Shepherds Friendly

Solvency and Financial Condition Report

Financial year ending 31 December 2021

5 April 2022

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A Message from the Chief Executive

The Society continued to innovate and deliver strategic enhancements over 2021 despite the intermittent disruptions and uncertainties caused by new Covid-19 variants. The accomplishments have included:

- Successfully launching the Society's sustainable with-profit savings products;
- Taking great strides towards carbon neutrality and taking actions to address climate change risks;
- Implementing technological enhancements to the Society's members portal and making it easier for our with-profit members to manage their policies;
- Enhancing the benefits provided to our income protection policies and providing them with access to a range of therapy and recovery assistance;
- Delivering positive investment returns for our with-profit members despite continuing investment market volatility; and
- Continuing to grow the Society's membership base by 7% in 2021.

Operationally, our staff have gradually returned to the office in line with government guidance. The Society has also continued to enhance its technological infrastructure to enable the Society to service its members better and help improve the Society's continued operational resilience.

We are mindful of the principal and emerging risks affecting the Society and the uncertainty around cost of living affordability, inflation and geopolitical tensions. We will continue to innovate to improve our financial and operational resilience, and invest to ensure the Society has a modern and robust approach to the delivery of our key business services.

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 format.

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") or contracts that provide income replacement protection ("IP") in the event the policyholder falls ill or has an accident so they cannot work. During 2021, the Society launched a range of sustainable with-profits savings plans that is designed to invest premiums from members into a sustainable and diversified investment fund.

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 economic uncertainty and intermittent disruptions caused by new Covid-19 variants over 2021, the Society has been pleased to see membership levels increase by over 7% and an increase in total assets, measured for regulatory reporting purposes, by £21.3m to £128.9m at the end of 2021. This increase has been helped by new with-profits savings business that includes new business from the sustainable with-profits products, and strong investment returns following the gradual resumption of economic activities over the year.

The Society's objective is one of managed and sustainable growth so that the with-profits policyholders can benefit from the value the business is creating. A driver for this growth is new business from protection business, in particular income protection contracts. The technical provision from non-profit income protection contracts has changed from £47.8m to £48.3m. This reflects the combined effect of the growth in the number of in-force policies and the movement in interest rates over the year.

System of governance

This section outlines the Society's system of governance and material changes in the year. The Society is governed primarily by the Friendly Society Act and complies with the Corporate Governance code set by the Association of Financial Mutuals. The Society is also committed to meeting governance standards set by its regulators: the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

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 has been an important tool in the management of the business in recent years.

During the year, Nemone Wynn-Evans was appointed Board Chair, replacing Joanne Hindle. Nemone was previously Senior Independent Director for the Society. The Society also appointed RSM UK Risk Assurance Service LLP ("RSM") as internal auditors from 1 January 2022, replacing Mazars LLP ("Mazars"). Mazars had completed their three-year internal audit cycle.

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 the PRA requirements for Solvency II firms 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 financial risks are underwriting risk and market risk. Other material risks include strategic risks, operational risks and climate change risk.

The oversight of these material risks and other material emerging risks such as risks arising from the conflict between Russia and Ukraine 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, climate change and other material risks throughout the year 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. During the year, the regulator changed the risk-free rate benchmark from the London Interbank Offered Rate ("LIBOR") to Sterling Overnight Index Average ("SONIA"). At the point of transition, the change did not have a material impact to the Society.

The assumptions were updated at 31 December 2021 to reflect the then current economic conditions and our estimate of future demographic experience at that time. The morbidity assumption has been updated to reflect the lower Covid-19 claims experience in the year compared to our expectation and strengthened for longer term sickness claims. The expense assumption was updated to reflect the Society's projected investment into the business for future years.

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, was 166% (2020: 176%). The change mainly reflects the effect of assumption changes noted above.

The Society has maintained sufficient own funds throughout 2021 and the prior year to cover its Solvency Capital Requirement and its Minimum Capital Requirement.

The Society 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: 5th April 2022

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 (the “PRA”) and the Financial Conduct Authority (the “FCA”) (registration number 109997). The PRA is the supervisory authority responsible for the financial supervision of the Society. The PRA may be contacted at 20 Moorgate, London, EC2R 6DA.

Our external auditors are BDO LLP. They may be contacted at 55 Baker Street, Marylebone, London W1U 7EU.

The Society is a mutual organisation, owned by its members i.e. its policyholders, and has no shareholders. At General Meetings, all eligible members over the age of 18 have one vote, irrespective of the number or value of policies they hold, and all votes count equally.

The Society has two wholly owned UK registered subsidiaries that do not engage in regulated activity, Financial Advice Network Limited (“FAN”) and Financial Advice Website Limited (“FAW”). FAN previously managed a network of Appointed Representatives. Its activities have been discontinued in the year and it has been deregistered with the FCA. FAW operates as a service company for the Society.

All the Society’s business is carried out in the UK but policyholders are geographically diverse. 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 2021 the Society had assets, as reported for regulatory reporting purposes, of £128.9m and own funds of £17.0m.

A.2 Underwriting Performance

Table 1 sets out a summary of the Society's underwriting performance over 2021 and over 2020. 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 here for the change in liabilities associated with these cashflows.

Table 1: Underwriting Performance over 2021 and 2020				
Underwriting Performance over 2021 – net of reinsurance				
Line of business	Premiums and contributions £'000s	Claims £'000s	Maintenance expenses £'000s	Underwriting profit £'000s
With-profits – life	20,977	9,667	887	10,423
With-profits – health	1,477	2,062	394	(979)
Non-profit – life	5,996	161	426	5,409
Non-profit – health	5,815	2,494	505	2,816
Unit-linked business	390	362	99	(71)
Total	34,655	14,746	2,311	17,598
Underwriting Performance over 2020 – net of reinsurance				
Line of business	Premiums and contributions £'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

Maintenance expenses above exclude investment expenses.

A.3 Investment Performance

Table 2 sets out a summary of the Society's annualised investment return over 2021 and over 2020. The returns are shown for the pools of the Society's assets: the assets backing the conventional with-profits fund, the assets backing the sustainable with-profits fund that was introduced in 2021, and the assets backing unit-linked liabilities.

Table 2: Annualised Investment Return over 2021 and 2020		
Fund	2021	2020
Conventional with-profits	6.2%	(1.7%)
Unit linked	17.7%	(9.7%)
Sustainable with-profits	6.5%	n/a
Combined	10.1%	(4.9%)

Table 3 summarises the investment returns by income, realised and unrealised gains over 2021 and 2020 split across the Society's different asset types.

Table 3: Annualised Combined Investment Return over 2021 and 2020						
Asset type	2021			2020		
	Income £'000s	Realised gains/(losses) £'000s	Unrealised gains/(losses) £'000s	Income £'000s	Realised gains/(losses) £'000s	Unrealised gains/(losses) £'000s
Fixed interest	-	-	-	-	-	-
Equity	-	(1,718)	-	-	-	-
Property	-	(215)	-	84	-	231
Cash	3	-	-	-	-	-
Subsidiaries	400	-	-	39	-	-
Collectives	-	341	11,832	-	(83)	(4,898)
Total	403	(1,592)	11,832	123	(83)	(4,667)

The Society's investment expenses for 2021 were £0.2m (2020: £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's investment income and expenses are 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 2021 and 2020		
Expense type	2021 £'000s	2020 £'000s
Acquisition costs	10,925	9,200

A.5 Any other information

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

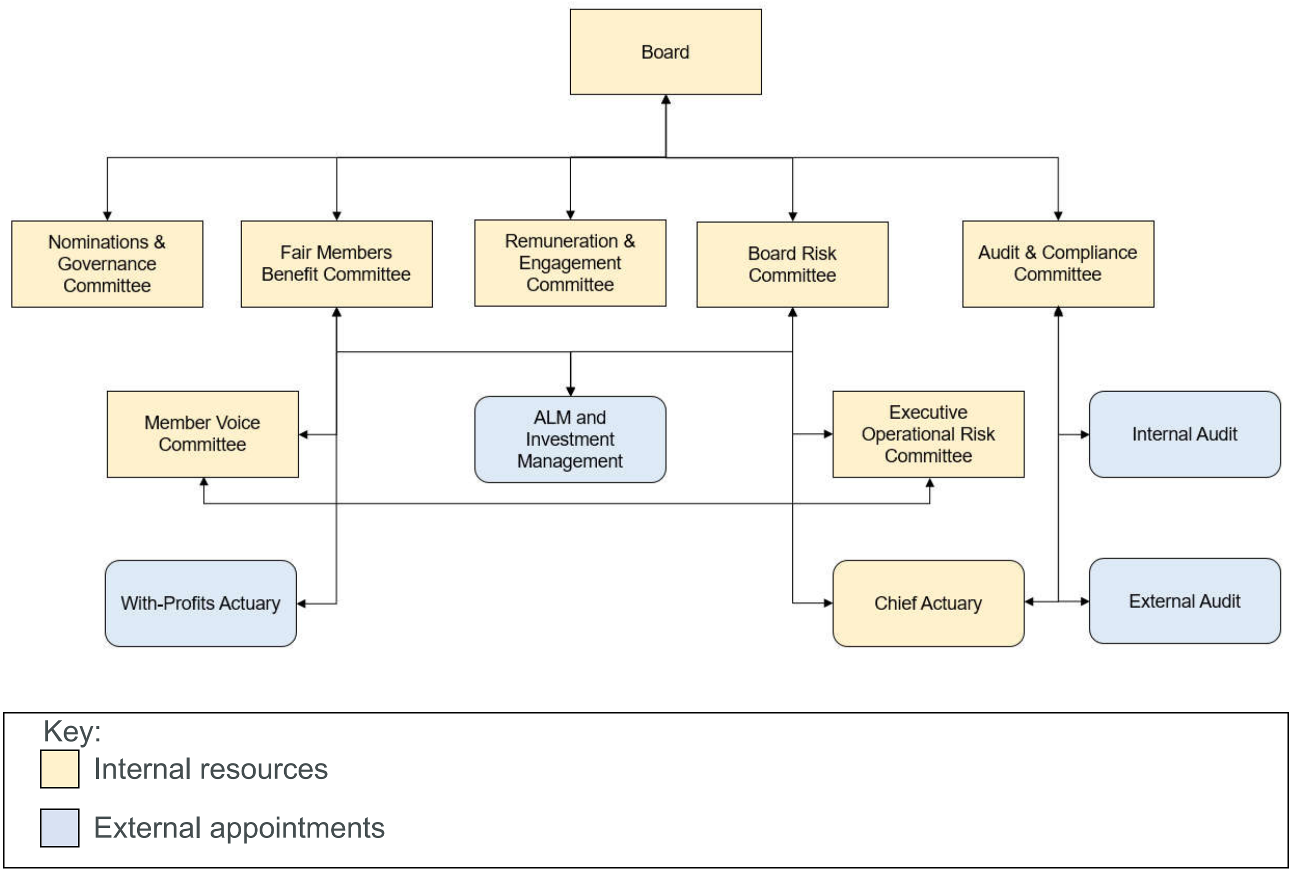
B. System of Governance

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 (“NEDs”), and Executive Directors. NEDs are elected annually by the Society’s members at the AGM.

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 significant changes were made to the governance framework over 2021.

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 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 Board Chair is responsible for chairing and overseeing the performance of the Board in accordance with the Society's rules, regulatory and legal requirements to maintain the highest standards of corporate governance. The Chair provides 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 Board Chair's performance.

The Board has overall responsibility for the control of the business of the Society 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 be accountable 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, including Board Committees
- 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 agreed risk appetites
- to set the Society's cultural values and standards of behaviour, including management of conduct risk
- to approve the recommendations of the Board Committees
- to set out the Society's approach to capital and liquidity management
- to consider the interests of other relevant stakeholders

Nominations & Governance Committee

The Chair 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.

The committee has oversight of the implementation of the Society's climate change strategy. It works closely with the Board Risk Committee on the risk related aspects of climate change.

Fair Members Benefit Committee (incorporating the With-Profits Committee) ("FMBC")

The Chair 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 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 Society's 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. The WPA is an external and independent appointment through OAC plc, an external consulting actuarial firm.

The FMBC is supported by an executive committee, the Member Voice Committee. The Committee is responsible for assisting and advising the FMBC in exercising its oversight of good member outcomes in the Society as part of an effective conduct risk strategy. The Member Voice Committee will monitor and review the Society's performance with regard to the culture element of the Conduct Risk framework in particular member voice, staff impact on members and external partnerships. The Member Voice Committee is represented by Member Voice Champions from each area of the business who are responsible for strengthening and embedding the Society's conduct risk strategy.

Remuneration & Engagement Committee

The Chair of the Remuneration & Engagement Committee is responsible for chairing and overseeing the performance of the Committee, which is responsible for the oversight of the design and implementation of the Society's remuneration policy. They are responsible for ensuring that the Society's remuneration policy and practices are aligned to business strategy and objectives, its risk appetite, values and culture. In 2021, the Committee extended its remit to include oversight of how the Society's remuneration policy and practices effect the Society's engagement with its employees.

Board Risk Committee

The Chair of the Board Risk Committee is responsible for chairing and overseeing the performance of the Committee, which is responsible for the oversight of risk management across the Society. The scope of activity includes the performance of the ORSA process. The Committee ensures 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. The Committee 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 which monitors and reports on the Society's operational risk management in the following key categories: Operational resilience, processes reviews, cyber security and the operational aspects of climate change. The Executive Operational Risk Committee also manages a programme of deep dives for specific areas of operational risk concern and oversees the future development and maintenance of the Society's risk management software.

The Board Risk Committee also:

- Monitors the risks attaching to the Society's investments which are currently managed by Royal London Asset Management ("RLAM") and Legal and General Investment Management ("LGIM");
- Monitors the financial risks of climate change; and
- Reports to the Remuneration & Engagement Committee on whether management have adhered to the Society's risk appetite.

Audit & Compliance Committee

The Chair of the Audit & 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 Chair 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 reports to the Audit & Compliance Committee and presents 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 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.

The Committee agrees the internal audit plan annually and reviews their findings, and the external auditors also report their findings when the annual financial statements are signed off.

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 responsible for the delivery of financial objectives of the Society. They are also responsible for ensuring that the Society and its employees act at all times in the best interests of its members and meet the expectations of regulatory bodies.

Culture Director

The Culture Director has overall responsibility for ensuring that the Society creates a quality experience for both our members and staff. They are responsible for designing, implementing and managing innovative people focussed strategies that attract, develop, engage, support and retain high performing staff as well as ensuring that a culture of the highest standard of conduct 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, and overseeing the operational resilience of the Society. 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, thereby ensuring that members' interests are protected. In this role they are supported by the Chief Finance Officer and a 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.

<u>Key second line defence functions</u>

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. They design and maintain the Risk Management Framework.

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 Framework.

<u>Third line defence support</u>

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

- Internal audit. Mazars provided internal audit services during the year and assessed the adequacy and effectiveness of the Society's Risk Management Framework. Mazars were replaced by RSM effective from 1 January 2022.
- Additional actuarial oversight. OAC plc provide the Society with additional support overseeing the actuarial activities of the business.
- External audit. BDO LLP are the Society's current independent external auditors.

Remuneration

The Society bases its remuneration policy on both corporate and individual performance and provides a competitive package 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. NEDs do not receive any variable performance pay.

Executive Directors are remunerated in both fixed and variable form, with the variable element limited to a maximum potential of 30% of the fixed element. The Remuneration & Engagement Committee can award discretionary amounts for exceptional contribution.

The Society has an employer sponsored defined contribution pension scheme and a closed defined benefit pension scheme (the "DB pension scheme"). The DB pension scheme 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. The Executives can participate in alternative personal pension arrangements as approved by the Committee.

NEDs 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 & Engagement Committee. The Committee ensures that the Society complies with good corporate governance practice as well as relevant parts of the appropriate governance codes.

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

B.2 Fit and proper requirements

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

- 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 NEDs are required to undertake and maintain appropriate continuing professional development, assessed annually.

In deciding whether a person is fit and proper the Society must be satisfied that the person:

- Has the appropriate 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; and
- 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 purpose of the Risk Management Framework is to ensure the Society has a robust framework in place that supports the effective and consistent identification, assessment and management of risks.

The scope of the Risk Management Framework extends to all major risk types faced by the Society. It is designed to sit alongside the strategic plan in defining the high-level architecture of the Society's planning and risk management processes. It supports the identification, assessment, management and control of material risks that threaten the achievement of the strategy, objectives and fair treatment of members. It does this through regular risk and control assessments, risk deep dives, reporting and general oversight activities. The Framework is underpinned by Board approved policies, which are further supported by the policies and procedures of the front-line business areas. These documents provide the detail of how risks are managed, the responsible managers and how activities are conducted on a day-to-day basis.

To facilitate our risk management framework, all staff have access to a risk management system ("The Risk Database") which enables them to enter new risks, monitor existing risks and monitor the effectiveness of controls designed to manage those risks. The Risk Database infrastructure is regularly updated to ensure it is fit for purpose. It has been recently redeveloped to improve the Society's identification of risks and mitigating controls. Based on data collated from the Risk Database, the Board and Board Risk Committee receive a comprehensive suite of risk information and analysis that reflect the significant or potentially significant risks impacting the Society's risk profile. The risk information provides the Committee with adequate detail to maintain effective oversight of the Society's risk profile against its risk appetite.

Own Risk and Solvency Assessment

Regulations requires the Society to undertake, as part of its strategic planning, a forward-looking assessment of own risks and to produce an Own Risk and Solvency Assessment ("ORSA") on an annual basis. It can be produced more frequently if the Society's risk profile has changed materially. One ORSA was produced in 2021.

The ORSA process has established a strong link between business planning, risk assessment and capital management. This has been an important tool in the management of the business in recent years. It ensures that medium term strategic business activities are considered not only in the context of what they may deliver as benefits, but also the degree of risk being taken and how this could adversely impact solvency. This is captured through the setting of the Society's Risk Appetite Statement that is approved by the Board. The Statement explains the level of risk the Society is prepared to accept in pursuit of its strategic objectives and defines the tolerance range for each material risk. The Society, through the Risk Management Framework, seeks to manage its exposures to each risk and ensure the residual risk exposures are within the tolerances set. The Board, through the Governance structure, oversees the Society's adherence to the Risk Appetite Statement and the risk tolerances.

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 users of the Risk Database;
- 2nd line – Board Risk Committee covering Risk and Actuarial matters, supported by an internal Compliance and Risk function; and
- 3rd line – Audit & 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 preparing, checking and reviewing financial information. The information produced is reviewed internally by the Executive team and then subject to review at the Audit & 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 & Compliance Committee annually and throughout the year the plan is updated in line with the activity and business need.

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

B.5 Internal audit function

For 2021, the Society's Internal Audit activities were outsourced to an external provider, Mazars LLP, and as such they were independent of the Society's management team. A three-year rolling Internal Audit plan is in place to provide continuous assurance to the Audit & Compliance Committee on how well the risks facing Shepherds are being managed. The plan is reviewed annually and agreed with the Audit & Compliance 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 & Compliance Committee considers annually the independence and objectivity of the firm. In 2021, the Audit & Compliance Committee completed a re-tender of the Internal Audit function and it appointed RSM as internal auditors from 1 January 2022.

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 qualified and part-qualified actuaries, and data analysts.

Further support is provided by an external actuarial firm, OAC plc. They review the actuarial function's output and methodologies. They are available for support should the need arise.

The Chief Actuary reports to the Chief Executive.

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

B.7 Outsourcing

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

Section B.3 sets out the Society's risk management system.

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						
Line of business	Market risk	Underwriting risk				
		Mortality	Longevity	Sickness	Expense	Lapse
With-profits – life	✓					
With-profits – health	✓					
Non-profit – life			✓		✓	✓
Non-profit – health	✓			✓	✓	✓
Unit-linked	✓					

The 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 2021 with the figures at the end of 2020 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 2021 £'000s	31 December 2020 £'000s
Market risk	17,190	11,320
Counterparty default risk	1,746	659
Life underwriting risk	3,742	3,417
Health underwriting risk	12,408	15,066
Diversification	(9,441)	(7,936)
Basic Solvency Capital Requirement	25,645	22,526
Operational risk	1,415	1,324
Loss absorbing capacity of technical provisions	(16,783)	(13,547)
Solvency Capital Requirement	10,277	10,303

Market risks have increased reflecting the higher proportion of investment assets held in equities in collective investment funds at 31 December 2021. Life risks have increased reflecting the increase in the business written by the Society over the year. Health risk has reduced over 2021 reflecting changes to the valuation assumptions in particular the increase in risk free rates of return. Health 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 2021. 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	+1,538
	-20% change in mortality rates	-3,245
Sickness	+25% inceptions, -20% recoveries	-13,973
Lapses	50% increase in lapse rates	-26,134
Expenses	+10% increase in maintenance expenses	-3,601

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 or expected surrender 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:

- Claims and lapse experience is closely managed by Senior Management and monitored by the Board Risk Committee with Board oversight.
- Emerging claims and lapse experience is monitored against the Society's risk appetite.
- Income protection premiums may be reviewed in line with the terms and conditions of the contracts to adjust for adverse claims experience.
- The Society has enhanced the benefits provided to income protection policyholders to aid recovery from sickness.
- Reinsurance arrangements help to mitigate mortality risks and sickness risks, as well as lapse risks where financing terms are offered. During the year, the Society has enhanced its reinsurance arrangements for its protection products from the next financial year.
- As the sale of protection products is mainly through intermediaries, there is continuous monitoring of intermediaries' performance and lapse rates. The Society seeks to work with intermediaries with the same values as the Society to achieve good member outcomes and to promote member retention.
- Expenses are monitored by management through the monthly budget variance reporting process. This ensures variances are noted at an early stage and remedial actions initiated.
- The Board monitors expenditure against the budget which it has approved.

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 2021. 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, credit spreads and currency risk.

Table 8: Impact on own funds arising from changes in the market movements, as at 31 December 2021

Market movement	Sensitivity	Estimated impact on Own Funds £'000s
Interest rates	Life Insurance interest rate up stress	-2,162
	Life Insurance interest rate down stress	+238
Equities	Life Insurance stress: 39% fall	-6,068
Credit spreads	Life Insurance stress	-1,578
Currency risk	Life Insurance stress	1,337

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 risk of interest rates rising is heightened in the current economic environment where inflation is higher than in recent years.

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 unit-linked liabilities are matched by investment in LGIM's FTSE All-Share tracker fund. This fund is well-diversified and avoids any ongoing concentration of risk.

The Society has no directly held assets as at 31 December 2021.

Risk mitigation techniques

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

- The Society holds investments in actively managed funds that are designed to generate sustainable investment returns in the long term.
- Investment risk volatility is actively managed by with-profit fund managers at RLAM, and LGIM actively track appropriate fund indices for unit-linked funds.
- Investment performance and emerging experience is monitored on a continuous basis. This is overseen by the Board Risk Committee and the Fair Members Benefit Committee.
- Oversight of RLAM and LGIM as key outsourced investment management services providers.
- The Society maintains a varied product range and any reduced value of the income protection book due to higher interest rates will be partly offset by a lower value of liability on the Society's with-profit business.
- The Society continues to explore opportunities, including the use of financial hedging instruments to hedge against the impact of interest rate movements.

Prudent person principle

The Society invests its assets in accordance with the Prudent Person Principle as defined by the PRA. 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 consider in the assessment of its overall solvency needs.

The core portfolio of the funds held with RLAM and LGIM 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, The funds only use derivatives for the purpose of making investment returns and efficient portfolio management. RLAM provide the Society with regular reports on the asset allocation of the collective investment funds 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 through collective investment funds 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 management review of outstanding balances and agreed repayments.
- There is a risk of the Society's banking provider or an investment management services provider counterparty failing. This risk is considered low because the Society invests only with recognised 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.

Risk mitigation techniques

The Society monitors credit worthiness of all its material counterparties and takes mitigating actions when there are concerns over the credit rating.

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 mainly through premium receipts, 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 manages the expected profits on future premiums which are not liquid and appropriate ways to mitigate this risk have been developed by the Society such as monitoring the balance of new business mix. These were valued at £57.1m at the end of 2021 (2020: £57.2m).

C.5 Operational risk, including strategic risks

The main operational and strategic risks faced by the business are detailed in Table 9.

Table 9: Main operational and strategic risks of the Society		
Risk	Description	Management and mitigation
Solvency risk	This is the risk that the Society's solvency ratio falls below its regulatory Solvency Capital Requirement ("SCR") causing the Society to curtail its business model until financial strength has been restored.	The Society's solvency ratio is closely monitored by the Board. The Board has set out the actions the Society can take to restore its solvency ratio should levels fall below set tolerance levels. The Society produces a forward-looking assessment of its likely future solvency position on a range of scenarios. Based on the assessment, management identifies areas where particular focus is required to protect its solvency ratio.
Asset share coverage	The Society seeks to cover its with-profits liabilities with the non-unit linked assets held in its Statement of Financial Position.	Asset share coverage is continually monitored, and it is ensured that it is within the Society's risk appetite. Reinsurance financing is in place for the Over 50s business and this arrangement increases the assets held by the Society

		The Board continues to monitor the balance of new business sales and acquisition costs to manage this risk.
Conduct risk	Included in this risk are matters such as reliable internal processes, compliance with current legal and regulatory matters, and good member outcomes. Failures in these areas could result in reputational damage leading to loss of customers, and financial penalties.	By ensuring there are detailed policies, processes and procedures documented for operational activities, the Society maintains a low-risk operational environment even when our staff are working remotely. Policies, processes and procedures are monitored by the Executives through the Executive Operational Risk Committee and the Member Voice Committee. Regular monitoring is provided by the Society's Risk, Compliance and Actuarial function. The effectiveness of these controls is monitored by the Fair Members Benefit Committee and the Audit & Compliance Committee, taking into consideration reports from internal audit and ensuring management follows up any recommended corrective actions. The Society conducts a risk assessment of all new products and initiatives and an annual review of existing products. The assessment takes into consideration operational, regulatory and conduct risks.
Operational resilience	Included in this risk is the ability for the Society to continue to operate its important business services and to maintain adequate data security. This includes remaining fully responsible for the oversight, management and performance of material outsourced activities. There is a risk that the Society is unable to meet its member obligations following a significant degradation of services received which could result in disruption to our operations or loss of financial assets.	The Society has a governance structure to manage operational crises which enables rapid and effective decision making. The Society is currently progressing towards its compliance with the joint Operational Resilience policy statement issued by the FCA and the PRA. During 2021, as part of the Society's Operational Resilience implementation programme, the Board reviewed and agreed the list of important business services and the third-party systems and services required to deliver them. The Board also set impact tolerance limits for each important service. Before entering into any outsourcing relationships, the Society conducts due diligence on the organisations and the proposition to ensure any risks are fully considered. The Society also has a framework for the governance and oversight of material outsourcer and supplier arrangements

		that includes the requirement for Board approval prior to commencing any arrangement. The Board Risk Committee, the Audit & Compliance Committee and the Fair Members Benefit Committee are all involved in the oversight of material third party arrangements. The Society conducts a series of updates and simulations annually to enhance the Society's data management and cyber crisis management, taking into consideration our flexible working environment. The Society recognises that cyber threats constantly evolve in sophistication. Therefore, the Society continues to invest in its security systems to ensure the Society remains resilient to cyber threats and other physical threats to business continuity.
New business risk	The Society seeks to generate new business volumes to grow the business. There is a risk that too little new business results in operational inefficiencies and that too much new business creates operational strain.	The Society maintains a varied product range and varied distribution channels to provide continuous flexibility and adaptability to changing market circumstances. Market activities are monitored to capitalise on opportunities. The Society sets new business targets in line with the strategic plan, and risk appetite and tolerances. The Board monitors new business volumes against its targets.
Covid-19	While the Society has remained resilient throughout the pandemic, the residual effects of Covid-19 and the UK and global response to it continues to present a range of risks to the Society.	The Society takes a considered approach to minimising and managing the impact of Covid-19 on key areas that are most at risk. These areas include new business sales, investments, insurance exposure, claims and operational resilience. The risks to new business sales, insurance exposure, sickness claims and operational resilience are managed as separately identifiable principal risks and these risks are detailed in the table above. The impact for Covid-19 is taken into consideration when managing these risks. The Board monitors developments and it makes decisions to manage the Society's solvency and liquidity.

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

Emerging risks from the conflict between Russia and Ukraine

The Society is not directly exposed to risks arising from the conflict between Russia and Ukraine because the Society's business is primarily based in the United Kingdom. The crisis does heighten some of the existing risks that the Society currently manages and proactively monitors as part of its strategic objectives. These risks are summarised below and the Society's management and mitigation of those risks are detailed above:

- The investment markets can remain volatile due to disruption to global economic activity;
- There is a risk of lower consumer confidence and lower consumer affordability due to the impact of the crisis on prices of basic commodities such as food and energy leading to a heightened inflationary environment over 2022. This can increase uncertainty over the volume of new business and lapses on existing policies; and
- Increased risk of cyber-attacks targeting the UK financial services sector. This can disrupt the Society's operational activities if any attacks penetrate the Society's security systems.

Climate Change

The Society recognises its role as a responsible business to consider the implications of climate change on our members, our operations and our community. Like most health and life insurers, the Society may be impacted by the transitional effects of climate change and reporting on the Society's progress on climate change. Physical risks of climate change are not, at this stage, expected to have a material impact on the Society.

We are evolving our governance, risk management, measurement and target-setting as we take a strategic approach that recognises the increasing impact of climate-related changes.

Governance

The Board has ultimate responsibility for the Society's climate change strategy. The Board Risk Committee has been allocated responsibilities for the financial risks of climate change, and helps the Board oversee and understand the implications for the Society's strategy and risk management framework. The Nominations & Governance Committee has oversight of the implementation of the Society's climate change strategy.

The Society has committed to an Environmental Policy which has been approved by the Board.

Strategy

The Society has identified the climate change related risks and opportunities shown below, together with actions being taken or considered to mitigate these risks or harness these opportunities.

Table 10: Risk and opportunities from climate change		
Risk and opportunities	**Time Horizon**	**Mitigating actions**
Financial losses from claims caused by the physical impact of climate change and the potential changes to mortality or morbidity.	Medium to long term	Embedded climate change risks in the Society's scenario and stress testing to assess the potential impact on solvency and liquidity.
Financial losses from investments caused by transitional risks from adjustment to a low-carbon economy or changing market conditions due to climate change.	Short to medium term	Engagement with our investment providers to understand the impact of climate change on their investment approach. We also keep under review our choice of investment providers, with increased focus on climate change considerations.
Diversification of members' product preferences towards more sustainable alternatives.	Short to medium term	Assessment of existing products and policies and consideration of changes to products and policies to meet members' demands. In the year ending 31 December 2021, the Society launched its sustainable product range. The funds for this product are invested into a sustainable fund managed by RLAM. The fund is designed to only invest in companies that make a positive contribution to the environment and society as a whole.
Operational failures caused by physical impacts of climate change, for example on essential utilities, business critical supplies and distribution networks.	Medium to long term	Integrate scenarios into the Society's disaster recovery and operational resilience testing.

The key highlights of the Society's overall strategy over the next couple of years include:

- Engaging in initiatives to reduce the Society's carbon footprint;
- Continual assessment of investments and supply chain to shift towards sustainability; and
- Maintaining our Investors in the Environment accreditation.

The resilience of the strategy is also strengthened though employee engagement, and embedding the target into our values, behaviors and objectives.

Risk management

The Society uses the Risk Management Framework to identify and monitor risks and the Board Risk Committee oversees risks due to climate change. The Society's Risk Management Framework and ORSA have been updated and continue to be updated to reflect the financial risks of climate change.

C.6 Other material risks

The material risks in the business have been articulated within sections C.1 (underwriting risk), C.2 (market risk),C.3 (credit risk) and C.5 (operational risk, including strategic risks) above. The Society monitors these risks carefully and appropriate controls are in place to take action should one or more of those risks crystallise.

Other material risks to the Society are emerging risks. These are risks that an event may or not happen with a possible but as yet unquantifiable adverse financial or operational impact on the Society. This includes a widening of geopolitical tensions because of the potential disruption to global economic activity.

The Society's Board Risk Committee oversees the management of strategic and emerging risks to ensure that appropriate action and resources can be deployed should the need arise.

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

Table 11: Value of Assets at the end of 2021 and at the end of 2020		
Asset type	31 December 2021 £'000s	31 December 2020 £'000s
Property (other than for own use)	-	1,112
Holdings in related undertakings	-	500
Collective Investment Undertakings	71,463	55,994
Assets held for unit-linked contracts	39,587	34,222
Reinsurance recoverables	15,165	12,467
Reinsurance receivables	66	27
Cash and cash equivalents	2,229	2,457
Other	336	747
Total	128,846	107,526

The value of the Society's property investment at the end of 2020 was based on that made by an external independent party. The property was sold during 2021.

Holdings in related undertakings reflects the residual value of the net assets held by the Society's subsidiaries (FAN and FAW). FAN has ceased active trading during 2021.

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

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

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

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

Other assets relate to debts payable to Shepherds Friendly from trade partners such as intermediaries.

The Society values assets for solvency purposes in the same way as used for the Report and Accounts with the following 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; and

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

Table 12: Reconciliation of Assets in Report and Accounts to those used for solvency purposes		
	31 December 2021 £'000s	31 December 2020 £'000s
Assets in Report and Accounts	178,470	156,047
Intangible assets	(576)	(525)
Property, plant and equipment held for own use	(367)	(392)
Prepayments	(303)	(240)
Technical provisions for protection benefits	(48,378)	(47,365)
Assets for solvency purposes	128,846	107,526

D.2 Technical provisions

Table 13 provides a summary of the value of technical provisions used for solvency purposes at the end of 2021 and at the end of 2020.

Table 13: Technical Provisions at the end of 2021 and 2020			
	31 December 2021		
Line of business	Best estimate £'000s	Risk margin £'000s	Total Technical Provisions £'000s
With-profits – life	65,518	-	65,518
With-profits – health	15,254	250	15,504
Non-profit – life	36,850	582	37,432
Non-profit – health	(53,139)	4,761	(48,378)
Unit-linked business	37,296	-	37,296
Total	101,779	5,593	107,372
	31 December 2020		
Line of business	Best estimate £'000s	Risk margin £'000s	Total Technical Provisions £'000s
With-profits – life	53,620	-	53,620
With-profits – health	15,602	308	15,910
Non-profit – life	30,997	500	31,497
Non-profit – health	(53,619)	5,857	(47,762)
Unit-linked business	31,968	-	31,968
Total	78,568	6,665	85,233

The following detail the reasons for the change in technical provisions over 2021:

- With-profits – life increased in value following the growth in with-profits contributions over 2021 and the investment gains over 2021. 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 continues to runs off.
- Non-profit – life technical provisions have increased over 2021 primarily reflecting sales of the Society's fixed rate bonds and Over50s business in the year.
- Non-profit – health technical provisions have become less negative reflecting an increase in risk-free rates over 2021. The rates are used to discount the future cash flows from in force policies.
- Unit-linked technical provisions have increased in value reflecting the investment gains in 2021 on assets held for unit-linked liabilities.

<u>General description of methodology used to calculate technical provisions</u>

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 PRA requirements for Solvency II firms 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.

<u>Valuation of the Society's with-profits business</u>

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

Table 14: 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 2021.

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 2021 or 31 December 2020.

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 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 Over50s business, Holloway business and pure income protection business.

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

Lapse and withdrawal rates

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

Allowance for expenses

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

Inflation

Future inflation is assumed to be in line with CPI projections in the November 2021 Monetary Policy Report published by the Bank of England, with an adjustment to derive the RPI. Additional allowance is made for elements of the Society's costs linked to wage inflation.

The rates of interest used to discount future cashflows are specified by the PRA.

<u>Reinsurance</u>

The Society reinsures its Over 50s and part of its IP book of business, and there will be further enhancements to existing arrangements from the next financial year. 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 assumptions to reflect the Covid-19 claim experience over 2021 and to strengthen the reserve for longer term sickness claims. The expense assumption has also been updated to reflect the Society's projected investment into the business.

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.

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 the 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 the 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 2021 is a decrease for regulatory reporting purposes of £0.46m to best estimate liabilities (2020: £1.52m).

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

Table 15: Other Liabilities at the end of 2021 and at the end of 2020		
Liability type	31 December 2021 £'000s	31 December 2020 £'000s
Pension scheme	370	804
Claims outstanding	2,008	1,464
Claims outstanding – reinsurance	(523)	(195)
Creditors arising out of direct insurance operations	133	51
Trade creditors	326	269
Accruals	1,351	1,127
Other creditors	776	610
Total	4,441	4,130

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 pension advisers appointed by the Trustees.

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 Financial Reporting Standards ("FRS") 102 and FRS 103 as issued by the Financial Reporting Council. The derogation contained in Article 9 of the Solvency II Directive allows firms the option of recognising and valuing assets and liabilities under FRS 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" and after consideration by the Board Risk Committee and the FMBC, the Society considers that these conditions have been fulfilled for the purposes of recognising and valuing assets and liabilities under FRS 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 16 summarises the Society's capital position, defined as its Own Funds at the end of 2021 and at the end of 2020.

Table 16: Own Funds at the end of 2021 and at the end of 2020		
	31 December 2021 £'000s	31 December 2020 £'000s
Own funds	17,032	18,163

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 17 reconciles the two values.

Table 17: Reconciliation of Fund for Future Appropriations to Own Funds		
	31 December 2021 £'000s	31 December 2020 £'000s
Fund for Future Appropriations	18,735	20,838
Intangible assets	(576)	(525)
Property, plant and equipment held for own use	(367)	(392)
Prepayments	(303)	(240)
Valuation difference on fixed rate bonds	(457)	(1,518)
Own Funds	17,032	18,163

Own Funds includes an amount of £57.1m (2020: £57.2m) 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 was 166% at the end of 2021 (2020: 176%)

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 was 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 18 provides a summary of the Solvency Capital Requirement and Minimum Capital Requirement at the end of 2021 and at the end of 2020

Table 18: Solvency Capital Requirement and Minimum Capital Requirement		
	31 December 2021 £'000s	31 December 2020 £'000s
Solvency Capital Requirement	10,277	10,303
Minimum Capital Requirement	3,126	3,338

Table 19 provides a breakdown of the Solvency Capital Requirement by risk module at the end of 2021 and at the end of 2020. Figures allow for management actions and allowances against future discretionary benefits.

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

Table 19: Solvency Capital Requirement by Risk Module		
Risk Module	31 December 2021 £'000s	31 December 2020 £'000s
Market risk	17,190	11,320
Counterparty default risk	1,746	659
Life underwriting risk	3,742	3,417
Health underwriting risk	12,408	15,066
Diversification	(9,441)	(7,936)
Basic Solvency Capital Requirement*	25,645	22,526
Operational risk	1,415	1,324
Loss absorbing capacity of technical provisions	(16,783)	(13,547)
Solvency Capital Requirement	10,277	10,303

* The Basic Solvency Capital Requirement has increased over 2021 and this reflects:
  a) higher market risk due to larger holdings in equities held in collective investment funds at 31 December 2021;
  b) higher life risks reflecting the new business written in 2021; and
  c) higher counterparty default risk due to the increase in reinsurance recoverables.

These higher risk requirements have been partly offset by lower health risks as a result of the various reinsurance arrangement in place for the Society combined with the increase in interest rates over the year.

The Solvency Capital Requirements are broadly consistent with those at the end of the prior year and this reflects the Society's effective capital management.

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 20 details the Minimum Capital Requirement.

Table 20: Inputs used to calculate the Minimum Capital Requirement ("MCR")		
	31 December 2021 £'000s	31 December 2020 £'000s
Minimum Capital Requirement	3,126	3,338

The Minimum Capital Requirement has remained broadly unchanged over 2021.

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 2021 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.

The Shepherds Friendly Society Ltd

Solvency and Financial Condition Report

Disclosures

31 December

2021

(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 2021
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet

S.05.01.02 - Premiums, claims and expenses by line of business

S.12.01.02 - Life and Health SLT Technical Provisions

S.23.01.01 - Own Funds

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	71,463
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
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*	71,463
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	39,587
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:	15,165
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*	15,165
R0320	*Health similar to life*	-1,139
R0330	*Life excluding health and index-linked and unit-linked*	16,304
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	336
R0370	Reinsurance receivables	66
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	2,229
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	128,846

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	70,076
R0610	*Technical provisions - health (similar to life)*	-32,874
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	-37,886
R0640	*Risk margin*	5,012
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	102,950
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	102,368
R0680	*Risk margin*	582
R0690	Technical provisions - index-linked and unit-linked	37,296
R0700	*TP calculated as a whole*	39,587
R0710	*Best Estimate*	-2,291
R0720	*Risk margin*	0
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	370
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	133
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	407
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	3,532
R0900	**Total liabilities**	111,814
R1000	**Excess of assets over liabilities**	17,032

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	7,395	20,977	390	7,405					36,167
R1420	Reinsurers' share	104			1,408					1,512
R1500	Net	7,292	20,977	390	5,996					34,655
	Premiums earned									
R1510	Gross	7,395	20,977	390	7,405					36,167
R1520	Reinsurers' share	104			1,408					1,512
R1600	Net	7,292	20,977	390	5,996					34,655
	Claims incurred									
R1610	Gross	4,567	9,667	362	1,060					15,656
R1620	Reinsurers' share	11			899					910
R1700	Net	4,556	9,667	362	161					14,746
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0	0	0	0					0
R1900	**Expenses incurred**	5,183	4,876	99	1,880					12,038
R2500	**Other expenses**									
R2600	**Total expenses**									12,038

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**		39,587								39,587						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**	65,518		-2,291			13,094	23,756			100,077		-53,139	15,254			-37,886
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						16,304				16,304		-1,139				-1,139
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	65,518		-2,291	0		-3,210	23,756			83,773		-52,000	15,254			-36,747
R0100	**Risk margin**	0	0			582					582	5,012					5,012
	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**	65,518	37,296			37,432					140,246	-32,874					-32,874

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	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	17,032	17,032			
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**	17,032	17,032	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	17,032	17,032	0	0	0
R0510	Total available own funds to meet the MCR	17,032	17,032	0	0	
R0540	Total eligible own funds to meet the SCR	17,032	17,032	0	0	0
R0550	Total eligible own funds to meet the MCR	17,032	17,032	0	0	
R0580	**SCR**	10,277				
R0600	**MCR**	3,126				
R0620	**Ratio of Eligible own funds to SCR**	165.73%				
R0640	**Ratio of Eligible own funds to MCR**	544.82%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	17,032
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	
R0760	**Reconciliation reserve**	17,032
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	57,153
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	57,153

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	17,190		
R0020	Counterparty default risk	1,746		
R0030	Life underwriting risk	3,742	9	
R0040	Health underwriting risk	12,408	9	
R0050	Non-life underwriting risk	0	9	
R0060	Diversification	-9,441		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	25,645		

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,415
R0140	Loss-absorbing capacity of technical provisions	-16,783
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**	10,277
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	10,277
	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

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	-50

		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	40,620	
R0220	Obligations with profit participation - future discretionary benefits	40,152	
R0230	Index-linked and unit-linked insurance obligations	37,296	
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		390,602

	Overall MCR calculation	C0070
R0300	Linear MCR	-50
R0310	SCR	10,277
R0320	MCR cap	4,625
R0330	MCR floor	2,569
R0340	Combined MCR	2,569
R0350	Absolute floor of the MCR	3,126
R0400	**Minimum Capital Requirement**	3,126