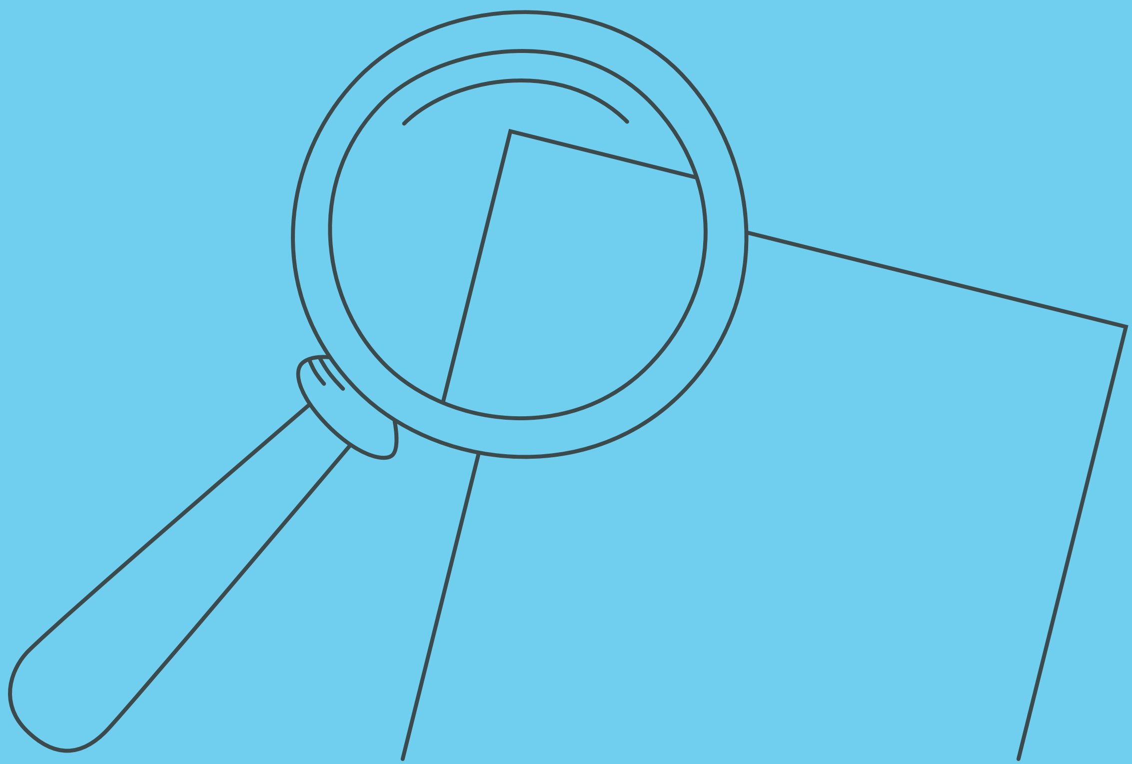
# Solvency and Financial Condition Report

Financial year ending
31 December 2020



# Contents

# A Message from Our Chief Executive

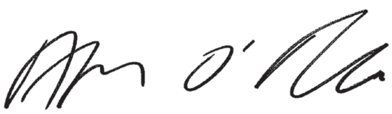
No description of 2020 can go by without noting the very real and significant impact that Covid-19 has had on all our lives. The Society has not been immune and we, like the financial services industry generally, have had to adapt and to make a number of changes to the way we manage the business. These changes have included:

- A transition of the Society's operations and infrastructure to enable our staff to work effectively from home, ensuring that members could continue to be serviced properly;
- Reviewing how we treat our members given the inevitable hardships that Covid-19 created. For example, we looked at how we applied payment or career breaks on protection-based plans so that our members could maintain their policies in times of uncertainty;
- Reviewing the Society's product range and the terms attaching to those products to ensure that they continued to give our members value for money; and
- Reviewing pay-outs to with-profits policyholders in the light of market conditions to ensure the longer-term membership interests of the Society were preserved.

I have been hugely impressed with the way that the business has navigated these challenging times. This is in no small part a reflection of the dedication of all our staff who have gone above and beyond in ensuring that our members' needs continue to be met. We are mindful that there remain significant uncertainties about how the effects of Covid-19 will play out but we believe that we have taken all the steps needed to ensure that we will continue to be resilient to any risks which have still to emerge.

We are also mindful of the need to ensure that our products remain current and reflect the very real needs and wants of our members both current and future. Our ability to innovate and adapt is key to ensuring we have a solid business as is the continuous enhancements of the services we provide our members.

I 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.



**Ann-Marie O'Dea**
Chief Executive

# Summary

## About this report

The Prudential Regulation Authority (“PRA”), requires insurers such as The Shepherds Friendly Society Limited (the “Society”) to publish a Solvency and Financial Condition Report (“SFCR”). The SFCR must be provided each year and should:

- Provide information on how the business has performed over the past twelve months.
- Provide information on its system of governance.
- Highlight the main risks to the business.
- Detail its financial strength.
- Set out how its capital is managed.

Information for each of these headings is detailed in this report and a summary is given below.

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

## About the Society

The Society is an insurance company writing a mixture of savings and protection contracts. The savings contracts consist of with-profits saving plans, fixed rate bonds and unit-linked investment Child Trust Fund accounts. The protection contracts are either guaranteed acceptance whole life assurances (Over 50s business) or contracts that provide income replacement protection (“IP”) in the event the policyholder falls ill or has an accident so they cannot work.

## Business performance

This section details the Society’s business performance and significant events during the year, as well as noting who regulates the Society and who its auditors are.

Despite the challenges of Covid-19, the Society has been pleased to see membership levels increase by over 6% and an increase in funds under management to £107.5m at the end of 2020 (on a Solvency II basis), helped by strong sales of new with-profits savings business. This is despite investment returns over 2020 falling by 4.9% over the year, having partly recovered from the sudden fall when the effects of Covid-19 first struck.

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 impact of Covid-19 over 2020 and into 2021. The Society has enacted a robust plan for managing the risks created by this environment and to strengthen financial resilience. The Society will continue to monitor as events unfold and take positive steps to protect members' interests.

## System of governance

This section outlines the Society's system of governance and how it is directed and controlled. The Society reviews its governance arrangements formally once a year.

Over 2020, the Society embraced a more flexible and dynamic approach to oversee the business. Board meetings were held remotely and more frequently to ensure the business could respond quickly in the light of rapidly-evolving developments.

This was also the first time in the Society's history that we had a virtual AGM. This worked well and the Society is exploring ways that technology can be used to encourage more members to participate.

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. This was an especially important tool over 2020 to help strengthen the Society's approach to business planning and risk mitigation.

The Society's Board is satisfied that it has the right level of oversight given the nature, scale and complexity of the business.

## Risk profile

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

The Society uses the standard formula as referred to in Solvency II Regulations to calculate its Solvency Capital Requirement. The Board considers that this approach 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's risk management processes have been highly effective for dealing with the impact of Covid-19 and ensured it was able to take strong and effective mitigating actions to ensure the Society's continued resilience.

## 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 broadly unchanged from those used at the end of the previous year.
The assumptions were updated at 31 December 2020 to reflect the then current economic conditions and our estimate of future demographic experience at that time. Account has also been taken for the uncertainties created by Covid-19.

## 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 to 176% (2019: 167%).

The Society has maintained sufficient own funds throughout 2020 to cover its Solvency Capital Requirement and its Minimum Capital Requirement.

The Society is not immune from the global risks associated with Covid-19. However, the Society is well capitalised and, should the need arise, is able to take appropriate risk mitigating actions to be sure that it can meet policyholder obligations as they fall due.

# 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: 7 April 2021

# A 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 or value 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"). The Network consisted of Appointed Representatives who in turn were a combination of IFAs and Protection Advisers. Following a review of the Society's operations in 2019 it was decided that the Network was not a strategic part of the Society's future and is now in the process of being wound down.

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

- Insurance with-profits participation. This covers the Society's with-profits regular and single premium life business (with-profits – life).
- Health Insurance with-profits participation. This covers the Society's Holloway-type 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.

The Society has in place various reinsurance arrangements on some of its non-profit business.

As at 31 December 2020 the Society had assets, as reported for Solvency II purposes, of £107.5m and membership of 119,061.

## A.2 Underwriting Performance

Table 1 sets out a summary of the Society's underwriting performance over 2020 and over 2019. All the business is written 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. Figures are net of reinsurance. No allowance is made for the change in liabilities associated with these cashflows.

| Table 1: Underwriting Performance over 2020 and 2019 | | | | |
|---|---|---|---|---|
| Underwriting Performance over 2020 – net of reinsurance | | | | |
| **Line of business** | **Premiums** £'000s | **Claims** £'000s | **Maintenance expenses** £'000s | **Underwriting profit** £'000s |
| With-profits – life | 17,170 | 5,443 | 730 | 10,997 |
| With-profits – health | 1,750 | 2,735 | 313 | (1,298) |
| Non-profit – life | 7,633 | (56) | 480 | 7,209 |
| Non-profit – health | 5,491 | 3,376 | 563 | 1,552 |
| Unit-linked business | 394 | 143 | 92 | 159 |
| **Total** | **32,438** | **11,641** | **2,178** | **18,619** |
| Underwriting Performance over 2019 – net of reinsurance | | | | |
| **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** |

Maintenance expenses above exclude investment expenses.

## A.3 Investment Performance

Table 2 sets out a summary of the Society's annualised investment return over 2020 and over 2019. The returns are shown for the two pools of the Society's assets: the assets backing with-profits policies and the assets backing unit-linked liabilities.

| Table 2: Annualised Investment Return over 2020 and 2019 | | |
|---|---|---|
| **Fund** | **2020** | **2019** |
| With-profits | -1.7% | +0.5% |
| Unit-linked | -9.7% | +19.2% |
| Combined | -4.9% | +8.0% |

Table 3 summarises the investment returns by income, realised and unrealised gains over 2020 and 2019 split across the Society's different asset types.

**Table 3: Annualised Investment Return over 2020 and 2019**

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| **Asset type** | **Income** £'000s | **Realised gains/ (losses)** £'000s | **Unrealised gains/ (losses)** £'000s | **Income** £'000s | **Realised gains/ (losses)** £'000s | **Unrealised gains/ (losses)** £'000s |
| **Fixed interest** | 0 | 0 | 0 | 178 | 217 | 0 |
| **Equity** | 0 | 0 | 0 | 254 | 2,934 | (3,512) |
| **Property** | 84 | 0 | 231 | 157 | 194 | (1,000) |
| **Cash** | 0 | 0 | 0 | 36 | 0 | 0 |
| **Subsidiaries** | 39 | 0 | 0 | 24 | 0 | 0 |
| **Collectives** | 0 | (83) | (4,898) | 0 | 57 | 6,695 |
| **Total** | **123** | **(83)** | **(4,667)** | **649** | **3,402** | **2,182** |

The Society's investment expenses for 2020 were £0.1m (2019: £0.1m).

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 (and investment expenses) is detailed in section A.3.

Table 4 summarises the other main item of expenditure. These relate to the costs incurred by the Society in acquiring new business.

**Table 4: Acquisition expenses incurred over 2020 and 2019**

| **Expense type** | **2020** £'000s | **2019** £'000s |
|---|---|---|
| **Acquisition costs** | 9,200 | 10,847 |

## A.5 Any other information

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

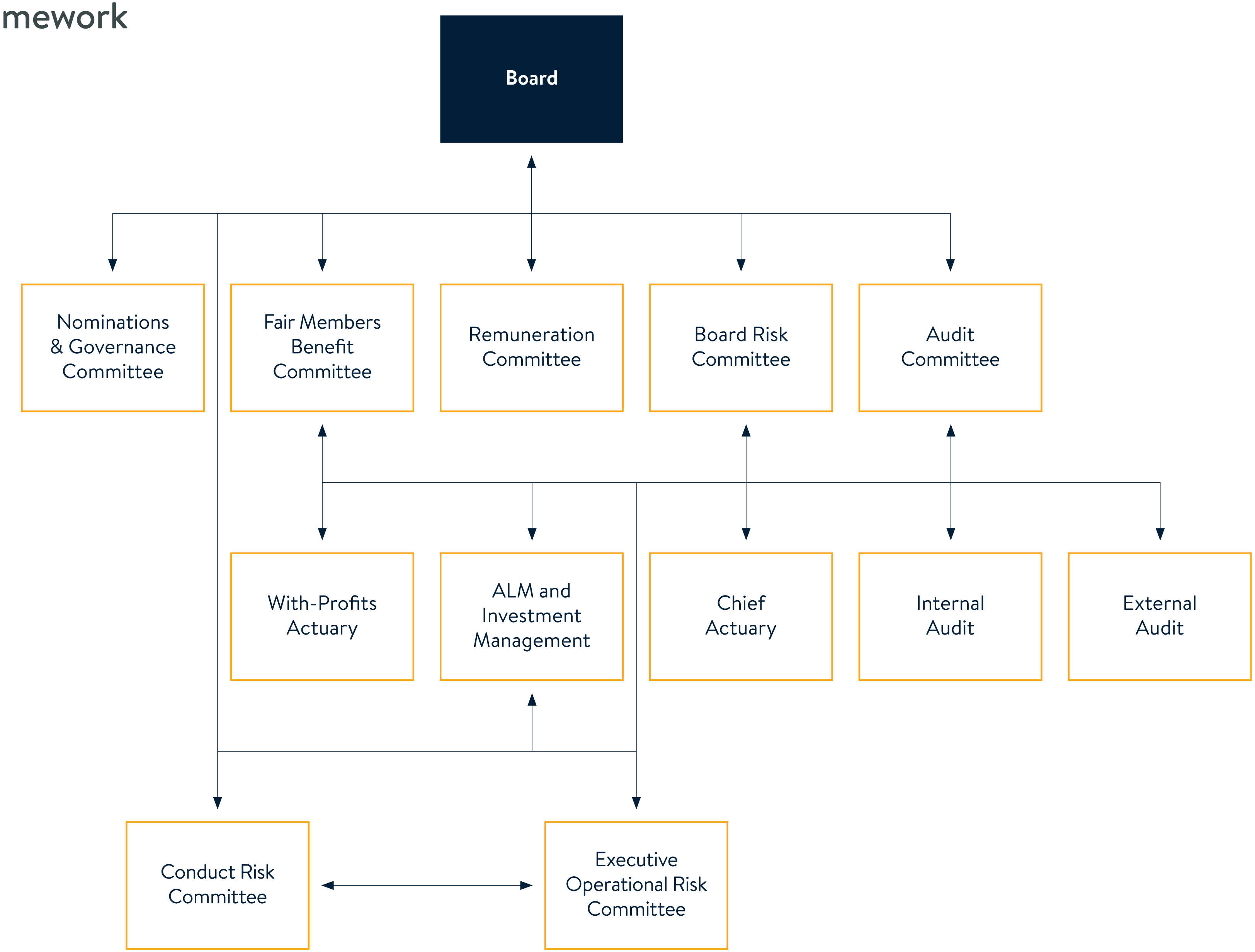
# B System of Governance

## B.1 General information on the system of governance

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

The Board is supported in its activities by five Committees and these committees may, in turn, also be supported by other parties. The following chart illustrates the broad framework of the Society's system of governance.

## Chart 1:
## Governance Framework



The Society reviews its governance framework 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. No changes were made to the governance framework over 2020.

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.

The Non-Executive Directors ("NEDs") 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.

## Key roles of Board and Committees

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

### 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.

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.

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.

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 set out the Society's approach to capital and liquidity management.
- to consider the interests of other relevant stakeholders.

## Nominations and Governance Committee

The Chairman of the Nomination & Governance Committee is responsible for chairing and overseeing the performance of the Committee, which is responsible for all nominations and governance matters. They have oversight responsibility for ensuring that all key function holders are fit, proper and competent on a continuous basis and that the Society has an effective succession planning process in place.

## Fair Members Benefit Committee (incorporating the With-Profits 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 those of a With-Profits Committee to protect the interests of with-profits policyholders. 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.

The FMBC also has responsibility for monitoring and reviewing the nature of complaints.

The With-Profits Actuary ("WPA") attends the FMBC. The WPA advises the Society on key aspects of the discretion to be exercised affecting with-profits policyholders.

## 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 & objectives, its risk appetite, values and culture.

## Board Risk Committee

The Chairman of the Board Risk Committee has the responsibility for the performance of the ORSA process, to ensure the ORSA is reviewed and developed as appropriate (at least annually) and is embedded within the Society as well as to oversee the Society's capital management strategy. They have oversight responsibility for ensuring that the Society has an appropriate ORSA Policy, that the requirements of the Policy are implemented by the Board, and 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, climate change, 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 collective investments which are currently managed by Royal London Asset Management and Legal and General Investment Managers.

## Audit and Compliance Committee

The Chairman of the Audit and Compliance 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 independence, autonomy and effectiveness of the whistleblowing policies and procedures, including those for the protection of staff raising concerns.

The Society's Chief Actuary attends the Audit and Compliance 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.

The Head of Risk and Compliance presents an annual compliance and monitoring plan and the Committee monitors progress and findings against this plan.

## Executive Directors

The following section 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 focused 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 the Chief Finance Officer and Head of Risk and Compliance. The Chief Actuary manages 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.

## Key second line defence functions

The following section 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.

## Third line defence support

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 with additional support overseeing the actuarial functions of the business.
- External audit. BDO LLP are the Society's current auditors.

## Remuneration

The Society bases its remuneration policy on both corporate and individual performance and provides 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 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 and 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 as well as written records of individual interviews to evidence each key function holder's suitability to fulfil the essential requirements for the relevant key function or functions (including their prescribed responsibilities).

All key function holders and Non-Executive Directors are required to undertake and maintain appropriate continuing professional development.

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 their 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 three lines of defence approach to monitoring the efficacy of all the above.
- A Board with a majority of independent Non-Executive Directors.

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. hese controls are also supported by:

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

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. An example of this over 2020 was the establishment of a dedicated Member Retention team to help customers navigate their options when they are looking to make changes to their policy.

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. An ad-hoc ORSA was not necessary for 2020 but the Society did accelerate the process over the year reflecting the changes created by Covid-19.

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.

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 and the Risk Management Database users;
- 2nd line – Board Risk Committee covering Risk and Actuarial matters, supported by an internal Compliance and Risk function; and
- 3rd line – Audit and Compliance Committee covering Internal and External audit.

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 and Compliance 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 and Compliance 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 independently of the Society.

## B.5 Internal audit function

The Society's Internal Audit activities are outsourced to an external provider, Mazars LLP, and as such are independent of the Society's management team. 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 Friendly 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 and Compliance 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 by its Chief Actuary. 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 outsourced 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 ongoing fit and proper assessments and follow up due diligence in line with the requirements of the aforementioned framework.

The Society considers that it has two key outsourced services: investment management with RLAM, and the provision of cloud-based infrastructure services by Microsoft. RLAM's services are all provided within the UK, and the Society utilises Microsoft's UK South and UK West data centres.

## B.8 Any other information

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

# C 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.

| Table 5: Key risks for each of the Society's main lines of business | | | | | | |
|---|---|---|---|---|---|---|
| | | Underwriting risk | | | | |
| Line of Business | Market risk | Mortality | Longevity | Sickness | Expense | Lapse |
| With-profits – life | ✓ | | | | | |
| With-profits – health | ✓ | | | | | |
| Non-profit – life | | | ✓ | | | ✓ |
| Non-profit – health | ✓ | | | ✓ | | ✓ |
| Unit-linked | ✓ | | | | | |

The assessment of risk in the table above takes into account the Society's reinsurance arrangements.

Table 6 sets out the Society's overall risk profile at the end of 2020 with the figures at the end of 2019 shown for comparison. The figures are based on the Society's Solvency Capital Requirement calculations.

| Table 6: Solvency Capital Requirement by Risk Module | | |
|---|---|---|
| Risk Module | 31 December 2020 £'000s | 31 December 2019 £'000s |
| Market risk | 11,320 | 11,122 |
| Counterparty default risk | 659 | 461 |
| Life underwriting risk | 3,417 | 2,952 |
| Health underwriting risk | 15,066 | 17,052 |
| Diversification | (7,936) | (7,776) |
| Basic Solvency Capital Requirement | 22,526 | 23,811 |
| Operational risk | 1,324 | 1,788 |
| Loss absorbing capacity of technical provisions | (13,547) | (16,473) |
| Solvency Capital Requirement | 10,303 | 9,126 |

Life risks have increased reflecting the increase in the business written by the Society over the year. Health risk has reduced over 2020 reflecting changes to the valuation assumptions. This risk continues to represent the primary risk driver of 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.

Table 7 illustrates the relative significance of these risks on the Society's Own Funds as at 31 December 2020. The figures are based on the Society's undiversified Solvency Capital Requirement before management actions for life and health business combined.

**Table 7: Impact of changes in mortality, sickness, lapses and expenses**

| Risk | Sensitivity | Estimated impact on Own Funds £'000s |
|---|---|---|
| **Mortality** | +15% change in mortality rates | +1,290 |
| | -20% change in mortality rates | (2,812) |
| **Sickness** | +25% inceptions, -20% recoveries | (13,241) |
| **Lapses** | +50% increase in lapse rates | (26,850) |
| **Expenses** | +10% increase in maintenance expenses | (3,414) |

## Mortality risk

Mortality is not a financially significant risk driver.

The Society has an 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

This risk applies to all the Society's Holloway and pure income protection contracts of insurance. If inception rates increase or if recovery rates fall (so that claims last for longer), or some combination of the two, then the Society's own funds will reduce.

## Lapse risk

This is the risk that a policyholder lapses or surrenders their policy before the planned maturity date. This is a material risk facing the Society because its protection contracts are expected to be profitable assuming a best estimate of future lapse rates. This means that if actual lapses are different to that expected then the value of the Society's existing business will increase or decrease accordingly.

## 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 arrangements 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.

Table 8 illustrates the relative significance of market risks on the Society's Own Funds as at 31 December 2020. 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.

| Table 8: Impact on own funds arising from changes in the market movements, as at 31 December 2020 | | |
|---|---|---|
| **Market movement** | **Sensitivity** | **Estimated impact on Own Funds £'000s** |
| **Interest rates** | Solvency II interest rate up stress | (2,399) |
| | Solvency II interest rate down stress | +726 |
| **Equities** | Solvency II stress: 39% fall | (3,565) |
| **Property** | Solvency II stress: 25% fall | (131) |
| **Credit spreads** | Solvency II stress | (1,957) |
| **Currency risk** | Solvency II stress | (987) |

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 collective investment schemes. These funds are well-diversified and avoid 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 well-diversified and avoids any ongoing concentration of risk.

The Society has three other directly held assets. Two of these are strategic in nature (Financial Advice Network Ltd and MOJO). The Society is in the process of winding down Financial Advice Network and no value is attached to MOJO. The remaining investment is a directly held property which provides further diversification to the Society's overall asset portfolio.

## 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 owned by the Board and overseen by the Board Risk Committee.
- Oversight of RLAM and Microsoft as key outsourced services.

## 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 firm can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs.

The core portfolio of the funds held with RLAM and L&GIM are invested primarily in physical assets but the funds may also invest in derivatives for three reasons:

- To implement tactical asset allocation positions.
- To limit volatility by reducing equity exposure.
- To manage liquidity.

The funds operate a conservative derivatives policy which does not allow investment in options. RLAM provide the Society with regular reports on the asset allocation of the MAST and SDCF as well as ad-hoc reports on demand.

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.
- Risk that intermediaries that sell the Society's products are not able to repay clawback on commissions. The Society's exposure to this risk is not currently significant and varies in line with recently written 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 receipts 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 to the vast majority of the Society's assets 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 £57.2m at the end of 2020 (2019: £46.0m).

## 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 Table 9.

| Table 9: 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.<br>The Society 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.<br>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** | The Society demonstrated resilience over 2020 in the light of Covid-19. The Society was able to ensure customer support was maintained even with a remote operation. The Society is continuing with its wider plans for operational resilience in the light of recent regulatory guidance and this will be developed further over the year. |
| **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 Covid-19 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 focused our attention to work with like-minded intermediaries.

- 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 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

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

# D Valuation for Solvency Purposes

## D.1 Assets

Table 10 provides a summary of the value of the assets used for solvency purposes.

| Table 10: Value of Assets at the end of 2020 and at the end of 2019 | | |
|---|---|---|
| **Asset type** | **31 December 2020** £'000s | **31 December 2019** £'000s |
| **Property (other than for own use)** | 1,112 | 881 |
| **Holdings in related undertakings** | 500 | 500 |
| **Collective Investment Undertakings** | 55,994 | 48,391 |
| **Assets held for unit-linked contracts** | 34,222 | 38,220 |
| **Reinsurance recoverables** | 12,467 | (1,422) |
| **Reinsurance receivables** | 27 | 20 |
| **Cash and cash equivalents** | 2,457 | 645 |
| **Other** | 747 | 774 |
| **Total** | **107,526** | **88,009** |

The value of the Society's property investment at the end of 2019 and 2020 was based on that made by an external independent party.

Holdings in related undertakings comprise the value of the Society's subsidiary company. This was based on the value of the assets held by the subsidiary.

Unlisted equities are held at the directors' valuation.

Collective Investment Undertakings and Assets held for unit-linked contracts are valued based on the bid value of units.

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. The risk transfer element of these benefits were, for YE19, previously reported as a reduction to technical provisions.

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 used for the 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 reinsurance as an adjustment to the technical provisions. For solvency purposes, reinsurance is shown explicitly as an asset.
- Finally, 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.

Table 11 reconciles the value of assets set out in the Report and Accounts with the value of assets used for solvency purposes.

**Table 11: Reconciliation of Assets in Report and Accounts to those used for solvency purposes**

| | 31 December 2020 £'000s | 31 December 2019 £'000s |
|---|---|---|
| **Assets in Report and Accounts** | 156,047 | 138,590 |
| **Intangible assets** | (525) | (322) |
| **Property, plant and equipment held for own use** | (392) | (435) |
| **Prepayments** | (240) | (231) |
| **Technical provisions for protection benefits** | (47,365) | (42,392) |
| **Renewal commission on protection policies** | 0 | 867 |
| **Reinsurers' share of technical provisions** | 0 | (8,068) |
| **Assets for solvency purposes** | 107,526 | 88,009 |

Renewal commission on protection policies has been treated as Technical Provisions for 2020 and the reinsurer's share of technical provisions have been treated as an asset for 2020.

## D.2 Technical provisions

Table 12 provides a summary of the value of technical provisions used for solvency purposes at the end of 2020 and at the end of 2019.

**Table 12: Technical Provisions at the end of 2020 and 2019**

| | 31 December 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| **Line of business** | **Best estimate** £'000s | **Risk margin** £'000s | **Total Technical Provisions** £'000s | **Best estimate** £'000s | **Risk margin** £'000s | **Total Technical Provisions** £'000s |
| **With-profits – life** | 53,620 | 0 | 53,620 | 44,540 | 0 | 44,540 |
| **With-profits – health** | 15,602 | 308 | 15,910 | 18,152 | 241 | 18,393 |
| **Non-profit – life** | 30,997 | 500 | 31,497 | 10,676 | 398 | 11,074 |
| **Non-profit – health** | (53,619) | 5,857 | (47,762) | (46,960) | 4,568 | (42,392) |
| **Unit-linked business** | 31,968 | 0 | 31,968 | 36,479 | 0 | 36,479 |
| **Total** | **78,568** | **6,665** | **85,233** | **62,887** | **5,207** | **68,094** |

The following detail the reasons for the change in technical provisions over 2020:

- With-profits – life increased in value following the growth in with-profits sales over 2020. This was more than enough to cover the value of maturing and surrendering business over the year.
- With-profits – health has reduced over the year as this class of business runs off.
- Non-profit – life technical provisions have increased over 2020 primarily reflecting sales of the Society's fixed rate bonds and Over 50s business.
- Non-profit – health technical provisions have become more negative reflecting an increase in business volumes and the fall in yields over 2020.
- Unit-linked technical provisions have fallen in value reflecting market falls over 2020.

## 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 in accordance with Solvency II Rules and is equal to the product of the cost of capital rate and the sum of current and each future Solvency Capital Requirement discounted to the valuation date using 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 PRA'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)

Table 13 sets out the products covered by this section and the type of business they are.

**Table 13: 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 and other minor classes of conventional non-profit business | |
| | 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). These reserves allow for the expected cost of all future sickness claims on relevant policies in force at the end of 2020.

## 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 2020 or 31 December 2019.

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. The valuation allows for future charges applied to asset shares to cover the cost of the guarantees provided.

## 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. The Society has used recent past experience to estimate future experience.

### Sickness rates

The Society's sickness experience (inceptions and recoveries) has been analysed separately by reference to CMIR12 tables. The assumptions are different for each material line of the Society's income protection business (including Holloway).

### Mortality

The rates of mortality assumed to apply to the Society's business are split between the Society's conventional business excluding Over 50s 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 PRA.

# Reinsurance

The Society reinsures its Over 50s business and part of its Income Protection 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.

## 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.

Following the impact of the Covid-19, there remains significant uncertainty around the likely future development of the Society's sickness experience. The Society has set aside an additional reserve to cover these uncertainties.

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 date is allowed for consistency with investment contract accounting. The value of this difference at the end of 2020 is an increase under Solvency II of £1.52m to best estimate liabilities (2019: £0.95m).

## 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

Table 14 sets out a summary of the Society's other liabilities.

**Table 14: Other Liabilities at the end of 2020 and at the end of 2019**

| Liability type | 31 December 2020 £'000s | 31 December 2019 £'000s |
|---|---|---|
| Pension scheme | 804 | 577 |
| Claims outstanding | 1,464 | 1,336 |
| Claims outstanding – reinsurance | (195) | (170) |
| Creditors arising out of direct insurance operations | 51 | 46 |
| Trade creditors | 269 | 1,052 |
| Accruals and deferred income | 1,127 | 1,120 |
| Other creditors | 610 | 702 |
| **Total** | **4,130** | **4,663** |

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.

# E 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.

Table 15 summarises the Society's capital position, defined as its Own Funds at the end of 2020 and at the end of 2019.

**Table 15: Own Funds at the end of 2020 and at the end of 2019**

| | 31 December 2020 £'000s | 31 December 2019 £'000s |
|---|---|---|
| **Own funds** | 18,163 | 15,251 |

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). Table 16 reconciles the two values.

**Table 16: Reconciliation of Fund for Future Appropriations to Own Funds**

| | 31 December 2020 £'000s | 31 December 2019 £'000s |
|---|---|---|
| **Fund for Future Appropriations** | 20,838 | 17,190 |
| **Intangible assets** | (525) | (322) |
| **Property, plant and equipment held for own use** | (392) | (435) |
| **Prepayments** | (240) | (231) |
| **Valuation difference on fixed rate bonds** | (1,518) | (952) |
| **Own Funds** | 18,163 | 15,251 |

Own Funds includes an amount of £57.2m (2019: £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 167% at the end of 2019 to 176% at the end of 2020.

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 the capital position 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

Table 17 provides a summary of the Solvency Capital Requirement and Minimum Capital Requirement at the end of 2020 and at the end of 2019.

**Table 17: Solvency Capital Requirement and Minimum Capital Requirement**

| | 31 December 2020 £'000s | 31 December 2019 £'000s |
|---|---|---|
| **Solvency Capital Requirement** | 10,303 | 9,126 |
| **Minimum Capital Requirement** | 3,338 | 3,187 |

The Solvency Capital Requirement has increased over 2020 reflecting the increase in the value of the Society's business over the year.

The Minimum Capital Requirement has remained broadly unchanged over 2020.

Table 18 provides a breakdown of the Solvency Capital Requirement by risk module at the end of 2020 and at the end of 2019. Figures allow for management actions and allowances against future discretionary benefits.

**Table 18: Solvency Capital Requirement by Risk Module**

| Risk Module | 31 December 2020 £'000s | 31 December 2019 £'000s |
|---|---|---|
| Market risk | 11,320 | 11,122 |
| Counterparty default risk | 659 | 461 |
| Life underwriting risk | 3,417 | 2,952 |
| Health underwriting risk | 15,066 | 17,052 |
| Diversification | (7,936) | (7,776) |
| Basic Solvency Capital Requirement | 22,526 | 23,811 |
| Operational risk | 1,324 | 1,788 |
| Loss absorbing capacity of technical provisions | (13,547) | (16,473) |
| Solvency Capital Requirement | 10,303 | 9,126 |

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

The capital requirements are broadly consistent with those at the end of 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. Table 19 details the Minimum Capital Requirement.

| Table 19: Inputs used to calculate the Minimum Capital Requirement ("MCR") | 31 December 2020 £'000s | 31 December 2019 £'000s |
|---|---|---|
| Minimum Capital Requirement | 3,338 | 3,187 |

## 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 2020 to cover its Solvency Capital Requirement and its Minimum Capital Requirement.

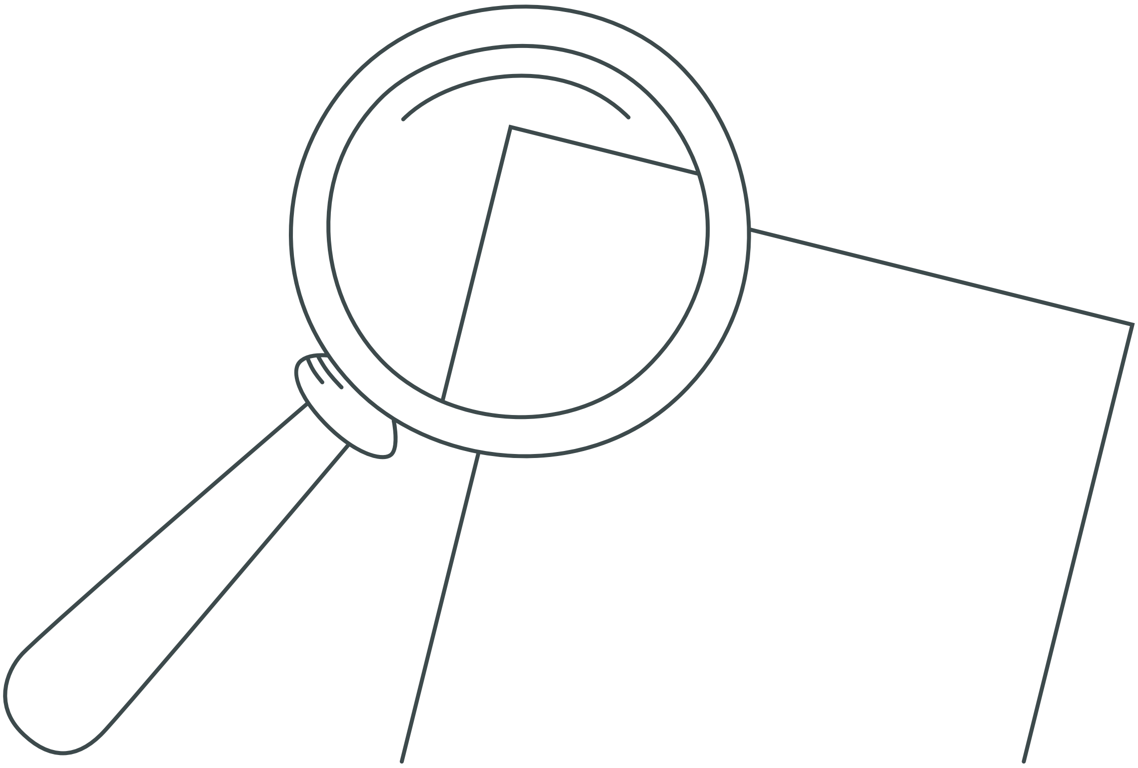
## E.6 Any other information

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

Shepherds Friendly®

# Solvency and Financial Condition Report
# Disclosures

31 December 2020



Monetary amounts in GBP thousands

| General information | |
|---|---|
| **Undertaking name** | The Shepherds Friendly Society Ltd |
| **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 2020 |
| **Currency used for report** | 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 | | |
|---|---|---|
| | **Assets** | **Solvency II value** C0010 |
| R0030 | Intangible asset | |
| 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) | 58,380 |
| R0080 | Property (other than for own use) | 1,112 |
| R0090 | Holdings in related undertakings, including participations | 500 |
| R0100 | Equities | 0 |
| R0110 | Equities - listed | |
| 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 | 55,994 |
| R0190 | Derivatives | |
| R0200 | Deposits other than cash equivalents | 773 |
| R0210 | Other investments | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | 34,222 |
| 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: | 12,467 |
| 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 | 12,467 |
| R0320 | Health similar to life | (397) |
| R0330 | Life excluding health and index-linked and unit-linked | 12,864 |
| 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 | 0 |
| R0410 | Cash and cash equivalents | 2,457 |
| R0420 | Any other assets, not elsewhere shown | |
| R0500 | Total assets | 107,526 |

## S.02.01.02

| Balance sheet | | |
|---|---|---|
| | **Liabilities** | **Solvency II value** 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) | 53,266 |
| R0610 | Technical provisions - health (similar to life) | (31,852) |
| R0620 | TP calculated as a whole | 0 |
| R0630 | Best Estimate | (38,016) |
| R0640 | Risk margin | 6,165 |
| R0650 | Technical provisions - life (excluding health and index-linked and unit-linked) | 85,117 |
| R0660 | TP calculated as a whole | 0 |
| R0670 | Best Estimate | 84,617 |
| R0680 | Risk margin | 500 |
| R0690 | Technical provisions - index-linked and unit-linked | 31,968 |
| R0700 | TP calculated as a whole | 34,222 |
| R0710 | Best Estimate | (2,255) |
| R0720 | Risk margin | 0 |
| R0740 | Contingent liabilities | |
| R0750 | Provisions other than technical provisions | |
| R0760 | Pension benefit obligations | 804 |
| 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 | 51 |
| R0830 | Reinsurance payables | |
| R0840 | Payables (trade, not insurance) | 248 |
| R0850 | Subordinated liabilities | 0 |
| R0860 | Subordinated liabilities not in BOF | |
| R0870 | Subordinated liabilities in BOF | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 3,026 |
| R0900 | Total liabilities | 89,363 |
| R1000 | Excess of assets over liabilities | 18,163 |

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** | 7,284 | 17,170 | 394 | 8,653 | | | | | **33,501** |
| R1420 | **Reinsurers' share** | 43 | | | 1,019 | | | | | **1,062** |
| R1500 | **Net** | 7,241 | 17,170 | 394 | 7,633 | | | | | **32,438** |
| | **Premiums earned** | | | | | | | | | |
| R1510 | **Gross** | 7,284 | 17,170 | 394 | 8,653 | | | | | **33,501** |
| R1520 | **Reinsurers' share** | 43 | | | 1,019 | | | | | **1,062** |
| R1600 | **Net** | 7,241 | 17,170 | 394 | 7,633 | | | | | **32,438** |
| | **Claims incurred** | | | | | | | | | |
| R1610 | **Gross** | 6,111 | 5,443 | 143 | 572 | | | | | **12,269** |
| R1620 | **Reinsurers' share** | | | | 628 | | | | | **628** |
| R1700 | **Net** | 6,111 | 5,443 | 143 | (56) | | | | | **11,641** |
| | **Changes in other technical provisions** | | | | | | | | | |
| R1710 | **Gross** | | | | | | | | | **0** |
| R1720 | **Reinsurers' share** | | | | | | | | | **0** |
| R1800 | **Net** | 0 | 0 | 0 | 0 | | | | | **0** |
| R1900 | **Expenses incurred** | 5,042 | 3,817 | 92 | 1,451 | | | | | **10,402** |
| R2500 | **Other expenses** | | | | | | | | | |
| R2600 | **Total expenses** | | | | | | | | | **10,402** |

S.12.01.02

## Life and Health SLT Technical Provisions

| | | | Index-linked and unit-linked insurance | | | Other life insurance | | | | | | Health insurance (direct business) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Insurance with profit participation | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | 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) | | Contracts without options and guarantees | Contracts with options or guarantees | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | Total (Health similar to life insurance) |
| | | | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| R0010 | Technical provisions calculated as a whole | | 34,222 | | | | | | | | 34,222 | | | | | | **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 | 53,620 | | (2,255) | | | 10,462 | 20,535 | | | 82,362 | | (53,619) | 15,602 | | | **(38,016)** |
| R0080 | Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | | | 12,864 | | | | 12,864 | | (397) | | | | **(397)** |
| R0090 | Best estimate minus recoverables from reinsurance/SPV and Finite Re | 53,620 | | (2,255) | 0 | | (2,402) | 20,535 | | | 69,498 | | (53,222) | 15,602 | 0 | 0 | **(37,620)** |
| R0100 | Risk margin | | | | | 500 | | | | | 500 | 6,165 | | | | | **6,165** |
| | **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** | **53,620** | **31,968** | | | **31,497** | | | | | **117,085** | **(31,852)** | | | **0** | **0** | **(31,852)** |

S.23.01.01

## Own Funds

| | | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35** | | | | | | |
| 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 | 18,163 | 18,163 | | | |
| 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 | 18,163 | 18,163 | 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 fund** | | | | | | |
| R0500 | **Total available own funds to meet the SCR** | 18,163 | 18,163 | 0 | 0 | 0 |
| R0510 | **Total available own funds to meet the MCR** | 18,163 | 18,163 | 0 | 0 | |
| R0540 | **Total eligible own funds to meet the SCR** | 18,163 | 18,163 | 0 | 0 | 0 |
| R0550 | **Total eligible own funds to meet the MCR** | 18,163 | 18,163 | 0 | 0 | |
| R0580 | **SCR** | 10,303 | | | | |
| R0600 | **MCR** | 3,338 | | | | |
| R0620 | **Ratio of Eligible own funds to SCR** | 176.28% | | | | |
| R0640 | **Ratio of Eligible own funds to MCR** | 544.17% | | | | |
| **Reconcilliation reserve** | | C0060 | | | | |
| R0700 | **Excess of assets over liabilities** | 18,163 | | | | |
| 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** | 18,163 | | | | |
| **Expected profits** | | | | | | |
| R0770 | **Expected profits included in future premiums (EPIFP) - Life business** | 57,175 | | | | |
| R0780 | **Expected profits included in future premiums (EPIFP) - Non- life business** | | | | | |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 57,175 | | | | |

S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| R0010 | Market risk | 11,320 | | |
| R0020 | Counterparty default risk | 659 | | |
| R0030 | Life underwriting risk | 3,417 | 9 | |
| R0040 | Health underwriting risk | 15,066 | 9 | |
| R0050 | Non-life underwriting risk | 0 | 9 | |
| R0060 | Diversification | (7,936) | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | Basic Solvency Capital Requirement | 22,526 | | |

| | Calculation of Solvency Capital Requirement | C0100 |
|---|---|---|
| R0130 | Operational risk | 1,324 |
| R0140 | Loss-absorbing capacity of technical provisions | (13,547) |
| R0150 | Loss-absorbing capacity of deferred taxes | |
| 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 | 10,303 |
| R0210 | Capital add-ons already set | 0 |
| R0220 | Solvency capital requirement | 10,303 |
| | **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 | |
| 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 | 35 | | |
| | | | 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 | | 34,049 | |
| R0220 | Obligations with profit participation - future discretionary benefits | | 35,174 | |
| R0230 | Index-linked and unit-linked insurance obligations | | 31,968 | |
| R0240 | Other life (re)insurance and health (re)insurance obligations | | | |
| R0250 | Total capital at risk for all life (re)insurance obligations | | | 543,319 |
| **Overall MCR calculation** | | C0070 | | |
| R0300 | Linear MCR | 35 | | |
| R0310 | SCR | 10,303 | | |
| R0320 | MCR cap | 4,636 | | |
| R0330 | MCR floor | 2,576 | | |
| R0340 | Combined MCR | 2,576 | | |
| R0350 | Absolute floor of the MCR | 3,338 | | |
| R0400 | Minimum Capital Requirement | 3,338 | | |

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