THE SHEPHERDS FRIENDLY SOCIETY LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT
Financial year ending 31 December 2019

31 December 2019

Contents

Summary

The information in this report relates to The Shepherds Friendly Society Limited (the "Society"). The Society is an insurance company writing a mixture of savings and protection contracts. The savings contracts consist of conventional with-profits saving plans, fixed rate bonds and unit-linked investment Child Trust Fund accounts. The protection contracts are either whole life assurances or contracts that provide income replacement in the event the policyholder falls ill or has an accident so they cannot work.

The Society is required by its regulator, the Prudential Regulation Authority ("PRA"), to publish this document called the Solvency and Financial Condition Report ("SFCR"). The SFCR covers five main sections:

- Business performance. This section details our business performance and significant events during the year, as well as noting who regulates us and who our auditors are.

  Over 2019 we were pleased to see membership levels increase to 111,623 with continued growth in premium income of £34.0m over 2019 and an increase in funds under management to £88.0m at the end of 2019. Investment returns over 2019 were favourable with assets increasing by 8.0% over the year.

  The Society's objective is one of managed and sustainable growth so that the with-profits policyholders can benefit from the value the business is creating.

  This is particularly pertinent given the Covid-19 developments since the start of 2020.

- System of governance. This section outlines our system of governance and how the Society is directed and controlled. The Society reviews its governance arrangements formally once a year. The Society's Board is satisfied that it has the right level of oversight given the nature, scale and complexity of the business.

  The Board is responsible for setting the Society's risk appetite and ensuring that an Own Risk and Solvency Assessment ("ORSA") is produced and that it is fit for purpose, embedded and is used in business planning and risk management.

- Risk profile. This section details the key risks in the business, how they are monitored and how we might deal with them should those events occur.

  The Society uses the standard formula to calculate its Solvency Capital Requirement as the Board considers that this provides a reasonable basis by which the Society can quantify the risks inherent in its business. The material risks are underwriting, market risk and credit risk.

  The Society is also exposed to the risk of other events happening outside its control. The oversight of these risks is managed by the Society's Board Risk Committee.

  The Society has strengthened the oversight of the key risks facing the Society in the light of Covid-19 through e.g. more frequent Board meetings and review of relevant and immediately up to date management information on the status of key risk indicators.

- Valuation for solvency purposes. This section details the bases, methods and assumptions used to value the Society's assets and liabilities.

  The methods used to value the Society's assets and liabilities are unchanged from those used at the end of the previous year although the models used to value these were significantly revised over 2019. Assumptions were updated at 31 December 2019 to reflect the then current economic conditions and our estimate of future demographic experience at that time.

- Capital management. This section details what capital the Society has to manage its business and the capital needed to cover the risks in the business.

  The Society's Solvency Ratio, defined as the ratio of Own Funds to the Solvency Capital Requirement, increased from 153% at the end of 2018 to 167% at the end of 2019.

  Over 2019, the Society undertook an exercise to strengthen the accuracy of the modelling used to estimate future cashflows on the Society's business. This was part of the Society's continued development of a robust infrastructure to help it achieve its business plans over the coming years. The effect of that resulted in a downward adjustment to the value of the Society's income protection business and is the main reason for the fall in the Society's own funds over the year to £15.3m. The Society engaged with the its external actuaries, OAC plc, to review these changes to ensure they were appropriate.

  The Society is not immune from the global economic and pandemic risks. However, the Society is taking appropriate risk mitigating actions to be sure that it can meet policyholder obligations as they fall due.

The appendix to this report provides technical information covering the areas described above. The information is set out in a prescribed fashion.

<u>Covid-19</u>

Although the basis on which this SFCR has been prepared is as at 31 December 2019, the Society is mindful of the impact Covid-19 may have on the business. The material areas of risk that the Directors have noted are as follows:

- Reduction of sales of the Society's savings and protection policies, as households themselves restrict their activities. The Society has reviewed the potential impact on sales and is in the process of adapting to ensure new business remains profitable for the temporarily reduced volumes it expects to see.
- Downturn in investment markets which has been significant in reaction to worldwide actions to pause economic activity. Markets are expected to recover once restrictions are lifted when evidence emerges that the steps taken are proving effective, but there is a risk that this may take longer than anticipated. The Society manages its investments to minimise such risks but the nature of the product does mean that some risk is borne by policyholders.
- A high level of claims arising from prolonged sickness. Whilst the Society manages this risk as a core competency, there is a risk that sickness inactivity will be longer than normal. This should be reduced by government measures to fund personal hardship faced by employed and self-employed persons, for the

period of the crisis, but as yet is untested. Additionally, the Society's sickness policies are reviewable in nature which means that premiums can be amended to reflect the risk profile of the business.

- Operational resilience. The Society has successfully invoked its business continuity plans and adapted them further to be able to run the business remotely as employees self-isolate and mostly can work from home. There is a risk that the Society is dependent on other service providers, in particular internet and communication channels, who themselves may face operational issues to keep their systems operational. There is also a risk that despite prevention measure taken, the Society's staff are directly infected by the Covid-19 virus. It is anticipated that, based on health guidance available, that all staff will recover.

The Society has enacted a robust plan for managing these risks and to maintain resilience in these times of strain. We will continue to monitor the rapidly evolving situation and take positive steps to protect our members' interests.

We hope you find this report informative about our current business and risk management framework. Please do get in touch with us if you wish to discuss any aspect of how the Society is performing.

Our responsibility

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

We are satisfied that:

(A) Throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA Rules and Solvency II Regulations as applicable; and

(B) It is reasonable to believe that, at the date of publication of the SFCR, the Society has continued so to comply, and will continue so to comply in future.

On behalf of the Board

Ann-Marie O'Dea
Chief Executive

Dated: 30th April 2020

Business and performance

A.1 Business

The Shepherds Friendly Society Limited (the “Society”) is a friendly society incorporated under the Friendly Societies Act 1992 and registered in the United Kingdom (registered number 240F). The Society’s registered office is at Haw Bank House, High Street, Cheadle, SK8 1AL.

The Society is authorised and regulated by the Prudential Regulation Authority and the Financial Conduct Authority – Registration number 109997. The PRA is the supervisory authority responsible for the financial supervision of The Shepherds Friendly Society Limited. The PRA may be contacted at 20 Moorgate, London, EC2R 6DA.

Our external auditors are BDO LLP. They may be contacted at 150 Aldersgate Street, London, EC1A 4AB.

The Society is a mutual organisation, owned by its members i.e. its policyholders and has no shareholders. At General Meetings, each member over the age of 18 has one vote, irrespective of the number of policies they hold, and all votes count equally. All adult policyholders qualify to be a member of the Society.

The Society has a subsidiary, Financial Advice Network Limited (the “Network”), which consists of Appointed Representatives, who in turn are a combination of IFAs and Protection Advisers.

All the Society’s business is carried out in the UK. Its material lines of business are:

- Insurance with-profit participation. This covers the Society’s conventional with-profits regular and single premium life business (with-profits – life).

- Health Insurance with-profit participation. This covers the Society’s Holloway business (with-profits – health).

- Other life insurance. This covers the Society’s conventional non-profit life business e.g. Over 50s whole of life, and fixed rate bonds (non-profit – life).

- Health Insurance. This covers the Society’s pure income protection business (non-profit – health).

- Unit-linked. This covers the Society’s holdings of Child Trust Funds (“CTF”) (unit-linked).

The Society undertakes its activities at a national level with no geographical bias.

As at 31 December 2019 the Society had assets, as reported for Solvency II purposes, of £88.0m and membership of 111,623.

A.2 Underwriting Performance

The following table sets out a summary of the Society's underwriting performance over 2019 and over 2018. All the business is in the UK. Underwriting performance is defined for the purposes of this section as the amount of premiums received over and above claims paid and maintenance expenses. No allowance is made for the change in liabilities associated with these cashflows.

Underwriting Performance over 2019				
Line of business	Premiums £'000s	Claims £'000s	Maintenance expenses £'000s	Underwriting profit £'000s
With-profits – life	15,238	7,298	847	7,093
With-profits – health	1,628	3,208	369	-1,949
Non-profit – life	12,117	34	391	11,692
Non-profit – health	4,634	3,484	564	586
Unit-linked business	377	184	285	-92
Total	33,994	14,208	2,456	17,330
Underwriting Performance over 2018				
Line of business	Premiums £'000s	Claims £'000s	Maintenance expenses £'000s	Underwriting profit £'000s
With-profits – life	11,662	5,497	571	5,594
With-profits – health	1,675	2,786	434	-1,545
Non-profit – life	1,825	439	356	1,030
Non-profit – health	3,619	2,075	664	880
Unit-linked business	351	100	285	-34
Total	19,132	10,897	2,310	5,925

Maintenance expenses above excludes investment expenses.

A.3 Investment Performance

The following table sets out a summary of the Society's annualised investment return over 2019 and over 2018.

Annualised Investment Return over 2019 and 2018		
	2019	2018
Return on assets over the year	8.0%	-8.7%

The following table summarises the investment returns by income, realised and unrealised gains over 2019 and 2018 split across the Society's different asset types.

Investment Return over 2019 and 2018						
Asset type	2019			2018		
	Income £'000s	Realised gains £'000s	Unrealised gains £'000s	Income £'000s	Realised gains £'000s	Unrealised gains £'000s
Fixed interest	178	217	0	351	-150	-349
Equity	254	2,934	-3,512	674	-497	-2,205
Property	157	194	-1,000	245	-80	-97
Cash	36	0	0	1	-	-
Associates	0	0	0	123	-	380
Collectives	0	57	6,695	-	-	-3,167
Total	625	3,402	2,182	1,394	-727	-5,438

The Society's investment expenses for 2019 were £58,670. This compares with £72,744 for 2018.

The Society does not have any investments in securitisation.

A.4 Performance of other activities

The Society's main source of income is premiums from its members. Details of this income are shown in section A.2. The Society receives income from our investments and this is detailed in section A.3.

The following table summarises the other main item of expenditure. Investment expenses have been excluded because they are included in section A.3 above.

Expenses over 2019 and 2018		
Expense type	2019 £'000s	2018 £'000s
Acquisition costs	10,847	8,303
Administration expenses	2,456	2,311

A.5 Any other information

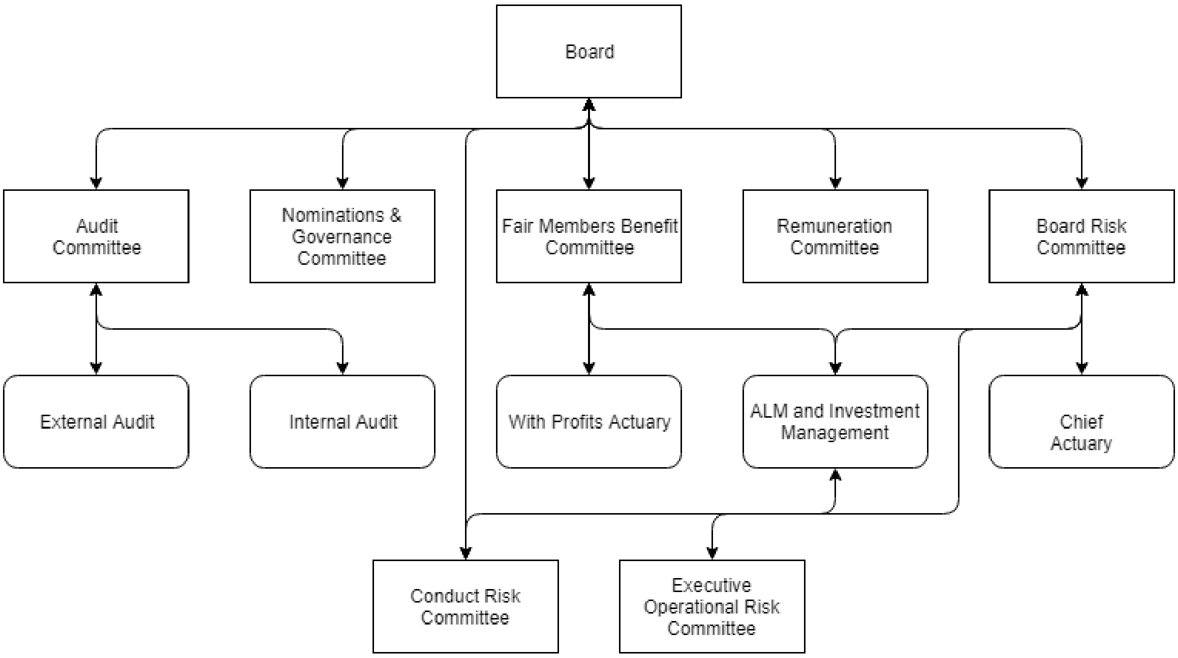
There is no additional material information regarding business and performance in this section.

System of governance

B.1 General information on the system of governance

Ultimate responsibility for the business rests with the Board. The Board comprises a number of Non-Executive and Executive Directors each of whom are appointed by the Society's membership.

The Board is supported in its activities by five Committees. The following chart illustrates the broad framework of the Society's system of governance.



The Society reviews its governance map on a half yearly basis to ensure that any changes are recorded and acted upon. The entire system of governance is reviewed on an annual basis which the Board agreed is sufficient given the scale and complexity of risks in the business.

The Executive Directors have authority and operational independence delegated by the Board to deliver the responsibilities and tasks of their key function roles. Additional resources are approved by the Board. This delegation of authority and operational independence is reflected in the Board's organisational structure. There is a system of regular appraisal and feedback which allows the Executive to report and feedback.

The Non-Executive Directors are operationally independent and are not involved in the day to day management of the business. The performance, competence and independence of NEDs are reviewed by the Board on a regular basis.

Board – Responsibilities

The Board has overall responsibility for the control of the business of the Society in order to ensure that it achieves its objectives. The Board is responsible for the direction of the Society's current and proposed

business, including oversight of its subsidiaries, and having regard to its members, acts in the Society's best interests.
The primary responsibilities of the Board are:

- to act in the best interests of the Society and its members and accounting to them
- to provide entrepreneurial leadership
- to monitor and review performance of the Society, the Board and the Executive Team
- to set and maintain the highest standards of corporate governance
- to establish the framework of systems and controls and division of responsibilities
- to monitor risk via the framework of systems and controls
- to set the Society's risk appetite and tolerance limits
- to set the strategic direction and aims of the Society within the agreed risk appetite
- to set the Society's cultural values and standards of behaviour, including management of conduct risk
- to ratify and agree the decisions of the Board Committees
- to make appointments to and evaluate the Board
- to agree the appointment and remuneration levels of the Board
- to set out the Society's approach to capital and liquidity management

During 2019 the Board made no changes to its governance committees which were as follows:

- Audit
- Nominations and Governance
- Fair Members Benefit Committee
- Remuneration
- Board Risk

The following table details the key functions and roles and responsibilities of the Board and Committees.

The Board
Chairman of the Board The Chairman of the Society is responsible for chairing and overseeing the performance of the Board in accordance with the Society's rules, regulatory and legal requirements in order to maintain the highest standards of corporate governance. They provide ethical leadership and direction to the Board and ensure that the work of the Board is focussed on meeting the Society's mission, vision and strategic direction. Senior Independent Director The Senior Independent Director's role is to ensure the Society places the Members at the heart of everything it does. The Senior Independent Director also acts as a channel of communication for any Member who believes they have a problem which cannot be resolved through the usual channels. They are also responsible for assessing the Chairman's performance.

Conduct Risk Committee The Board is further supported by an executive committee, the Conduct Risk Committee. The Committee is responsible for monitoring and reviewing the performance of the Society and its subsidiaries and partners against the Conduct Risk policy and its stated outcomes. The Committee will also monitor and review the performance of the Society and its subsidiaries and partners against each element of the Conduct Risk Life Cycle – product, sales, after sales, and governance and culture. The Conduct Risk Committee is represented by a Head of Function for every area of the business who is responsible for ensuring that good conduct risk culture is embedded within their function.
Audit Committee
Chairman of the Audit Committee The Chairman of the Audit Committee is responsible for chairing and overseeing the performance of the Committee, which is responsible for the oversight of internal and external audit. The Committee is responsible for ensuring the independence of the audit functions and monitors the auditors' performance. The Chairman has oversight of the effectiveness of the whistleblowing policies and procedures, including those for the protection of staff raising concerns. The Society's Chief Actuary attends the Audit Committee to present recommendations on appropriate methodologies and assumptions to use in the valuation of the Society's long term business provision in its Annual Report and Accounts as well as the Solvency II regulatory valuation.
Nomination and Governance Committee
Chairman of the Nominations and Governance Committee The Chairman of the Nomination and Governance Committee is responsible for chairing and overseeing the performance of the Committee, which is responsible for nominations matters. They have oversight responsibility for ensuring that all key function holders are fit, proper and competent on a continuous basis. The Committee also has also taken on responsibility for overseeing the impact of climate change on the Society.
Fair Members Benefit Committee (incorporating the With-Profits Committee)
Chairman of the Fair Members Benefit Committee ("FMBC") The Chairman of the FMBC is responsible for chairing and overseeing the performance of the Committee, which is responsible for supporting the Board in discharging its corporate governance obligations in relation to compliance with the Principles and Practices of Financial Management (PPFM). The scope of the FMBC covers activities that are normally part of a With-Profits Committee. It also includes the consideration of the fair treatment of non-profit policyholders to ensure that the needs of all the Society's policyholders are considered.

The FMBC monitors the performance of the Society's investment managers to ensure with-profits policyholders are securing the returns in line with their reasonable expectations. With-Profits Actuary The FMBC is supported by the With-Profits Actuary whose responsibility it is to advise the Society on key aspects of the discretion to be exercised affecting with-profits policyholders.
Remuneration Committee
Chairman of the Remuneration Committee The Chairman of the Remuneration Committee is responsible for chairing and overseeing the performance of the Committee, which is responsible for the oversight of the design and implementation of the Society's remuneration policy. They are responsible for ensuring that the Society's remuneration policy and practices are aligned to business strategy and objectives, its risk appetite, values and culture, and relevant regulations.
Board Risk Committee
Chairman of the Board Risk Committee The Chairman of the Board Risk Committee is responsible for chairing and overseeing the performance of the Committee, which is responsible for the oversight of the risk management system. They have oversight responsibility for ensuring that the Society has an appropriate ORSA Policy and that the requirements of the policy are implemented by the Board. Their responsibilities include having oversight that the Society is fully and effectively using its Risk management systems. The Board Risk Committee is further supported in its activities by an Executive Operational Risk Committee ("EORC") who monitor and report on the Society's operational risk management in the following key categories: business continuity, data security, legal and regulatory, operational resilience, and processes. The EORC also manages a programme of deep dives for specific areas of operational risk concern and managing the future development and maintenance of the Society's risk management software. The Board Risk Committee also monitors the risks attaching to the Society's investments which are currently managed by Royal London Asset Management ("RLAM") and Legal and General ("L&G").

The following table summarises the key roles and responsibilities of the Executive Directors.

Chief Executive
The Chief Executive provides strategic and operational leadership to ensure the Society's continuing development and financial stability. They are personally responsible for the delivery of financial objectives of the Society. They are also responsible for ensuring that the Society and its employees act at all times in the best interests of its Members and meet the expectations of regulatory bodies.

Culture Director
The Culture Director has overall responsibility for ensuring that the Society creates a quality experience for both our members and staff. They are responsible for designing, implementing and managing innovative people focussed strategies that attract, develop, engage, support and retain high performing staff as well as ensuring that a culture of the highest standard of conduct and culture is embedded within the Society.
Operations Director
The Operations Director is responsible for leading the day to day operations of the business of the Society in accordance with the overarching strategic plan and the annual operating plan. They are also responsible for delivery of an IT and systems strategy in line with the Society's corporate objectives, and for outsourced operational functions including systems and technology.
Chief Actuary
The Chief Actuary is responsible for developing, promoting and implementing sound capital and risk management policies and processes within the Society, and, thereby, ensuring the members interests are protected. In this role they are supported by Chief Finance and a Head of Risk and Compliance. They manage all financial related policies, processes, procedures, both accounting and actuarial related, thereby ensuring the integrity of financial data used for reporting the affairs of the Society in line with UK accounting and actuarial standards.

The following table summarises the key second line of defence risk management functions, their roles and brief responsibilities.

Risk
Provides independent oversight and challenge over the identification, assessment and management of all significant risks to ensure the Society is operating within agreed risk appetites. Designs and maintains the Risk Management System.
Compliance
Oversees and monitors regulatory compliance to ensure that the business is managing its regulatory risk exposures appropriately and that controls are effective.
Actuarial
Coordinates the calculation of technical provisions, provides opinions on underwriting policy and reinsurance arrangements and contributes to the effectiveness of the Risk Management System.

Further third line of defence support is provided to the Committees and Board from:

- Internal audit. Mazars are currently appointed to undertake the Society's internal audit activities and to assess the adequacy and effectiveness of the Risk Management System.
- Additional actuarial oversight. OAC plc provide the Society additional support overseeing the actuarial functions of the business.
- External audit. BDO LLP are the Society's current auditors.

There have not been any material changes in the system of governance over 2019.

Remuneration

The Society bases its remuneration policy on both corporate and individual performance, as well as providing a competitive package in order to attract and retain quality individuals. It complies fully with corporate governance practices and regulatory requirements. The Society ensures that the policy is consistent with the its mission and values. Non-executive Directors do not receive any variable performance pay.

Executive Directors are remunerated in both fixed and variable form, with the variable element limited to no more than 30% of the fixed element.

The Society has an employer sponsored defined contribution pension scheme. The Society also has an employer sponsored defined benefit pension scheme (the "DB pension scheme"). This has been closed to future accrual and new members since January 2019. The DB pension scheme has its own Board of Trustees and actuarial advisers. None of the Society's executives are members of the DB pension scheme.

Non-Executive Directors receive expenses for travel to and from Board meetings at Head Office.

The design and implementation of the remuneration policy is overseen by the Society's Remuneration Committee. The Committee ensures that the Society complies with good corporate governance practice as well as relevant parts of the appropriate governance codes.

The Board is satisfied that the system of governance described above is appropriate for the nature, scale and complexity of the Society.

B.2 Fit and proper requirements

The Nomination & Governance Committee has determined that the essential requirements for each key function role are:

- Industry experience
- Technical, professional skills, specialist knowledge
- Governance experience
- Behaviours, competencies, experience

An up to date CV is held for each key function holder and written records of individual interviews to evidence their suitability to fulfil the essential requirements for the key function (including their prescribed responsibilities).
In deciding whether a person is fit and proper the Society must be satisfied that the person:

- Has the personal characteristics (including being of good repute and integrity).
- Possesses the required level of competence, knowledge and experience.
- Has the relevant qualifications, technical skills, professional skills and specialist knowledge in their area of expertise.
- Has undergone or is undergoing all training required to enable such person to perform his or her key function effectively.

There were no material transactions between the Society and the Directors or senior management other than remuneration.

B.3 Risk management system including the own risk and solvency assessment

Risk management

The Society has a company-wide approach to risk management, and it has the following elements:

- A documented corporate governance framework.
- A documented operational systems and control library.
- A structured approach to deriving Risk Appetite and Risk Tolerances.
- A company-wide risk management system (known as "The Risk Database").
- A Risk Management Committee structure.
- A Board approved ORSA Policy.
- A documented Risk Management Policy and Framework.
- A documented approach to liquidity management.
- A documented Capital Management and Restoration Plan.
- Assets are invested in accordance with prudent person principle.
- A traditional 3 lines of defence approach to monitoring the efficacy of all the above.
- A Board with a majority of independent Non-Executive Directors.
- A Board approved business continuity plan, in the event normal operations are unexpectedly interrupted.

The Society operates in line with its Rule Book (based upon the Friendly Society's Act 1992), its Principles and Practices of Financial Management and other regulations applicable to a with-profits business.

The Society's Risk Database supports the effective and consistent identification, assessment and management of the significant risks facing the Society. The Risk Database is used by all employees, the Board Risk Committee, the Operational Risk Committee, the Conduct Risk Committee and the Board. Risks are entered onto the system along with information on mitigating actions. A review period is set for the risk and automatic alerts are sent out to ensure risks, and the key controls to mitigate them, are monitored on a regular basis. Key information from this system is reported to the Risk Committee and the Board.

The main strategic and operational risks are input onto the risk management system. The Risk Database allows risks to be categorised, which in turn lets them be grouped allowing the overall impact of these to be seen within the system reports.

The risks facing the Society are mitigated by a combination of preventive and detective risk controls which are monitored via the risk database. These controls are also supported by:

- Employing staff with a sufficiently wide range of skills and experience to monitor and oversee risks.
- Securing additional support by specific outsourced functions and external subject matter experts.
- Holding capital beyond the Society's Solvency Capital Requirements where circumstances allow.

These mitigants are supplemented by a positive approach to active claims management and a highly proactive marketing approach in order to achieve a high level of customer satisfaction.

The Board is satisfied that the approach to risk management described above is appropriate for the nature, scale and complexity of the Society.

Own Risk and Solvency Assessment

The Society has an ORSA process. Once a year an ORSA document is produced that captures the key outputs from this process in a single document. If there was a material change to the Society's risk profile then an ad-hoc report would be completed.

The Board is satisfied that conducting an ORSA annually is sufficient in the normal course of events. However, it would, under certain situations conduct an ad-hoc ORSA such as in a stressed capital situation or when considering a new business proposition of a type or scale outside its previous experience. To assess when an ad-hoc ORSA would be required, the Society utilises a dashboard approach assessing changes that the event would bring to the risk profile of the Society. This dashboard is discussed and completed by the Board; outputs are recorded on the ORSA record.

The process for the ORSA follows the following main steps:

- Early in the process the Executive and key staff review the existing risks identified in the Risk Database to ensure they are accurate, complete and relevant. Consideration is given to emerging risks and whether these have crystallised and need to be added to the Risk Database.
- The outcomes from this review are considered at the next Board Risk Committee meeting and incorporated within the emergent ORSA.
- There is consideration of strategy and revised business plan by the Board and any impact on the ORSA process is documented.
- At the Board Risk Committee following the availability of the annual solvency assessment, the results are considered to assess the impact on risk tolerances. This discussion includes reviewing the stress tests that should be done.

- Once the draft ORSA is available it is reviewed by the Board Risk Committee alongside the ORSA policy and ORSA record. Once approved by the Board Risk Committee, the ORSA goes to the next Board meeting for approval, following which it will be submitted to the Regulator.
- An ORSA will be produced at least annually but may be more frequent if circumstances require. We have developed an ad hoc ORSA assessment process to document our thinking in this respect.
- At each Board meeting KPIs around the ORSA are reviewed and discussed by the Board.

The ORSA process includes undertaking a range of stress and scenario tests of possible extreme events that may affect the Society's ability to deliver against its stated business objectives. The results of these scenario tests guide the Society in identifying a preferred solvency corridor below which further management actions may be taken, and above which may lead to enhancements in the returns payable to the Society's with-profits membership. The Board has ultimate responsibility for management actions and discretion applied in the management of the Society's business.

B.4 Internal control system

The three lines of defence control system is a key part of the Society's internal control system. This comprises:

- 1st line – Executive management & the Risk Management Database users;
- 2nd line – Risk Committee covering Risk and Actuarial; and
- 3rd line – Audit Committee covering Internal and External audit, and Compliance.

The three lines of defence approach is considered appropriate for the size and the complexity of its business. It allows flexibility in its approach and this allows management information to be produced quickly and accurately. Within the Finance team no individual is responsible in isolation for any information and there is a strict approach to checking and review. The information produced is reviewed internally by the Executive team and then subject to review at the Audit Committee.

An annual Assurance Plan is produced, which considers both risk and compliance requirements. A risk assessment is used to develop the annual Assurance Plan, which considers both internal and external factors, to allow a risk-based approach to assurance activities. This is reviewed and approved by the Audit Committee annually and throughout the year the plan is updated in line with the activity and business need.

External audit provides assurance on the annual financial statements entirely independently of the Society.

B.5 Internal audit function

The Society's Internal Audit activities are outsourced to an external provider and as such are completely independent. A three-year rolling Internal Audit plan is in place to provide continuous assurance to the Audit Committee on how well the risks facing Shepherds are being managed. The plan is reviewed annually and agreed with the Audit Committee.

The appointment of Internal Audit is on a three-year cycle. At the end of each cycle, their appointment is reviewed, and the Audit Committee considers annually the independence and objectivity of the firm.

The Board is satisfied that the Society has an effective internal audit function.

B.6 Actuarial function

The Actuarial Function is co-ordinated internally within the Society. The activities are co-ordinated by the Society's Chief Actuary, an internal appointment. They are supported by the Chief Finance Officer and the Head of Risk and Compliance as well a team of actuarial trainees and data analysts.

Further support is gained by using an external actuarial firm to review the actuarial function's output and methodologies. They are available for support should the need arise.

The Chief Actuary reports to the Chief Executive.

The Board is satisfied that the Society has an effective actuarial function.

B.7 Outsourcing

The Society assesses all outsourced activities in accordance with its Third Party Supplier and Outsourcing Risk Policy to decide if any are a critical function in respect of being able to operate the business and to fulfil policyholder expectations. For those identified, a materiality exercise is carried out and out-sourced service agreements are developed, and appropriate providers sourced in line with the Society's Third Party Management and Outsourcing framework. Sourcing requires a robust process of selection, ensuring due diligence is applied to all criteria. On selection, the provider is subject to on-going fit and proper assessments and follow up due diligence in line with the requirements of the aforementioned framework.

The Society considers that Investment Management with RLAM is a key outsourced service. During 2019 the Society switched investment management from LGT Vestra LLP to RLAM and oversaw the successful transfer of investment funds from Vestra to RLAM.

RLAM's services are all provided within the UK.

B.8 Any other information

There is no additional material information regarding system of governance in this section.

Risk profile

Risk management is a key part of the Society's activities to ensure that its strategic objectives are met. This helps to enhance the value of the Society's business and hence the potential returns to with-profits policyholders, whilst managing the level of risk taken.

The Society's risk management framework sets out defined risk appetite limits and risk tolerances. These are monitored on an ongoing basis and overseen by the Board Risk Committee.

Significant risks to achieving the Society's strategic objectives are monitored closely, with an assessment of the nature of the risks and the ways in which they might be further mitigated.

The Society undertakes a range of stress and scenario tests to help it understand its risk profile and to understand ways in which those risks can be assessed and managed. These tests include:

- Stress tests of individual factors.
- Broader based scenario tests.
- Sensitivity analysis.
- Reverse stress tests.

For financial risks the standard formula is used to work out an objective measure of the possible value of those risks. Non-financial risks are considered based on the probability of the risk materialising and impact of such an event within the Society's Risk Database.

The results of these analyses are detailed in the Society's ORSA.

Overall risk profile of the Society

The following table analyses the more significant risks (defined as those where the Solvency II SCR risk component before management actions is more than £1m) attaching to the Society's products.

Key risks for each of the Society's main lines of business						
Line of business	Market risk	Underwriting risk				
		Mortality	Longevity	Sickness	Expense	Lapse
With-profits – life	✓					
With-profits – health	✓					
Non-profit – life			✓			✓
Non-profit – health	✓			✓		✓
Unit-linked	✓					

The following tables sets out the Society's overall risk profile at the end of 2019 with the figures at the end of 2018 shown for comparison. The figures are based on the Society's undiversified Solvency Capital Requirement before management actions.

Risk profile of the business		
Risk category	31 December 2019 £'000s	31 December 2018 £'000s
Market risk	5,155	7,687
Counterparty default risk	461	430
Life risk	3,209	3,102
Health risk	26,936	25,221

The figures for market risk allow for changes made to the value of with-profits liabilities in the event of a market stress and exclude the effect of other agreed management actions.

Market risk has fallen reflecting the change in investment strategy to invest in funds with lower volatility, effected by the switch of the Society's investments into collective funds managed by RLAM. Assets are invested in funds that are less volatile than those held at the end of 2018.

Health risk has increased reflecting the increase in the IP business written by the Society. This represents the primary risk area for the business.

C.1 Underwriting risk

Underwriting risk relates to the risk that actual rates of mortality, sickness, lapses and expenses are different to those allowed for within the solvency valuation.

The following table illustrates the relative significance of these risks on the Society's Own Funds as at 31 December 2019. The figures are based on the Society's undiversified Solvency Capital Requirement before management actions for life and health business combined.

Impact of changes in mortality, sickness, lapses and expenses		
Risk	Sensitivity	Estimated impact on Own Funds £'000s
Mortality	+15% change in mortality rates	+1,453
	-20% change in mortality rates	-2,834
Sickness	+25% inceptions, -20% recoveries	-10,775
Lapses	50% increase in lapse rates	-23,665
Expenses	+10% increase in maintenance expenses	-3,042

Mortality risk

Mortality is not a financially significant risk driver.

The Society has a limited exposure to longevity risk i.e. the risk that policyholders live for longer than expected. This risk applies uniformly across the Society's product range with the exception of unit-linked business.

Sickness risk

The Society pays a benefit to policyholders who have income protection contracts. The benefit is payable in the event that they are unable to work due to accident or sickness. There is a risk that sickness claims are higher than expected.

Lapse risk

The value of the Society's protection business is treated as an asset in its financial statements. This is because future premiums are expected to more than enough to cover the cost of benefits and expenses associated with those contracts. This means that the Society is exposed to the risk of that business lapsing more quickly than expected

Expense risk

The Society is exposed to the risk that the costs of administering the business are higher than expected. This can arise as a one-off increase to certain expenses and through higher expense inflation.

Risk mitigation techniques

The Society has processes and procedures in place to monitor and manage each of these risks:

- The Risk Database includes each of these risks. Each risk has an owner who is responsible for managing and overseeing that risk.
- Reinsurance arrangement help to mitigate both mortality risks and lapse risks where e.g. financing terms are offered.
- Emerging experience is monitored on a continuous basis against a corridor of expected outcome. This is overseen by the Board Risk Committee at each meeting.
- Expenses are closely monitored and oversight is exercised by the Board to ensure budgets are set within what the Society can afford.

C.2 Market risk

This represents the risk that the Society's own funds are adversely affected by a change in the value of the investments the Society holds.

The following table illustrates the relative significance of market risks on the Society's Own Funds as at 31 December 2019. The effect is before any additional management action is applied. The analysis is broken down by the impact of changes in the following market movements: interest rates, equity values, property values, credit spreads and currency risk.

Impact on own funds arising from changes in the market movements, as at 31 December 2019		
Market movement	Sensitivity	Estimated impact on Own Funds £'000s
Interest rates	EIOPA interest rate up stress (more onerous test)	-1,881
Equities	Solvency II stress: 39% fall	-3,623
Property	Solvency II stress: 25% fall	-68
Credit spreads	Solvency II stress	-945
Currency risk	Solvency II stress	-832

The Society is exposed to the risk of interest rates increasing. This is because higher interest rates have the effect of reducing the value of fixed interest assets and reduce the value of future positive cash-flows on the protection business the Society has sold.

The Society is exposed to the risk of other market movements because the Society is exposed to the risk of:

- The value of the assets backing with-profits liabilities falling. In such an event the cost of guarantees of the with-profits business increases, as does the value of the expense reserve.
- The value of the assets backing unit-linked liabilities falling. This arises only on the equity risk because all the Society's unit-linked assets are invested in equities. There is a fall in own funds because the value of future management charges is lower.
- The value of the assets backing the Society's pension scheme falling. This is because the Society's obligations to the pension scheme increases by the amount of any pension scheme investment losses.

Market risk concentrations

The Society invests the assets backing with-profits liabilities primarily in two collective investment schemes: RLAM's Multi Asset Strategies Fund and their Short Duration Credit Fund. These funds are well-diversified and avoids any ongoing concentration of risk.

The Society's CTF liabilities are matched by investment in L&G's FTSE All-Share tracker fund. This fund is also well-diversified and avoids any ongoing concentration of risk.

The Society has other directly held assets none of which has a value in excess of £1m.

Risk mitigation techniques

The Society has processes and procedures in place to monitor each of these risks:

- The Risk Database includes each of these risks. Each risk has an owner who is responsible for managing and overseeing that risk.
- The Society's PPFM specifies the investment strategy for the fund. The Fair Members Benefit Committee advises the Board on this matter.
- Emerging experience is monitored on a continuous basis. This is overseen by the Board Risk Committee and the Fair Members Benefit Committee at each meeting.

- Oversight of RLAM as a key outsourced service.

Prudent person principle

The Society invests its assets in accordance with the Prudent Person Principle as defined in the Solvency II rules. This requires firms like the Society to invest only in assets and instruments whose risks the undertaking concerned can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs.

Investment risk is managed and overseen by the Board Risk Committee. The nature of the risks of the Society's investments is reviewed at each meeting to ensure that they align with the Society's risk appetite and that appropriate steps are being taken by the Society to manage risks with any specific asset or asset class.

The Fair Members Benefit Committee also monitors the nature of the investments backing with-profits business. This Committee exercises independent judgement in advising the Board on the fair treatment of policyholders including investment related matters.

The Society's overall approach to managing its investments is also disclosed in the Society's Principles and Practices of Financial Management ("PPFM").

C.3 Credit risk

Credit risk attaching to the Society's holding of corporate bonds is covered in section C.2 above. The Society is additionally exposed to the following types of credit risk:

- Risk of default by the reinsurer. The chosen reinsurer was selected based on an assessment of their financial strength and global reputation. The risk of this arising is considered low. Additionally, the effect will not be significant on the Society's balance sheet.
- Risk that advisers are not able to repay clawback on commissions. The Society's exposure to this risk is not currently significant, although increasing with increased business volumes. The risk is managed internally through weekly reviews.
- There is a risk of a bank counterparty failing. This risk is considered small because the Society invests only with reputable financial institutions and limits exposures to individual firms.
- The Society is exposed to the risk of loss from underlying credit positions, mitigated by diversity within the Society's investment portfolio and active credit assessments by the Society's investment managers.

C.4 Liquidity risk

Liquidity risk is the risk that that the Society, though solvent, is not able to meet its financial obligations as they fall due. Liquidity risk is not quantified as part of the Solvency Capital Requirements.

Short term liquidity or daily cash management covers the day to day cash requirements of the business under normal circumstances. Longer term liquidity is managed through matching liability outflows with expected cash inflows.

Sources of cash arise through premium receipts, investment gains, sale of investments, reinsurance payments and any underwriting profits we make on non-profit business.

Liquidity is managed by ensuring that the Society's assets are invested in a way that access can be secured within one to three working days. This ensures that the Society has ready access to cash should the need arise. Counterparties are chosen such that the risk of liquidity constraints in times of stress are minimised.

The Society does need to manage the expected profits on future premiums which are not liquid and appropriate ways to mitigate this risk have been developed by the Society. These were valued at £46.0m at the end of 2019 and compares with the value at the end of 2018 of £47.5m.

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk is managed through the Society's Risk Database which allocates the likely probability of an event occurring with its potential impact on the business. Each risk is articulated and appropriate mitigating actions are considered.

Operational risks are overseen by the Board Risk Committee and managed by the Executive Operational Risk Committee.

The main operational risks faced by the business are detailed in the following table.

Main operational risks of the Society	
Risk	Description
Conduct risk	This risk is managed and mitigated within the firm by the operation of a Conduct Risk Framework, overseen by the Board with its independent non-executive directors. SFS has no appetite for any unfair outcomes relating to conduct risk that could be mitigated. All functions within the business are encompassed within our Conduct Risk Framework which identifies all potential conduct risks to members and how these can be mitigated.
Legal and regulatory	This is the risk of a change in regulations and law that might affect the Society. Such changes in regulations could make significant changes to the way the Society works and the business it is able to transact, changes in cost-structure. The risk also covers the actions to ensure the Society complies with all its legal and regulatory duties.

	Adherence is managed through the operation of a stringent governance structure and practices that align with industry good practice to enable the Society's strategy to be achieved
Process	Process risk is defined as the risk of loss resulting from inadequate or failed internal processes. This risk is managed through adherence to the Society wide framework that consists of a comprehensive set of policies, processes and procedures
Operational resilience	A detailed gap analysis has been undertaken between the Society's current business continuity led approach and strengthened expectations on Operational Resilience. Work to progress the Society's approach to this risk is ongoing. The Board has a robust business continuity plan which has been successfully adopted during the current Covid-19 crisis.
Reputational	All risks whether strategic or operational can lead to reputational damage. The Society has no appetite for reputational risk of any type and therefore has significant operational controls in place to ensure the risk does not materialise.

C.6 Other material risks

The material risks in the business have been articulated within sections C.1 (underwriting risk), C.2 (market risk) and C.3 (credit risk) above. The Society monitors these risks carefully and appropriate controls are in place to take action should one or more of those risks crystallise.

There are clear emergent risks, both economic and pandemic related. The Society has put in place an action plan to deal with these emergent threats as follows:

- We have reviewed our sales and distribution of short-term income protection business and limiting volumes to those brokers with better quality business.
- Introduced more stringent underwriting standards on new sales of income protection contracts to mitigate anti-selection effects from coronavirus.
- Instituted working from home arrangements for staff considered critical to the effective delivery of the Society's activities.
- Reviewed pay-outs on the Society's with-profits to ensure that policyholders withdrawing their funds do not penalise the interests of remaining policyholders.

The Society is potentially exposed to risks not set out in the sections above. Some of these include risks that are known about e.g. the impact of leaving the EU but there are also the "known unknowns" and even the "unknown unknowns" . The Society's Board Risk Committee oversees the management of the known risks to ensure that appropriate action and resources can be deployed should the need arise and ensures that the number of unknown risks are kept to a minimum.

C.7 Any other information

Covid-19

The Covid-19 outbreak has now been labelled a global pandemic by the World Health Organisation. As its impact continues to deepen, it is likely to further intensify the disruptive impact on the global and UK economy. Government actions and measures to control the impact of the outbreak may prove to be slow to take effect and/or uncertain in their impact.

A spreading global pandemic could adversely impact the Society's solvency and liquidity position because of deteriorating investment market sentiments, worsening mortality and morbidity experience, lower persistency rates, decreasing consumer confidence and challenges to operational resilience.

The Society takes a considered approach to minimising and managing the impact of the pandemic on key areas that are most at risk. These areas include investments, insurance exposure, claims and operational resilience. Management actions for these key areas are set out below. The Board meets to monitor developments and to enable decisions to be taken quickly to manage the Society's solvency and liquidity.

The Society's investment strategy in managed funds that have a lower risk volatility will partly mitigate the impact of market fluctuations due to market sentiment. The Society monitors the fund performance closely to ensure it continues to meet its members' needs.

Management has reviewed its product offering to manage its financial exposure to insurance risks. This includes temporarily restricting underwriting for certain products during the period of uncertainty to mitigate anti-selection effects resulting from the pandemic.

To reduce the financial impact of claims, the Society has reinsurance arrangements in place. While government measures to fund personal hardship due to sickness may help reduce claims, the Society closely monitors its liquidity position to ensure it has sufficient cash to cover the cost of claims. The Society also has access to its managed funds should more cash is required.

During the government-imposed restriction periods, the Society has invoked its business continuity plans to enable the Society to operate remotely. This is in addition to its actions to mitigate operational risks and maintain operational resilience as set out above.

Other

There is no additional material information regarding risk profile in this section.

Valuation for solvency purposes

D.1 Assets

The following table provides a summary of the value of the assets used for solvency purposes.

Value of Assets at the end of 2019 and at the end of 2018		
Asset type	31 December 2019 £'000s	31 December 2018 £'000s
Property (other than for own use)	881	1,881
Holdings in related undertakings	500	500
Equities	0	16,689
Bonds	0	7,861
Collective Investment Undertakings	48,391	11,403
Deposits other than cash equivalents	0	705
Assets held for unit-linked contracts	38,220	32,364
Loans and mortgages	0	2,313
Reinsurance recoverables	-1,422	-723
Reinsurance receivables	20	828
Cash and cash equivalents	645	1,020
Other	774	0
Total	88,009	74,841

The property holding was fully revalued at the end of 2019. Full independent valuations are conducted once every three years with a desktop valuation in the intervening years.

Holdings in related undertakings comprise the value of the Society's subsidiary company. This was based on a realistic assessment of the value of the business based on third party quotations.

Listed equities and bonds were valued using quoted market prices provided by third party pricing sources. Unlisted equities are held at directors' valuation, which in 2018 was based on recent transaction activity and subsequently reviewed for indications of impairment.

Collective Investment Undertakings and Assets held for unit-linked contracts are valued based on the bid value of units. The change in the value of the Society's Collective Investment Undertakings increased over 2019 following the Society switching its investment management to RLAM. The investments with RLAM are in their collective investment schemes.

Loans and mortgages were valued at face value.

Reinsurance recoverables were valued using the same methods and assumptions that are used to value the technical provisions of the contracts to which the reinsurance relates, taking account of the specific nature of the reinsurance treaty.

Reinsurance receivables were valued at face value based on the amounts owed by the reinsurer.

Deposits other than cash and cash equivalents are valued at face value.

Other assets relate to debts payable to Shepherds Friendly from e.g. commission clawback. The Society values assets for solvency purposes in the same way as for used for the valuation in its Report and Accounts but with some adjustments:

- There are some assets which can be valued for the Report and Accounts but which are not permitted to be valued for solvency purposes. These are tangible assets (property used for the Society's own purposes), intangible assets and prepayments.
- The presentation in the Report and Accounts treats technical provisions in respect of protection benefits as an asset. These are treated as a negative liability for solvency purposes.

The following table reconciles the value of assets set out in the Report and Accounts with the value of assets used for solvency purposes.

Reconciliation of Assets in Report and Accounts to those used for solvency purposes		
	31 December 2019 £'000s	31 December 2018 £'000s
Assets in Report and Accounts	138,590	114,415
Intangible assets	-322	-295
Property, plant and equipment held for own use	-435	-481
Prepayments	-231	-335
Reinsurance recoverables	0	-723
Reinsurance receivables	0	828
Technical provisions for protection benefits	-42,392	-38,679
Renewal commission on protection policies	867	0
Reinsurers' share of technical provisions	-8,068	0
Other adjustments	0	111
Assets for solvency purposes	88,009	74,841

D.2 Technical provisions

The following tables provides a summary of the value of technical provisions used for solvency purposes at the end of 2019 and at the end of 2018.

Technical Provisions at the end of 2019			
Line of business	Best estimate £'000s	Risk margin £'000s	Total Technical Provisions £'000s
With-profits – life	44,540	0	44,540
With-profits – health	18,152	241	18,393
Non-profit – life	10,676	398	11,074
Non-profit – health	-46,960	4,568	-42,392
Unit-linked business	36,479	0	36,479
Total	62,887	5,207	68,094

Technical Provisions at the end of 2018			
Line of business	Best estimate £'000s	Risk margin £'000s	Total Technical Provisions £'000s
With-profits – life	37,556	1,418	38,975
With-profits – health	17,626	413	18,039
Non-profit – life	-984	583	-400
Non-profit – health	-46,478	7,850	-38,628
Unit-linked business	30,855	0	30,855
Total	38,576	10,265	48,840

The following detail the reasons for the change in technical provisions over 2019:

- With-profits – life increased in value following the growth in with-profits sales over 2019. This was more than enough to cover the value of maturing and surrendering business over the year.
- With-profits – health is broadly unchanged reflecting the stability of this business over 2019.
- Non-profit – life technical provisions have increased over 2019 primarily reflecting sales of the Society's fixed rate bonds.
- Non-profit – health technical provisions have remained broadly unchanged over 2019. The impact of model changes over 2019 was more than offset by the value of new business written over 2019.

General description of methodology used to calculate technical provisions

Technical provisions are calculated as the sum of the best estimate liability and the risk margin.

The best estimate liability is the probability-weighted value of future cashflows required to fulfil obligations to policyholders under existing contracts. A negative best estimate liability is allowed if the present value of future premiums exceed the present value of future outgoings.

Best estimate liabilities are calculated without any allowance for reinsurance cashflows.

The best estimate liability for all with-profits (life and health) business is set to be the asset share plus the cost of guarantees reserve plus the expense reserve.

The best estimate liability for all non-profit (life and health) is calculated on a gross premium basis with an explicit allowance for future expenses.

The best estimate liability for unit-linked business is taken to be the face value of unit funds less the present value of future management charges over future expenses for the unit-linked policies.

The risk margin is an addition to the best estimate liability to ensure that the technical provisions are equivalent to the amount that third party insurance undertakings would be expected to require in order to meet the insurance obligations.

The risk margin is calculated as the product of the cost of capital rate (6%) and the sum of current and each future Solvency Capital Requirements discounted to the valuation date using the EIOPA risk-free interest rates. Solvency Capital Requirements are projected in line with the underlying risk driver e.g. sickness risk is based on the projected run-off of the value of future sickness benefits.

Valuation of the Society's with-profits business

This covers the following types of business:

- With-profits – life: This covers the Society's conventional regular and single premium with-profits (endowments, whole life, with-profits bonds and ISAs) contracts. These are insurance with-profits participating contracts.

- With-profits – health: This covers the Society's Holloway with-profits contracts. These are health insurance contracts with a profit-participating element.

The technical provisions of with profits business at the valuation date is taken to be the retrospectively calculated asset share plus the present value of the cost of future guarantees plus a reserve (or credit) for maintenance expenses in excess of the charges made for expenses to the asset share.

Cost of guarantees

The cost of guarantees is assessed by projecting forward asset shares and guaranteed benefits and then comparing the two values at the expected benefit payment date. If the projected asset share is higher than the projected guaranteed value then there is no cost of guarantee. If, however, the asset share is lower than the projected guaranteed value then the difference represents a cost, which is then discounted back to the valuation date using the prescribed discount rates.

The levels of future bonus included in the projection of guaranteed benefits are realistic assessments of levels that would be supported on an ongoing basis based on the assumed economic conditions underpinning the valuation (risk free rates).

Future expenses charged to asset share are those set out in the premium basis. Mortality costs, sickness costs and lapse rates are based on a best estimate assessment of the expected future experience.

The cost of guarantees is estimated using a series of deterministic projections. A lognormal distribution is fitted to a range of investment scenarios to make allowance for the range of possible investment outcomes that may occur. The distribution is fitted over the weighted average outstanding duration of the best estimate liabilities in force and the volatility is adjusted accordingly.

Each investment scenario is modelled using the year end solvency methodology and assumptions. Bonus philosophy and management actions are adjusted according to the scenario being modelled.

The cost of guarantees is calculated for each scenario and the probability distribution is applied.

The annual mean return assumed is based on EIOPA's published risk free yield curves.

Expense reserve

Expenses charged to the asset shares are assumed to be those underlying the illustration basis set out in Key Features Documents or Key Information Documents. An additional expense reserve calculation is done to allow for the difference between the expenses needed to maintain the business and those charged to asset shares. Credit is taken for the excess of expenses charged to the asset share over the actual expenses. The shortfalls and excesses are discounted back to the valuation date using prescribed risk-free yield curves.

Treatment of Holloway

Holloway income protection business is treated in a similar way to the conventional with-profits business. The asset shares for these contracts are the members' deposits based on their value accrued in line with historic allocations and credited investment returns. No explicit reserve is held for sickness claims as it is assumed that all future premiums, after future expenses and sickness costs, are allocated to members' accounts as they are paid.

Valuation of the Society's non-profit business (conventional and income protection)

The following table sets out the products covered by this section and the type of business they are.

Classification of the Society's non-profit contracts		
Line of business	Products	Solvency classification
Non-profit – life	Conventional paid-up endowments	Other life insurance
	Conventional paid up whole life	
	Over 50s	
	Old whole life	
	Fixed rate bonds	
Non-profit – health	Pure income protection	Health (Similar Life Techniques)

A gross premium methodology is used in the valuation of each of these contracts of insurance. None of these policies have any options implicit within the contract terms (e.g. guaranteed surrender values).

Additional reserves are held to cover all income protection claims in payment based on the discounted value of all future sickness cashflows expected to arise from the current sickness.

Valuation of unit-linked liabilities

Unit-linked liabilities are taken to be the face value of unit linked funds less the present value of future profits on unit funds. This is the discounted value of future charges over future expenses.

Currency

All the Society's liabilities are all denominated in GBP.

Options and guarantees

None of the Society's non-profit or CTF contracts has any options or any material guaranteed surrender values in place at 31 December 2019 or 31 December 2018.

For the Society's with-profits business which have minimum guaranteed payments on death and maturity, the cost of guarantees is estimated using the methodology described above.

Guarantees are assumed to apply on death and maturity only. No guarantees are assumed to apply on contracts lapsing or surrendering.

Assumptions used

The key assumptions used in the valuation of the Society's business are sickness rates, mortality, lapse rates, expenses, inflation and discount rates. Each is discussed further below.

Sickness rates

The Society's sickness experience has been analysed by reference to 100% CMIR12 for the rate of inceptions and by rates of recovery combined. The assumptions are different for each material line of the Society's income protection business (including Holloway). The sickness tables used are based on the industry standard "CMIR12" tables.

Mortality

The rates of mortality assumed to apply to the Society's business are split between the Society's conventional business excluding Over50s, Over50s business, Holloway business and pure income protection business.

No mortality is allowed for in the valuation of the Society's unit-linked business.

Lapse and withdrawal rates

The rates of lapse and withdrawal assumed to apply to the Society's business are split between the Society's main product lines. Rates are set by reference to recent observed experience.

Allowance for expenses

Expenses are allowed for in the valuation of the Society's liabilities by a per policy charge. This is assumed to be payable annually and covers each policy's share of the maintenance and investment related expenses of the Society. The calculation of each policy's share of these costs allows for the expected volumes of new business the Society expects to write. Expected maintenance and investment related expenses and new business volumes are set by reference to the Society's budgets for the next calendar year following the valuation date.

Inflation

Future inflation is assumed to be in line with the difference in yield between nominal and real gilt yields, taken from the inflation spot curve published by the Bank of England, with an adjustment to allow for CPI and wage growth.

Rate used to discount future cashflows

The rates of interest used to discount future cashflows are specified by the European Insurance and Occupational Pensions Authority ("EIOPA").

Reinsurance

The Society reinsures its Over 50s book of business. The valuation of the Society's assets recognises the value of this arrangement. The same methods and assumptions are used to value the reinsurance arrangement as used to value the technical provisions of the contracts to which the reinsurance relates.

The Society also has an historic reinsurance arrangement in place to cover a de minimis number of term assurance contracts. This is a declining book of business and the cover is not considered material. No credit or allowance is made for this reinsurance in the valuation of the Society's assets and liabilities.

Material changes in the assumptions used

The Society reviews at least annually the emerging experience of the Society's business. The Society has updated the underlying assumptions of future sickness experience and lapse experience.

Level of uncertainty associated with the value of technical provisions

With any modelling exercise there will be an underlying level of uncertainty present. Uncertainty arises primarily from the data being used, the choice of assumptions, and from the choice of model.

The data used is checked rigorously to mitigate the risk that errors may materially affect the valuation result. Data is also reviewed over time to check for consistency between different time periods. A reconciliation is carried out between reporting periods to allow for actual movements in the data over the year.

Assumptions may be demographic or economic and are set using historical experience and the current market environment and expectations. Actual and emerging experience is reviewed against expectations at least annually and more frequently if necessary. The results of these analyses are fed into the assumption setting process for the valuation. Results are assessed for their sensitivity to key assumptions.

Over 2019, the Society undertook a significant exercise to strengthen the accuracy of the modelling used to estimate future cashflows on the Society's business. This was part of the Society's continued development of a robust infrastructure to help it achieve its business plans over the coming years.

There is additional uncertainty in the calculation of the risk margin. This is dependent on future interest rates and factors affecting the methodology assumed for the run-off of Solvency Capital Requirement components of the calculation.

Differences with the bases, methods and assumptions used with values shown in the Report and Accounts

The same bases, methods and assumptions are used in calculating the technical provisions for both Report and Accounts and solvency purposes, with one exception. The exception relates to the valuation of the fixed rate bond where for solvency purposes the value includes allowances for future interest awards; for Report and Account purposes only interest accrued to the valuation is allowed for consistent with investment contract accounting. The value of this difference at the end of 2019 is an increase under Solvency II of £0.95m to best estimate liabilities. This compares with a valuation difference of nil at the end of 2018.

Other required statements

No use has been made of a matching adjustment.

No use has been made of a volatility adjustment.

No use has been made of the transitional provisions for risk-free interest rates.

No use has been made of transitional deductions from technical provisions.

D.3 Other liabilities

The following table sets out a summary of the Society's other liabilities.

Other Liabilities at the end of 2019 and at the end of 2018		
Liability type	31 December 2019 £'000s	31 December 2018 £'000s
Pension scheme	577	535
Claims outstanding	1,336	1,012
Claims outstanding – reinsurance	-170	0
Creditors arising out of direct insurance operations	46	49
Trade creditors	1,052	199
Accruals and deferred income	1,120	859
Other creditors	702	710
Total	4,663	3,364

The pension scheme liability is that in respect of the Society's DB pension scheme and has been based on a FRS102 valuation conducted by the Society's pension advisers.

There is no observable market for the remaining liabilities. Their value is based on an estimate of the expected financial cost to the Society. No account has been taken of discounting these cashflows. Obligations due within the next twelve months have been valued in accordance with the principles used in the Report and Accounts.

D.4 Alternative methods for valuation

The Society prepares its Report and Accounts using UK generally accepted accounting principles (UK GAAP). The derogation contained in Article 9 of the Solvency II Directive which allows firms the option of recognising and valuing assets and liabilities under UK GAAP for solvency purposes as long as certain conditions are fulfilled.

In accordance with supervisory statement SS 38/15 issued by the UK regulator "Solvency II: consistency of UK generally accepted accounting principles with the Solvency II Directive", the Society considers that these conditions have been fulfilled for the purposes of recognising and valuing assets and liabilities under UK GAAP for solvency purposes.

D.5 Any other information

There is no additional material information regarding the valuation of assets and liabilities for solvency purposes to report in this section.

Capital Management

E.1 Own funds

The Society is an incorporated society within the meaning of the Friendly Societies Act 1992. As such it has no shareholders and its members are the ultimate owners of the business. All its capital is classified as tier 1 and is available to cover its Solvency Capital Requirement and Minimum Capital Requirement.

The following table summarises the Society's capital position, defined as its Own Funds at the end of 2019 and at the end of 2018.

Own Funds at the end of 2019 and at the end of 2018		
	31 December 2019 £'000s	31 December 2018 £'000s
Own funds	15,251	22,636

Own Funds equal the Fund for Future Appropriations as set out in the Society's Report and Accounts, adjusted for certain valuation differences (as described in section D.1). The following table reconciles the two values.

Reconciliation of Fund for Future Appropriations to Own Funds		
	31 December 2019 £'000s	31 December 2018 £'000s
Fund for Future Appropriations	17,190	23,666
Intangible assets	-322	-295
Property, plant and equipment held for own use	-435	-481
Prepayments	-231	-335
Reinsurance asset	0	81
Valuation difference on fixed rate bonds	-952	0
Own Funds	15,251	22,636

Own Funds includes an amount of £46.0m in respect of expected profits in future premiums.

There are no items of ancillary own funds.

The Society's Solvency Ratio, defined as the ratio of Own Funds to the Solvency Capital Requirement, increased from 153% at the end of 2018 to 167% at the end of 2019.

Over 2019, the Society undertook an exercise to strengthen the accuracy of the modelling used to estimate future cashflows on the Society's business. This was part of the Society's continued development of a robust infrastructure to help it achieve its business plans over the coming years. The effect of that resulted in a downward adjustment to the value of the Society's income protection business and is the main reason for the fall in the Society's own funds over the year to £15.3m. The Society engaged with the its external actuaries, OAC plc, to review these changes to ensure they were appropriate.

The Society manages its capital by reference to a comprehensive capital management plan. This plan is prepared by the Society's actuarial function and reviewed and approved by the Society's Board. The plan sets out a target range for own funds and details the steps the Society would take in the event that capital were to breach stated tolerances.

The Society's capital position relative to any targets acts as a guideline for enhancements that can be paid to with-profits policyholders or if alternative management actions need to be applied. These are all subject to Board discretion to allow wider business factors to be considered.

The Society's Own Risk and Solvency Assessment details the expected progression of capital over the next five years. Monitoring performance against that expected is a key strategic focus for the Society.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The following table provides a summary of the Solvency Capital Requirement and Minimum Capital Requirement at the end of 2019 and at the end of 2018.

Solvency Capital Requirement and Minimum Capital Requirement		
	31 December 2019 £'000s	31 December 2018 £'000s
Solvency Capital Requirement	9,126	14,807
Minimum Capital Requirement	3,187	3,702

The Solvency Capital Requirement has reduced over 2019 reflecting:

- a reduction in the volatility of the assets backing with-profits business; and
- a reduction in the expected value of future profits on the Society's non-profit – health business arising from the update to the modelling of that type of business.

The Minimum Capital Requirement has remained broadly unchanged over 2019.

The following table provides a breakdown of the Solvency Capital Requirement by risk module at the end of 2019 and at the end of 2018. Figures allow for management actions and allowances against future discretionary benefits.

Solvency Capital Requirement by Risk Module		
Risk Module	31 December 2019 £'000s	31 December 2018 £'000s
Market risk	11,122	14,051
Counterparty default risk	461	430
Life underwriting risk	2,952	3,102
Health underwriting risk	17,052	19,297
Diversification	-7,776	-9,046
Basic Solvency Capital Requirement	23,811	27,834
Operational risk	1,788	809
Loss absorbing capacity of technical provisions	-16,473	-13,837
Solvency Capital Requirement	9,126	14,807

The Solvency Capital Requirement has been calculated using the standard formula prescribed by the regulations.

The capital requirements have reduced over the year reflecting:

- Lower risk profile of the Society's assets now the majority of the assets back with-profits liabilities are being managed by RLAM.
- Lower health underwriting risk component reflecting the reduced exposure of the Society's IP business to lapse risk.
- Increased allowance for the loss absorbing capacity of technical provisions reflecting the growth in the value of the Society's with-profits business over 2019.

No simplifications have been used to calculate any of the Solvency Capital Requirement risk modules.

No undertaking-specific parameters have been used to calculate the Solvency Capital Requirement.

The final amount of the Solvency Capital Requirement is subject to supervisory assessment.

QRT S.28.01.01 in the Appendix sets out the information on the inputs used to calculate the Society's Minimum Capital Requirement. The following table details the overall calculation of the Minimum Capital Requirement.

Inputs used to calculate the Minimum Capital Requirement ("MCR")		
	31 December 2019 £'000s	31 December 2018 £'000s
MCR before the application of any floor or cap	-826	716
MCR cap (45% of the SCR)	4,107	6,676
MCR floor (higher of 25% of the SCR and €3.7m)	3,187	3,702
Minimum Capital Requirement	3,187	3,702

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The regulations allow insurers writing certain types of business to calculate the capital requirement of their equity investments using what is called a duration-based equity sub-module. Its use depends on the regulator having previously approved its use.

The Society does not write any business that can use the duration-based equity risk sub-module.

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

The regulations allow insurers to calculate their Solvency Capital Requirement using a prescribed standard formula. Where the formula is not considered to be appropriate, an internal model may be used instead. The Society considers that the standard formula is appropriate and so has not used an internal model.

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

The Society has maintained sufficient own funds throughout 2019 to cover its Solvency Capital Requirement and its Minimum Capital Requirement.

E.6 Any other information

Covid-19

At the time of preparing this report and throughout the period since 31 December 2019, the Society's estimated solvency ratio was above the required solvency levels set by its regulators. These estimated ratios have been calculated before the effect of any additional management actions the Society has at its disposal to further improve solvency.

Other

There is no additional material information regarding the capital management of the Society to report in this section.

The Shepherds Friendly Society

Solvency and Financial Condition Report

Disclosures

31 December

2019

(Monetary amounts in GBP thousands)

General information

Undertaking name	The Shepherds Friendly Society
Undertaking identification code	2138008DYCUY8QSADI25
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2019
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.12.01.02 - Life and Health SLT Technical Provisions
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	50,566
R0080	*Property (other than for own use)*	881
R0090	*Holdings in related undertakings, including participations*	500
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	48,391
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	794
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	38,220
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	-1,422
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-1,422
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	-1,422
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
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	0
R0410	Cash and cash equivalents	645
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	88,008

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	31,615
R0610	*Technical provisions - health (similar to life)*	-23,999
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	-28,808
R0640	*Risk margin*	4,809
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	55,615
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	55,217
R0680	*Risk margin*	398
R0690	Technical provisions - index-linked and unit-linked	36,479
R0700	*TP calculated as a whole*	38,220
R0710	*Best Estimate*	-1,741
R0720	*Risk margin*	0
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	577
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	46
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	186
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	3,855
R0900	**Total liabilities**	72,757
R1000	**Excess of assets over liabilities**	15,251

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	6,262	15,238	377	12,974					34,851
R1420	Reinsurers' share				857					857
R1500	Net	6,262	15,238	377	12,117					33,994
	Premiums earned									
R1510	Gross	6,262	15,238	377	12,974					34,851
R1520	Reinsurers' share				857					857
R1600	Net	6,262	15,238	377	12,117					33,994
	Claims incurred									
R1610	Gross	6,692	7,299	184	544					14,718
R1620	Reinsurers' share				510					510
R1700	Net	6,692	7,299	184	34					14,208
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0	0	0	0					0
R1900	**Expenses incurred**	5,791	4,101	285	1,356					11,533
R2500	**Other expenses**									
R2600	**Total expenses**									11,533

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**		38,220								38,220						0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole										0						0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	44,540		-1,741			-2,835	13,512			53,476		-46,961	18,152			-28,808
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-1,422				-1,422						0
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	44,540		-1,741	0		-1,413	13,512			54,898		-46,961	18,152			-28,808
R0100	**Risk margin**					398					398	4,809					4,809
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						0
R0120	Best estimate										0						0
R0130	Risk margin										0						0
R0200	**Technical provisions - total**	44,540	36,479			11,074					92,093	-23,999					-23,999

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	15,251	15,251			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	15,251	15,251	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	15,251	15,251	0	0	0
R0510	Total available own funds to meet the MCR	15,251	15,251	0	0	
R0540	Total eligible own funds to meet the SCR	15,251	15,251	0	0	0
R0550	Total eligible own funds to meet the MCR	15,251	15,251	0	0	
R0580	**SCR**	9,126				
R0600	**MCR**	3,187				
R0620	**Ratio of Eligible own funds to SCR**	167.12%				
R0640	**Ratio of Eligible own funds to MCR**	478.56%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	15,251				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	0				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	**Reconciliation reserve**	15,251				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	45,961				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	45,961				

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	11,122		
R0020	Counterparty default risk	461		
R0030	Life underwriting risk	2,952	9	
R0040	Health underwriting risk	17,052	9	
R0050	Non-life underwriting risk	0	9	
R0060	Diversification	-7,776		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	23,811		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,788
R0140	Loss-absorbing capacity of technical provisions	-16,473
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	9,126
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	9,126
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	0
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

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

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	-826

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	22,778	
R0220	Obligations with profit participation - future discretionary benefits	39,915	
R0230	Index-linked and unit-linked insurance obligations	36,479	
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		215,728

	Overall MCR calculation	C0070
R0300	Linear MCR	-826
R0310	SCR	9,126
R0320	MCR cap	4,107
R0330	MCR floor	2,281
R0340	Combined MCR	2,281
R0350	Absolute floor of the MCR	3,187
R0400	**Minimum Capital Requirement**	3,187