

Solvency and Financial Condition Report

Financial year ending
31 December 2023

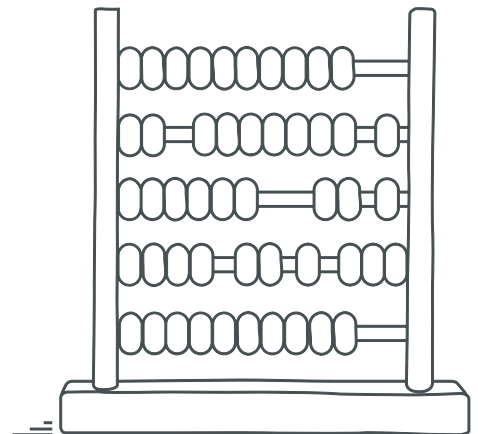


Mutuality and Purpose

Our strategy is to offer simple and accessible products which provide our members with a more certain financial future. We have made it our mission to provide clear, fair products that help our members organise their finances and secure their family's future. Our values guide our behaviour and the way we deliver our products and services.

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A Message from the Chief Executive

The past year has been another highly challenging one where inflation and interest rates have continued to rise to levels not seen in many years. The financial strain caused by the prolonged periods of high inflation made it even more important that the Society was there for its members. I take pride that through the commitment and dedication of our people, the Society was able to adapt to the ever-changing financial outlook and provide the level of service and products expected by our members.

Despite all the challenges, the Society has grown its policy count by 5% and increased its solvency ratio from 171% to 206%. This was mainly driven by growth in new business and growth in investment assets. The improvement to solvency ratio was also driven by the reduction in the risk margins for technical provision during the year.

As a Society, we exist purely for our members and some of the highlights of our achievement over the year have included:

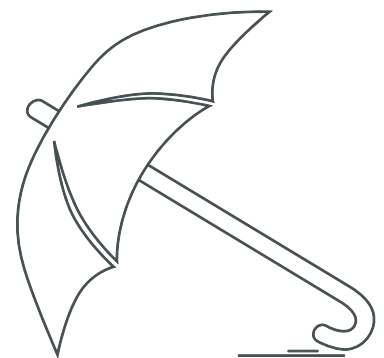
- Growing the Society's policy count through new business and strategic partnerships.
- Meeting the regulatory milestones for the implementation of Consumer Duty requirements over 2023.
- Improving the communication channels available to our members through our website and mobile app so they can easily get in touch with us.
- Achieving Silver accreditation from the Investors in the Environment and taking actions to further reduce the Society's carbon footprint.
- Retaining the Society's Platinum accreditation from the Investors in People and further developing the Society's people strategy that is committed to developing and supporting its people.

Looking ahead into 2024, we are mindful of the challenges from the uncertainty of inflation and interest rates. The Society will focus on initiatives designed to meet the needs of its members and target consumers effectively. This will focus on growing the brand, enhancements to products and services and use of technology including AI to transform its operations and new business acquisition.

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 conventional and sustainable saving plans, fixed rate bonds and unit-linked investment Child Trust Fund accounts. The protection contracts include guaranteed acceptance whole life assurances (“Over 50s”) and contracts that provide income replacement protection (“IP”) in the event the policyholder falls ill or has an accident so they cannot work. The Society also underwrites term life insurance contracts sold through third-party arrangements.

The Society reduces its mortality and morbidity risks on its protection products and products sold through third-party arrangements by utilising reinsurance arrangements with a selection of reinsurers.

Business performance

This section details the Society’s business performance and significant events during the year.

Despite the challenges from high levels of interest rates and inflation over 2023, the Society has been pleased to see membership levels increase by 5% and an increase in total assets, measured for regulatory reporting purposes, by £13.5m to £145.4m as at 31 December 2023. This increase is a function of the growth in the Society’s membership and investment income of £8.8m in the year. This has partially offset the higher claims paid from withdrawals and surrenders in 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 £49.2m to £67.1m. This reflects the effect of the growth in the number of in-force policies and better sickness experience in 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.

There was no material change to the Society's system of governance in the year. During the year, Nasrin Hossain has stepped down from the Board and she remains as part of the Society's Senior Management Team. The Society has retained RSM UK Risk Assurance Service LLP ("RSM LLP") as internal auditors.

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 product risks, capital risks and operational risks that includes climate change risk.

The oversight of these material risks and other material emerging risks is managed by the Society's Board Risk Committee.

The Society's risk management processes have been effective for dealing with the impact of interest rate risks 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 unchanged from those used at the end of the previous year.

The assumptions for technical provisions were updated at 31 December 2023 to reflect the economic conditions and our estimate of future demographic experience at that time.

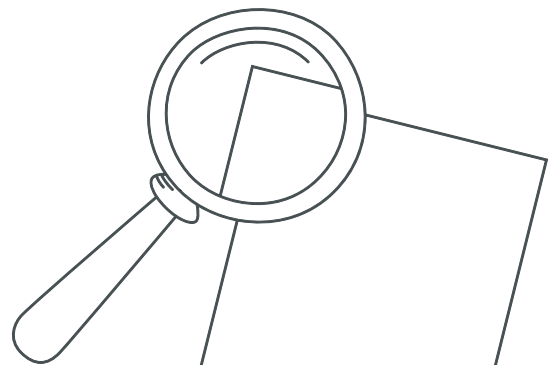
Capital management

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

The Society's Solvency Ratio, defined as the ratio of Own Funds to the Solvency Capital Requirement, was 206% (2022: 171%).

The Society has maintained sufficient own funds throughout 2023 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
3rd April 2024

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 for the annual report and accounts 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’s activities have been discontinued in the prior year. 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 through the Society and third-party arrangements 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, term assurance 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 and life insurance sold through third-party arrangements.

As at 31 December 2023 the Society had assets, as reported for regulatory reporting purposes, of £145.4m (2022: £131.9m) and own funds of £20.7m (2022: £15.8m).

A.2 Underwriting Performance

Table 1 sets out a summary of the Society's underwriting performance over 2023 and over 2022. 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 2023 and 2022

Underwriting Performance over 2023 – net of reinsurance				
Line of business	Premiums and contributions £'000s	Claims £'000s	Maintenance expenses £'000s	Underwriting profit £'000s
With-profits – life	23,032	18,421	1,059	3,552
With-profits – health	1,609	1,688	462	(541)
Non-profit – life	16,886	1,098	489	15,299
Non-profit – health	6,601	2,926	706	2,969
Unit-linked business	397	743	99	(445)
Total	48,525	24,876	2,815	20,834

Underwriting Performance over 2022 – net of reinsurance				
Line of business	Premiums and contributions £'000s	Claims £'000s	Maintenance expenses £'000s	Underwriting profit £'000s
With-profits – life	23,569	10,976	957	11,636
With-profits – health	1,374	1,840	417	(883)
Non-profit – life	9,460	482	442	8,536
Non-profit – health	6,236	3,012	638	2,586
Unit-linked business	389	348	99	(58)
Total	41,028	16,658	2,553	21,817

Maintenance expenses above exclude investment expenses.

A.3 Investment Performance

Table 2 sets out a summary of the Society's annualised investment return over 2023 and the prior year. 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 and the assets backing unit-linked liabilities.

Table 2: Annualised Investment Return over 2023 and 2022

Fund	2023	2022
Conventional with-profits	8.1%	-5.6%
Unit linked	7.6%	0.7%
Sustainable with-profits	16.4%	-16.9%
Combined	8.2%	-3.7%

Table 3 summarises the investment returns by income, realised and unrealised gains over 2023 and 2022 split across the Society's different asset types.

Table 3: Annualised Combined Investment Return over 2023 and 2022

Asset type	2023			2022		
	Income £'000s	Realised gains/ (losses) £'000s	Unrealised gains/(losses) £'000s	Income £'000s	Realised gains/ (losses) £'000s	Unrealised gains/(losses) £'000s
Equity	-	-	-	-	-	-
Property	-	-	-	-	-	-
Cash	285	-	-	-	-	-
Subsidiaries	44	-	-	-	-	-
Collectives	-	397	9,061	-	301	(4,744)
Derivative	-	-	(940)	-	-	3,680
Total	329	397	8,121	-	301	(1,064)

The Society's investment expenses for 2023 were £0.2m (2022: £0.2m).

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 net of reinsurance financing.

Table 4: Acquisition expenses incurred over 2023 and 2022

Expense type	2023 £'000s	2022 £'000s
Acquisition costs and one-off expenses	15,883	12,329

A.5 Any other information

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



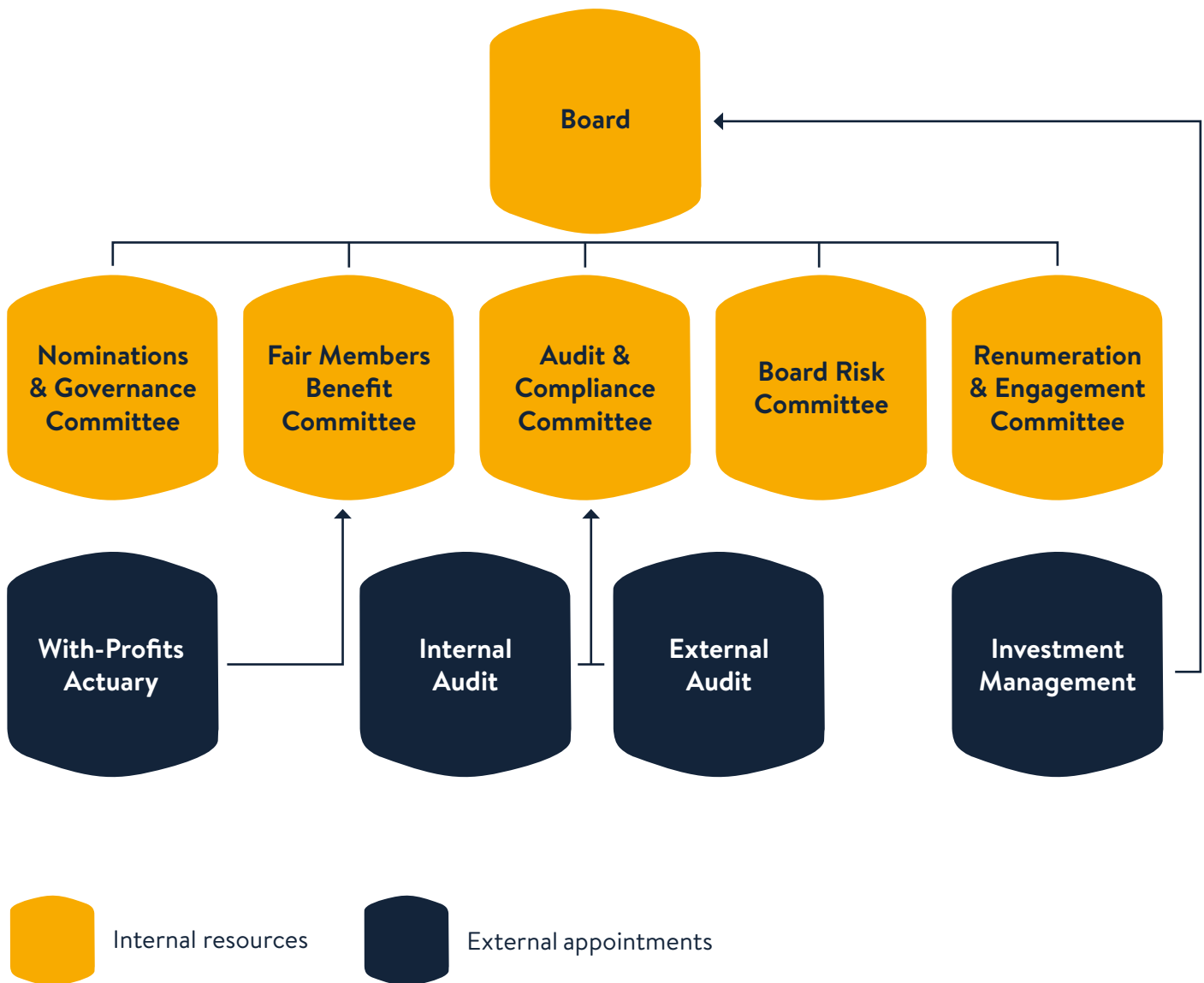
B. System of Governance

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. In 2023, the Society introduced Management Committees that assisted some of the Board Committees in exercising their oversight of the Society's operations, processes and reporting.

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 an annual basis.

Key roles of Board and Committees

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

The Board

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

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

A formal schedule of Matters Reserved to the Board is in place.

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 ensures 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.

A NED will act as a Board Consumer Duty champion to ensure the Board has a focus on Consumer Duty matters.

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 independent appointment through OAC Limited, 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 the Consumer Duty requirements. The Member Voice Committee will monitor and review the Society's performance against the Consumer Duty outcomes in particular product and services, price and value, consumer understanding and consumer support.

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 and engagement policy and practices are aligned to business strategy and objectives, its risk appetite, and engage our people by delivering rewards appropriate to their needs and wants. It also designs the overall remuneration package for the Chief Executive Officer.

Board Risk Committee

The Chair of the Board Risk Committee has the responsibility for the performance of the ORSA process, to ensure the ORSA is reviewed and developed as appropriate (at least annually) and is embedded within the Society as well as to oversee the Society's capital management strategy. They have oversight responsibility for ensuring that the Society has an appropriate ORSA Policy, that the requirements of the Policy are implemented by the Board, and that the Society is fully and effectively using its risk management systems.

The Board Risk Committee is further supported in its activities by the Operational Risk Committee ("ORC"), the Legal, Regulatory, Compliance & Governance Committee ("LRCG") and the Technology and Data Committee. The Committees assist and advice the Board Risk Committee in exercising its overview of all the principal risks, data governance and technology management for the Society and its strategic partners as part of an effective and integrated risk management system. Their core responsibilities include managing a programme of deep dives for specific areas of risk, overseeing the development of the Society's risk management system and ensuring effective monitoring of all risks.

The Board Risk Committee also:

- Monitors the risks attaching to the Society's investments which are currently managed by Royal London Asset Management and Legal and General Investment Management.
- Monitors the financial risks of climate change.
- Monitors market exposures, such as interest rate risk, and implementation of alternative investment strategies to mitigate risk.
- Monitors underwriting risks, such as sickness and lapse risk.
- Monitors the impact on the Society's key risks for new partnerships and product launches by the Society's strategic partners.
- Reports to the Remuneration & Engagement Committee on whether management have adhered to risk appetite.

Audit & Compliance Committee

The Chair of the Audit and Compliance Committee is responsible for chairing and overseeing the performance of the Committee, which is responsible for the oversight of internal and external audit. The Committee is responsible for ensuring the independence of the audit functions and monitors the auditors' performance. The Chair has oversight of the independence, autonomy and effectiveness of the whistleblowing policies and procedures, including those for the protection of employees raising concerns.

The Society's Chief Actuary attends the Audit and Compliance Committee to present recommendations on appropriate methodologies and assumptions to use in the valuation of the Society's long-term business provision in its Annual Report and Accounts as well as the Solvency II regulatory valuation.

The Chief Risk & Compliance Officer 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 reports, and the external auditors also report their findings when the annual financial statements are signed off.

The Committee is supported by the LRCG Committee and Financial Reporting Committee. Both Committees assist in the review of financial reports and overseeing the accuracy and timeliness of regulatory submissions.

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.

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 the Chief Risk & Compliance Officer. The Chief Actuary oversees all financial related policies, processes, procedures, both accounting and actuarial related, thereby ensuring the integrity of financial data used for reporting the affairs of the Society in line with UK accounting and actuarial standards.

Key second line defence functions

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

Risk

Provides independent oversight and challenge over the identification, assessment and management of all significant risks to ensure the Society is operating within agreed risk appetites. 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.

Third line defence support

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

- Internal audit. The Society outsources internal audit to RSM LLP. This arrangement provides access to wider internal audit capabilities and ensures independent assurance on the adequacy and effectiveness of the Society's systems and controls.
- Additional actuarial oversight. OAC Limited provides the Society with additional support for the actuarial activities and development. This is separate and independent of the With-Profits Actuarial services that OAC Limited also provides.
- External audit. BDO LLP are the current independent external auditors for the Society's annual financial statements.

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 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 2018. 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

A record of experience and competencies is maintained for each key function holder 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 Society's Risk Management Framework (the "RMF") is designed to sit alongside the strategic plan and be proportional, aligned, embedded and dynamic. The RMF looks to ensure that risk management and risk culture, supports the identification, assessment, management and control of material risks that threaten the achievement of the strategy and fair treatment of members. The principal architecture of identification and culture are risk categories, headline risks, emerging risks, risk ownership and reporting. There was no material change to the Society's RMF in the year.

To facilitate our RMF, the Society's Risk Database is the central repository for all risks identified by the Society. Risk reporting indicators are used as early warning indicators for each headline risks. They are aligned to the risk appetites and reported to the Board Committees.

Own Risk and Solvency Assessment ("ORSA")

The ORSA, required by regulations, establishes a strong link between business planning, risk assessment and capital management. The Board is responsible for setting the Society's risk appetite which is expressed in the annual ORSA. The ORSA can be produced more frequently if the Society's risk profile has changed materially. One ORSA was produced in 2023 with stress tests undertaken to test the possible impact from higher interest rate, higher inflation and a deterioration in demographic experience.

The Society's overarching risk appetite is to hold a strong capital position and to be able to maintain solvency under significant adverse events. The Society's Risk Appetite Statement explains the level of risk that the Society is prepared to accept in pursuit of its strategic objectives and defines the tolerance for each risk category.

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 – the Senior Management team and front line employees;
- 2nd line – the Society's Risk, Compliance and Actuarial function; and
- 3rd line – the outsourced internal audit function.

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.

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 2023, the Society's Internal Audit activities were outsourced to an external provider, RSM 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.

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 Chief Risk & Compliance Officer as well as a team of qualified and part-qualified actuaries, and data analysts.

Further support is provided by an external actuarial firm, OAC Limited. They review the actuarial function's output and methodologies, and maintain the Society's actuarial models. 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 critical activities 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) attached 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 2023 with the figures at the end of the prior year 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 2023 – £'000s	31 December 2022 – £'000s
Market risk	16,310	14,067
Counterparty default risk	437	896
Life underwriting risk	3,452	3,114
Health underwriting risk	14,716	12,263
Diversification	(8,919)	(7,997)
Basic Solvency Capital Requirement	25,996	22,343
Operational risk	2,024	1,689
Loss absorbing capacity of technical provisions	(17,946)	(14,828)
Solvency Capital Requirement	10,074	9,204

Health risk continues to represent the primary risk driver of the business. Market risks presented above are before the loss absorbing capacity of technical provisions.

Market risks have increased reflecting the decrease in interest rates and higher spread risk from a bigger holding of fixed interest assets at the year end. Health risk has increased in line with the growth of new 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 2023. 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 as at 31 December 2023

Risk	Sensitivity	Estimated impact on Own Funds £'000s
Longevity	-20% decrease in mortality rates	(2,250)
Sickness	+25% inceptions, -20% recoveries	(10,223)
Lapses	10% increase in lapse rates	(5,750)
Expenses	+10% increase in maintenance expenses	(2,981)

Mortality risk

Mortality is not a financially significant risk driver.

Longevity risk

The Society has an exposure to longevity risk i.e. the risk that policyholders live for longer than expected. This risk applies to 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

Expenses, lapse and sickness claims experience is closely managed against the Society's risk appetites by Senior Management and monitored by the Board Risk Committee with Board oversight. Action is taken when performance is outside tolerance.

The Society seeks to work with intermediaries with similar values to deliver the quality of new business it expects and to promote member retention. The Society also focuses on member retention initiatives and it has enhanced the benefits provided to IP policyholders to prevent sickness and to aid recovery from sickness. Reinsurance arrangements help to mitigate sickness risks and IP premiums may be reviewed in line with the terms and conditions of the contracts to adjust for adverse experience.

C.2 Market risk

This is the risk that the Society's own funds are adversely affected by a change in the value of the investments that the Society holds. The risk includes the risk of higher interest rates which reduces the value of future cash flows on the Society's IP contracts.

Table 8 illustrates the relative significance of market risks on the Society's Own Funds as at 31 December 2023. 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 2023

Market movement	Sensitivity	Estimated impact on Own Funds £'000s
Interest rates	Regulatory Insurance interest rate up stress	(1,564)
Equities	Regulatory Insurance stress: 39% fall	(3,830)
Credit spreads	Regulatory Insurance stress	(2,413)
Currency risk	Regulatory Insurance stress	(1,445)

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

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

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

Market risk concentrations

The Society invests the assets backing with-profits liabilities primarily in collective investment schemes. These funds are well-diversified and minimise 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 2023 and the prior year.

Risk mitigation techniques

The Society holds investments in actively managed funds that are designed to generate investment returns and reduce volatility risk in the long term. Investment risk volatility is actively managed by fund managers at RLAM, and LGIM tracks appropriate fund indices for the Society's unit-linked funds. The Board has oversight of RLAM as a key outsourced active investment management services provider. Investment performance and emerging experience is monitored by the Board Risk Committee and the Fair Members Benefit Committee. The Society maintains a varied product range and any reduction in the value of IP policies as a result of higher interest rates will be mostly offset by a lower value of liability on the Society's with-profit business and a higher value of its gilt derivative asset.

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 Society's reinsurers. The reinsurers were 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. Material counterparties are selected based on an assessment of their financial strength and global reputation. This means the credit risk is low for the Society's material counterparties that includes its reinsurers, investment management providers and banking providers. Management reviews outstanding balances from intermediaries on a weekly basis and take action to recover overdue payments.

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 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 £75.2m at the end of 2023 (2022: £57.9m).

C.5 Operational risk, including strategic risks

The main operational and strategic risks facing the business include:

Operational resilience risk: This covers the risk that the Society does not have the ability to prevent, adapt, respond to, recover and learn from operational disruptions or cyber threats. There is a risk that the Society is unable to meet its member obligations following the significant degradation of services received which could result in disruption to our operations or loss of financial assets.

The Society has in place an Operational Resilience Framework to manage and stress test operational and technological crises covering various areas such as data and cyber security, and enabling rapid and effective decision making. The Framework identifies the important business services, critical and important suppliers, and critical roles in the business. The Framework sets out the frequency at which the Society reviews key controls and an assessment of how they can be flexed during periods of operational strain. Before entering any outsourcing relationships, the Society conducts due diligence on the organisations and the outsourced activity to ensure any risks are fully considered. The Society recognises that cyber threats constantly evolve in sophistication and it continues to invest in its security systems to ensure the Society remains resilient to cyber threats and other physical threats to business continuity.

Strategic development change management risk: This captures the risks that the Society's strategic development does not benefit members, and the pace of change could lead to uncertainty around the ability of management to deliver the strategy set out by the Board.

The Board Risk Committee and Board monitor the key risk indicators reported by management. The key risk indicators will act as early warning flags on strategic risk. Management have established a management committee to review progress of strategically important projects, manage the project roadmap and manage strains on development resources.

Compliance risk: This is the risk that the Society fails to meet regulatory and legal requirements of the Society's obligations as an insurance provider.

The Society has a policy in place to provide minimum standards by which product oversight, fair value, and governance are maintained and risks are mitigated. The Society has a dedicated Compliance function within the business, whose role is to support all employees and to ensure they have the requisite knowledge of the applicable laws and regulations for their roles and functions. Training programmes are reviewed annually to identify any gaps in knowledge which are required to be filled. All employees are mandated to complete at least 15 hours of continuing professional development every year.

Consumer Duty risk: This is the risk that the Society fails to act to deliver good outcomes for its members under the Consumer Duty regulation. This may result in poor outcomes for the Society's members.

The Board approved Consumer Duty implementation plan was completed over 2023. The Society is in the process of embedding Consumer Duty across the business and developing key metrics to measure consumer outcomes at key stages of the member journey. The Society has a Board Consumer Duty champion who ensures that the Board takes into consideration Consumer Duty requirements in its discussions. Management, the Fair Members Benefit Committee and the Board regularly review Management Information on complaints, customer communications and sales journeys to maintain oversight.

Product development & portfolio risk: The risk that new business is not in balance with the Society's operational capacity (both too much or too little).

The Society aims to maintain a varied product range and varied distribution channels to provide continuous flexibility and adaptability to changing market circumstances. 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 and oversees that Management take corrective measures to address any significant variances.

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.

Climate change is a key global emerging risk. The Society is taking steps to minimise its carbon footprint as well as ensuring that the risks of climate change are allowed for in its business planning. The ORSA details the scenario analyses undertaken to assess the potential threat of climate change to help inform the Society's longer-term solvency needs. The first scenario considers climate change on reducing mortality and increasing sickness rates due to milder winters and increased heatwaves. The Society has also embedded a second scenario to assess climate change and economic uncertainty that leads to high inflation, a reduction in new business and a deterioration of credit rating.

There are financial risks associated with climate change. These risks have been quantified within the ORSA through specific late action and no additional action scenarios. The Society is also reviewing other aspects impacted by climate change, including governance, risk management, disclosures and Corporate Social Responsibility. The potential risks associated with climate change are being incorporated into our existing risk categories, rather than a standalone risk category.

The primary focus of activity for this is:

- The Society adopting a carbon neutral footprint;
- Reviewing the nature of the Society's investments to ensure they are aligning with the Society's approach to responsible investment;
- Ensuring the Society makes the relevant disclosures in its Annual Report and Accounts; and
- Developing key MI to assess the Society's maintenance of its net zero emissions, as well as the sustainability credentials of its investments;

- Engaging with the Society’s investment management providers to ensure their investment approach is aligned with the Society’s aim to reduce the impact of climate change; and
- Monitoring the investment fund exposure to environmental, social and governance (“ESG”) issues and ensuring that the ESG measures are in line with the Board’s expectations

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

Table 9: Value of Assets at the end of 2023 and at the end of prior year

Asset type £'000s	31 December 2023 £'000s	31 December 2022 £'000s
Collective Investment Undertakings	87,562	74,083
Assets held for unit-linked contracts	41,392	39,267
Reinsurance recoverables	8,797	9,556
Reinsurance receivables	224	-
Cash and cash equivalents	6,791	8,353
Pension scheme surplus	444	312
Other	216	288
Total	145,426	131,859

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.

Cash and cash equivalents are valued at face value.

Other assets relate to amounts payable to Shepherds Friendly from intermediaries and brokers.

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;
- The presentation in the Report and Accounts treats technical provisions in respect of protection benefits as an asset. These are treated as a negative liability for solvency purposes;
- The presentation in the Report and Accounts treats the reinsurance share of technical provisions in respect of protection benefits as a liability. These are treated as a reduction to the reinsurance recoverables asset for solvency purposes;

Table 10 reconciles the value of assets set out in the Report and Accounts with the value of assets used for solvency purposes.

Table 10: Reconciliation of Assets in Report and Accounts to those used for solvency purposes

	31 December 2023 £'000s	31 December 2022 £'000s
The Society's Assets in Report and Accounts	217,290	185,074
Intangible assets	(820)	(822)
Property, plant and equipment held for own use	(317)	(353)
Prepayments	(331)	(382)
Technical provisions for protection benefits	(67,144)	(49,211)
Reinsurers' share of technical provisions for protection benefits	(3,252)	(2,447)
Assets for solvency purposes	145,426	131,859

D.2 Technical provisions

Table 11 provides a summary of the value of technical provisions used for solvency purposes at the end of 2023 and at the end of the prior year.

Table 11: Technical Provisions at the end of 2023 and prior year, gross of reinsurance

	31 December 2023		
Line of business	Best estimate £'000s	Risk margin £'000s	Total Technical Provisions £'000s
With-profits – life	82,088	-	82,088
With-profits – health	13,097	87	13,184
Non-profit – life	50,867	252	51,119
Non-profit – health	(68,804)	1,660	(67,144)
Unit-linked business	40,640	-	40,640
Total	117,888	1,999	119,887

	31 December 2022		
Line of business	Best estimate £'000s	Risk margin £'000s	Total Technical Provisions £'000s
With-profits – life	71,315	-	71,315
With-profits – health	14,610	231	14,841
Non-profit – life	36,675	894	37,569
Non-profit – health	(53,604)	4,392	(49,211)
Unit-linked business	37,379	-	37,379
Total	106,375	5,517	111,892

The following detail the reasons for the change in technical provisions over 2023:

- Risk margin – amounts reduced in line with regulatory changes introduced in 2023 to reduce the amount of risk margin that insurance undertakings are required to hold.
- With-profits – life increased in value reflecting the investment gains in 2023 and expectations of future withdrawals and lapses.
- With-profits – health has reduced over the year as this class of business continues to run off.
- Non-profit – life technical provisions have increased over 2023 primarily reflecting sales of the Society's fixed rate bonds in the year.
- Non-profit – health technical provisions have become more negative reflecting new business growth in 2023 and the decrease in risk-free rates which 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 2023 on assets held for unit-linked liabilities.

General description of methodology used to calculate technical provisions

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

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

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

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

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

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

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

Valuation of the Society's with-profits business

This covers the following types of business:

- With-profits – life: This covers the Society's 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 12 sets out the products covered by this section and the type of business they are.

Table 12: 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 2022.

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 as at 31 December 2023 or as at the end of the prior year.

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 Over 50s business, Holloway business and pure income protection business.

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

Lapse and withdrawal rates

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

Allowance for expenses

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

Inflation

Future inflation is assumed to be in line with CPI projections in the November 2023 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.

Reinsurance

The Society reinsures its Over 50s, part of its IP book of business and products sold through third-party arrangements. 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 and has reflected the sickness and lapse experience over 2023 in the assumptions used as at 31 December 2023.

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 the reporting date is allowed in accordance with the FRS102 accounting for investment contracts. The value of this difference at the end of 2023 is an increase to best estimate liabilities for solvency purposes of £0.58m (2022: £0.91m decrease). The increase to liabilities for solvency purposes is the effect of discounting new business at lower interest rates as at 31 December 2023.

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

Table 13: Other Liabilities at the end of 2023 and at the end of 2022

Liability type	31 December 2023 £'000s	31 December 2022 £'000s
Claims outstanding	2,074	2,009
Claims outstanding – reinsurance	(821)	(688)
Creditors arising out of direct insurance operations	527	321
Creditors arising out of reinsurance operations	-	18
Trade creditors	337	527
Accruals and deferred income	1,836	1,393
Other creditors	837	625
Total	4,790	4,204

There is no observable market for the 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. Liabilities 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 14 summarises the Society's capital position, defined as its Own Funds at the end of 2023 and at the end of the prior year.

Table 14: Own Funds at the end of 2023 and at the end of the prior year

	31 December 2023 £'000s	31 December 2022 £'000s
Own funds	20,744	15,763

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 15 reconciles the two values.

Table 15: Reconciliation of Fund for Future Appropriations to Own Funds

	31 December 2023 £'000s	31 December 2022 £'000s
Fund for Future Appropriations	22,794	16,406
Intangible assets	(820)	(822)
Property, plant and equipment held for own use	(317)	(353)
Prepayments	(331)	(382)
Valuation difference on fixed rate bonds	(582)	914
Own funds	20,744	15,763

Own Funds includes an amount of £75.2m (2022: £57.9m) 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 206% at the end of 2023 (2022: 171%)

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 16 provides a summary of the Solvency Capital Requirement and Minimum Capital Requirement at the end of 2023 and at the end of the prior year.

Table 16: Solvency Capital Requirement and Minimum Capital Requirement

	31 December 2023 £'000s	31 December 2022 £'000s
Solvency Capital Requirement	10,074	9,204
Minimum Capital Requirement	3,495	3,445

Table 17 provides a breakdown of the Solvency Capital Requirement by risk module at the end of 2023 and at the end of the prior year. 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 17: Solvency Capital Requirement by Risk Module

Risk Module	31 December 2023 £'000s	31 December 2022 £'000s
Market risk	16,310	14,067
Counterparty default risk	437	896
Life underwriting risk	3,452	3,113
Health underwriting risk	14,716	12,263
Diversification	(8,919)	(7,997)
Basic Solvency Capital Requirement	25,996	22,343
Operational risk	2,024	1,689
Loss absorbing capacity of technical provisions	(17,946)	(14,828)
Solvency Capital Requirement	10,074	9,204

The Basic Solvency Capital Requirement has increased over 2023 and this reflects:

- higher market risk due to bigger holdings in fixed interest assets held in collective investment funds as at 31st December 2023 and this is driving increases in interest and spread risks; and
- higher health underwriting risk due to growth in Income Protection new business over 2023.

The Solvency Capital Requirement is higher compared to that at the end of the prior year and this reflects the increases in Basic Solvency Capital Requirement set out above.

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 18 details the Minimum Capital Requirement.

Table 18: Inputs used to calculate the Minimum Capital Requirement ("MCR")

	31 December 2023 £'000s	31 December 2022 £'000s
MCR before the application of any floor or cap	(248)	(756)
MCR cap (45% of the SCR)	4,533	4,155
MCR floor (higher of 25% of the SCR and €4.0m)	3,495	3,445
Minimum Capital Requirement	3,495	3,445

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 2023 and the prior year 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.

Disclosures

(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 2023
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: Life insurance and reinsurance obligations

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	444
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	87,562
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	87,562
R0190	Derivatives	0
R0200	Deposits other than cash equivalents	0
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	41,392
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:	8,797
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	8,797
R0320	Health similar to life	-3,252
R0330	Life excluding health and index-linked and unit-linked	12,050

S.02.01.02
Balance sheet (continued)

		Solvency II value
Assets		
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	216
R0370	Reinsurance receivables	224
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	6,791
R0420	Any other assets, not elsewhere shown	
R0500	Total assets	145,426

S.02.01.02
Balance sheet (continued)

		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)	79,247
R0610	Technical provisions - health (similar to life)	-53,959
R0620	TP calculated as a whole	0
R0630	Best Estimate	-55,706
R0640	Risk margin	1,747
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	133,207
R0660	TP calculated as a whole	
R0670	Best Estimate	132,955
R0680	Risk margin	252
R0690	Technical provisions - index-linked and unit-linked	40,640
R0700	TP calculated as a whole	41,392
R0710	Best Estimate	-752
R0720	Risk margin	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	0
R0800	Debts owed to credit institutions	

S.02.01.02
Balance sheet (continued)

		Solvency II value
	Liabilities	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	527
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	406
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	0
R0880	Any other liabilities, not elsewhere shown	3,862
R0900	Total liabilities	124,682
R1000	Excess of assets over liabilities	20,744

S.05.01.02
Premiums, claims and expenses by line of business: Life insurance and reinsurance obligations

		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	8,661	23,032	397	19,793					51,882
R1420	Reinsurers' share	451			2,907					3,358
R1500	Net	8,210	23,032	397	16,886					48,524
	Premiums earned									
R1510	Gross	8,661	23,032	397	19,793					51,882
R1520	Reinsurers' share	451			2,907					3,358
R1600	Net	8,210	23,032	397	16,886					48,524
	Claims incurred									
R1610	Gross	4,792	18,421	743	2,515					26,471
R1620	Reinsurers' share	178	0	0	1,417					1,596
R1700	Net	4,614	18,421	743	1,098					24,876

S.05.01.02
Premiums, claims and expenses by line of business: Life insurance and reinsurance obligations (continued)

		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
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0	0	0	0					0
R1900	Expenses incurred	8,146	7,772	99	2,872					18,889
R2500	Other expenses									
R2600	Total expenses									18,889

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)		
			C0030	Contracts without options and guarantees C0040	Contracts with options or guarantees C0050	C0060				Contracts without options and guarantees C0070	Contracts with options or guarantees C0080				C0090	C0100
R0010	Technical provisions calculated as a whole		41,392							41,392						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	82,088	-752			5,372	45,495			132,202		-68,803	13,097			-55,706
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					12,050				12,050		-3,252				-3,252

S.12.01.02
Life and Health SLT Technical Provisions (continued)

		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
R0090	Best estimate minus recoverables from reinsurance/ SPV and Finite Re	82,088		-752	0		-6,678	45,495			120,153		-65,551	13,097			-52,454
R0100	Risk margin	0	0			252					252	1,747					1,747
	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	82,088	40,640			51,119					173,846	-53,959					-53,959

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	20,744	20,744			
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	20,744	20,744	0	0	0

S.23.01.01
Own Funds (continued)

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
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

S.23.01.01
Own Funds (continued)

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
Available and eligible own funds						
R0500	Total available own funds to meet the SCR	20,744	20,744	0	0	0
R0510	Total available own funds to meet the MCR	20,744	20,744	0	0	
R0540	Total eligible own funds to meet the SCR	20,744	20,744	0	0	0
R0550	Total eligible own funds to meet the MCR	20,744	20,744	0	0	
R0580	SCR	10,074				
R0600	MCR	3,495				
R0620	Ratio of Eligible own funds to SCR	205.92%				
R0640	Ratio of Eligible own funds to MCR	593.58%				

S.23.01.01
Own Funds (continued)

	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
		C0060				
	Reconciliation reserve					
R0700	Excess of assets over liabilities	20,744				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	0				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	Reconciliation reserve	20,744				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	75,245				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	Total Expected profits included in future premiums (EPIFP)	75,245				

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	16,310		
R0020	Counterparty default risk	437		
R0030	Life underwriting risk	3,452	9	
R0040	Health underwriting risk	14,716	9	
R0050	Non-life underwriting risk	0	9	
R0060	Diversification	-8,919		
R0070	Intangible asset risk	0		
R0100	Basic Solvency Capital Requirement	25,996		
	Calculation of Solvency Capital Requirement	C0100		
R0130	Operational risk	2,024		
R0140	Loss-absorbing capacity of technical provisions	-17,946		
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	10,074		
R0210	Capital add-ons already set	0		
R0220	Solvency capital requirement	10,074		
	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		

USP Key

For life underwriting risk:

1 Increase in the amount of annuity benefits

9 None

For health underwriting risk:

1 Increase in the amount of annuity benefits

2 Standard deviation for NSLT health premium risk

3 Standard deviation for NSLT health gross premium risk

4 Adjustment factor for non-proportional reinsurance

5 Standard deviation for NSLT health reserve risk

9 None

For non-life underwriting risk:

4 Adjustment factor for non proportional reinsurance

6 Standard deviation for non-life premium risk

7 Standard deviation for non-life gross premium risk

8 Standard deviation for non-life reserve risk

9 None

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

		Gross solvency capital requirement	USP	Simplifications
	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**

			Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
R0210	Obligations with profit participation - guaranteed benefits		C0050	C0060
R0220	Obligations with profit participation - future discretionary benefits		45,773	
R0230	Index-linked and unit-linked insurance obligations		49,412	
R0240	Other life (re)insurance and health (re)insurance obligations		40,640	
R0250	Total capital at risk for all life (re)insurance obligations			489,952

Overall MCR calculation		C0070		
R0300	Linear MCR	-248		
R0310	SCR	10,074		
R0320	MCR cap	4,533		
R0330	MCR floor	2,518		
R0340	Combined MCR	2,518		
R0350	Absolute floor of the MCR	3,495		
R0400	Minimum Capital Requirement	3,495		

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