cofunds and AISL, a detailed operational liquidity risk management framework is in place with clear limits and ongoing real-time monitoring in place to ensure limits are not breached. The Funding Incident Team (FIT) are in place to identify any issues as they arise and clear decision tree processes are in place which allow for issues to be escalated and key decisions taken as and when required. In extreme cases this can mean refusing to release monies when inflows have been delayed.

These risks are not as significant for SE plc as products are sold through an insurance wrapper.

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

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

**Risk profile change in period:**

Over 2023 we extended our active Unit Matching programme as part of our equity hedging. This involved extending the Unit Matching programme to include TargetPlan business which increased Unit Matching by over 10%. The Unit Matching programme involves quarterly rebalancing of the position, generating liquidity in line with new business written and market movements to broadly offset the cost of unit buy backs that occur daily as previously matched fee income is received.

At the end of 2020 we implemented an initiative to seek higher returns on surplus cash through investments in short-term bonds, rather than only holding cash and gilts. This initiative continues and, although it reduces available liquidity, the proceeds from these bonds are used to meet business expenses as they arise, meaning liquidity requirements are reduced by approximately the same amount (the maximum investment amount made available is optimised to ensure this is the case). Thus, surplus liquidity is broadly unchanged as a result of this initiative.

**C.4.3 Risk concentration**

A number of concentrations of liquidity risk exist in AUK Group.

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



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

Within AUKIG where operational liquidity risks are higher there are concentrations of liquidity risk due to the potential actions of larger corporate schemes or advisors who may look to rebalance their clients' portfolios. Any timing mismatches in the settlement of large trades carried out is a source of liquidity risk.

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

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

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

#### **C.4.4 Risk mitigation**

AUK Group operates liquidity monitoring controls in line with the Aegon Group Liquidity Risk Policy. This policy is designed to ensure that businesses in the Aegon Group maintain sufficient levels of cash or other highly liquid assets to meet cash demands by policyholders and account holders over the next two years. Potential cash demands are assessed under a stress scenario which includes a significant rise in interest rates. A detailed Operational Liquidity Risk framework is in place for with pre agreed triggers and limits in place by entity with monitoring happening on a real-time basis. Where a transaction exceeds Operational Liquidity Risk tolerances it will be refused or an alternative approach will be found. To mitigate this AUK Group work collaboratively with counterparties to ensure we are suitably prepared for any significant transactions and clear expectations are set.

#### **C.4.5 Risk sensitivity**

Liquidity levels in AUK Group are generally predictable and capable of management control.

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

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

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

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

The value placed on total future profits at 31 December 2023 is £856m (2022: £777m).

## C.5 Operational risk

### C.5.1 Operational risk description

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

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

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

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

### C.5.2 Operational risk assessment

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

#### *C.5.2.1 Legal, Regulatory, Conduct and Compliance risk*

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

#### *C.5.2.2 Processing risk*

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

#### *C.5.2.3 Business risks*

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

#### *C.5.2.4 Tax risk*

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

#### *C.5.2.5 Financial crime risk*

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

#### *C.5.2.6 People risk*

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

#### *C.5.2.7 Facility risk*

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

#### *C.5.2.8 Information Technology and business disruption risk*

The risk of losses due to a failure in management of technology asset inventory and asset lifecycle management processes, lack of IT availability and performance due to ineffective incident management processes, inability to protect confidentiality, integrity, and availability of assets and data, and inability to effectively recover and resume operations following a business disruption event or other calamity.

#### *C.5.2.9 Exposures*

Operational risk exposure in AUK Group is dominated by processing risks and Legal, Regulatory, Conduct, Compliance, Information Technology and Business Disruption risks.

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

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

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

### **C.5.3 Risk concentration**

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

#### **C.5.4 Risk mitigation**

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

#### **C.5.5 Risk sensitivity**

Within the 2023 results the risk capital is measured on an Internal Model approach. Internal scenario analysis allows the business to test sensitivities to the risk exposure.

#### **C.6 Other material risk**

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

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

#### **C.7 Any other information**

All material information regarding the Risk Profile of AUK Group is covered earlier in this section.

## D. Valuation for Solvency Purposes

### General

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

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

### Valuation principles for non-insurance entities

For undertakings other than insurance, the Group follows the principles set out by the Solvency II Directive and specifically:

- Other non-insurance entities (Other financial sector, Other non-regulated and Holdings entities are included based on the local sectoral rules).

The approach taken to reconcile the balance sheet under IFRS and Solvency II is described below:

As a starting point, the IFRS balance sheets of all business units are collected and aggregated (AUK Group Accounts). These are then aligned to the Quantitative Reporting Template ('QRT') format as prescribed by the Solvency II regulations (step 1). After performing the reconciliation steps (step 2 - 5), the IFRS balance sheet in QRT format is reconciled to the Solvency II balance sheet. The detailed steps in the reconciliation process are described below:

Step 1: To ensure accuracy of the reconciliation and correctness of the adjustments performed, the audited AUK Group IFRS balance sheet is converted into its QRT equivalent.

Step 2: Other financial sector entities (OFS) and Other non-regulated entities (ONR) are excluded for their IFRS value. These entities are added back at their Solvency II value in step 5 below.

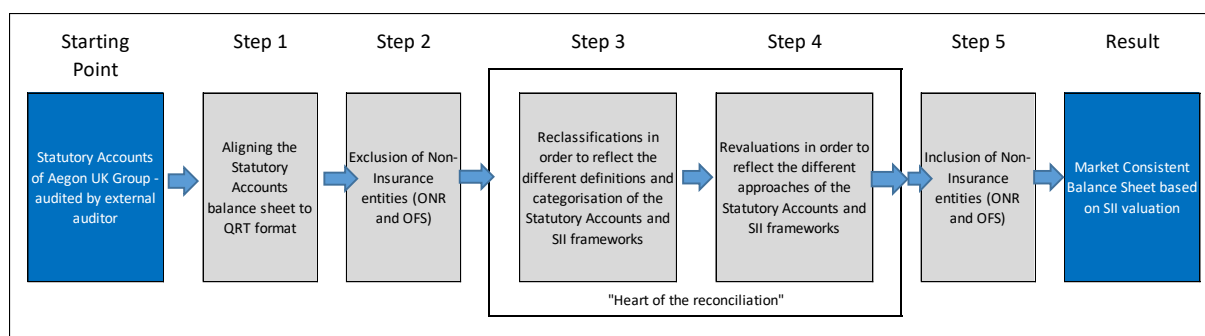
Step 3: Certain balance sheet items might differ in classification between the IFRS and Solvency II balance sheet. To align with the definitions and categorisations under Solvency II, some IFRS balance sheet items or classes within the balance sheet item are reclassified.

Step 4: Adjustments for balance sheet items that differ in method of valuation between IFRS and Solvency II are included through this step. This step is also used to de-recognise balance sheet items that are valued at nil on the Solvency II balance sheet such as goodwill, deferred expenses (including Deferred Policy Acquisition Costs (DPAC)) and other intangible assets.

Step 5: The entities excluded in step 2 above are included in the Group's Solvency II Own Funds according to local regulatory rules for OFS and adjusted equity method for ONR.

### Approach towards IFRS to Solvency II balance sheet reconciliation

The approach can be illustrated as follows:



## Balance sheet reconciliation overview

The table below shows the IFRS to Solvency II balance sheet reconciliation for each applicable class of asset and liability. The full SII balance sheet can be seen in QRT S.02.01.01.

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

### Aegon UK Group Balance Sheet Reconciliation

As at December 31, 2023

Amounts in GBP million	Section	Statutory Accounts	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
<b>Assets</b>							
Goodwill	D.1.1	48.1	-	-	(48.1)	-	-
Deferred acquisition costs	D.1.2	16.3	-	-	(16.3)	-	-
Intangibles	D.1.3	22.8	-	-	(22.8)	-	-
Deferred tax assets	D.1.4	65.0	(11.1)	419.9	(473.8)	-	-
Pension benefit surplus	D.1.5	89.0	-	-	-	-	89.0
Property, plant & equipment held for own use	D.1.6	88.8	(19.8)	-	(1.6)	-	67.4
Investments (other than held for index- and unit-linked funds)	D.1.7	1,526.9	(0.3)	2,463.6	(1.7)	92.0	4,080.5
Assets held for index- and unit-linked funds	D.1.8	86,403.7	-	(8,518.6)	(1.4)	-	77,883.7
Reinsurance recoverables	D.1.9	1.6	-	6,646.1	(184.2)	-	6,463.5
Insurance & intermediaries receivables	D.1.10	19.2	-	-	19.3	-	38.5
Reinsurance receivables	D.1.11	-	-	-	11.5	-	11.5
Receivables (trade, not insurance)	D.1.12	1,106.4	(61.5)	(197.9)	0.3	-	847.3
Cash and cash equivalents	D.1.13	162.4	(100.3)	0.4	-	-	62.5
Any other assets	D.1.14	425.9	-	(425.0)	-	-	0.9
<b>Total assets</b>		<b>89,976.1</b>	<b>(193.0)</b>	<b>388.5</b>	<b>(718.8)</b>	<b>92.0</b>	<b>89,544.8</b>
<b>Liabilities</b>							
Technical provisions: life (excluding index- and unit-linked)	D.2.1	-	-	304.3	2,684.8	-	2,989.1
Technical provisions: index- and unit-linked	D.2.1	87,173.2	-	-	(4,982.8)	-	82,190.4
Provisions other than technical provisions	D.3.1	4.4	(4.4)	-	-	-	-
Deferred tax liabilities	D.3.2	-	-	419.9	-	-	419.9
Derivatives	D.3.3	656.5	-	(28.6)	-	-	627.9
Insurance & intermediaries payables	D.3.4	32.0	-	-	84.0	-	116.0
Reinsurance payables	D.3.5	-	-	-	26.6	-	26.6
Payables (trade, not insurance)	D.3.6	269.9	(21.6)	108.1	(12.0)	-	344.4
Any other liabilities	D.3.7	602.6	(75.0)	(415.2)	(4.6)	-	107.8
<b>Total liabilities</b>		<b>88,738.6</b>	<b>(101.0)</b>	<b>388.5</b>	<b>(2,204.0)</b>	<b>-</b>	<b>86,822.1</b>
<b>Group equity</b>		<b>1,237.5</b>	<b>(92.0)</b>	<b>-</b>	<b>1,485.2</b>	<b>92.0</b>	<b>2,722.7</b>

## D.1 Assets

### D.1.1 Goodwill

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Goodwill	48.1	-	-	(48.1)	-	-

Goodwill represents the difference between the acquisition cost of a subsidiary and the subsidiary's net fair value at that time.

### *IFRS Treatment*

Goodwill is recognised as an intangible asset for interests in subsidiaries and is measured as the positive difference between the acquisition cost and the Group's interest in the net fair value of the entity's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is carried at cost less accumulated impairment charges. It is derecognised on disposal of the interest in the subsidiary.

### *Solvency II Treatment*

Solvency II regulations do not recognise Goodwill and so value at nil.

## **D.1.2 Deferred acquisition costs**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Deferred acquisition costs	16.3	-	-	(16.3)	-	-

Deferred acquisition costs (DAC) represent directly attributable acquisition costs with regard to the selling, underwriting and initiating of investment contracts without discretionary participation features.

### *IFRS Treatment*

Deferred transaction costs relate to investment contracts without discretionary participation features under which the Company will render investment management services. Incremental costs that are directly attributable to securing these investment management contracts are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered.

### *Solvency II Treatment*

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

## **D.1.3 Intangibles**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Intangibles	22.8	-	-	(22.8)	-	-

Intangibles include software and other intangible assets.

### *IFRS Treatment*

Software and other intangible assets are recognised to the extent that the assets can be identified, are controlled by the Group, are expected to provide future economic benefits and can be measured reliably. The Group does not recognise internally generated intangible assets arising from research or internally generated goodwill, brands, customer lists and similar items.

Software and other intangible assets are carried at cost less accumulated depreciation and impairment losses. Depreciation of the asset is over its useful life as the future economic benefits emerge and is recognised in the consolidated income statement as an expense. The depreciation period and pattern are reviewed at each reporting date, with any changes recognised in the consolidated income statement.

### *Solvency II Treatment*

Solvency II intangible assets are given an economic value only when they can be sold separately and where there are existing quoted prices in an active market for the assets. These are valued at nil.

#### **D.1.4 Deferred tax assets**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Deferred tax assets	65.0	(11.1)	419.9	(473.8)	-	-

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

### *IFRS Treatment*

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

### *Solvency II Treatment*

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

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

### *IFRS to Solvency II reconciliation adjustments*

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



#### *Reconciliation difference: IFRS ONR & OFS entities removal*

OFS & ONR entities are excluded for their IFRS value of £(11.1)m. These entities are added back at their Solvency II value in one entry at Investments (other than assets held for index- and unit-linked funds).

#### *Reconciliation difference: Reclassification Adjustments*

To reconcile the IFRS deferred tax position with the Solvency II deferred tax position on the balance sheet, it is necessary to reclassify the net DTA balance under IFRS from assets to liabilities under Solvency II. A total amount of £419.9m was reclassified, as a result of movement from overall deferred tax asset to deferred tax liability.

#### *Reconciliation difference: Revaluation Adjustments*

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

The revaluation adjustments in respect of the DTA amounts to £(473.8)m are due to the revaluation of technical provisions from the IFRS to Solvency II basis £(477.3)m and other IFRS to SII adjustments of £3.5m.

### **D.1.5 Pension Benefit Surplus**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Pension benefit surplus	89.0	-	-	-	-	89.0

#### *IFRS Treatment*

The AUK Group Staff Pension Scheme surplus is reported in the Statutory Accounts of Aegon UK plc, the sponsoring employer.

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

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

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

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

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

Re-measurements of the net defined benefit asset comprise of:

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

#### *Solvency II Treatment*

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

Currently the sole statutory employer is Aegon UK Corporate Services Ltd (AUKCS) which is a subsidiary of AUK plc. The process within Aegon UK is to allocate the expense of the Staff Pension Scheme to other group entities based on cash contributions. The sponsoring employer of the Staff Pension Scheme, in line with IAS 19, is AUK plc and as such the surplus of the Staff Pension Scheme, as measured under IAS 19, is reported in the AUK plc Statutory Accounts. Under Solvency II we report the Solvency II position for AUK Group at a consolidated group level.

#### *Reconciliation difference: Reclassification Adjustments*

No reclassification adjustments were required.

#### *Reconciliation difference: Revaluation Adjustments*

No revaluation adjustments were required between the Statutory Accounts and Solvency II.

### **D.1.6 Property, plant & equipment held for own use**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Property, plant & equipment held for own use	88.8	(19.8)	-	(1.6)	-	67.4

Property, plant & equipment held for own use comprises real estate for own use, office equipment and motor vehicles.

### *IFRS Treatment*

Property, plant & equipment held for own use are initially measured at cost and subsequently measured at amortised cost.

### *Solvency II Treatment*

Solvency II requires that property, plant & equipment held for own use are held at Fair Value ('market value').

### *Reconciliation difference: IFRS OFS & ONR entities removal*

OFS & ONR entities are excluded for their IFRS value of £(19.8)m. These entities are added back at their Solvency II value in one entry at Investments (other than assets held for index- and unit-linked funds).

### *Reconciliation difference: Reclassification Adjustments*

There were no reclassification adjustments between IFRS and Solvency II.

### *Reconciliation difference: Revaluation Adjustments*

Assets under construction £1.6m were reclassified as Property, plant & equipment held from own use rather than intangibles in the statutory accounts. These had been adjusted for as inadmissible assets for Solvency II. This adjustment was not made in Solvency II.

## **D.1.7 Investments (other than assets held for index- and unit-linked funds)**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Investments (other than held for index- and unit-linked funds)	1,526.9	(0.3)	2,463.6	(1.7)	92.0	4,080.5

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

### *IFRS Treatment*

IFRS 9 combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard replaces IAS 39 and all previous versions of IFRS 9. Under IFRS 9, classification and measurement of financial assets differ for debt instruments and equity instruments and are based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as corporate bonds. The Company classifies its debt instruments into one of the following two IFRS 9 measurement categories, based on its business model for managing the asset, the asset's cash flow characteristics, and the Company's intent to designate the asset at FVTPL to eliminate or significantly reduce an accounting mismatch or recognition inconsistency:

- Amortised cost ('AC'): Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any Expected Credit Loss (ECL) allowance recognised.

- Fair value through profit or loss ('FVTPL'): Assets that do not meet the criteria for amortised cost or Fair value through other comprehensive income (FVOCI) are measured mandatorily at fair value through profit or loss. Additionally, the Company has applied the 'fair value option' to those assets where measurement ensures an accounting match for market movements on assets and liabilities.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, such as basic ordinary shares. On initial recognition, IFRS 9 allows the Company to make an irrevocable election to present changes in the fair value of equity investment in OCI or profit or loss. In both cases, the equity instruments are not subject to impairment under the expected credit loss model.

#### *Solvency II Treatment*

Irrespective of the chosen IFRS valuation principle, Solvency II requires Fair Value, or equivalently "market value", to be applied for value measurement. There were no judgement, valuation, or recognition assumption changes during the year.

#### *IFRS to Solvency II reconciliation adjustments*

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

#### *Reconciliation difference: IFRS ONR & OFS entities removal*

ONR & OFS entities are excluded for their IFRS value of £(0.3)m. These entities are added back at their Solvency II value in one entry at Investments (other than assets held for index- and unit-linked funds).

#### *Reconciliation difference: Reclassification Adjustments*

The reclassification adjustments of £2,463.6m comprise the reallocation of policyholder accounts related assets from 'Assets held for index-linked and unit-linked funds' to 'Investments (other than assets held for index- and unit-linked funds) in respect of the WPSF £2,508.8m, inclusion of accrued interest £13.0m and exclusion of index- and unit-linked derivatives £(58.2)m.

#### *Reconciliation difference: Revaluation Adjustments*

The revaluation adjustments £(1.7)m represent the removal of IFRS10 gross up for SII reporting. An equal and opposite liability removal can be seen in D.3.5 Payables (trade, not insurance) below.

#### *Reconciliation difference: SII ONR & OFS entities inclusion*

The total value of assets under ONR & OFS entities of £92.0m removed are added back in one line under SII ONR & OFS entities inclusion.

### **D.1.8 Assets held for index- and unit-linked funds**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Assets held for index- and unit-linked funds	86,403.7	-	(8,518.6)	(1.4)	-	77,883.7

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

### *IFRS Treatment*

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

### *Solvency II Treatment*

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

### *Reconciliation difference: Reclassification Adjustments*

The £(8,518.6)m reclassifications are analysed as follows:

- the relocation of policyholder accounts related assets from 'Assets held for index-linked and unit-linked funds' to 'Investments (other than assets held for index- and unit-linked funds)' in respect of the WPSF £(2,508.8)m;
- the reclassification of reinsured External Fund Linked ("EFL") assets for £(6,306.9)m, accounted for as unit-linked investments under IFRS and reclassified as reinsurance assets under Solvency II;
- the reclassification of index and unit-linked current assets and Derivatives as Assets Held for Index and Unit-linked Funds £253.9m;
- £71.8m reclassification in relation to accrued interest;
- inclusion of £(28.6)m derivative liabilities.

### *Reconciliation difference: Revaluation Adjustments*

The valuation rules for this group of assets are aligned between IFRS and Solvency II as the majority of the assets are valued at market value for both IFRS and Solvency II. A late adjustment to the valuation of unit-linked investments in the statutory accounts £(1.4)m has not been made for Solvency II due to timing and materiality.

## **D.1.9 Reinsurance recoverables**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Reinsurance recoverables	1.6	-	6,646.1	(184.2)	-	6,463.5

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

### *IFRS Treatment*

Reinsurance receivables in respect of investment contracts are accounted for at amortised cost.

### *Solvency II Treatment*

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

### *IFRS to Solvency II reconciliation adjustments*

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

#### *Reconciliation difference: Reclassification Adjustments*

The £6,646.1m reclassifications are analysed as follows:

- EFLs (typically investment funds managed by an external party, not Aegon) assets deemed to be reinsurance assets for Solvency II purposes reclassified from Assets held for index and unit-linked funds £6,306.9m;
- £339.2m reclassification of Reinsurance recoverables from Assets held for sale in respect of the statutory accounts presentation of the pending protection business sale to Royal London, included in Any other assets.

#### *Reconciliation difference: Revaluation Adjustments*

The AUK Group reinsurance asset has been revalued downwards by £184.2m. The difference in valuation relates to the underlying reinsured liabilities. As outlined in the technical provision section, there are differences in the valuation of insurance liabilities under IFRS compared to Solvency II and the value of the reinsurance assets covering these liabilities changes as a result. These adjustments include different use of Risk Margin and different discount rates (IFRS historical rates versus Solvency II current market rates).

### **D.1.10 Insurance & intermediaries receivables**

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Insurance & intermediaries receivables	19.2	-	19.3	38.5

Insurance and intermediaries receivables comprises amounts past-due for payment by policyholders, insurers and other linked to insurance business, that are not included in cash-flows of technical provisions. It includes receivables from reinsurance accepted.

#### *IFRS Treatment*

'Insurance and intermediaries receivables' are valued at amortised cost and included in technical provisions in connection with insurance contracts and insurance & intermediaries receivables in connection with investment contracts with discretionary features.

#### *Solvency II Treatment*

Solvency II requires that receivables are held at Fair Value ('market value').

#### *Reconciliation difference: Reclassification Adjustments*

No reclassification adjustments were required.

#### *Reconciliation difference: Revaluation Adjustments*

Under IFRS17, insurance related insurance & intermediaries receivables £19.3m are treated as Technical Provision liabilities.

### **D.1.11 Reinsurance receivables**

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Reinsurance receivables	-	-	11.5	11.5

Reinsurance receivables represent amounts past-due by reinsurers and linked to reinsurance business that are not included in reinsurance recoverables.

#### *IFRS Treatment*

'Reinsurance receivables' are valued at amortised cost and included in reinsurance assets .

### *Solvency II Treatment*

Solvency II requires that receivables are held at Fair Value ('market value').

### *Reconciliation difference: Reclassification Adjustments*

No reclassification adjustments were required.

### *Reconciliation difference: Revaluation Adjustments*

Under IFRS17, insurance related reinsurance receivables £11.5m are treated as reinsurance recoverables.

## **D.1.12 Receivables (trade, not insurance)**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Receivables (trade, not insurance)	1,106.4	(61.5)	(197.9)	0.3	-	847.3

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

### *IFRS Treatment*

Trade and other receivables are measured at amortised cost.

### *Solvency II Treatment*

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

### *Reconciliation difference: IFRS ONR & OFS entities removal*

ONR & OFS entities are excluded for their IFRS value of £(61.5)m. These entities are added back at their Solvency II value in one entry at Investments (other than assets held for index- and unit-linked funds).

### *Reconciliation difference: Reclassification Adjustments*

The £(197.9)m reclassifications are analysed as follows:

- policyholder assets which are relocated under 'Assets held for index-linked and unit-linked contracts' for SII reporting £(195.7)m;
- £(2.8)m reclassification of Receivables from Assets held for sale in respect of the statutory accounts presentation of the pending protection business sale to Royal London, included in Any other assets.
- £0.6m reclassification between receivables and payables of non-material balances in the statutory accounts.

### *Reconciliation difference: Revaluation Adjustments*

Given the short-term nature of these receivables, there are no differences between amortised cost for IFRS and Fair Value for Solvency II. There was a late adjustment to receivables in the statutory accounts £0.3m, not adjusted for Solvency II due to timing and materiality.

## **D.1.13 Cash and cash equivalents**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Cash and cash equivalents	162.4	(100.3)	0.4	-	-	62.5

Cash and cash equivalents represent cash held at banks.

*IFRS Treatment*

Cash and cash equivalents are measured at amortised cost.

*Solvency II Treatment*

Solvency II requires that cash and cash equivalents are held at Fair Value ('market value').

*Reconciliation difference: IFRS ONR & OFS entities removal*

ONR & OFS entities are excluded for their IFRS value of £(100.3)m. These entities are added back at their Solvency II value in one entry at Investments (other than assets held for index- and unit-linked funds).

*Reconciliation difference: Reclassification Adjustments*

£0.4m reclassification of cash and cash equivalents from Assets held for sale in respect of the statutory accounts presentation of the pending protection business sale to Royal London, included in Any other assets.

*Reconciliation difference: Revaluation Adjustments*

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

**D.1.14 Any other assets**

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Any other assets	425.9	-	(425.0)	-	-	0.9

The IFRS Any other assets comprise assets held for sale in respect of the pending protection business sale to Royal London, investment income receivable and accrued interest.

*IFRS Treatment*

Assets held for sale in respect of the pending protection business sale to Royal London, which include protection business reinsurance recoverables, receivables (trade not insurance) and cash and cash equivalents are measured at amortised cost. Investment income receivable and accrued interest are similarly measured at amortised cost.

*Solvency II Treatment*

Solvency II requires that investments are values at dirty market value (including accrued interest) and dividends receivable are held at Fair Value ('market value'). Investment income receivable is measured at Fair Value. There were no judgement, valuation, or recognition assumption changes during the year.

*Reconciliation difference: Reclassification Adjustments*

The £(425.0)m reclassifications are analysed as follows:

- £(60.0)m of Any other assets reclassified as 'Assets held for index-linked and unit-linked contracts';
- £(339.8)m relates to assets held for sale in respect of the pending protection business sale to Royal London; and
- £(25.2)m accrued interest on bonds included with bonds at dirty value.



### Reconciliation difference: Revaluation Adjustments

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

## D.2 Technical provisions

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

### D.2.1 Value of Technical Provisions

Amounts in GBP million	Insurance with profit participation	Index-linked and unit-linked Insurance	Other life insurance excluding Protection	Accepted reinsurance	Protection & Health insurance	Total
<b>IFRS Technical provisions -life, including index-linked and unit linked</b>	<b>2,610.6</b>	<b>84,008.0</b>	<b>25.5</b>	<b>527.5</b>	<b>0.0</b>	<b>87,171.6</b>
- Risk Adjustment	-	(363.2)	-	(8.0)	-	(371.2)
- CSM	-	(1,255.3)	2.0	(116.8)	-	(1,370.1)
+ SII Risk Margin *	-	266.8	0.5	0.6	0.1	267.9
Liability valuation difference	(168.1)	(465.8)	56.7	(15.0)	73.7	(518.6)
<b>SII Technical provisions</b>	<b>2,442.4</b>	<b>82,190.4</b>	<b>84.6</b>	<b>388.3</b>	<b>73.8</b>	<b>85,179.6</b>

\* unaudited

The “IFRS Technical Provisions” are consistent with the Statutory accounts and key adjustments are made to these figures to step through to the “SII Technical Provisions” row consistent with the Solvency II balance sheet.

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

#### D.2.2.1 Bases

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

#### D.2.2.2 Key models and methodologies

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

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

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

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

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

#### *D.2.2.3 Assumptions – Best estimate non-economic assumptions*

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

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

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

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

#### *D.2.2.4 Assumptions – Economic assumptions*

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

- Risk free investment returns: set by PRA
- Credit risk adjustment: set by PRA
- Matching adjustment: see Section D.2.8
- Volatility adjustment: set by PRA
- Inflation: internally derived curve based on RPI swap data
- Equity volatility: calibrated using term dependent market implied volatility of equity put options
- Interest rate volatility: calibrated using term dependent market implied volatility of interest rate swaptions
- Tax rates

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

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

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

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

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

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

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

#### *D.2.3.1 NPSF Unit-Linked (UL) Business*

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

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

#### *Contract Boundaries*

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

#### *D.2.3.2 WPSF Charges and Expense*

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

### **D.2.4 BEL – Insurance with-profit participation**

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

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

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

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

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

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

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

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

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

#### ***SE New Generation With-Profits***

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

#### **D.2.5 BEL – Other Life insurance and Accepted reinsurance**

##### ***SE NPSF Annuities (Reinsurance Accepted)***

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

##### ***SE NPSF Protection***

BEL is the present value of expected future net liability outgo. The individual protection book is reinsured to Royal London as part of the sale agreement, so a reinsurance asset is held in addition to the existing reinsurance assets on the balance sheet to reflect the value of the reinsurance in place.

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

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

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

#### **SE WPSF Deferred Annuities for post NRD policies**

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

### **D.2.6 BEL – Health insurance**

#### **SE NPSF Health Insurance**

Health, as part of the protection business, is reinsured to Royal London as part of the sale agreement, so a reinsurance asset is held in addition to the existing reinsurance assets on the balance sheet to reflect the value of the reinsurance in place.

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

### **D.2.7 Comparison of Solvency II and Financial Statements**

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

Amounts in GBP million	Insurance with profit participation	Index-linked and unit-linked Insurance	Other life insurance excluding Protection	Accepted reinsurance	Protection & Health insurance	Total
<b>IFRS Technical provisions -life, including index-linked and unit linked</b>	<b>2,610.6</b>	<b>84,008.0</b>	<b>25.5</b>	<b>527.5</b>	<b>0.0</b>	<b>87,171.6</b>
- Risk Adjustment	-	(363.2)	-	(8.0)	-	(371.2)
- CSM	-	(1,255.3)	2.0	(116.8)	-	(1,370.1)
+ SII Risk Margin *	-	266.8	0.5	0.6	0.1	267.9
Liability valuation difference	(168.1)	(465.8)	56.7	(15.0)	73.7	(518.6)
<b>SII Technical provisions</b>	<b>2,442.4</b>	<b>82,190.4</b>	<b>84.6</b>	<b>388.3</b>	<b>73.8</b>	<b>85,179.6</b>

\* unaudited

It can be seen that the Solvency II Technical Provisions (SII TP) of £85,179.6m are £1,992.0m lower than the Financial Statements Technical Provisions (FS TP) of £87,171.6m.

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

#### **Risk Margin**

Under Solvency II a Risk Margin is held over and above best estimate liabilities. The concept of Risk Margin is not required under IFRS reporting. The Solvency II amount included in the technical provisions offsets other differences by £267.9m.

### Liability Valuation Rules

The rules for liability valuation differ under the two regimes. IFRS reporting includes a risk adjustment and contractual service margin (CSM), which are not included in the Solvency II technical provisions. Excluding these items, the Solvency II technical provisions are £518.6m lower than the IFRS technical provisions:

- The difference of £168.1m for with-profits participation arises primarily because the WPSF Fund for Future Appropriations is treated as a policyholder liability in the Financial Statements Technical Provisions and there are different liability categorisations between Solvency II and IFRS.
- The differences of £465.8m for unit-linked, and £(127.7)m for Other Life (excluding Protection), are due to different valuation methodologies and liability categorisations between Solvency II and IFRS.
- The difference of £15m for Accepted reinsurance is due to different assumptions used in the valuation of annuity liabilities. Under IFRS, assumed investment returns are based on the risk-free assets subject to an illiquidity premium, while under Solvency II they are based on the yields on risk-free assets (subject to a Matching Adjustment as described in Section D.2.8).
- The difference of £(2.6)m for Protection and Health insurance arises because technical provisions for Protection business in IFRS reporting have been transferred to a held for sale category pending the completion of the sale to Royal London.

### D.2.8 Matching Adjustment

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

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

#### Impact of setting Matching Adjustment to zero

Amounts in GBP millions	2023	2022
Technical provision	21.9	23.6
Basic Own Funds	(16.4)	(17.7)
Eligible Own Funds to meet SCR	(16.4)	(17.7)
SCR*	20.3	14.6
Eligible Own Funds to meet MCR	(16.4)	(17.7)
MCR	9.5	0.5

\*unaudited

We note that in the event that the Matching Adjustment were to be set to zero at 31 December 2023, SE plc would continue to be able to have sufficient capital to meet 100% of the SCR.

### D.2.9 Volatility Adjustment

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

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

**Impact of setting Volatility Adjustment to zero**

Amounts in GBP millions	2023	2022
Technical provisions	11.3	12.3
SE plc Basic Own Funds (after RFFR)	0	0
Eligible Own Funds to meet SCR	0	0
SCR*	0	0
Eligible Own Funds to meet MCR	0	0
MCR	0	(0.6)

\*unaudited

At 31 December 2023 the value of Loss Absorbing Capacity of Technical Provisions (LACTP) exceeds gross SCR, resulting in a £0 net SCR. Setting the Volatility Adjustment to zero would lead to a c£2m increase in gross SCR and £0 net SCR impact. We note that in the event that the Volatility Adjustment were to be set to zero at 31 December 2023, SE plc would continue to be able to have sufficient capital to meet 100% of the SCR. The reason that Own Funds changes by the same amount as SCR is because of the way the Ring-Fenced Fund restriction (RFFR) operates (see Chapter E. Capital Management).

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

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

**D.2.11 Transitional deduction**

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

**D.2.12 Recoverables from reinsurance contracts and Special Purpose Vehicles**

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

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

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

AUK Group has in place a series of reinsurance arrangements with respect to reinsured EFLs. A reinsurance default provision has been set up for these EFLs to address the Solvency II requirement to include best estimate default provisions for reinsured EFLs. This has reduced over the period, primarily due to the implementation of reinsured EFL data refinements.

AUK Group does not have any recoverables from Special Purpose Vehicles.

### D.2.13 Risk Margin

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

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

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

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

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

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

Where,

- RM is Risk Margin,
- CoC is the Cost of Capital (gross of tax), equal to 4% for this reporting period
- SCR is the Solvency Capital Requirement (pre-tax) for non-hedgeable risks
- The PV calculation discounts the stream of capital charges at Risk Free – *i.e.* swaps-10bps

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

The PRA and HM Treasury changed the UK Solvency II rules for the calculation of the Solvency II Risk Margin from 31 December 2023, reducing the cost of capital from 6% to 4%, and tapering down the contribution to Risk Margin from projected future capital requirements.

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

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



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

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

Various non-economic assumptions were updated as a result of the annual review of best estimate assumptions in the period. The most significant impacts on NPSF Technical Provisions (where BEL is shown gross of reinsurance and Risk Margin is shown net of reinsurance) were an increase of c. £98m due to changes in expense assumptions (excluding investment expenses and updates to project cost provisions), a decrease of c. £14m for updated persistency assumptions, a decrease of c. £2m due to updated morbidity assumptions, and a decrease of c. £16m from updated longevity assumptions.

For WPSF the best estimate assumptions for longevity and pre-NRD persistency were updated, leading to a net £0.4m increase in Technical Provisions. A material update to the post-NRD persistency best estimate assumptions was also introduced, decreasing Technical Provisions by c.£19m.

## D.3 Other liabilities

### D.3.1 Provisions other than technical provisions

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Provisions other than technical provisions	4.4	(4.4)	-	-	-	-

Provisions other than technical provisions comprise amounts provided in respect of potential future obligations arising from past events.

#### *IFRS Treatment*

A provision is recognised for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. Management exercises judgement in evaluating the probability that a loss will be incurred. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date, considering all its inherent risk and uncertainties, as well as the time value of money. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

#### *Solvency II Treatment*

Solvency II requires that provisions are held at Fair Value ('market value').

#### *Reconciliation difference: IFRS ONR & OFS entities removal*

ONR & OFS entities are excluded for their IFRS value of £(4.4)m. These entities are added back at their Solvency II value in one entry at Investments (other than assets held for index- and unit-linked funds).

#### *Reconciliation difference: Revaluation Adjustments*

There are no differences between amortised cost for IFRS and Fair Value for Solvency II.

### D.3.2 Deferred tax liabilities

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Deferred tax liabilities	-	-	419.9	-	-	419.9

### IFRS Treatment

See the explanation in Section D.1.4 'Deferred tax assets'.

### Solvency II Treatment

See the explanation in Section D.1.4. 'Deferred tax assets'.

### Reconciliation difference: Reclassification Adjustments

To reconcile the IFRS deferred tax position with the Solvency II deferred tax position on the balance sheet, it is necessary to reclassify the net DTA balance under IFRS from assets to liabilities under Solvency II. A total amount of £(419.9)m was reclassified, as a result of movement from overall deferred tax asset to deferred tax liability.

### Reconciliation difference: Revaluation Adjustments

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

### Closing Deferred Tax Liability

The £419.9m SII Deferred Tax Liability at YE23 is made up of the following items:

Deferred tax liabilities								
Amounts in GBP million	Investments	Technical provisions	Defined benefit plans	Debts	Losses and tax credits	Non-recognised DTA	Other	Total
At December 31, 2023	0.0	477.3	0.0	0.0	-256.9	67.8	131.7	419.9

Within the £419.9m DT Liability, there are a number of Deferred Tax Assets which can be set against the DTL and so reduce the final amount reported. In the UK, there is no expiry date for these assets with the material ones being:

DTA	Amount	Location in above table
Non-BLAGAB Trade Losses	£198.5m	Losses and tax credits
Excess Expenses	£30.5m	Other

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

No future Tax Rate changes have been enacted with the Corporation tax rate in force at the year end being 25.0% (increased from 19.0% to 25.0% from 1 April 2023).

The deferred tax balances above have been calculated at the tax rates that are expected to apply to the period they will unwind at.

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

### Non-BLAGAB trade tax losses

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

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

Given the long-term nature of the pension business, the expected future profits from in-force business are projected over a 30-year period. It is considered that profits expected to arise within this timeframe satisfy the probable test for deferred tax asset recognition. Based on the projections at 31 December 2023, the deferred tax asset recognised in respect of the Trade losses is expected to be recovered in full by 2032.

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

#### *Excess Expenses*

There is a deferred tax asset of £30.5m recognised in respect of Excess Expenses, the recoverability is considered probable taking into account:

- expected income from in-force onshore bond business
- expected income from in-force with-profits business

The asset is expected to be recovered over 4 to 5 years.

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

#### *Unrecognised Deferred Tax Assets*

No deferred tax asset has been recognised in the statement of financial position in respect of trade losses of £216.7m (2022: £193.8m) with a potential tax value of £54.1m (2022: £48.4m), decelerated capital allowances of £35.1m (2022: £34.3m) with a potential tax value of £8.7m (2022: £8.6m) and deferred revenue of £0.2m (2022: £0.2m) with a potential tax value of £0.1m (2022: £0.1m).

No deferred tax asset is recognised on the statement of financial position in respect of policyholder capital losses arising under capital gains tax legislation of £21.3m (2022: £21.3m). There is also an unrecognised deferred tax asset of £3.3m (2022: £nil) relating to Deferred Acquisition Costs due to the proposed Part VII transfer of the Protection Business. These have a potential tax value of £4.9m (2022: £4.3m).

The deferred tax asset in respect of excess management expenses has been fully recognised. The losses may carry forward without expiry.

#### *Pillar Two*

The Aegon UK Group and its subsidiaries are within the scope of the OECD Pillar Two model rules. Pillar Two legislation has been enacted in the United Kingdom, the jurisdiction in which The Company is incorporated, and will come into effect for the accounting period beginning on or after 31 December 2023. The Aegon UK Group and its subsidiaries have applied the mandatory exception to recognising and disclosing information regarding deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023. Based on performed analysis, The Company has determined that the impact of Pillar Two is currently expected to be non-material.

### D.3.3 Derivatives

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Derivatives	656.5	-	(28.6)	-	-	627.9

#### *IFRS Treatment*

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

#### *Solvency II Treatment*

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

#### *Reconciliation difference: Reclassification Adjustments*

The reclassification of index and unit-linked Derivatives as Assets Held for Index and Unit-linked Contracts £(28.6)m.

#### *Reconciliation difference: Revaluation Adjustments*

No revaluation adjustments were required.

### D.3.4 Insurance & intermediaries payable

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Insurance & intermediares payables	32.0	-	84.0	116.0

Insurance & intermediaries payables comprises amounts past-due to policyholders, insurers and other business linked to insurance, but that are not technical provisions.

#### *IFRS Treatment*

Insurance & intermediaries payables are to be valued at amortised cost or Fair Value. Under IFRS17, insurance related claims outstanding and direct insurance payables are treated as technical provision liabilities, while amounts in relation to investment without discretionary features are treated as insurance & intermediaries payable.

#### *Solvency II Treatment*

For Solvency II, a Fair Value approach is prescribed.

#### *Reconciliation difference: Reclassification Adjustments*

No reclassification adjustments were required.

#### *Reconciliation difference: Revaluation Adjustments*

Under IFRS17, insurance related claims outstanding £74.8m, and direct insurance payables £9.2m are treated as technical provision liabilities.

### D.3.5 Reinsurance payables

Amounts in GBP million	IFRS Total	Reclassification adjustments	Revaluation adjustments	Solvency II Total
Reinsurance payables	-	-	26.6	26.6

Reinsurance payables relates to amounts payable and past-due to reinsurers that are not included in reinsurance recoverables.

#### *IFRS Treatment*

Reinsurance payables are to be valued at amortised cost or Fair value. Under IFRS17, reinsurance payables are treated as reinsurance recoverables or assets held for sale as appropriate.

#### *Solvency II Treatment*

For Solvency II, a Fair Value approach is prescribed.

#### *Reconciliation difference: Reclassification adjustments*

No reclassification adjustments were required.

#### *Reconciliation difference: Revaluation Adjustments*

Under IFRS17, reinsurance payables £26.6m are treated as technical provision liabilities.

### D.3.6 Payables (trade, not insurance)

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Payables (trade, not insurance)	269.9	(21.6)	108.1	(12.0)	-	344.4

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

#### *IFRS Treatment*

Payables (trade, not insurance) are to be valued at amortised cost.

#### *Solvency II Treatment*

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

#### *Reconciliation difference: IFRS ONR & OFS entities removal*

ONR & OFS entities are excluded for their IFRS value of £(21.6)m. These entities are added back at their Solvency II value in one entry at Investments (other than assets held for index- and unit-linked funds).

#### *Reconciliation difference: Reclassification Adjustments*

The reclassification adjustment £108.1 relates to reallocation of lease liabilities £107.8m from Any other liabilities, and £0.3m of receivables.

#### *Reconciliation difference: Revaluation Adjustments*

The revaluation adjustment £(12.0)m is in respect of Aegon UK's long term incentive plan which had been provided for on a Group equity basis rather than a statutory cash basis in the statutory accounts.

### D.3.7 Any other liabilities

Amounts in GBP million	IFRS Total	IFRS ONR & OFS entities removal	Reclassification adjustments	Revaluation adjustments	SII ONR & OFS entities inclusion	Solvency II Total
Any other liabilities	602.6	(75.0)	(415.2)	(4.6)	-	107.8

Any other liabilities under IFRS consists primarily of deferred revenue liabilities and liabilities held for sale in respect of the pending protection business sale to Royal London.

#### *IFRS Treatment*

The liabilities held for sale in respect of the pending protection business sale to Royal London, which include protection business technical provisions (explained in section D.2) and any other liabilities valued at amortised cost or Fair Value.

#### *Solvency II Treatment*

For Solvency II, a Fair Value approach is prescribed.

#### *IFRS to Solvency II reconciliation adjustments*

Revaluation of the liabilities, kept for IFRS at amortised cost, needs to be performed as part of the reconciliation.

#### *Reconciliation difference: IFRS ONR & OFS entities removal*

ONR & OFS entities are excluded for their IFRS value of £(75.0)m. These entities are added back at their Solvency II value in one entry at Investments (other than assets held for index- and unit-linked funds).

#### *Reconciliation difference: Reclassification Adjustments*

The £(415.2)m reclassifications are analysed as follows:

- reallocation of lease liabilities £(107.8)m to Payables; and
- liabilities held for sale in respect of the pending protection business sale to Royal London £(307.4)m.

#### *Reconciliation difference: Revaluation Adjustments*

The £(4.6)m revaluations are analysed as follows:

- The removal of the IFRS deferred revenue liability of £(2.8)m; and
- the removal of IFRS10 Gross Up liability £(1.7)m.

## D.4 Alternative methods for valuation

This section includes information regarding assets for which alternative valuation methods are used. An overview is provided below.

Assets - Alternative valuation methods	2023		2022	
	Level 3	Total	Level 3	Total
Amounts in GBP millions				
<b>Financial assets measured at fair value through profit and loss</b>				
Shares	-	12.3	-	22.1
Debt securities	-	648.7	-	689.8
Money market and other short term investments	-	129.1	-	109.2
Other investments at fair value	-	668.7	-	471.4
Investments where the policyholder bears the risk	172.9	86,028.7	169.2	78,260.4
Investments in real estate where the policyholder bears the risk	374.8	374.8	393.4	393.4
Derivatives	6.6	68.2	9.3	70.3
<b>Total financial assets measured at fair value</b>	<b>554.3</b>	<b>87,930.5</b>	<b>571.9</b>	<b>80,016.6</b>

#### *Property (other than own use)*

Valuations of Level III investments in real estate and real estate held for own use are conducted in full by independent external appraisers at least every three to five years and reviewed at least once a year by qualified internal appraisers to ensure the value correctly reflects the fair value at the reporting date. Appraisals are different for each specific local market, but are based on market guidelines such as International Valuation Standards. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the value that the property's net earning power will support, the value indicated by recent sales of comparable properties and the current cost of reproducing or replacing the property. Discount rates used in the valuation of real estate reflect the risk embedded in the projected cash flows for the asset being valued. Capitalisation rates represent the income rate for a real estate property that reflects the relationship between a single year's net operating income expectancy and the total property price or value. For property held for own use, appraisers consider the present value of the future rental income cash flows that could be achieved had the real estate been rented to a third party.

#### *Corporate Bonds*

Valuations of corporate bonds are monitored and reviewed on a monthly basis. The pricing hierarchy is dependent on the possibility of corroboration of market prices when available. If no market prices are available, valuations are determined by a discounted cash flow methodology using an internally calculated yield. The yield is comprised of a credit spread over a given benchmark. In all cases the benchmark is an observable input. The credit spread contains both observable and unobservable inputs. Aegon starts by taking an observable credit spread from a similar bond of the given issuer, and then adjust this spread based on unobservable inputs. These unobservable inputs may include subordination, liquidity and maturity differences. During 2023, there were no corporate bonds that met the policy threshold to be internally modelled.

#### *Collateralised Securities*

Valuations of RMBS, CMBS and ABS are monitored and reviewed on a monthly basis. Valuations per asset type are based on a pricing hierarchy which uses a waterfall approach that starts with market prices from indices and follows with third-party pricing services or brokers. The pricing hierarchy is dependent on the possibilities of corroboration of the market prices. If no market prices are available, Aegon uses internal models to determine fair value. Significant inputs included in the internal models are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles. Market standard models may be used to model the specific collateral composition and cash flow structure of each transaction. The most significant unobservable input is the liquidity premium which is embedded in the discount rate.

#### *Collective Investment Undertakings*

The fair values of investments held in non-quoted investment funds are determined by management after taking into consideration information provided by the fund managers. Aegon reviews the valuations each month and performs analytical procedures and trending analyses to ensure the fair values are appropriate. The net asset value is considered the best valuation method that approximates the fair value of the funds.

#### *Assets held for index-linked and unit-linked contracts*

Given the nature of the underlying assets, the valuation of assets held for indexed-linked and unit-linked contracts are similar to the valuation of Collective investment undertakings as described above.

### *Derivatives*

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

### **D.5 Any other information**

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



## E. Capital Management

### General

The financial strategy for AUK Group supports the execution of its business strategy. The key financial strategy themes for the period 2024-26 are:

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

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

### *Solvency II Ratio for AUK Group split by entity*

The SII ratios by entity on a PIM basis are set out below.

#### Solvency II

As at December 31, 2023

Amounts in GBP millions	SE plc	AUKIG	ACSL	AUK plc	AUK Total
Own Funds *	2,219.9	108.4	3.5	205.0	2,536.7
SCR **	1,190.0	65.0	-	35.4	1,290.4
<b>Surplus / (Deficit)</b>	<b>1,029.9</b>	<b>43.3</b>	<b>3.5</b>	<b>169.6</b>	<b>1,246.3</b>
<b>Solvency II ratio</b>	<b>187%</b>	<b>167%</b>	<b>n/a</b>	<b>578%</b>	<b>197%</b>

\* ACSL Own Funds includes Pension Geeks

\*\* SCR is unaudited

As at December 31, 2022

Amounts in GBP millions	SE plc	AUKIG	ACSL	AUK plc	AUK Total
Own Funds *	2,008.2	120.8	6.6	168.4	2,304.0
SCR **	1,181.8	62.4	-	51.7	1,295.9
<b>Surplus / (Deficit)</b>	<b>826.4</b>	<b>58.4</b>	<b>6.6</b>	<b>116.7</b>	<b>1,008.1</b>
<b>Solvency II ratio</b>	<b>170%</b>	<b>194%</b>	<b>n/a</b>	<b>325%</b>	<b>178%</b>

\* ACSL Own Funds includes Pension Geeks

\*\* SCR is unaudited

Under the AUK Group capital management policy:

- AUK Group aims to maintain solvency coverage at an “operating level” of 160% of SCR.
- Actions to restore solvency will be formally triggered if this ratio falls below 145% of SCR.
- AUK Group may also have access to additional capital held by Aegon Ltd. – the immediate parent of AUK Group.

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

### **Capital Management Policy**

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

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

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

In addition to the overall Capital Management Policy, the WPSF is targeted to maintain sufficient assets to cover 100% of the regulatory capital requirements associated with the liabilities of the WPSF plus further assets sufficient to maintain an appropriate amount of working capital within the fund and allow the fund to withstand a range of adverse scenarios without recourse to shareholder support.

The Capital Management Policy is reviewed at least annually by the Board. The current position against the capital and risk tolerance policy is subject to regular monitoring at Board level and discussion with regulators.

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

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

## **E.1 Own Funds**

### **E.1.1 Aggregation methods**

For the purpose of determining AUK Group's solvency position, the solvency position of each related entity belonging to AUK Group is calculated on a legal entity level. For each legal entity the aggregation method is based on its nature and characteristics.

## E.1.2 Tiering of Own Funds

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

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

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

AUK Group has a simple capital structure, and all of its capital is Tier 1. AUK Group includes a ring-fenced WPSF where a restriction is applied to the availability of Own Funds. Any free surplus in the ring-fenced fund in excess of the stand-alone SCR is not available to meet the SCR of the remaining legal entity, and a ring-fenced fund restriction is therefore reported with this value. Additionally, a fungibility constraint is applied so only a proportion of the staff DB Pension Scheme surplus is allowed for in the Group Own Funds such as not to exceed the required capital held in respect of the staff DB Pension Scheme.

The table below set out the Solvency II Own Funds per tier for the end of the reporting period (31 December 2023). No comparative has been produced as 2022 was reported on an SF basis.

SII Group Own Funds (as at 31 December 2023)	Tiers Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Amounts in GBP millions					
<b>Basic Own Funds</b>					
Ordinary share capital	169.5	169.5			
Share premium account	-	-			
Reconciliation reserve	2,367.2	2,367.2			
Subordinated liabilities	-	-			
Amount equal to the value of net deferred tax assets	-	-			
Other basic own funds approved by supervisory authority	-	-			
<b>Total Basic Own Funds before adjustments</b>	<b>2,536.7</b>	<b>2,536.7</b>	-	-	-
Non-available own funds	-	-			
Participations investment firms, credit- and financial institutions	-	-			
<b>Available Own Funds</b>	<b>2,536.7</b>	<b>2,536.7</b>	-	-	-
- Solvency II entities	2,444.8	2,444.8			
- Other Non Regulated entities	(23.7)	(23.7)			
- Other Financial Sector entities	115.6	115.6			
<b>Eligible Own Funds to Meet Group SCR</b>	<b>2,536.7</b>	<b>2,536.7</b>			
Eligible Own Funds to meet minimum consolidated Group SCR	2,444.8	2,444.8			
<b>Consolidated Group SCR*</b>	<b>1,290.4</b>				
Minimum Consolidated Group SCR	580.7				
<b>Solvency II ratio</b>	<b>197%</b>				
Group MCR	421%				

\* unaudited

In the section below, the Own Funds items in Tier 1 for year-end 2023 are discussed in more detail. AUK Group has no Tier 2 or Tier 3 Own Funds.

#### *Ordinary share capital*

The amount £169.5m presented here in Tier 1 unrestricted aligns with the data published in the Statutory Accounts.

#### *Reconciliation reserve*

The reconciliation reserve is calculated as follows:

#### Reconciliation reserve

Amounts in GBP millions	2023
<b>Excess of Assets over Liabilities</b>	<b>2,722.7</b>
Less other Basic OF items including:	
Share Capital and Share Premium	(169.5)
Other non-available own funds	(87.9)
Amount equal to deferred taxes	-
Ring Fenced restriction *	(98.1)
Treasury Shares	-
<b>Reconciliation reserve</b>	<b>2,367.2</b>
* unaudited	
<b>Total Expected profits included in future premiums (EPIFP)</b>	<b>855.7</b>

The availability adjustments are changes to the availability of own funds of the Group due to the Solvency II requirements. These can be grouped into the following:

- Adjustment for restricted own fund items in respect of ring fenced funds £98.1m; and
- DB Pension Scheme fungibility constraint £87.9m. The fungibility constraint is applied so only a proportion of the staff DB Pension Scheme surplus is allowed for in the Group Own Funds as described above.

#### *Amount equal to the value of net deferred tax assets*

Under Solvency II, AUK Group has a deferred tax liability at the end 2023.

#### *Tiering restrictions*

All AUK Group's funds are Tier 1 and unrestricted.

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

The main difference between the Solvency II Own Funds and IFRS Shareholders Equity as reported in AUK Group's Statutory Accounts is primarily caused by a difference in the valuation of the insurance liabilities. This is explained in detail in Sections D.2.7.

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

#### **E.1.4 Transitional arrangements**

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

### E.1.5 Ancillary Own Funds

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

### E.1.6 Description of items deducted from Own Funds

AUK Group has no deductions from Own Funds.

### E.1.7 Distributions to shareholders

During the year, dividends of £112m were paid by AUK Group to its parent Group (2022: £100m). The Directors do not propose a final dividend payment for the year ended 31 December 2023 (2022: nil).

### E.1.8 Deferred Taxes

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

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

### E.2.1 Solvency Capital Requirement

This section outlines the full year 2023 Solvency Capital Requirement (SCR) based on a PIM basis for AUK Group.

#### Solvency Capital Requirement

Amounts in GBP millions	2023	2022	%
Eligible own funds to meet the SCR	2,536.7	2,304.0	10%
SCR*	1,290.4	1,295.9	(0%)
<b>Solvency II ratio</b>	<b>197%</b>	<b>178%</b>	

\* unaudited

#### SCR based on the PIM

AUK Group's SCR based on the PIM was £1,290.4m, (2022: £1,295.9m). The Minimum Capital Requirement based on the PIM was £580.7m (2022: £531.4m).

### E.2.2 SCR split by risk module

The table below shows the breakdown of the PIM SCR components by risk module. The total net SCR after diversification is £1,290m.

## Solvency Capital Requirement for AUK Group (unaudited)

Amounts in GBP Millions		2023
C.2 Market risk	Market Risk (SF)	35.2
	Market Risk (IM)	1,035.0
C.3 Credit risk*	Counterparty default risk (SF)	65.7
C.1 Underwriting risk	Life underwriting risk (SF)	16.7
	Life underwriting risk (IM)	1,270.1
	Health underwriting risk (SF)	0.7
C.5 Operational risk	Operational risk (IM)	305.7
	LAC-TP **	(88.1)
C.6 Other material risk	LAC-DT	(391.9)
<b>Total undiversified components</b>		<b>2,249.2</b>
Diversification ***		(1,032.4)
Capital requirement for other financial sectors		73.7
<b>PIM SCR*</b>		<b>1,290.4</b>

Note: The detailed split shown above for 2023 is not available for 2022 PIM SCR as this was calculated on a Standard Formula basis. The equivalent total for 2022 on a PIM SCR basis was £1,295.9m.

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

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

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

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

The Group Balance Sheet is calculated using the consolidation method known as the ‘Method 1’ approach where the calculation of the Group SCR has been carried out on the basis of consolidated data.

### E.2.3 Simplified calculations

AUK Group does not apply simplified calculations for calculating the Standard Formula SCR.

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

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

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

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

### E.2.6 Capital Requirement: Minimum Capital Requirement

The Minimum Capital Requirement (MCR) is calculated in accordance with a prescribed formula, which is subject to a defined floor and cap based on the SCR. The MCR of AUK Group for 2023 is £580.7m (2022: £531.4m). The inputs used to calculate the MCR are shown in the table below. Over 2023 there has been a significant decrease in the capital at risk (net of reinsurance) as the individual protection book has been reinsured to Royal London as part of the sale agreement, but this has no impact on the MCR of SE plc as it is subject to a cap based on the SCR.

#### Minimum Capital Requirement (MCR) Inputs

Amounts in GBP millions	2023	2022
<b>Best estimate (net of reinsurance)</b>		
With-profits - guaranteed benefits	1,923.0	2,053.0
With-profits - future discretionary benefits	519.1	587.0
Unit-linked	75,626.6	67,802.0
Other Life and Health	379.5	335.3
<b>Capital at risk (net of reinsurance)</b>	<b>873.6</b>	<b>5,482.2</b>

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

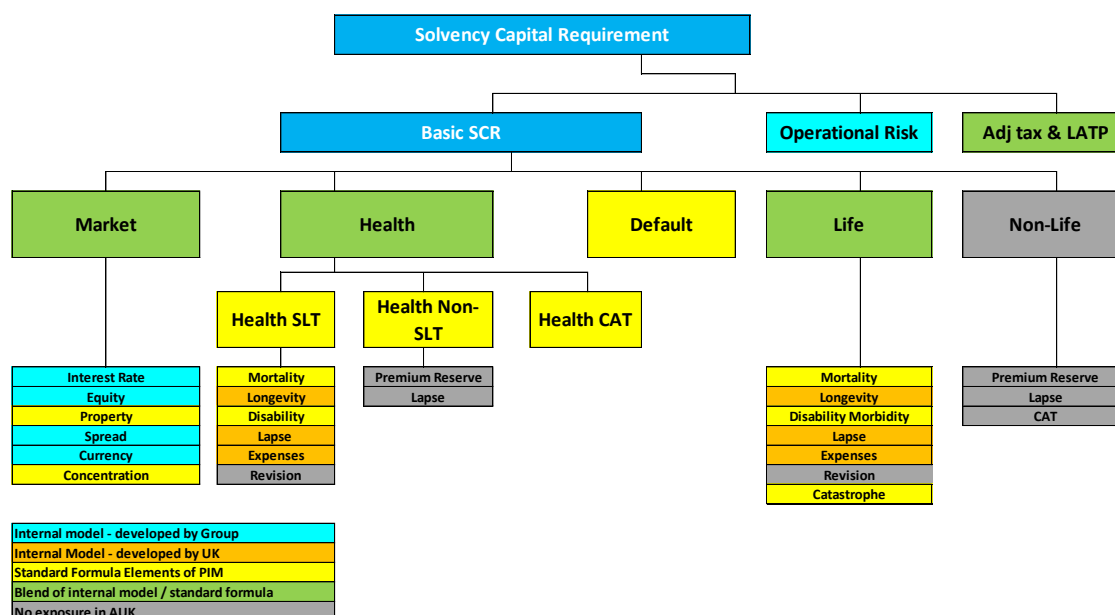
AUK Group does not make use of the duration-based equity risk sub-module set out in article 304 of Directive 2009/138/EC for the calculation of the Standard Formula SCR.

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

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

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

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



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

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

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

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

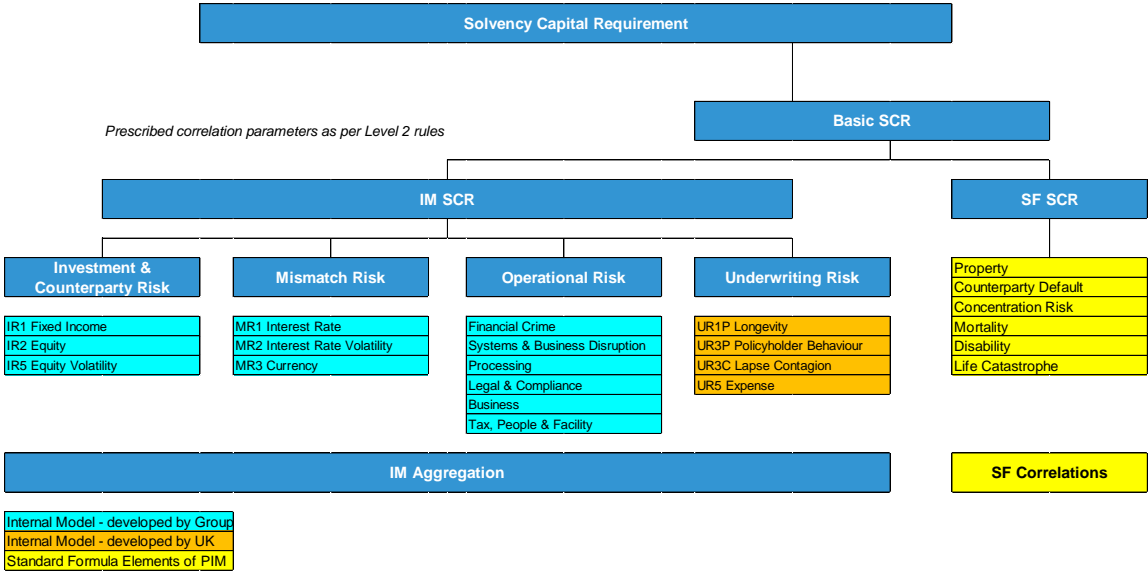
Generally, the Internal Model results in a more appropriate representation of capital requirements of AUK Group compared to the standardised approach of Standard Formula (SF), as the Internal Model is tailored to reflect AUK Group's own specific risk exposures.

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

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



The chart below shows the structure of the PIM.



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

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

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

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

There have not been any instances during 2023 where the estimated AUK Group Solvency II ratio was below the SCR, nor the MCR level. To ensure that AUK Group maintains adequate solvency levels, actual and expected capital positions are monitored against capitalisation zones that are defined in the Aegon UK Capital Management and Dividend Policy. Several activities are performed to monitor and assess the future development of the Group’s solvency position, such as the annual MTP process and periodic management reporting. Decisions to return capital to shareholders are based on solvency assessments that consider the impact of the decisions on the current and future projected solvency position.

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

**E.6 Any other information**

All material information regarding the Capital Management of AUK Group is covered earlier in this section.

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

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

## LAC-DT (Unaudited)

Amounts in GBP million

<b>LAC-DT reducing SCR</b>	<b>388.4</b>
LAC-DT justified by reversion of deferred tax liabilities	411.4
LAC-DT justified by reference to probable future taxable	(23.0)

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

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

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

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

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

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

# F. Governing Body Certification

**Solvency & Financial Condition Report**  
**Acknowledgement of content under PRA supervisory statement SS11/16**  
**Aegon UK Group**  
**Financial year ended 31 December 2023**

We certify that:

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

**M. HOLLIDAY-WILLIAMS**, Chief Executive

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**J. EWING**, Director

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Edinburgh, 02 May 2024

## G. Report of the External Independent Auditors to the Directors of Aegon UK plc

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

**Report on the Audit of the relevant elements of the Group Solvency and Financial Condition Report Opinion**

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2023:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Company as at 31 December 2023, (**'the Narrative Disclosures subject to audit'**); and
- Group templates S.02.01.02, S.22.01.22, S.23.01.22 and S.32.01.22 (**'the Templates subject to audit'**).

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

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

- Information contained within the relevant elements of the Group Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group Solvency and Financial Condition Report;
- Group templates S.05.01.02, S.05.02.01 and S.25.02.22.
- The written acknowledgement by management of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report (**'the Responsibility Statement'**);
- Information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with UK law other than the Solvency II regulations (**'the sectoral information'**) as identified in the Appendix to this report.

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

In our opinion, the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report of the Company as at 31 December 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory approvals.

**Basis for opinion**

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

**Conclusions relating to going concern**

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

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

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

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

**Emphasis of Matter - Basis of Accounting**

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

**Other Information**

The Directors are responsible for the Other Information.

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

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

### **Responsibilities of Directors for the Group Solvency and Financial Condition Report**

The Directors are responsible for the preparation of the Group Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval to use the volatility adjustment in the calculation of technical provisions.
- Approval to use the matching adjustment in the calculation of technical provisions.
- Approval to use a partial internal model.

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

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

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

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

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

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

- Discussions with the Board, management, internal audit, senior management involved in the risk and compliance function and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;

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

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

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

### **Use of this report**

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

### **Other Matter**

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

### **Report on Other Legal and Regulatory Requirements**

#### **Sectoral Information**

In our opinion, in accordance with Rule 4.2 of the External Audit Part of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and UK law relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

**Other Information**

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

*PricewaterhouseCoopers LLP*

*Chartered Accountants*

Edinburgh

02 May 2024



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

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of Group template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin
  
- The following elements of Group template S.22.01.22
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
  
- The following elements of Group template S.23.01.22
  - Row R0020: Non-available called but not paid in ordinary share capital at group level
  - Row R0060: Non-available subordinated mutual member accounts at group level
  - Row R0080: Non-available surplus at group level
  - Row R0100: Non-available preference shares at group level
  - Row R0120: Non-available share premium account related to preference shares at group level
  - Row R0150: Non-available subordinated liabilities at group level
  - Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
  - Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
  - Row R0210: Non-available minority interests at group level
  - Row R0380: Non-available ancillary own funds at group level
  - Rows R0410 to R0440 – Own funds of other financial sectors
  - Row R0680: Group SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
  - Row R0750: Other non available own funds
  
- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

## Appendix A: Acronyms

Acronym	Term
AC	AUK Group Audit Committee
AFS	Available For Sale
AGGRF	Aegon Group Global Remuneration Framework
AUK Board	Aegon UK plc Board
AUKG	Aegon UK plc Group
BEL	Best Estimate Liability
BLAGAB	Basic Life Assurance and General Annuity Business
BMA	Bermuda Monetary Authority
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CoC	Cost of Capital
CRO	Chief Risk Officer
CSM	Contractual Service Margin
DAC	Deferred Acquisition Costs
DNB	De Nederlandsche Bank
DPF	Discretionary Participation Feature
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
DWP	Department of Work and Pensions
EBR	Equity Backing Ratio
EC	AUKG Executive Committee
EFLs	External Fund Links
EIOPA	European Insurance and Occupational Pensions Authority
EPIFP	Expected profit included in future premiums
ERM	Enterprise Risk Management
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSB	Financial Stability Board
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit or Loss
GAO	Guaranteed Annuity Option
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
L&G	Legal & General
LAC-DT	Loss Absorbing Capacity of Deferred Taxes
MA	Matching Adjustment
MCR	Minimum Capital Requirement
MTP	Medium-Term Plan
NGWP	New Generation With-Profits
NPSF	Non-Profit Sub-Fund
NRD	Normal Retirement Date
OCS	Own Credit Spread
OF	Own Funds
ORSA	Own Risk and Solvency Assessment
PIM	Partial Internal Model

Acronym	Term
PPFM	Principles and Practices of Financial Management
PMA	Preferred Management Action
PRA	Prudential Regulation Authority
QRT	Quantitative Reporting Template
REMCO	AUKG Remuneration Committee
RFFR	Ring-Fenced Fund Restriction
RM	Risk Margin
SII	Solvency II
SCR	Solvency Capital Requirement
SE plc	Scottish Equitable plc
SEPT	Scottish Equitable Policyholders' Trust Ltd
SF	Standard Formula
SFCR	Solvency and Financial Condition Report
SMCR	Senior Manager and Certification Regime
SOx	Sarbanes-Oxley
TP	Technical Provisions
TWP	Traditional With-Profits
UL	Unit-Linked
UWP	Unitised With-Profits
VA	Volatility Adjustment
WPF	With-Profits Forum
WPSF	With-Profits Sub-Fund

## Appendix B: Glossary

Term	Description
Aegon Ltd.	The parent entity of the global Aegon Group
Asset Share	The estimated amount attributable to an individual [unit of coverage] if the accumulated net funds of a class of a large number of identical policies
Available For Sale	A categorisation of financial instruments under IAS 39
Best Estimate Liability	The expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information.
Chief Executive Officer	The CEO of AUK Group is Mike Holliday-Williams
Chief Financial Officer	The CFO of AUK Group is Jim Ewing
Cost of Capital	The opportunity cost of funds used to finance a business. It is the rate of return that could have been earned by putting the same money into a different investment with equal risk.
Chief Risk Officer	The CRO of AUK Group is Alison Morris
Contractual Service Margin	The contractual service margin represents the unearned profit that an entity expects to earn as it provides services
Deferred Tax Asset	A deferred tax asset is recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised
Deferred Tax Liability	A deferred tax liability is recognised for income taxes payable in future periods in respect of taxable temporary differences
Discretionary Participation Feature	A policyholder's contractual right to receive certain supplemental benefits in addition to the guaranteed benefits under the contract
Economic Balance Sheet	The Solvency II balance sheet
Enterprise Risk Management	The AUKG risk management framework
European Insurance and Occupational Pensions Authority	EIOPA is a financial regulatory institution of the European Union
Fair Value	The estimated price at which an asset is bought or sold when both the buyer and seller freely agree on a price
Fair Value through Profit or Loss	A categorisation of financial instruments under IFRS9
Financial Conduct Authority	The FCA is a financial regulatory body in the UK
Financial Reporting Council	The Financial Reporting Council is an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Stewardship Codes
Held To Maturity	A categorisation of financial instruments under IFRS9
Homogeneous Risk Groups	The segmentation of insurance and reinsurance obligations, according to the nature of the risks underlying the obligations, as required under Solvency II when calculating technical provisions
International Accounting Standard	The standards that apply under IFRS

Term	Description
Loss Absorbing Capacity of Deferred Tax	Maximum amount of tax relief that can be expected on additional capital following a stress
Medium-Term Plan	MTP is also used to refer to the annual budgeting and medium-term planning process, as well as the plan itself.
New Generation With-Profits	With NGWP investments, there is no concept of guaranteed benefits (as with TWP and UWP), with benefits being determined by reference to a smoothed unit price that normally changes daily.
Non-Profit Sub-Fund	The shareholder-owned funds of AUK Group
Own Credit Spread	The difference in yield between a bond held and a sovereign bond of equivalent duration in the country of issue
Own Funds	Own Funds is SII terminology for available capital and is the equivalent to Shareholder Equity under IFRS. At its simplest it is calculated as assets less liabilities (or excess of assets over liabilities). There is a restriction (RFFR) over the Own Funds for AUK Group which arises because the Own Funds of the WPSF are ring-fenced.
Operational Risk	Operational Risk is assessed using results from scenario analysis workshops and stochastic modelling
Own Risk and Solvency Assessment	The ORSA is a Solvency II (Pillar 2) requirement. An ORSA Report must be produced at least annually.
Paid-up Policy	Policy for which regular premiums have ceased.
Partial Internal Model	An internal model under which some risks are valued using the standard formula approach.
Principles and Practices of Financial Management	Directive 147.A.i (LT) issued by the Financial Services Board requires insurers to define, and make publicly available, the Principles and Practices of Financial Management (PPFM) that are applied in the management of their discretionary participation funds (for AUK Group, this relates to the WPSF)
Prudential Regulation Authority	The PRA is the relevant competent authority for regulation of Solvency II in the UK
Ring-Fenced Fund Restriction	Net assets (or OF) of the WPSF are owned by the with-profits shareholders. These assets are ring-fenced and cannot normally be used to cover the liabilities or capital requirements of AUK Group shareholders. A restriction is therefore applied to the availability of the Own Funds of AUK Group to ensure that net assets of the WPSF do not contribute to the solvency assessment of AUK Group as a whole.
Risk Adjustment	The IFRS risk adjustment is the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts
Risk Margin	RMs relate to the uncertainty around the best estimate assumptions for non-hedgeable risks. RMs are derived by calculating the cost of holding SCR in future for the non-hedgeable risks.
Sarbanes-Oxley	The Sarbanes–Oxley Act of 2002 (Pub.L. 107–204, 116 Stat. 745, enacted July 30, 2002). An Act to protect investors by improving the accuracy and reliability of corporate disclosures, also known as the "Public Group Accounting Reform and Investor Protection Act"
Solvency II	The Solvency II Directive (2009/138/EC) is a Directive in European Union law that codifies and harmonises the EU insurance regulation.

Term	Description
Solvency II Ratio	The Solvency II ratio is a measure of a Group's solvency, calculated as OF divided by SCR.
Solvency and Financial Condition Report	The SFCR is a Solvency II (Pillar 3) requirement. An SFCR must be produced at least annually. It contains both qualitative and quantitative information. It must be disclosed publicly, as well as submitted to the PRA.
Solvency Capital Requirement	In Solvency II, this represents the level of economic capital required, covering all material risks, which will cover the risk of 'ruin' occurring on a one in 200-year basis
Staff Pension Scheme	The Aegon UK defined benefit staff pension scheme. The 'deficit' is the level of shortfall of assets versus liabilities at the valuation date
Traditional With-Profits	Investments which offer a level of guaranteed benefit in return for the payment of a premium or a series of premiums
Unitised With-Profits	Investments which offer a level of guaranteed benefit linked to the payment of each individual premium, expressed in terms of a unit value.
Unit Matching	A programme whereby an undertaking buys back units as it receives fee income from the underlying funds
Value at Risk	Value at risk in times of stress
With-Profits Sub-Fund	A ring-fenced fund, wholly owned by the with-profits policyholders of AUK Group

## Appendix C: Quantitative Reporting Templates

In line with Solvency II requirements, quantitative reporting templates (or forms) are included to support the AUK Group SFCR.

### General information

Participating undertaking name	Aegon UK Plc
Group identification code	213800HW5JU8BA4IMC33
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the group SCR	Partial internal model
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	Use of matching adjustment
Volatility adjustment	Use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

### List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business: Life insurance and reinsurance obligations
- S.05.02.01 - Premiums, claims and expenses by country: Life insurance and reinsurance obligations
- S.22.01.22 - Impact of long term guarantees measures and transitionals
- S.23.01.22 - Own Funds
- S.25.02.22 - Solvency Capital Requirement - for groups using the standard formula and partial internal model
- S.25.02.22 - Solvency Capital Requirement - for groups using the standard formula and partial internal model
- S.32.01.22 - Undertakings in the scope of the group

S.02.01.02

Balance sheet

Solvency II value	
C0010	
	88,962
	67,508
	4,080,558
	95,458
	1,310,023
	854,937
	854,937
	1,529,833
	742,318
	658,295
	0
	129,219
	12,272
	29,899
	248,137
	0
	77,883,647
	0
	0
	6,463,474
	0
	166,417
	15,653
	150,764
	6,297,057
	0
	38,511
	11,457
	847,291
	0
	62,406
	998
	89,544,810

Assets

R0030	Intangible assets
R0040	Deferred tax assets
R0050	Pension benefit surplus
R0060	Property, plant & equipment held for own use
R0070	Investments (other than assets held for index-linked and unit-linked contracts)
R0080	<i>Property (other than for own use)</i>
R0090	<i>Holdings in related undertakings, including participations</i>
R0100	<i>Equities</i>
R0110	<i>Equities - listed</i>
R0120	<i>Equities - unlisted</i>
R0130	<i>Bonds</i>
R0140	<i>Government Bonds</i>
R0150	<i>Corporate Bonds</i>
R0160	<i>Structured notes</i>
R0170	<i>Collateralised securities</i>
R0180	<i>Collective Investments Undertakings</i>
R0190	<i>Derivatives</i>
R0200	<i>Deposits other than cash equivalents</i>
R0210	<i>Other investments</i>
R0220	Assets held for index-linked and unit-linked contracts
R0230	Loans and mortgages
R0240	<i>Loans on policies</i>
R0250	<i>Loans and mortgages to individuals</i>
R0260	<i>Other loans and mortgages</i>
R0270	Reinsurance recoverables from:
R0280	<i>Non-life and health similar to non-life</i>
R0290	<i>Non-life excluding health</i>
R0300	<i>Health similar to non-life</i>
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>
R0320	<i>Health similar to life</i>
R0330	<i>Life excluding health and index-linked and unit-linked</i>
R0340	<i>Life index-linked and unit-linked</i>
R0350	Deposits to cedants
R0360	Insurance and intermediaries receivables
R0370	Reinsurance receivables
R0380	Receivables (trade, not insurance)
R0390	Own shares (held directly)
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in
R0410	Cash and cash equivalents
R0420	Any other assets, not elsewhere shown
R0500	<b>Total assets</b>



## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Liabilities</b>		
R0510	Technical provisions - non-life	0
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	
R0550	<i>Risk margin</i>	
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	2,989,167
R0610	<i>Technical provisions - health (similar to life)</i>	2,687
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	2,627
R0640	<i>Risk margin</i>	61
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	2,986,480
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	2,985,465
R0680	<i>Risk margin</i>	1,015
R0690	Technical provisions - index-linked and unit-linked	82,190,413
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	81,923,638
R0720	<i>Risk margin</i>	266,775
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	419,938
R0790	Derivatives	627,901
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	115,979
R0830	Reinsurance payables	26,608
R0840	Payables (trade, not insurance)	344,307
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	107,788
R0900	<b>Total liabilities</b>	86,822,100
R1000	<b>Excess of assets over liabilities</b>	2,722,710





S.22.01.22

Impact of long term guarantees measures and transitionals

	Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
	C0010	C0030	C0050	C0070	C0090
R0010 Technical provisions	85,179,580	0	0	11,269	21,870
R0020 Basic own funds	2,444,752	0	0	0	-16,402
R0050 Eligible own funds to meet Solvency Capital Requirement	2,536,725	0	0	0	-16,402
R0090 Solvency Capital Requirement	1,290,448	0	0	0	20,291



S.23.01.22

**Own Funds**

**Basic own funds before deduction for participations in other financial sector**

**Own funds when using the D&A, exclusively or in combination of method 1**

R0450	Own funds aggregated when using the D&A and combination of method
R0460	Own funds aggregated when using the D&A and combination of method net of IGT
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A )
R0530	Total available own funds to meet the minimum consolidated group SCR
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A )
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)
R0610	<b>Minimum consolidated Group SCR</b>
R0650	<b>Ratio of Eligible own funds to Minimum Consolidated Group SCR</b>
R0660	<b>Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&amp;A )</b>
R0680	<b>Group SCR</b>
R0690	<b>Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&amp;A</b>

**Reconciliation reserve**

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Forseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0750	Other non available own funds
R0760	<b>Reconciliation reserve</b>

**Expected profits**

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	<b>Total Expected profits included in future premiums (EPIFP)</b>

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0				
0				
2,444,752	2,444,752	0	0	0
2,444,752	2,444,752	0	0	
2,444,752	2,444,752	0	0	0
2,444,752	2,444,752	0	0	
580,702				
421.00%				
2,536,725	2,536,725	0	0	0
1,290,448				
196.58%				
<b>C0060</b>				
2,722,710				
169,500				
98,093				
87,892				
2,367,225				
855,709				
855,709				

**Solvency Capital Requirement -  
for groups using the standard formula and partial internal model**

USP Key	USP Key	USP Key
For life underwriting risk: 1 - Increase in the amount of annuity benefits 9 - None	For health underwriting risk: 1 - Increase in the amount of annuity benefits 2 - Standard deviation for NSLT health premium risk 3 - Standard deviation for NSLT health gross premium risk 4 - Adjustment factor for non-proportional reinsurance 5 - Standard deviation for NSLT health reserve risk 9 - None	For non-life underwriting risk: 4 - Adjustment factor for non-proportional reinsurance 6 - Standard deviation for non-life premium risk 7 - Standard deviation for non-life gross premium risk 8 - Standard deviation for non-life reserve risk 9 - None

Row

Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0090	C0120
1	Market risk	1,070,239	1,022,628	9	
2	Counterparty default risk	65,709		9	
3	Life underwriting risk	1,286,768	1,265,381	9	
4	Health underwriting risk	708		9	
5	Non-life underwriting risk			9	
6	Intangible asset risk			9	
7	Operational risk	305,718	305,718	9	
8	LAC Technical Provisions (negative amount)	-88,108		9	
9	LAC Deferred Taxes (negative amount)	-391,866		9	

S.25.02.22

**Solvency Capital Requirement - for groups using the standard formula and partial internal model**

<b>Calculation of Solvency Capital Requirement</b>		C0100
R0110	Total undiversified components	2,249,167
R0060	Diversification	-1,032,426
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	<b>Solvency capital requirement excluding capital add-on</b>	1,216,741
R0210	Capital add-ons already set	
R0220	<b>Solvency capital requirement for undertakings under consolidated method</b>	1,290,448
<b>Other information on SCR</b>		
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	-291,501
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-388,449
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	1,193,389
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	55,071
R0440	Diversification effects due to RFF nSCR aggregation for article 304	-31,719
R0470	Minimum consolidated group solvency capital requirement	580,702
<b>Information on other entities</b>		
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	73,707
R0510	<i>Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies</i>	73,707
R0520	<i>Institutions for occupational retirement provisions</i>	
R0530	<i>Capital requirement for non-regulated entities carrying out financial activities</i>	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	
<b>Overall SCR</b>		
R0560	SCR for undertakings included via D and A	
R0570	<b>Solvency capital requirement</b>	1,290,448



## S.32.01.22

## Undertakings in the scope of the group

	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
Row	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	213800X1T29YFAYMPC26	LEI	Scottish Equitable plc	Life insurance undertaking	Public Limited Company	Non-mutual	The Prudential Regulation Authority
2	GB	213800FHP235751PZS37	LEI	Scottish Equitable Holdings Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Limited by Shares	Non-mutual	
3	GB	213800HW5JU8BA4IMC33	LEI	AEGON UK plc	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Public Limited Company	Non-mutual	
4	GB	213800RMKHHF3Y6QR371	LEI	Momentum Group Limited	Credit institution, investment firm and financial institution	Limited by Shares	Non-mutual	Financial Conduct Authority
5	GB	213800MQKCGEXWYZSA30	LEI	Origen Limited	Credit institution, investment firm and financial institution	Limited by Shares	Non-mutual	Financial Conduct Authority
6	GB	213800UEB5PQMZYOFM66	LEI	AEGON Investment Solutions Ltd.	Credit institution, investment firm and financial institution	Limited by Shares	Non-mutual	Financial Conduct Authority
7	GB	213800URT7Q7H4IX5I41	LEI	Aegon Investments Limited	Credit institution, investment firm and financial institution	Limited by Shares	Non-mutual	Financial Conduct Authority
8	GB	213800115BSUHPDI8695	LEI	AEGON UK Investment Holdings Limited	Credit institution, investment firm and financial institution	Limited by Shares	Non-mutual	Financial Conduct Authority
9	GB	213800XRUPSOZUPSF553	LEI	Cofunds Limited	Credit institution, investment firm and financial institution	Limited by Shares	Non-mutual	Financial Conduct Authority
10	GB	2138005XCX3B3QSMOH80	LEI	Origen Financial Services Limited	Credit institution, investment firm and financial institution	Limited by Shares	Non-mutual	Financial Conduct Authority
11	GB	21380089YAVOU765US98	LEI	Tenet Group Limited (Minority Shareholding)	Other	Limited by Shares	Non-mutual	
12	GB	213800XW5778M5G95M45	LEI	AEGON Investment Solutions - Nominee 1 (Gross) Ltd.	Other	Limited by Shares	Non-mutual	
13	GB	2138006FPYVIWJYPWT73	LEI	AEGON Investment Solutions - Nominee 2 (Net) Ltd.	Other	Limited by Shares	Non-mutual	
14	GB	213800MU6N7QJWCEZ34	LEI	AEGON Investment Solutions - Nominee 3 (ISA) Ltd.	Other	Limited by Shares	Non-mutual	
15	GB	213800RQS2WCWEPO3S46	LEI	AEGON Pension Trustee Limited	Other	Limited by Shares	Non-mutual	
16	GB	213800D2BKEYKQB8S653	LEI	AEGON SIPP GUARANTEE NOMINEE LIMITED	Other	Limited by Shares	Non-mutual	
17	GB	213800T2EN7Y3DBFUZ91	LEI	Aegon SIPP Nominee 2 Ltd.	Other	Limited by Shares	Non-mutual	
18	GB	213800NSW238W1LX2M70	LEI	AEGON SIPP Nominee Ltd.	Other	Limited by Shares	Non-mutual	
19	GB	213800J36W1T73RAUM25	LEI	AEGON UK Corporate Services Limited	Other	Limited by Shares	Non-mutual	
20	GB	213800FHIPZGT9PVZD75	LEI	AEGON UK Property Fund Limited	Other	Limited by Shares	Non-mutual	
21	GB	2138009UHKLZG7WF6163	LEI	Andrews Nominees Limited	Other	Limited by Shares	Non-mutual	
22	GB	213800LLF557I2QVRN18	LEI	Cofunds Nominees Ltd	Other	Limited by Shares	Non-mutual	
23	GB	213800MRW8IPNNSRNT79	LEI	Dorset Nominees Limited	Other	Limited by Shares	Non-mutual	

## S.32.01.22

## Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation	
				% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking	
Row	C0010	C0020	C0030	C0040	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	213800X1T29YFAYMPC26	LEI	Scottish Equitable plc	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
2	GB	213800FHP235751PZ537	LEI	Scottish Equitable Holdings Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
3	GB	213800HWSJU8BA4IMC33	LEI	AEGON UK plc	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
4	GB	213800RMKHHF3Y6QR371	LEI	Momentum Group Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
5	GB	213800MQKCGEXWYZSA30	LEI	Origen Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
6	GB	213800UEB5PQMZYOFM66	LEI	AEGON Investment Solutions Ltd.	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Sectoral rules
7	GB	213800URT7Q7H4IX5141	LEI	Aegon Investments Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Sectoral rules
8	GB	213800115BSUHPDI8695	LEI	AEGON UK Investment Holdings Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Sectoral rules
9	GB	213800XRUPSOZUP5F553	LEI	Cofunds Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Sectoral rules
10	GB	2138005XCX3B3QSMOH80	LEI	Origen Financial Services Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Sectoral rules
11	GB	21380089YAVOU765US98	LEI	Tenet Group Limited (Minority Shareholding)	23.27%	23.27%	23.27%		Significant	23.27%	Included in the scope		Other method
12	GB	213800XWS778M5G95M45	LEI	AEGON Investment Solutions - Nominee 1 (Gross) Ltd.	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
13	GB	2138006FPYVIWJYPWT73	LEI	AEGON Investment Solutions - Nominee 2 (Net) Ltd.	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
14	GB	213800MU6N7QUJWCEZ34	LEI	AEGON Investment Solutions - Nominee 3 (ISA) Ltd.	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
15	GB	213800RQS2WCWEPO3546	LEI	AEGON Pension Trustee Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
16	GB	213800D2BKEYKB85653	LEI	AEGON SIPP GUARANTEE NOMINEE LIMITED	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
17	GB	213800T2EN7Y3DBFUZ91	LEI	Aegon SIPP Nominee 2 Ltd.	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
18	GB	213800NSW238W1LX2M70	LEI	AEGON SIPP Nominee Ltd.	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
19	GB	213800J36W1T73RAUM25	LEI	AEGON UK Corporate Services Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
20	GB	213800FHIPZGT9PVZD75	LEI	AEGON UK Property Fund Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
21	GB	2138009UHKLZG7WF6163	LEI	Andrews Nominees Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
22	GB	213800LLF557I2QVRN18	LEI	Cofunds Nominees Ltd	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
23	GB	213800MRW8IPNNSRNT79	LEI	Dorset Nominees Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method

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Undertakings in the scope of the group

	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
Row	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
24	GB	2138005VJPBIGSUYDH61	LEI	Lochside Nominees Limited	Other	Limited by Shares	Non-mutual	
25	GB	213800J9W9UJTL40476	LEI	Minster Nominees Limited	Other	Limited by Shares	Non-mutual	
26	GB	213800XEAM78W891MU15	LEI	NEWCAST PROPERTY DEVELOPMENTS (ONE) LIMITED	Other	Limited by Shares	Non-mutual	
27	GB	213800JGJ88WL65HDZ54	LEI	NEWCAST PROPERTY DEVELOPMENTS (TWO) LIMITED	Other	Limited by Shares	Non-mutual	
28	GB	213800PXS4F64EG6CG71	LEI	Pension Geeks Limited	Other	Limited by Shares	Non-mutual	
29	GB	2138004URG5414A7C42	LEI	Scottish Equitable (Managed Funds) Limited	Other	Limited by Shares	Non-mutual	
30	GB	213800Y6F5TEHRNEVQ22	LEI	Victoria Nominees Limited	Other	Limited by Shares	Non-mutual	
31	GB			Origen Trustee Services Limited	Other	Limited by Shares	Non-mutual	

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Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation	
				% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking	
Row	C0010	C0020	C0030	C0040	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
24	GB	2138005VJPBIGSUYDH61	LEI	Lochside Nominees Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
25	GB	213800J9W9UJTL40476	LEI	Minster Nominees Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
26	GB	213800XEAM78W89IMU15	LEI	NEWCAST PROPERTY DEVELOPMENTS (ONE) LIMITED	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
27	GB	213800JGJ88WL6SHDZ54	LEI	NEWCAST PROPERTY DEVELOPMENTS (TWO) LIMITED	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
28	GB	213800PXS4F64EG6CG71	LEI	Pension Geeks Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
29	GB	2138004URG54I4AY7C42	LEI	Scottish Equitable (Managed Funds) Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
30	GB	213800Y6F5TEHRNEVQ22	LEI	Victoria Nominees Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
31	GB			Origen Trustee Services Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method