National Deposit Friendly Society Limited

Solvency and Financial Condition Report

For the financial year ended 31 December 2021

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Summary

Under the UK solvency regime, insurers such as National Deposit Friendly Society Ltd ("National Friendly" or "the Society") are required to publish their annual Solvency and Financial Condition Report ("SFCR"). This is made available through the Society's website and provides information under prescribed headings on the risks faced by the Society, the system of internal controls and governance framework, the financial position and how capital is managed.

2021 overview

2021 remained a challenging operating environment as the COVID-19 pandemic continued to affect all of our lives, but one in which the Society continued to make progress. During the year, we began a major transformation journey, leveraging our experience in the health and protection market to sustainably increase membership.

The Society's aim is to broaden our product range and access to new members using our technical expertise and that of our strategic business partners whilst utilising new technology driven distribution platforms such as price comparison websites. At the same time, we will ensure that we continue to deliver the personal and high-quality service expected by our members.

This is a two-year transformation journey in which 2021 is the foundation year with considerable investment in product research and development, people, investment in core services for existing and new prospective members and increased access to distribution partners. A major service improvement for our medical insurance members is the new claims management service delivered in partnership with Alliance Health Group ("AHG"). The AHG consultant-led referral process specialises in getting members faster access to correct diagnosis and ultimately faster treatment. This went live for all our private medical insurance customers in February 2022.

The Society's product offering was significantly enhanced during the year. In February 2021, we became one of only four UK insurers offering immediate care plans (products which fund the provision of long-term care for the balance of the member's life) using a common market application process facilitated by the Medicals Direct Group. In April we entered the income protection market, initially with an accident only income protection product, and in November with the full income protection product having invested in a state-of-the-art underwriting capability in partnership with Munich Re.

Similarly, the Society's distribution channels were enhanced through signing contracts with a number of major insurance broker networks, quotation services and brokers to sell our products exclusively. Combined with the expansion of the dedicated direct sales operation, these increased the accessibility and availability of the Society's products to a wider range of potential customers.

The transformation outlined also maximises the Society's past investment in its administration system, which is able to rapidly implement new products and handle the associated processing capabilities.

Economic landscape

In July, the basis of the mandatory 'risk free' discount rate used to discount the actuarial liabilities switched from the London Interbank Offered Rate ("LIBOR") to the Sterling Overnight Interbank

Average Rate ("SONIA"). This impacted the whole industry and for the Society resulted in a reduction in the Solvency Capital Requirement ("SCR") coverage ratio of eight percentage points at the time of transition. This change also introduced further risk of mismatch between the behaviour of the assets and liabilities.

Accordingly, the Board determined to de-risk the Society's balance sheet by reinvesting a significant proportion of non-government bond assets backing non-profit liabilities in either cash or government stock as appropriate. The de-risking also included selling property and equity assets which previously backed the Society's Own Funds, reinvesting in assets with more stable values. The final outcome was a situation where the Society is insulated from extreme investment shocks, ensuring capital security.

Financial position

The table below summarises the Society's capital position under the solvency regime at the end of 2021. The Society applies the standard formula for the calculation of its SCR.

In 2017 the Prudential Regulation Authority ("PRA") approved the Society's application for use of Transitional Measures on Interest Rates ("TMIR"). This allows the Society to continue to use the discount rate from the previous regulatory regime for the existing policies and gradually transition to the current solvency regime over a 16-year period as these policies mature. For comparison purposes, figures below are shown excluding and including TMIR.

Solvency Balance Sheet (£'000)	2021 With TMIR	2021 No TMIR	2020 With TMIR	2020 No TMIR
Assets	95,289	95,289	101,770	101,770
Best Estimate Liabilities	70,996	71,321	79,502	80,744
Other Liabilities	3,284	3,284	1,919	1,919
Risk Margin	5,472	5,472	4,347	4,347
Total Liabilities	79,752	80,077	85,768	87,010
Eligible Own Funds to cover capital requirements	**15,537**	**15,212**	**16,002**	**14,760**
Solvency Capital Requirement	10,825	10,851	11,212	11,227
Excess Own Funds	**4,712**	**4,361**	**4,789**	**3,533**
SCR Coverage Ratio	**144%**	**140%**	**143%**	**131%**

The Society's capital position is assessed in accordance with the PRA Rulebook and the Society manages its business on this basis. This is a risk-based approach to the assessment of capital requirements whereby Technical Provisions are calculated as the sum of the best estimate of liabilities plus a risk margin.

Own Funds is the regulatory measure of the Society's net assets after liabilities, on a solvency basis. It represents the long-term value attributable to its members and allows the Board to establish the impact of management activity over the long term.

The Society's Own Funds have decreased slightly by £0.5m during the year. Although the Society's liabilities reduced (owing mainly to the maturing of with profits policies), this was offset by a reduction in asset values predominantly driven by increases in yields during the year, shrinking the balance sheet.

The SCR coverage ratio is a measure of how many times over the surplus capital covers the SCR. The SCR is the capital that an insurer is required to hold to withstand a set of events covering market, underwriting, counterparty and operational risks such that the resulting level of capital would only be breached during a 1-in-200 year event. The SCR is calculated using the prescribed Standard Formula set out in the regulations. The regulatory requirement is for the SCR coverage ratio to exceed 100%, on top of which the Society has a Solvency Risk Appetite which is set on a Red-Amber-Green scale in order to provide additional security to members.

In 2021, the Society's SCR coverage ratio increased slightly to 144% (prior year; 143%). The eight basis point adverse impact of the change in mandatory 'risk free' discount rate from LIBOR to SONIA described above was offset by the balance sheet de-risking activities undertaken during the year, as well as by changes in actuarial assumptions.

A. Business and Performance

A.1 Business

National Deposit Friendly Society ("the Society") is a mutual friendly society founded in 1868 and incorporated under the Friendly Societies Act 1992. The Company number is 369F.

The Society's registered office and operating address is:

11-12 Queen Square
Bristol
BS1 4NT

The Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority whose contact details are shown below:

Prudential Regulation Authority Bank of England Threadneedle Street London EC2R 8AH	Financial Conduct Authority 12 Endeavour Square London E20 1JN

The Society's external auditor is:

Ernst & Young LLP
The Paragon
32 Counterslip
Bristol
BS1 6BX

The Society forms part of a Group which consists of National Deposit Friendly Society Limited and two wholly owned subsidiaries; National Friendly Financial Solutions Limited and National Friendly Software Solutions Limited.

This Solvency and Financial Conduct Report "SFCR" covers National Deposit Friendly Society Limited on a solo basis as well as the Society plus its wholly owned subsidiaries consolidated on a group basis.

National Deposit Friendly Society Limited is regulated as a solo insurance entity and is the only insurance company within the Group.

The Society writes and administers contracts of insurance as follows:

- With-profits life and pension contracts, including bonds; these are the Society's with-profits business
- Non-profit life contracts; the Society's guaranteed life assurance product
- Non-profit annuity contracts; comprising immediate care plans which fund the provision of long-term care for the balance of the member's life
- Non-profit healthcare contracts; the Society's private medical insurance product
- Non-profit income protection contracts; comprising full and accident only income protection plans
- Unit-linked contracts

All business is written in the United Kingdom.

A.2 Underwriting Performance

The Society is authorised to write long term insurance business. Premiums received in 2021 relate to regular premiums on existing policies and premiums on new contracts of insurance written in the year.

Reinsurance is used for certain products to limit the overall risk exposure and reduce the volatility of claims, particularly in respect of new healthcare policies. The Society reinsures its Private Medical Insurance products with Gen Re and reinsures the Immediate and Deferred Care Plans with Hannover Re.

The Society prepares its financial statements in accordance with UK Accounting Standards including Financial Reporting Standard 102 ("FRS 102"). As such, the underwriting performance detailed in this section is in compliance with FRS 102.

The table below shows the Society's premiums, claims and expenses split by the prescribed lines of business for the period ended 31 December 2021.

£'000	Health	With-Profit	2021 Unit-Linked	Other Life	**Total**	**2020** **Total**
Gross Premiums	7,645	1,126	25	13,256	**22,052**	**16,333**
Reinsurers' share of premiums	(1,652)	-	-	(1,979)	**(3,631)**	**(2,446)**
Gross Claims	(7,111)	(5,141)	(83)	(3,913)	**(16,248)**	**(13,843)**
Reinsurers' share of claims	1,228	-	-	1,929	**3,157**	**2,057**
Expenses (acquisition & administration)	(2,798)	(1,067)	(34)	(7,891)	**(11,790)**	**(11,155)**

A.3 Investment Performance

The Society holds two categories of asset; unit linked and non-unit linked. The assets held to match the unit-linked liabilities are managed in a separate investment fund which is ear-marked to cover the unit linked liabilities. All non-unit linked assets of the Society are included within the single long-term business fund.

The Society has an Investment & Liquidity Policy which sets out the principles and guidelines for the operation of the Society's investments and liquidity including the framework within which the Society's assets will be invested. This complies with the requirements under the Prudent Person Principle as set out in the PRA Handbook, the Society's risk appetite and the Principles & Practices of Financial Management ("PPFM") relating to with-profits policies. The PPFM outlines broad ranges for asset backing for various liabilities which have been taken into account in this policy.

The investment strategy of the long-term business fund is to maximise the returns to with-profits policy holders, whilst maintaining adequate solvency and providing adequate liquidity to meet the Society's day to day needs.

As at 31 December 2021, the Society's investment portfolio comprised the following assets:

	2021		**2020**	
Type of Assets	**Amount (£m)**	**Amount (£m)**	**Amount (£m)**	**% of portfolio**
Property (other than for own use)	9.0	11.2%	19.9	21.9%
Holdings in related undertakings	0.6	0.7%	0.6	0.6%
Government bonds	48.6	60.2%	22.5	24.7%
Corporate bonds	15.3	19.0%	36.3	40.0%
Collateralised securities	1.7	2.1%	2.1	2.3%
Collective investment undertakings	1.4	1.7%	6.4	7.1%
Derivatives	0.0	0.0%	1.6	1.8%
Deposits other than cash equivalents	4.0	5.0%	1.4	1.5%

Type of Assets	2021 Amount (£m)	2021 Amount (£m)	2020 Amount (£m)	2020 % of portfolio
Loans and mortgages to individuals	0.1	0.1%	0.1	0.1%
Total	**80.7**	**100.0%**	**91.0**	**100.0%**

- NB values above taken from QRTs and include accrued interest therefore do not reconcile neatly to the accounts

The Society's investment assets are held in bank deposits, government bonds, corporate bonds, equities and commercial property. The table above shows a significant shift in the asset composition during 2021 as the Board determined to de-risk the Society's balance sheet by reinvesting a significant proportion of non-government bond assets backing non-profit liabilities in either cash or government stock as appropriate. Property, equity and corporate bonds were sold and reinvested in cash and government bonds. The Society sold six properties during the year, all in excess of their carrying value. Assets matching the with profit business continue to be invested in a full basket of assets; properties, equities, corporate bonds and cash.

In 2021, the total investment asset value decreased from £91.0m to £80.7m predominantly due to a £6.4m unrealised loss across the corporate and government securities, equity and derivatives portfolio driven by increases in market yields. This is further illustrated in the breakdown of investment income overleaf. The reduction in value was largely matched by a reduction in the value of liabilities as per the Society's Investment and Liquidity Policy which states that assets are matched to the nature and duration of the liabilities to the extent reasonably possible.

Whilst the Society's deposits other than cash equivalents and cash balances were bolstered by the property sales described above, these were also impacted by a £0.9m contribution from the Society to the Staff Superannuation Pension Fund to reduce the deficit, exceptional administration costs incurred during the year and a net cash outflow in early months prior to growth in sales of the immediate care plan.

Investment income:	**2021** **£'000**	**2020** **£'000**
Income from land and buildings	**1,135**	**1,514**
Fixed interest stocks	1,634	2,059
Ordinary shares	201	263
Income from listed investments:	**1,835**	**2,322**
Bank interest	5	10
Mortgages	2	3
Income from other investments:	**7**	**13**
Income from investments	**2,977**	**3,849**
Net gains on realisation of land and buildings	39	308
Net gains on realisation of listed investments at fair value through profit and loss	862	4,407
Net gains on realisation of investments	**901**	**4,715**
Investment income	**3,878**	**8,564**
Net unrealised gains/(losses) on investments		
- Land and buildings	991	(2,238)
- Listed investments at fair value through profit and loss	(6,417)	(1,511)
- Assets held to cover linked liabilities at fair value through profit and loss	200	(32)
	(5,226)	**(3,781)**
Total investment return	**(1,348)**	**4,783**
Investment Expenses		
Investment management expenses	176	253
Investment property direct costs	415	497
	591	**750**

A.4 Other Information

The Society has no other material information regarding its business and performance to report.

B. System of Governance

B.1 Governance Structure

Board of Directors

The Society's Board of Directors has responsibility for the oversight of the Society's business and sets its strategy and risk appetite. The Board has established a number of Board delegated Committees to oversee certain key functions under its overarching authority, reporting their activities and making recommendations to the Board. Each committee is chaired by a Non-Executive Director. All Non Executive Directors are considered to have appropriate skills and expertise to undertake their role within the Board and Committees. All Non Executive Directors are members of all Board delegated Committees.

The Board is the main decision making body for the Society. It determines the strategic direction and has responsibility for the overall management of the Society's business affairs. The Board sets the Society's values and standards and has overall responsibility for ensuring that obligations to members and other stakeholders are met.

The Board monitors and oversees the Society's operations with the purpose of maintaining competent management, sound planning, robust and prudent risk and capital management, an effective internal control environment, a culture of risk awareness and ethical behaviour and compliance with statutory and regulatory obligations.

The Board consists of such number of individuals as the Board may determine from time to time but no more than 50% shall be Executive Directors. As at 31 December 2021, the Board comprised four Non-Executive Directors and two Executive Directors:

- Geoff Brown (Chairman & Non-Executive Director)
- Mark Searles (Senior Independent Non-Executive Director)
- Mary Gavigan (Non-Executive Director)
- Mike Hughes (Non-Executive Director)
- Graham Singleton (Executive Director)
- Julian Ellacott (Executive Director)

Two longstanding members of the Society's Board; Tracy Morshead (Chairman and Non-Executive Director) and Sandy Richards (Executive Director) stepped down in May 2021. In September 2021, Julie Hansen was elected to the Society's Board as a Non-Executive Director but for personal reasons stepped down in November. On receiving Julie's resignation, the Nominations Committee met and recommended to the Board that Mike Hughes, who had joined the Board of the wholly owned subsidiary National Friendly Financial Solutions in September, be invited to join the main Society Board. Mike subsequently accepted the invitation. Ratification of his appointment by members will be sought at the 2022 AGM.

Audit Committee

The role of the Audit Committee is to consider and assist the Board in fulfilling its oversight responsibilities with regards to the integrity and effectiveness of the systems of internal control, financial processes, financial statements and performance of the internal audit function. The Audit Committee and Risk and Compliance Committee work together effectively to cover all relevant issues and ensure that any pertinent areas of overlap are appropriately addressed.

Members of the Audit Committee are appointed by the Board and comprise all Non-Executive Directors. From September 2021 onwards, the Chair of the Board was a member of the Audit Committee. Whilst this is not in compliance with the AFM Governance Code, the Board decided that it was particularly important at a time of significant change in membership of the Board that the Audit Committee could benefit from the Chair's experience of the Society and his actuarial skills and qualifications. In addition, Graham Singleton remained as Audit Chair for a brief period following his appointment as Interim CEO (appointed Interim CEO in February, resigned as Audit Committee Chair in March) due to the timing of notifications during this period of transition. No Audit Committee meetings were held or decisions taken during this period. Membership of all Board Committees is reviewed at least annually and the Chair's ongoing membership of the Audit Committee will be reviewed again in 2022.

The primary responsibilities of the Audit Committee are to:

- Review the Society's financial statements and critical accounting policies, judgements and estimates including the assumptions to be used in respect of morbidity, mortality, persistency and expenses.
- Oversee the annual external audit of the financial statements, considering the planning, scope and findings of the external auditor.

- Provide advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and comprehensible and provide the information necessary for members to understand the Society's position and prospects, including performance, business model and strategy.
- Review the adequacy and effectiveness of the Society's internal financial controls and internal control and risk management systems in conjunction with reviewing reports produced by the Society's internal and external auditors.
- Review and monitor the independence of the external auditors, in particular the appropriateness of the provision of non-audit services.
- Consider the appointment, performance and remuneration of the external and internal auditors.

Risk and Compliance Committee

The Risk and Compliance Committee assists the Board in its leadership and oversight of risk. This includes the understanding and, where appropriate, optimisation of current and future risk strategy, overall risk appetite and tolerance, risk management including risk policies, process and controls and the promotion of a risk awareness culture throughout the Society. It is also responsible for the oversight of regulatory compliance including conduct risk and the policies and procedures within the Society.

The Committee consists of all Non-Executive and Executive Directors.

The primary responsibilities of the Risk and Compliance Committee are to:

- Review, monitor and challenge the Society's risk management framework, including the capability to identify, mitigate and manage emerging and new risks in conjunction with the Audit Committee.
- Oversee the Society's ongoing compliance with statutory and regulatory requirements and ability to identify emerging regulatory trends.
- Review and oversee strategic risks when there is a significant change to the Society's strategic business plan
- Make recommendations concerning the Society's overall risk appetite, tolerances and strategy.
- Review any material breaches of risk appetite and risk tolerance plus the adequacy and implementation of proposed actions, ensuring that all matters are reported appropriately to the Board.
- Monitor and review the Society's management of the risks of climate change.
- Review, update and test operational resilience, including the Society's business continuity plans on a regular basis.
- Review the Society's procedures for the prevention and detection of bribery and corruption; oversee anti-money laundering and financial crime

Investment Committee

The Investment Committee monitors compliance with the terms of the PPFM and Investment & Liquidity Policy in relation to the management of the Society's investments and reviews its continuing appropriateness with consideration of the needs of both with-profit and non with-profit policyholders.

The Committee consists of all Non-Executive and Executive Directors.

The primary responsibilities of the Investment Committee are to:

- Set the Investment & Liquidity Policy, subject to Board approval, in compliance with the terms of the PPFM in respect of with-profit policyholders and in line with the requirements of other non with-profit policyholders.
- Oversee the application of the Investment & Liquidity Policy.
- Periodically review the Investment & Liquidity Policy in light of current circumstances of the Society, in particular in respect of capital requirements, overall market conditions and environmental, social and governance considerations.
- Develop and keep under review the appropriateness of key risk indicators and tolerances and information provided by third parties such as financial institutions, asset managers and rating agencies.
- Appoint and monitor the performance of the Society’s external investment and property managers, and custodian.

With-Profits Advisory Arrangement

The role of the With-Profits Advisory Arrangement (“WPAA”) is to objectively monitor and provide independent judgment on the extent to which procedures, systems and controls are adequate and effective to enable the Society to comply with the requirements of the FCA Handbook regarding the management and governance of with-profits business.

The WPAA comprises all Non-Executive Directors. The With-Profits Actuary attends meetings as appropriate.

No member of the WPAA holds an Executive position within the Society, nor has acted as a professional advisor to the Society within the year preceding a proposed first appointment to the WPAA.

The primary responsibilities of the WPAA are:

- In advising and reporting to the Board, the WPAA monitors and considers all relevant issues, including but not limited to:

  a) The rights, interests or expectations of different classes and generations of with-profits policyholders.
  b) The manner in which the Society exercises discretion in the conduct of the with-profits business.
  c) The manner in which the Society addresses competing or conflicting rights, interests or expectations of its policyholders (or groups of policyholders).
  d) Proposals from the With-Profits Actuary for bonus rates, surrender values or market value adjustments in respect of with-profits policies.
  e) Proposals for changes to the PPFM.
  f) Compliance with the PPFM.

- To make an annual report to with-profits policyholders, recording any significant activity it has undertaken and highlighting any issues that it has raised with the Board.

Nomination Committee

The Nomination Committee reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any adjustments that are deemed necessary.
The Committee comprises all Non-Executive Directors.

The primary responsibilities of the Nomination Committee are to:

- Review the structure, size and composition of the Board including the balance of skills, experience and diversity and make recommendations to the Board with regard to any changes.
- Review the succession plans and leadership needs of the Society, both Executive and Non-Executive, giving consideration to current and future business needs and requirements, and the continued ability of the Society to compete effectively in the marketplace.
- Be responsible for identifying and nominating for the approval of the Board, candidates to fill vacant Board positions as and when they arise.

Remuneration Committee

The underlying purpose of the Remuneration Committee is to oversee the Society's remuneration policy.

The Committee comprises all Non-Executive Directors. The Chief Executive and / or another Executive Director attend meetings as appropriate.

The primary responsibilities of the Remuneration Committee are to:

- Establish, implement and maintain the remuneration policy and practices in line with the Society's risk management strategy, risk profile and objectives.
- Observe industry standards for corporate governance regarding Executive Director, Non-Executive Director, and Senior Management Function's remuneration, including disclosure requirements and avoidance of conflict between business objectives and compliance with legal and regulatory requirements.

Executive Committee

The Executive Committee forms part of the Society's corporate governance structure. The Board is the main decision making body and the Executive Committee, is charged (via delegation from the Chief Executive) with the operational running of the Society's business.

The Committee consists of the Executive Directors and such other members of Senior Management appointed by the Board in consultation with the Chair

The primary responsibilities of the Executive Committee are to:

- Determine the Society's strategic positioning, mission, aims and priorities, as part of the Society's strategic and business plans for consideration by the Board.
- Implement agreed strategy including strategic projects, and report to the Board on their return on investment and performance against delivery time and budget.

- Manage the business on an ongoing basis, reviewing performance against budget and business Key Performance Indicators (KPIs) as agreed with the Board. Ensure appropriate and accurate management information is provided to management and the Board.
- Design and implement a framework of processes and controls, as agreed with the Board, that is effective in allowing the business to run efficiently, in compliance with the Society's Risk Appetite Statement, legislation and regulation and enables the effective management of the Society's capital, risks and ORSA.
- Establishing systems for business relationships/partnerships, particularly outsourced arrangements, so that regulatory obligations are complied with, in compliance with the Outsourcing policy, contractual service standards are delivered and business needs met.
- Oversee the strategic approach to regulatory and legislative matters, including new legislation and regulations.
- Implement and maintain an effective member relations strategy.
- Determine the Society's internal culture and values, ensuring alignment with the Board's cultural objectives, ensuring they are embedded, maintained and promote a culture of risk awareness and ethical behaviour for the Society's staff to follow in pursuit of its business goals and which is conducive to treating customers fairly and good customer outcomes.
- Undertake tasks delegated by the Board as required.

The Society monitors its system of governance on an ongoing basis and considers it to be appropriate for the Society, taking into account the nature, scale and complexity of the risks inherent in the business.

No material changes in the system of governance have taken place during the reporting period.

Remuneration Policy

The Society's approach to remuneration is an integral part of the Business strategy and the policy is designed to attract, retain and motivate competent, experienced and skilled staff. The policy is based on the following principles:

a) Reward and remuneration will be clear and competitive within the market so that individuals are motivated and the Society is able to attract and retain key talent.
b) Remuneration will be determined fairly and objectively across the Society.
c) Variable reward for the Directors and key function holders will be linked to strategic personal objectives.
d) Total remuneration will comprise a fixed base salary as well as a variable discretionary bonus and other financial and non-financial employee benefits.
e) The remuneration policy will be transparent and accessible to all Society staff.

The fixed and variable components of remuneration for Executive Directors and persons responsible for key functions within the Society are broken down as follows:

Base salary

This is the core component of the remuneration package. The Remuneration Committee may consult with external advisors as appropriate for guidance and benchmarking

Base pay will normally be reviewed annually in April. Pay rises are not guaranteed, but the review will take into consideration in any increase in cost of living and, where appropriate other external market factors, in line with the approach taken for all employees.

Variable Remuneration

The Executive Directors are eligible for annual Performance Related Pay currently representing up to a maximum of 30% of base salaries. All Executive Directors participate on the same basis and this comprises two elements: the first is assessed on a collective basis against identified corporate objectives and the second element is an individual performance related assessment against personal goals and objectives.

All other employees are eligible for variable discretionary remuneration of up to 12% of base salaries. This is assessed on individual performance against pre-defined personal objectives with payment dependent upon the achievement of identified corporate objectives.

There is currently no Long Term Incentive Plan (”LTIP”) scheme in operation. The Remuneration Committee may give consideration to the terms of such a scheme in the future, considering the Society’s medium and long term objectives over an extended time horizon, whilst taking account of the Society’s risk profile.

Retirement and Related Benefits

All employees are members of a defined contribution pension scheme, apart from a small number who remain members of the legacy Staff Superannuation Fund. The Society contributes up to a maximum of 12% of base salary, dependent upon personal contribution levels.

Other Benefits

Executive Directors and are entitled to death in service benefit of four times’ basic salary and a company car or car cash allowance. Other benefits available to all staff are also available to Executive Directors such as private medical insurance, salary sacrifice schemes for pension contributions, the cycle to work initiative and season ticket loans.

The Society requires that the Directors do not use personal hedging strategies or insurance that could be used to undermine the risk alignment effects embedded in their remuneration arrangements.

Non-Executive Directors

Remuneration for Non-Executive Directors comprises a basic fee plus a supplement for the Chair of the Board, Committee Chair and Senior Independent Non-Executive Director roles based primarily upon the time commitment required for the roles.

Fees are benchmarked against similar roles in comparable organisations and calculated on an annual rather than a daily basis. However, it is assumed that to fulfil the basic role of a Non-Executive Director, sufficient time and commitment is required each month for review work and attendance at regular Board meetings, the Society's AGM, Special General Meetings where appropriate, other ad hoc meetings with regulators and advisers as may be required plus training courses.

Non-Executive Directors' remuneration is not performance related nor pensionable and Non-Executive Directors do not participate in any incentive plans. Fees for Non-Executive Directors are determined by the Executive Directors and subject to approval of the Board as a whole. They are designed to recognise the responsibilities of Non-Executive Directors and to attract individuals with the necessary skills and experience to contribute to the objectives of the Society.

Aside from the arrangements outlined above, Mary Gavigan, a Non-Executive Director, provided consultancy services to the Society during the year, for a limited period, beyond the scope of the contractual duties of a Non-Executive Director to the value of £15,967. These services were provided on normal commercial terms and are disclosed in the directors' remuneration report of the Society's Annual Report.

Graham Singleton, prior to his appointment as Chief Executive and whilst serving as a Non-Executive Director, provided services as Interim Chief Executive Officer in February and March 2021 to the value of £31,500. These services were provided on normal commercial terms and are also disclosed in the Society's Annual Report

B.2 Fit and Proper

Skills, knowledge and expertise

The Society ensures that persons who effectively run the business or hold responsibility for key functions (defined as "Senior Managers") have, individually and collectively, an appropriate depth and diversity of knowledge, skills, qualifications and experience relevant to their respective roles and duties, in order to manage and oversee the running of the organisation in an effective, compliant, and professional manner.

These functions lie within the financial regulators' Senior Managers and Certification Regime ("SM&CR") that designates a number of defined senior management function ("SMF") roles and are subject to additional conduct standards. The SMF roles are subject to regulatory approval prior to appointment to their new role and undergo regular assessment of fitness and propriety.

Fitness and Propriety

To ensure that Senior Managers are fit and proper, they are recruited giving due regard to honesty, integrity and reputation, competence and capability of the candidate, as well as their fitness and propriety. This is covered in the FCA FIT rules and a process is in place to ensure that all candidates in this category are reviewed against the regulatory requirements.

Certification individuals are identified as a key person that could cause customers or the business significant harm if they failed to perform their role effectively. These are subject to the same fitness and propriety expectations as Senior Managers.

On an annual basis, the Society will carry out an assesment to certify that both categories (SMF and certified individuals)are fit and proper to carry out their function in the business.

The Society has a 'Fit and Proper' policy including an annual Fit and Proper declaration.

B.3 Risk Management System

Risk Management System

The Society's risk management framework seeks to ensure that there is an effective process in place to manage risks across the Society. Risk management is integral to all aspects of the Society's activities and is the responsibility of all staff. Senior managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasises careful analysis and management of risk in all business processes. Risks are identified, assessed and managed at a strategic, operational, conduct and financial level.

The framework comprises the stated risk appetite and tolerance for strategic, operational and financial risks and associated risk registers. The Society has a number of specific risk metrics which assist management in assessing whether outcomes are consistent with the Society's risk appetite.

The governance of risk management is aligned to the three lines of defence:

- The first line of defence comprises the operational business areas who are responsible for the ongoing assessment of risk and performance of day to day controls.
- The second line of defence is represented by internal assurance (oversight and monitoring) of the operational business areas provided by Compliance and Risk
- Independent assurance on the effectiveness of the Society's systems and internal controls is provided by the internal audit function and other skilled external practitioners e.g. consulting actuaries.

The Board has the ultimate responsibility for setting the Society's strategy for risk management; reviewing the Society's systems of risk management and internal control and their effectiveness and being responsible to the regulator and its policyholders for ensuring compliance with regulatory obligations including capital and solvency requirements of the ORSA.

The Board determines the risk appetite, taking into consideration recommendations from the Risk and Compliance Committee and senior management. The Risk and Compliance Committee reviews the Society's risk appetite statements at least annually before submission to the Board for approval.

Risk Management Function

The Risk function is led by the Head of Risk and Strategic Projects. Key responsibilities of the function include:

- Maintenance, development and monitoring of the risk management framework.
- Lead the review of all risks within the Society's Risk Universe on a quarterly basis to reflect any changes including the identification of emerging risks.
- Provision of regular risk reporting to the Risk and Compliance Committee including dashboard reporting of the current risk assessment versus appetite.
- Undertaking second line monitoring to assess the operational effectiveness of the first line of defence.

- Lead the review of the Society's risk appetite on at least an annual basis taking into account the Society's business plan and strategic objectives.

To ensure independence of this function, it has a direct reporting line to the Risk & Compliance Committee with access to the Committee Chair.

B.4 Own Risk and Solvency Assessment

The ORSA process and report enable the Board to assess the risk-based capital requirement of the Society based upon its' strategic business plan. The Board is ultimately responsible for the review, challenge and approval of the ORSA framework, ORSA Policy and Process approval and the ORSA report.

A five year base case projection of the Solvency Balance Sheet and Solvency Coverage Ratio ("SCR") position is produced incorporating a number of key assumptions about the anticipated level of new business, economic and demographic risks plus insurance risks including morbidity, lapse and future expense assumptions. This projection is subjected to a range of stress tests in robust upward and downward scenarios including stresses for lower than expected new product sales, worsening morbidity plus lapses and expenses exceeding the levels assumed.

The Society's ORSA process operates continuously through the course of the year, accompanied by periodic formal reporting. The full ORSA report is produced and approved by the Board at least annually. Business performance key metrics are tracked versus the ORSA target on a monthly and quarterly basis through management reporting. Additionally, the ORSA will be reperformed at intermediate times if capital adequacy is impacted either through capital erosion from a material event or a material change in the risk profile. Circumstances that will trigger the need for an ORSA outside the regular timescales have been agreed and documented within the ORSA Policy.

The Society has determined that the Standard Formula is appropriate to calculate the required solvency capital and to assess overall solvency needs.

B.5 Internal Control System

The Society has established an internal control framework encompassing key controls of the business, both financial and non-financial. The effectiveness of these controls are regularly reviewed by the Executive Committee, the Board and its appointed Committees.

Key controls include:

- **Strategic business planning and budgeting processes** – defining the business objectives and key initiatives, aligned to the assumptions within the ORSA projections and the Society's risk appetite. Performance against these objectives is monitored throughout the year by the Board and Executive Management.

- **Risk appetite process** – performed at least annually in line with the business planning process and sets the detailed risk appetite for the key risk areas within the Society.

- **Authority and approval limits –** clearly documented throughout the Society such as underwriting guidelines, claims payment authorities, invoice approval and bank transfers.

- **Investment controls –** have been developed and documented within the Investment Policy detailing the investment principles and strategy and defining investment parameters, policies, controls and valuation methodologies.

- **Data validation and reconciliation processes –** detailed data quality control procedures are in place across the Society, including cross checking and reconciliations between different sources to validate that the data within our systems and used for reporting is accurate and complete.

The financial statements are subject to internal controls in their production and review and undergo external audit review and Board approval prior to publication. The actuarial methodology and assumptions follow actuarial practices and standards and are subject to review and approval by the Board.

The internal control system is subject to periodic internal audit reviews of the appropriateness and effectiveness of the controls. These are subsequently presented to and challenged by the Audit Committee

Compliance Function

The overall responsibility for overseeing the compliance of the Society and advising and supporting the business on regulatory compliance matters is a key function and approved by the regulators as a senior management function (SMF 16 Compliance Oversight).

This function is held by the Head of Legal and Compliance who is deemed to be an appropriately competent person and responsible for ensuring the effectiveness of Society's systems and controls to meet regulatory compliance requirements and undertake compliance reporting to the regulators.

The Compliance function is an independent control function with formal status within the overall governance framework. It is not engaged in areas of the business which could create a conflict of interest and is responsible for reporting to executive management and the Board any breaches or non-compliance with relevant policies, rules and regulations.

The function has access to all information necessary to carry out its responsibilities.

B.6 Internal Audit

The Society's internal audit function is outsourced to a professional service firm. For a number of years this service was provided by Mazars however, during 2021, it was agreed to re-tender the engagement. Following a comprehensive selection process, PwC was appointed to succeed Mazars in October 2021.

The outsourced nature of the internal audit function enables independence of the activities to be maintained with unbiased judgements reported directly to the Audit Committee. The Chair of the Audit Committee is responsible for overseeing the independence and performance of the internal audit function.

On an annual basis and in conjunction with the wider business, the internal audit function devises and presents an annual audit plan to the Audit Committee for approval. The internal audit plan is flexible to accommodate in-year changes as a result of shifts in priorities, external conditions and risk areas. Based upon the audit plan, the internal audit function assesses the adequacy and effectiveness of controls covering areas of governance, operations and information systems.

B.7 Actuarial Function

In 2021, the Chief Actuary role was brought in-house with the appointment of the Society's then Head of Actuarial, Julian Ellacott. Regulatory approval for this change was received on 23 September 2021. The role was formerly held by John Burgum of OAC PLC. The Chief Actuary continues to be supported by an internal team including a qualified Actuarial Manager, and external peer review of major pieces of work is also obtained.

The Chief Actuary is the management function holder approved by the regulators under the SMR. The function holder is a qualified actuary who is a Fellow of the Institute and Faculty of Actuaries, holds the appropriate Practising Certificate and has complied continuously with the specific professional obligations this requires.

The key responsibilities of the Chief Actuary role are:

- Providing actuarial advice to the Society's senior management and Board.
- Regulatory reporting of technical provisions and capital requirements.
- Contributing to the effective risk management system through modelling of risks and actuarial forecasts which form part of the ORSA process.
- Ensuring the effectiveness of the Society's actuarial methodology, assumptions, systems and controls.
- Providing actuarial opinion on data quality, underwriting and reinsurance effectiveness.

The Actuarial function is established as an independent control function within the overall governance framework.

The With-Profits Actuary role is a separate independent function which is outsourced to Sally Butters of OAC PLC. The With-Profits Actuary reports to the Board through the WPAA and has the following key responsibilities:

- Advising on key aspects of the discretion to be exercised with regards the Society's with-profits insurance business.
- Advising whether the assumptions used to calculate the future discretionary benefits within the technical provisions are consistent with the Society's PPFM in respect of the with-profits insurance business.

B.8 Outsourcing

The Society works with a number of third party suppliers who provide a range of goods and services. Engagement of these suppliers is governed by the Society's outsourcing policy and purchasing policy. Service quality is monitored through an ongoing review of service level agreements with each third party

The policy sets out the following requirements:

- Third party due diligence includes an assessment of key risks and material factors which could affect the potential service provider's ability to perform the required business activity. Checks including financial, regulatory, conflicts of interest, information security, operational resilience and business continuity are undertaken
- All outsourcing arrangements must be established with a written contractual agreement which requires internal approval as set out in the policy. Where a critical function is outsourced, this requires Board approval.
- A record of all material outsourced arrangements is maintained with a process for regular monitoring by the person responsible for the outsourced activity, overseen by the Risk function.

During the period, critical or important services were outsourced to the following organisations;

Provider	Service outsourced	Jurisdiction
OAC PLC	With-profits Actuary Mo.net actuarial system development	UK
Software Alliance Ltd	Mo.net actuarial system support	UK
Medicals Direct Group	Specialist medical screening	UK
AXA PPP Healthcare Limited[1]	Medical insurance claims administration	UK
XPS Pensions Group	Pension policy administration	UK
Ascot Lloyd	Unit linked policy administration	UK
Fidelity International	Investment Managers - fixed income & equities	US
Church House Investments Ltd	Investment Managers – unit-linked fund	UK
Mellersh & Harding LLP	Property management and surveyors	UK
Northern Trust Corporation	Investment custodians	US
PWC/Mazars LLP	Internal audit	UK

Provider	Service outsourced	Jurisdiction
Morrison Govan LLP	Taxation services and advice	UK
Brightcloud Technologies Ltd	Hosted IT infrastructure services	UK
Spark Data Systems Ltd	Policy administration system support, development and data migration	UK

[1]Following a competitive tender process, the outsourced provision of medical insurance claims management will transition from AXA to Alliance Health Group in 2022.

Risk Profile

Risk Assessment Process

Risk management is an integral part of the Society's business activities through the identification of key threats to business strategy. Mitigation plans are put in place to ensure the Society remains sustainable and continues to operate in the best interests of its policyholders.

The extent to which the Society tolerates risk is described by performance indicators, operational parameters and process controls set out in the Risk Appetite Statement.

The Society's risk appetite determines the level of risk the Society is prepared to accept as well as the action and mitigation to be implemented against identified risks. Risks are rated based upon impact and probability and it has been determined that any risk with a 'Very High' residual risk rating will require an action plan stating what action is to be taken and on what timescale.

Concentrations

The Society has a well-diversified portfolio of assets with a defined Investment & Liquidity Policy limiting exposure to any one asset class. Therefore, it is not subject to material concentration risk in respect of its asset holdings.

Risk Profile

The Society's risk profile depends on the nature of the insurance policies issued as at 31 December 2021, the assets held to match the liabilities and Own Funds and the Society's defined benefit pension scheme arrangement, which also contributes to the overall SCR calculation.

The Society faces a number of material risks, which are summarised below and detailed in sections C1–C5. As at 31 December 2021 the Society had just under 36,000 in force long-term investment, pension, healthcare and protection policies. The relative proportions of policy numbers and Best Estimate Liabilities ("BEL") are as follows:

Product Group	Policies	BEL (£m)	Policies %	BEL %
With-Profits Contracts	5,983	36.5	17%	51%
Non-Profit Annuity	769	10.2	2%	14%
Non-Profit Non-Annuity	15,415	2.0	43%	3%
Health Similar to Life Techniques	13,745	20.7	38%	29%
Unit Linked	72	1.6	0%	2%
Total	**35,984**	**71.0**	**100%**	**100%**

The high number of non-profit non-annuity policies relative to the low BEL for this business is driven by:

- The Society has Death Benefit Only contracts with low sums assured. These account for 14% of the total policies by number, but for less than 1% of the BEL.

- The Society has just under 14,000 Guaranteed Life Assurance ("GLA/GLAP") policies, which in aggregate have negative BEL (of £11.4m).

Given the wide range of in force contracts, the Society has some exposure to each of the core underwriting risks. These are summarised in the table below. However, there are no material concentrations, as shown in the graphs under section C.1.

Contract Type	Mortality	Longevity	Morbidity	Lapse	Expense
With-profits life and pensions contracts	Y	Y			Y
Non-profit life contracts	Y			Y	Y
Non-profit annuity contracts		Y			Y
Health SLT (similar to life techniques) e.g. long term healthcare insurance.		Y	Y	Y	Y
Unit-linked contracts					Y

Overall risk exposure

The Society uses the Standard Formula approach to quantify its exposure to risk. The table below shows the composition of the undiversified net SCR by each of the main risk categories for the current and previous year, ie there is no allowance here for diversification in this comparison.

Risk	2021 (£m)	2020 (£m)	2021	2020
Market Risk	4.97	8.59	24%	39%
Counterparty Risk	0.67	0.67	3%	3%
Underwriting Risk (Life)	10.89	8.80	53%	40%
Underwriting Risk (Health SLT)	3.21	3.18	15%	15%
Operational Risk	0.99	0.66	5%	3%
Total	**20.73**	**21.89**	**100%**	**100%**

The most significant risks faced by the Society are market and underwriting risk. The proportion of market risk has reduced during 2021 as a result of management actions.

C.1 Underwriting Risk

Underwriting risk arises when premiums and investment income are insufficient to pay the contractual benefits on a policy or when the actual demographic experience and/or expenses of administering a group of policies is worse than assumed in the calculation of the BEL.

In accordance with the standard formula, the Society has assessed the Basic SCR ("BSCR") for underwriting risk separately for Life and Health Similar to Life Techniques ("SLT") business. (There are a small number of contracts that have both health and life assurance benefits. The majority of risk arises from the health benefits and they have therefore, been classified as Health Similar to Life Techniques). The table below compares the capital requirements comprising the BSCR as at 31 December 2021 by key risk.

SCR	Life Underwriting Risk (£m)	Health Underwriting Risk (£m)	Total £m
Mortality	2.5	0.0	2.5
Longevity	1.5	0.3	1.8
Morbidity	0.0	1.3	1.3
Lapse	5.2	0.7	5.9
Expenses	1.6	0.9	2.5
Pandemic	0.2	0.0	0.2
Total	**10.9**	**3.2**	**14.1**

Mortality Risk

Where insurance contracts pay out a lump sum on death, the Society is exposed to the risk that policyholders die, on average, sooner than expected. The key exposure to mortality risk is under the GLA/GLAP contracts. There are two variants of this contract with differing underwriting requirements. At 31 December 2021, they accounted for 37% of the in force book (by policy count) (2020: 32%).

Mortality risk is an increasing risk for the Society because of continued sales of the GLA/GLAP products.

There is also the risk of a concentration of deaths due to a particular type of catastrophe, for example a pandemic; however concentrations of risk have not been evident as a result of the COVID pandemic. They could arise from other types of pandemic, or other phenomena, but overall this is not felt currently to be a material risk for the Society.

Longevity Risk

Where insurance contracts pay out benefits that are dependent on survival or which lead to higher claims costs with increased longevity, the Society is exposed to the risk that policyholders die, on average, later than expected. The key exposures to longevity risk are non-profit annuities in payment, with-profits retirement annuity contracts which have a guaranteed annuity option and healthcare policies. Longevity risk on the care annuity policy is substantially reinsured, therefore there is little residual exposure on the part of the Society.

Morbidity Risk

The Society's income protection, critical illness and healthcare contracts are exposed to morbidity risk, the risk that claims payments for medical or health benefits are higher than expected. Higher claims may occur due to higher numbers of claims and/or larger claim amounts than expected. The most significant risk applies to the whole of life healthcare policies.

There is also the risk of additional claims arising from a catastrophe of some sort. The level of this risk is hard to gauge; as an example the COVID pandemic has had an impact on the Society's morbidiy claims, but in the short term at least the impact was to reduce claims rather than increase them, with a later “bounce back” of claims. The Society will maintain close monitoring of the evidence, and also undertaken further sensitivity testing, to gauge the likely level of this risk.

Lapse Risk

This is the risk that a policyholder lapses or surrenders their policy before the planned maturity date resulting in a loss to the Society. For some contracts, higher lapses than expected can result in a loss if lapses occur before the Society has recouped its acquisition costs or if the surrender benefit exceeds the policy reserve. Lower than expected lapses can lead to a loss when the expected value of future claims and administration expenses exceeds the expected value of future premiums.

Overall, a mass lapse scenario leads to the greatest loss in Own Funds when compared to an increase or decrease in lapses. Mass lapse also leads to a loss in Own Funds for reviewable premium Healthcare policies and for the new health and GLA/GLAP products that the Society has launched in recent years.

Expense Risk

The Society is exposed to the risk that future expenses are higher than expected and that the amounts reserved need to be increased to reflect a higher expense assumption. This can arise through a one-off shock to certain expenses and/or higher than expected expense inflation, both resulting in an increase of liabilities.

Assessment and risk mitigation techniques

The Society has processes in place to reduce and monitor each of the underwriting risks:

- The risk register covers the key underwriting risks and is reviewed quarterly with a summary reported to the Risk and Compliance Committee on a quarterly basis.
- Reinsurance reduces exposure to large claims and higher than expected claim frequency.
- Regular monitoring of demographic assumptions versus actual experience to aid early identification of adverse trends.
- New product design reduces risk by using reinsurance (where appropriate) and offering reviewable premiums rather than guaranteed.
- Underwriting at point of sale minimises the risk of adverse selection.
- Appropriate claims processes, to ensure the validity of claims before making payment.
- Expenses are closely monitored and combined with organisational restructuring, where necessary, to ensure the right cost base.

A full valuation of the technical provisions and life obligations SCR is performed on a quarterly basis, and estimates of the solvency position are produced for intervening months ends. The SCR coverage is reported to the Society’s Board as part of the monthly MI pack.

Risk sensitivity for underwriting risks

The Society assesses underwriting risk by considering a number of stand-alone stress tests and scenarios affecting material demographic and expense assumptions in its ORSA. The analyses consider the impact of an immediate shock to the starting balance sheet in addition to the impact on its forward-looking assessment of the future balance sheet position.

A series of stand-alone stress tests have been performed on the Society's insurance assets and liabilities as at 31 December 2021 as part of the Standard Formula calculation of the SCR. The most onerous of the underwriting sensitivities identified is a 40% mass lapse scenario.

C.2 Market Risk

This represents the risk that the Society's solvency coverage is adversely affected by changes to financial market conditions, which impact the fair value of assets held. The Society has a portfolio of UK and overseas assets comprising equity, property, fixed interest and money market assets.

Material market risks

The following table shows the split of total assets between different asset types, which determine the nature and magnitude of the market risks:

Insurance Asset Mix	Value (£m)
Equity	3.3
Property	12.2
Government Bonds	48.5
Corporate Bonds	16.9
Cash	12.4
Other Assets	2.1
Total	**95.3**

The following table shows the relative size of the undiversified net SCR and elements of the standard formula market risk module in respect of each asset class holding. The SCR allows for market risk in respect of the assets held by the Society's defined benefit staff pension scheme. The staff defined benefit pension scheme contributes 32% of the undiversified net SCR in respect of market risk.

SCR Market Risk	Insurance (£m)	Pension Scheme (£m)	Total (£m)	% of total market risk
Interest Rates	1.9	0.1	**2.0**	40%
Equity	0.2	0.0	**0.3**	5%
Property	0.5	1.1	**1.6**	32%
Credit Spread	0.7	0.3	**1.0**	21%
Currency	0.0	0.0	**0.0**	0%
Concentration	0.0	0.1	**0.1**	2%
Total	**3.4**	**1.6**	**5.0**	**100%**

The most significant components of market risk at 31 December 2021 are interest rates and property, accounting for 40% and 32% of the undiversified market SCR respectively. The interest rate risk mostly now arises on the insurance portfolio, following improved matching of the pension scheme. The property risk arises mainly from property assets within the pension scheme, as well as some exposure to property backing the with-profits liabilities where the guaranteed policy values are now biting.

Interest Rate Risk

Interest rate risk arises when a fluctuation in interest rates adversely affects the Society's SCR coverage and can arise when the value of assets and liabilities do not move in line with each other when interest rates change. Both an increase and a decrease in interest rates are tested and the SCR is based on the more onerous reduction in interest rate scenario. The reduction in interest rate scenario reduces Own Funds for the pension scheme. The opposite position applies for the Society's insurance business with the increased yield scenario having the greatest impact. The interest rate increase stress is the more onerous on the combined position of both insurance business and pension scheme.

Equity Risk

The Society is exposed to the risk that the market value of its equity assets falls without a corresponding reduction in its liabilities, leading to a loss in SCR coverage.

Equity assets are held to provide real returns to with-profits life and unit-linked contracts. The loss absorbing capacity of with-profits and unit-linked contracts mitigates a significant proportion of the equity risk in the insurance business.

Property Risk

The Society is exposed to the risk that the market value of its property assets falls without a corresponding reduction in its liabilities leading to a loss in SCR coverage.

Property assets are held to provide real returns to with-profits life and pension contracts. The loss absorbing capacity of with-profits contracts mitigates a proportion of the property risk.

Credit Spread Risk

Spread risk arises on corporate bond assets and represents the reduction in market value of a bond asset due the widening of credit spreads following a downgraded assessment of asset quality.

The Society has a potentially large exposure to this risk as the risk free yield curve is used to derive the valuation interest rate used to discount liabilities. Thus the value of non-profit liabilities does not change under this stress and hence there is no compensation for the loss in value of assets under the stress. The loss absorbing capacity of with-profits contracts mitigates a proportion of the credit spread risk on corporate bonds held to back those contracts; as at 31 December 2021 no corporate bonds were held to back non-profit contracts, therefore there was no credit spread risk in respect of those liabilities.

Currency Risk

This arises when movements in foreign exchange rates have an adverse impact on the value of the Society's assets or liabilities. All liabilities are denominated in Sterling, as are all directly held assets. Any exposure to currency risk form indirectly held assets is minimal.

Assessment and risk mitigation techniques

The Society has processes in place to limit and monitor market risks:

- The risk register contains key market risks and is reviewed quarterly with a summary reported to the Risk and Compliance Committee on a quarterly basis.
- Regular cash flow analysis takes place and is provided to the Society's asset managers in order to ensure asset liability matching remains appropriate.
- A regular review of assets held against Own Funds takes place at Investment Committee Meetings.
- Investment mandates specify maximum exposure limits to lower quality bond assets.
- A process is in place whereby management are informed before any transactions take place that would adversely impact the average credit rating of the bond portfolios.
- Daily monitoring of investment indices takes place to identify the movement in key investment metrics with triggers set to prompt consideration on any actions that should be taken in response.
- New product terms are tested for their sensitivity to market risk as part of the profit testing work.

Prudent Person Principle

The PRA Rulebook requires that the "Prudent Person Principle" is applied to the Society's investments. The Society adheres to the principle by investing in a range of equity, property and fixed interest assets of an appropriate quality and level of diversification. There are also holdings in cash to mitigate the impact of adverse market movements and interest rate swaps to minimise any mismatch of durations in market movements between assets and liabilities.

The weightings of the different asset classes and the nature of the underlying assets are regularly monitored and are reviewed quarterly by the Investment Committee to consider their appropriateness to the matching requirements of the technical provisions and the best interests of policyholders.

Risk sensitivity for market risk

The Society assesses market risk by considering a number of stand-alone stress tests and scenarios affecting material market assumptions within its ORSA. These consider the impact of an immediate shock to the starting balance sheet in addition to the impact on its forward-looking assessment of the future balance sheet position.

A series of stand-alone stress tests have been performed on the Society's insurance assets and liabilities as at 31 December 2021 as part of the Standard Formula calculation of the SCR. The most onerous of the sensitivities identified is the [credit spread stress].

C.3 Credit Risk

Material Credit risks

The risk of credit spreads widening has been covered in Section C.2.

Counterparty Default Risk

This risk arises when a counterparty is unable to fulfil its obligations to the Society, thereby leading to a loss of the Society's financial assets. The key exposures are money market deposits, reinsurance assets and derivative contracts.

Assessment and risk mitigation techniques

The Society has processes in place to limit and monitor counterparty default risk:

- The risk register contains key default risks and is reviewed quarterly with a summary reported to the Risk and Compliance Committee on a quarterly basis.
- The Society's risk appetite statement sets thresholds for counterparty exposure in terms of monetary limits per counterparty and credit quality standing of counterparties. These are monitored regularly through the Risk and Compliance Committee.
- Selection of new reinsurance terms has regard to minimum credit rating criteria.

Risk sensitivity for counterparty default risk

This is not currently considered a significant risk for the Society, however, fulfilment of the strategic plan sales volumes will result in increased exposure to reinsurance over the planning period. The reinsurers have strong credit ratings which minimises this risk.

C.4 Liquidity Risk

This is the risk that the Society is not able to meet its financial obligations to policyholders and other creditors when they become due and payable, at a reasonable cost and in a timely manner. Liquidity risk is not quantified in the Solvency Capital Requirements.

Assessment and risk mitigation techniques

Short-term liquidity or daily cash management covers the day-to-day cash requirements under normal business operations. Long-term liquidity is managed through careful matching of liabilities and their expected cash outflows against assets of similar duration. With the exception of property assets, most of the Society's assets are readily realisable, providing a high degree of mitigation of liquidity risk.

Risk sensitivity for liquidity risks

This is not currently a significant risk for the Society however; the Society has set a risk appetite measure to maintain minimum cash deposits that would be sufficient to cover a minimum of three months projected claims and expense outgoings in order to allow sufficient time to realise the most appropriate investments in the event of a stress scenario. It is likely that there will be further reductions in the value of the Society's asset portfolio over 2022 reflecting the maturing profile of the Society's business, combined with sales of protection contracts that require initial financing. The Society's Investment & Liquidity Policy ensures it will have sufficient readily realisable assets to meet these requirements over the coming year in accordance with its risk appetite measure.

C.5 Operational Risk

Operational risk is the risk of direct or indirect loss (actual or potential) resulting from inadequate or failed internal processes, people and systems or from external events. This includes risks relating to compliance, business processes, information technology, outsourcing and financial reporting.

Assessment and risk mitigation techniques

The Society's Operational Risk policy defines the key operational risks faced and the processes in place to identify, assess, manage, monitor and report risks and events.

The following processes are in place to manage operational risk:

- Well-established Risk function regularly performs operational risk monitoring, in order to assist in detecting deficiencies in the policies, procedures and processes of the Society and propose corrective actions.
- The Risk function is subject to independent periodic review by internal audit.
- All departmental functions of the Society are required to conduct risk assessments, which include specific operational risks inherent in their activities, including their identification and assessment with regard to the likelihood and impact on the Society, and report the identified events to through the Society's automated risk management system.
- Defined key risk indicators, to act as early warnings of increased risk of potential losses. Effective tracking of these indicators by the Risk function allows the Society to identify changing risks upon their occurrence and respond to them promptly.
- Insurance is in place to protect against losses, which may occur as a result of events such as third-party claims resulting from errors and omissions, employee or third-party fraud, and natural disaster.
- Disaster recovery and business continuity plans are in place for all key functions/departments and take into account different types of plausible scenarios to which the Society's operations may be subject. Such plans are periodically reviewed and tested.
- All outsourced activities are subject to due diligence and regular review and monitoring.

Risk sensitivity for operational risks

This is not currently a significant risk for the Society however, the planned increase in new business could increase the exposure to operational risk and this will be closely monitored by the Society.

Conduct Risk

Conduct risk has the potential to arise if the Society's behaviours result in poor customer outcomes; it is inherent in any operation that provides products or services to customers. Delivering good customer outcomes is a key driver in building a valuable, sustainable business and is a key measure as part of the Society's risk appetite.

The Society's products are distributed through both regulated intermediaries and direct sales. All employed Sales Executives are subject to strict training and competence requirements, monitoring by direct management and compliance oversight.

Regular conduct risk training is completed for all staff members, with more in-depth training for individuals undertaking sales and customer service roles. Additionally, a number of processes are in place to manage and monitor conduct risk exposures across the end-to-end customer journey. Conduct risk processes are subject to review and challenge as part of the internal monitoring plan, and oversight through the Compliance function.

C.6 Other Material risks

There are no other material risks to disclose.

D Valuation for Solvency Purposes

D.1 Assets

Summary of asset valuation

The table below summarises the Society's assets valued for solvency purposes and per the financial statements (FRS102) as at 31 December 2021:

Assets (£'000)	FRS 102	Solvency
Intangible assets	109	-
Property, plant & equipment	3,312	3,312
Investments	80,725	80,308
Assets held to cover linked liabilities	1,780	1,780
Loans and mortgages	826	826
Reinsurance asset[1]	-843	-843
Insurance and intermediaries receivables	35	35
Trade receivables (not insurance)	853	853
Cash and cash equivalents	6,278	6,278
Other assets	2,740	2,740
Total assets	**95,815**	**95,289**

[1] The reinsurance asset represents the Technical Provisions associated with the reinsured policies that have been ceded to a reinsurer, as outlined on page 38. As at the year end, it is in a payable position and therefore negative, but must be accounted for in this manner for solvency purposes.

Differences between valuation for solvency purposes and valuation in financial statements

Assets on the Society's solvency balance sheet are typically valued on the same basis as applied in the financial statements under FRS 102 aside from the following exceptions:

- Under the PRA Rulebook, the Society's intangible assets are valued at nil as there are no quoted prices in an active market for similar assets
- Under the PRA Rulebook, the Society's investments in subsidiaries are valued on a look through basis. Therefore, intangible assets contained within the subsidiaries are also valued at nil as there are no quoted prices in an active market for similar assets.

The Society has a deferred tax asset comprising of capital losses, expenses deductible from future years and trade losses. This asset may be realised through reduced future tax payable, when net gains chargeable to corporation tax generate sufficient taxable income to offset the expenses or losses. However, the Society is currently in a position of expenses allocated to taxable BLAGAB exceeding investment income allocated to taxable BLAGAB and it is uncertain when this asset could be realised. Therefore, no deferred tax asset has been recognised on the Balance Sheet for solvency or FRS102 purposes.

The table below presents the Society's assets as at 31st December 2021 under FRS 102 and solvency bases. All values are shown in £'000s with the categories aligned to FRS 102 and solvency reporting.

FRS 102 description	FRS 102 value	Solvency description	Solvency value
Intangible assets	**109**	Intangible assets	-
Investment Property	9,040	Property (other than for own use)	9,040
Investment in subsidiaries	574	Holdings in related undertakings	156
Fixed interest securities	65,683	Government bonds	48,605
Listed shares	1,403	Corporate bonds	15,373
Derivatives	-	Collateralised securities	1,706
Investment cash	4,025	Collective investments undertakings	1,403
Mortgages	51	Derivatives	-
		Deposits other than cash equivalents	4,025
		Loans and mortgages to individuals	51
Subtotal	**80,776**	**Subtotal**	**80,359**
Assets held to cover linked liabilities	**1,780**	Assets held for index-linked and unit-linked contracts	**1,780**
Reinsurance asset/(payable)	**-843**	Reinsurance recoverable from: Life and health similar to life excluding index-linked and unit-linked	**-843**
Debtors	**810**	Loans on policies	40
		Other loans and mortgages	735
		Insurance and intermediaries receivables	35
		Subtotal	**810**
Other assets	**9,590**	Property, plant & equipment held for own use	3,312
		Cash and cash equivalents	6,278
		Subtotal	**9,590**
Prepayments and accrued income	**3,593**	Receivables (trade, not insurance)	853
		Any other assets, not elsewhere shown	2,740
		Subtotal	**3,593**
Total	**95,815**	**Total**	**95,289**

Valuation of most financial assets is on a fair value basis with no changes made to the recognition and valuation bases during the reporting period. The paragraphs below further describe the valuation methodologies applied to each asset category.

Fair value measurement

Where applicable, the Society measures the fair value of a financial instrument using the quoted price in an active market for that instrument. If unavailable, the Society uses the valuation hierarchy summarised below to determine the fair value when accounting for assets and liabilities. This is in line with the valuation methodology set out in the PRA Rulebook.

Fair value based on quoted prices in an active market

The default method is to value assets and liabilities using unadjusted quoted market prices in active markets for the same assets or liabilities.

A market is defined as active if:

- Quoted prices are readily available e.g. from an exchange, broker or dealer;
- These prices represent actual regularly occurring transactions on an arm's length basis.

Fair value based on observable market data

Where the use of quoted market prices in an active market is not possible, assets and liabilities are valued using techniques based significantly on observed market data. These observable inputs are obtained from a broker or third party pricing services and include:

- Quoted prices in active markets for similar (not identical) assets or liabilities.
- Quoted prices for identical or similar assets in inactive markets.
- Input variables, which are based on or supported by observable market data.

Fair value not based on observable market data

Alternative valuation techniques are used to the extent that observable market data is not available. These reflect management's expectations about the assumptions that market participants would use in pricing an asset or liability (including assumptions about risk).

Property (other than for own use)

The Society recognises property at market value based on observable market data. This applies the latest valuation (as at 31 December 2021) performed by the Society appointed Chartered Surveyors in accordance with the requirements of the Royal Institution of Chartered Surveyors' Valuation - Professional Standards. In preparing these valuations, data and available information concerning rental yields, lease terms, voids and floor areas and enquiries within the local market were used as contributing factors to calculate each individual property's valuation.

Holdings in related undertakings

Valuations of holdings in related undertakings such as investments in subsidiaries is at fair value. Judgement is applied to assess the fair values of the subsidiary companies which are not considered to be materially different from the net asset value of the respective subsidiaries.

For solvency purposes (as outlined on Page 35), the holdings must be valued on a look through basis, considering the underlying assets of the subsidiary companies. Included within the FRS 102 valuation of these undertakings are intangible assets linked to an acquired book of business and the Policy Administration System. On a solvency basis, these assets are valued at nil as there are no quoted prices for a similar asset in an active market, thus reducing the value of holdings in related undertakings from £574,000 under FRS102 to £156,000 for solvency purposes.

Bonds – including Government bonds, Corporate bonds and Collateralised securities

Government bonds comprise UK gilts and Treasury bonds. The valuation of gilts is based on quoted market prices in an active market, whilst the valuation of Treasury bonds and other fixed-interest securities including corporate bonds are based on observed market data of same or similar assets.

Collective investment undertakings

Valuation of collective investments undertakings is based on quoted market prices in an active market.

Deposits other than cash equivalents

Deposits other than cash equivalents consist of cash held on fixed term-deposits with a maturity date greater than 3 months and cash held with investment managers for investment purposes. This is valued by taking the cash balances held, including the deposit interest accrued up to the balance sheet date.

Loans and mortgages to individuals

Loans and mortgages to individuals are valued based upon the discounted cash flow method, utilising appropriate interest rates.

Loans on policies

These are valued based upon the actual amounts outstanding.

Other loans and mortgages

This asset category comprises the claims float which is held in a separate bank account and used to pay third party administered healthcare claims together with loans to subsidiaries. The value reflects the actual amount as at the balance sheet date and does not include any further mortgages outstanding.

Assets held for index-linked and unit-linked contracts

These assets are part of an investment fund which is not traded on a listed market. Therefore the valuation is based on observed market data of same or similar assets.

Reinsurance recoverable from: Life excluding health and unit-linked

The reinsurance asset represents the Technical Provisions associated with the reinsured policies that have been ceded to a reinsurer. This asset has been valued for solvency purposes in line with the Technical Provisions as described in section D.2. As at the year end the Reinsurance is in a payable position so is negative, but must be accounted for in this manner for solvency purposes.

Insurance and intermediaries receivables

The valuation of these assets represents the amounts owed at the valuation date.

Property, plant & equipment held for own use

Property, plant & equipment are held at fair value using observable market data where available or alternative valuation method. This includes the owner occupied floors of the Society's head office, shown at fair value. Other assets (such as IT and office equipment) used by the Society are valued at cost less depreciation. The Society deems this to be a reasonable estimate for the replacement cost of these assets.

Cash and cash equivalents

This comprises liquid cash holdings valued at their actual year end balances.

Receivables (trade, not insurance)

There is no difference between the solvency valuation and the FRS 102 valuation.

Any other assets, not elsewhere shown

The amount includes a prepayment of £2.4m to National Friendly Software Solutions Limited in respect of a 10 year license agreement of the policy administration system. The value represents the actual amount of the license charges for the remainder of the license agreement.

The Society leases office equipment under cancellable operating lease agreements

D.2 Technical Provisions

Analysis of Technical Provisions

The tables below show the Technical Provisions split by line of business and between the Best Estimate Liability and Risk Margin. The only difference in the valuation of Technical Provisions for solvency purposes and the Long Term Business Provision shown in the financial statements is that the TMIR is included in the former but not the latter.

Technical Provisions at 31 December 2021:

Analysis of Technical Provisions (£'000) With TMIR	Gross Best Estimate Liabilities	Risk Margin	Value of Technical Provisions for solvency purposes
With-Profits Contracts	36,466	223	36,689
Other Life	12,232	3,961	16,194
Health Similar to Life	20,688	1,274	21,961
Unit Linked	1,611	14	1,624
Total	**70,996**	**5,472**	**76,468**

Analysis of Technical Provisions (£'000) No TMIR	Gross Best Estimate Liabilities	Risk Margin	Value of Technical Provisions for solvency purposes
With-Profits Contracts	36,502	223	36,726
Other Life	12,360	3,961	16,321
Health Similar to Life	20,849	1,274	22,122
Unit Linked	1,611	14	1,624
Total	**71,321**	**5,472**	**76,793**

There are a small number of contracts that have both health and life assurance benefits. The majority of risk arises from the health benefits and they have therefore, been classified as Health Similar to Life Techniques in the above table.

Reinsurance recoverables are not included in the gross Technical Provisions above as the net recoverable is captured within the asset valuation. At 31 December 2021, the value of reinsurance recoverables was (£843k). This item is a net liability as the value of future reinsurance premiums payable exceeds the value of expected reinsurance claims.

The key characteristics of the methodology and assumptions used for the Technical Provisions are as follows:

- The BEL is calculated using best estimate assumptions which therefore by definition do not include margins for adverse deviation in each assumption;
- The best estimate cash flows are valued on a market consistent basis using UK-specific risk free discount rates prescribed by the PRA;
- Where the BEL for a group of similar contracts is negative, this has been allowed in the Technical Provisions;
- A Risk Margin is required under the solvency regulations. This represents the cost of capital that another insurance undertaking would require to take on the Society's insurance liabilities using the prescribed 6% cost of capital rate.

The PRA Rulebook permits a number of simplifications in the calculation of the Technical Provisions. The key simplification applied by the Society relates to the calculation of the Risk Margin whereby the projected future SCR used to determine the cost of capital is approximated using the profile of the BEL or policy run off, as appropriate (e.g. to allow for products with negative BEL).

There are a number of approximations used in the calculation of the BEL which reflect proportionality and align with generally accepted actuarial practice. These include:

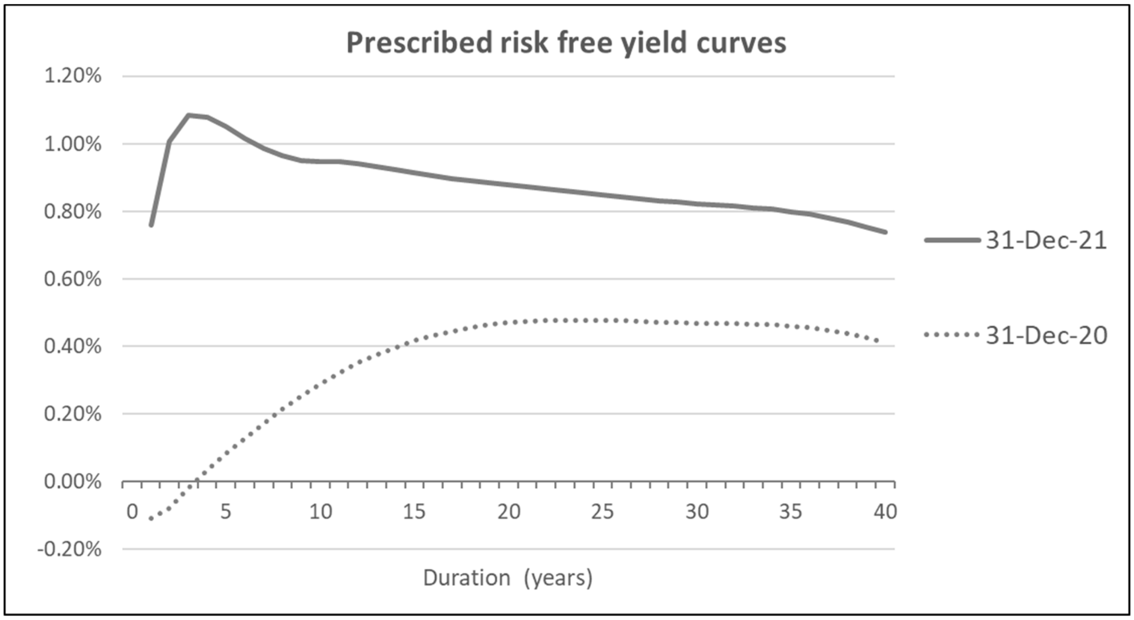
- Allowance for tax as a percentage of investment return and expenses which reflect the tax regime of a friendly society;
- Use of annual cash flows in stochastic calculations;
- Age approximations on joint life policies.

Main Assumptions

Valuation Discount Rates

The valuation interest rate used to discount the BEL and Risk Margin is the relevant GBP risk free term structure of interest rates as at 31 December 2021 and provided by the PRA. The risk free yield curve has not been adjusted in respect of a matching adjustment or a volatility adjustment.

Risk free rates rose significantly during 2021, especially at shorter durations, as shown below.



The Society has been approved by the PRA to use transitional measures on interest rates ("TMIR").

This allows firms a transitional period to move from the interest rate structure in force under the previous regime ("Solvency I") to that required by the current regime. Under Solvency I (Article 20 of Directive 2002/83/EC), it was not specified that a risk-free rate had to be used and only required a single rate rather than a yield curve.

The requirement to use the risk free yield curve means that, particularly for short-term cash flows, the discount rate is likely to be significantly lower than under Solvency I and hence the transition allows firms to move from the current level of interest rates to the level required under the current solvency regime over a period of up to 16 years. This means that firms can lower the average discount rate gradually.

The TMIR applies to all contracts in force prior to 1 January 2016 with the exception of the Staff Superannuation Fund and valuation of financial guarantees on deferred with-profit retirement annuities. The Staff Superannuation Fund is out of scope as it is not an insurance obligation. Furthermore, the International Accounting Standard ("IAS") 19 valuation does not use a risk free rate to discount liabilities. The valuation of financial guarantees under Solvency I used open market swap rates rather than the yields we expected to earn from the hypothecated assets for these contracts, as such the TMIR does not apply here.

Expenses

Best estimate per-policy expenses have been calculated taking into account the anticipated new business the Society expects to write.

The methodology is based on setting per policy expenses such that they equal the anticipated maintenance expenses in 4.5 years' time divided by the expected number of policies in force at that time. The expected number of policies is based on the run-off of the Society's current in-force book plus projected new business.

The expense inflation assumption is set by reference to:

- The assumed future rate of inflation of salary related expenses, which is based on Society-specific factors in the short term, and an increment above assumed general inflation in the long term.
- The assumed future rate of inflation of non-salary related expenses, which is based on a market implied RPI inflation rate, adjusted for differences between RPI and CPI and for an inflation risk premium.
- The two components above are then blended to reflect the salary and non-salary related proportions of the Society's renewal expense base.

The assumed investment expenses are based upon the prior year actual investment expenses.

Lapses

Lapse assumptions are set with reference to actual experience for homogeneous groups of contracts. For certain contracts where a significant change in terms applies at a specific point in time, one off lapse assumptions have been determined based on prior experience.

Lapse rates were updated in the calculation of Technical Provisions at 31 December 2021 based upon actual experience per product group and expert judgement. The change in assumptions varied according to product groups.

Morbidity Assumptions

Best estimate morbidity assumptions are determined based upon analysis of the Society's own experience and are established separately for each homogeneous group where sufficiently credible data exists.

For some contracts, an assumption for inflation of future medical expenses is required. This is set having regard to own experience, restrictions in benefits payable and general inflation assumptions.

Morbidity assumptions were updated in the calculation of Technical Provisions at 31 December 2021 based on actual experience and expert judgement. The change in assumptions varied according to product groups.

Mortality Assumptions

Mortality assumptions are set with reference to analysis of the Society's own experience having regard to standard actuarial tables of mortality rates. Assumptions are determined separately for each homogeneous group where sufficiently credible data exists.

For contracts with higher levels of mortality risk, the rates used vary between males and females and between smokers and non-smokers. Annuitant mortality rates are adjusted for projected mortality improvements, using the latest projections from the Continuous Mortality Investigation ("CMI").

Mortality assumptions were updated in the calculation of Technical Provisions at 31 December 2021 based on actual experience and expert judgement. The change in assumptions varied according to product groups.

Material assumption changes

The Society has reviewed its experience against that expected and has made a number of changes to its assumptions of future experience in the light of that analysis. The most significant changes at 31 December 2021 are:

- The per-policy expenses have been reduced (based on a revised expense base and updated projections of new and in-force business volumes); a reduction in the rate of investment expenses has been allowed for; and assumptions in respect of future inflation have been increased, with a net effect of reducing the BEL by £2.3m. (This does not include the impact of the increased inflation assumption on the liabilities of the Staff Superannuation Fund, as they are not a component of the BEL.)
- Mortality assumptions have been strengthened on average, increasing the BEL by £0.1m.
- Morbidity assumptions have been weakened on average, reducing the BEL by £0.9m.

Lapse assumptions have been left materially unchanged.

Uncertainty associated with the value of the Technical Provisions

Uncertainty arises from actual experience being different to the assumptions used in the calculation of the Technical Provisions.

Assumptions with the most uncertainty are as follows:

- Longevity assumptions. The Society has a number of annuity contracts which are sensitive to longevity assumptions, including with profit retirement annuity contracts with valuable guarantees. The Society's staff defined benefit pension scheme is also sensitive to longevity assumptions. However, the volume of business is insufficient to inform a credible experience analysis and so there is increased uncertainty around these assumptions.
- Mortality and lapse assumptions on the GLA/GLAP contracts. The Society has a lack of recent relevant data to base assumptions on and hence there is greater uncertainty around these assumptions. Experience is being closely monitored.
- Expense assumptions are calculated with reference to future new business volume projections. The actual volumes of new business may be higher or lower than those forecast.

- Whilst the Society has a reasonable amount of data on which to base assumptions, morbidity assumptions continue to be uncertain as the book ages and as events such as premium reviews could trigger changes in experience.

Methodology

Technical Provisions are defined as the sum of the BEL and the Risk Margin. The BEL and Risk Margin are calculated separately. The Society does not apply a matching or volatility adjustment but does apply an adjustment for TMIR on the BEL. In line with Guideline 2 of the EIOPA "Guidelines on the implementation of the long-term guarantee measures" the TMIR does not apply to the Risk Margin.

The impact of the TMIR on the Society's Own Funds, SCR and Minimum Capital Requirement ("MCR") is discussed in section E.1 Own Funds and section E.2 Solvency and Capital Requirement and Minimum Capital Requirement.

The Society does not apply a transitional measures on technical provisions.

<u>Best Estimate of Liabilities</u>

The Society has a data warehouse from which individual policy data is extracted and validated for completeness and accuracy. This data is used to calculate the Technical Provisions and SCR and has passed an appropriate level of controls.

The BEL is calculated on a policy by policy basis for all contracts accepted on risk at the valuation date using a cash flow approach and generally accepted actuarial practices. The calculations generate probability weighted cashflows for each monthly time period within a policy's contract boundary. The cash flows are discounted using the PRA risk free yield curve and therefore allow appropriately for the time value of money.

The BEL is calculated gross of reinsurance recoverables which are calculated separately. If the present value of future cash flows on a contract gives rise to a negative BEL, this has been allowed.

For with-profit contracts, total reserves are calculated as the higher of the asset share or basic reserve at a Homogenous Risk Group ("HRG") level plus other future policy related liabilities. The basic reserve is calculated as the discounted value of probability-weighted cashflows. This covers the expected future guaranteed benefits payable at exit (death, maturity or surrender) on bonuses declared up to the valuation date, plus the value of expense loadings assumed within the premiums, less the value of future gross premiums. Surrender penalties are applied where appropriate in line with the Society's current practice on early surrenders.

Asset shares are accumulated using forward rates derived from the required risk free rates at the valuation date in line with a risk neutral approach.

The other future policy-related liabilities consist of an additional expense reserve, cost of guarantees and planned deductions for guarantees on other HRGs. The additional expense reserve has been calculated by valuing assumed per policy costs over the future lifetime of each contract less the amounts already allowed for within the future premium values (as described above). The investment expense reserve is set to zero because investment returns credited to asset shares are net of investment expenses.

Stochastic methods are used to determine the value of financial guarantees/options on with-profits pension and bond contracts.

Risk Margin

The total Risk Margin is calculated as the sum of the present values of the cost of capital rate applied to the SCR of a reference undertaking, willing to take on the Society's insurance portfolio, in each future year until the obligations are extinguished and there is no remaining SCR. The future SCRs are modelled using a permitted simplification whereby the SCR is assumed to be proportional to the projected best estimate of liabilities for each group of similar contracts.

The Risk Margin has been calculated by applying the Society's non-hedgeable capital requirements arising under the standard formula SCR directly to the reference undertaking without adjustment. The defined benefit pension scheme is not included in the Risk Margin calculation. Non-hedgeable risk arises under the Life and Health Underwriting Risk modules, the Operational Risk module and a subset of the Counterparty Default Risk module. Market risk and residual counterparty default risk are assumed to be fully hedged.

D.3 Other Liabilities

Summary of the other liabilities

The table below shows the valuation of the Society's other liabilities on FRS 102 and solvency bases. There is no difference between the valuation of the liabilities on the Society's solvency balance sheet and the basis applied in the financial statements under FRS 102. Values shown are in £'000s

FRS 102 description	FRS 102 value	Solvency description	Solvency value
Financial liabilities	**1,108**	Derivatives	**1,108**
Creditors	**1,785**	Insurance & intermediaries payables	-119
		Payables (trade, not insurance)	139
		Any other liabilities, not elsewhere shown	1,765
		Subtotal	**1,785**
Net pension liability	**389**	Pension benefit obligations	**389**

Derivatives

This is the fair value of interest rate swaps held by the Society which are in a liability position at the year-end. Given that these instruments are not traded in an active market, the fair value is a 'Level 2' valuation based on the counterparty valuations with all inputs taken from observable markets.

Pension benefit obligations

The Society previously operated a defined benefit pension scheme, the National Deposit Friendly Society Staff Superannuation Fund ("the SSF") for its employees. The SSF was closed to future accrual of benefits with effect from 31 May 2009. All remaining active members were treated as having left Pensionable Service with effect from that date. These members receive increases in deferment equal to the higher of the increase in their pensionable salary and statutory deferred revaluation while they remain at the Society. The operation of the SSF is overseen by the trustees with the scheme assets held separately to those of the Society.

The latest formal actuarial valuation of the SSF was carried out as at 31 December 2019. This was updated by running full actuarial calculations as at 31 December 2021, undertaken by a qualified independent actuary in line with IAS 19. These calculations indicated that the SSF has a net defined liability of £389k at the year end date. FRS102 has been brought in line with the International Financial Reporting Standards, and in the opinion of the actuaries who calculated the FRS102 position, the deficit under IAS19 (consistent with the solvency basis) would be materially the same. As such, there is no difference between the FRS 102 and solvency valuations.

Further details regarding the composition of assets and methodology used to value the pension scheme liabilities can be found within the Society's Financial Statements.

The valuation of all other categories of liabilities follows the solvency basis fair value hierarchy as described in section D.1. There is no difference between the solvency valuation and the FRS 102 valuation of these liabilities.

Contingent liabilities

The Society has no contingent liabilities.

There were no changes made to the recognition and valuation bases applied to other liabilities during the reporting period.

D.4 Alternative methods for valuation

The society does not use any alternative methods for the valuation of liabilities.

E Capital Management

E.1 Own Funds

Objective, policies and processes for managing Own Funds

The Society is a mutual organisation as defined by the Friendly Societies Act 1992. It does not have shareholders and the Society's assets and Own Funds are ultimately owned by the Society's members or policyholders.

Own Funds represent the excess of assets over Technical Provisions, which are invested principally in secure assets, to ensure that their value is maintained in a stress scenario and that any losses in the value of assets backing liabilities can be covered. The allocation of these assets is set out in the Society's Investment & Liquidity Policy, with the level of risk associated with these assets being explicitly linked to the degree to which the Society's Solvency Risk Appetite is being met. Overall, the assets aim to generate positive returns for policyholders subject to an acceptable level of risk, compliance with regulatory requirements and the required level of liquidity.

The Society aims to manage its funds such that there is an appropriate margin of Own Funds over the SCR at all times. This is monitored formally through the quarterly Risk and Compliance Committee and on an ongoing basis by the Actuarial Function.

The Society considers that all Own Funds meet the definition of 'surplus funds' as per Article 91 of the original Solvency II Directive:

'*Surplus funds shall be deemed to be accumulated profits which have not been made available for distribution to policy holders and beneficiaries*'.

Furthermore, all Own Funds are categorised as Tier 1 capital

Business planning is performed annually, spanning a five-year projection period and is reported in the Society's Own Risk and Solvency Assessment with ongoing monitoring of business performance versus the ORSA target.

Own Funds classified by tiers

Own Funds are classed as Tier I capital and are presented in the table below.

Solvency Balance Sheet (£'000)	**2021 With TMIR**	**2021 No TMIR**	**2020 With TMIR**	**2020 No TMIR**
Assets	95,289	95,289	101,770	101,770
Best Estimate Liabilities	70,996	71,321	79,502	80,744
Other Liabilities	3,284	3,284	1,919	1,919
Risk Margin	5,472	5,472	4,347	4,347
Total Liabilities	79,752	80,077	85,768	87,010
Eligible Own Funds	**15,537**	**15,212**	**16,002**	**14,760**

The main reasons for the change in Own Funds (with TMIR) from £16.0m at 31 December 2020 to £15.5m at 31 December 2021 are:

- +£0.1m: Model changes
- +£1.5m: Changes in valuation assumptions (across insurance liabilities and the Staff Superannuation Fund)
- -£1.5m: Change in the basis of calculating the prescribed risk free rate
- +£0.7m: Capital strengthening actions
- -£0.2m: Movements in inforce business
- +£3.9m: Impact of writing new business (excluding expense overruns)
- -£3.0m: Strategic expenses/expense overruns
- -£1.6m: One-off and strategy expenses
- -£0.3m: Other market movements

Reconciliation from Fund for Future Appropriations to Own Funds

The Society's Own Funds equate to the Fund for Future Appropriations referenced within the Society's Financial Statements subject to adjustments for a small number of valuation differences as described in sections D.1 and D.2

Financial Statements to Solvency reconciliation	**£'000s**
Fund for future appropriations	15,738
Less: Intangible asset	(109)
Less: Investment in subsidiary valuation difference	(418)
Plus: Impact of TMIR on Technical Provisions	326
Own Funds (with TMIR)	**15,537**

E.2 Solvency and Capital Requirement and Minimum Capital Requirement

The amount of SCR and MCR are shown in the table below.

(£'000)	**2021 With TMIR**	**2021 No TMIR**	**2020 With TMIR**	**2020 No TMIR**
SCR	10,825	10,851	11,212	11,227
MCR	3,126	3,126	3,338	3,338

SCR Split by Risk Module

The Society uses the Standard Formula as set out in the PRA Rulebook to calculate the SCR and does not use any undertaking specific parameters. The risk module capital requirements are calculated without using simplifications.

The table below sets out the undiversified net SCR for each of the risk modules.

Undiversified net SCR (£'000)	**2021 With TMIR**	**2021 No TMIR**	**2020 With TMIR**	**2020 No TMIR**
Market Risk	4,969	4,965	8,591	8,374
Counterparty Risk	672	672	669	669
Underwriting Risk (Life)	10,891	10,920	8,797	8,869
Underwriting Risk (Health SLT)	3,212	3,261	3,176	3,230
Operational Risk	986	986	656	656

Although the overall SCR has reduced, underneath this there is a continued increase in life underwriting risk, which has continued to be outweighed by the reduction in market risk. Underwriting risk has increased due to the strong growth of the GLA/GLAP products. These generate material lapse and mortality risk. In particular they generate significant negative reserves which are exposed to the mass lapse scenario which is the biting lapse stress. The more than offsetting reduction in market risk has resulting from a range of de-risking actions undertaken during the year, covering the corporate bond portfolio, property portfolio, equity portfolio and the assets within the Staff Superannuation Fund. In all cases a portion of assets were sold and proceeds reinvested in lower risk assets.

Note that the final SCR is subject to supervisory confirmation.

MCR

The components of the MCR calculation are shown below (with TMIR). The absolute floor of the MCR is prescribed by the PRA Handbook rules as €3.7m for an insurer with long-term liabilities. This equates to £3.126m in pounds sterling using the exchange rate for year end 2021.

At 31 December 2020 the MCR absolute floor was greater than 25% of the SCR, therefore the MCR is equal to the absolute floor.

Overall MCR calculation - with TMIR (£'000)	2021	2020
Linear MCR	1,589	1,918
SCR	10,825	11,212
MCR cap (45% of SCR)	4,829	5,045
MCR floor (25% of SCR)	2,683	2,803
Combined MCR	2,683	2,803
Absolute floor of the MCR	3,126	3,338
MCR	**3,126**	**3,338**

E.3 Use of Duration-based Equity Risk Sub-module

The Society does not use the duration-based equity risk sub-module.

E.4 Differences between Standard Formula and internal model

The Society uses the Standard Formula to assess its SCR.

E.5 Compliance with MCR and SCR

The Society performed a full valuations as at 31 December 2021, valuations close to full valuations but with some approximations at other quarter ends, and approximate solvency estimates at other month ends.

The Society maintained sufficient funds throughout 2021 to cover its MCR and SCR.

APPENDIX

Appendix 1 Quantitative Reporting Templates

The following Quantitative Reporting Templates ("QRTs") are required for the SFCR. All figures are presented in thousands of pounds with the exception of ratios that are in decimals. Please note that totals may differ from the component parts due to rounding.

QRT Ref	QRT Template name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses
S.05.02.01	Premiums, claims and expenses by country
S.12.01.02	Life and Health SLT Technical Provisions
S.22.01.01	Impact of long term guarantees measures and transitionals
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

General information

Undertaking name	National Deposit Friendly Society Limited
Undertaking identification code	21380062E42V3LV4Y497
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2021
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	Use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.12.01.02 - Life and Health SLT Technical Provisions
S.22.01.21 - Impact of long term guarantees measures and transitionals
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	0
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	3,312
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	80,307
R0080	*Property (other than for own use)*	9,040
R0090	*Holdings in related undertakings, including participations*	156
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	65,684
R0140	*Government Bonds*	48,605
R0150	*Corporate Bonds*	15,373
R0160	*Structured notes*	0
R0170	*Collateralised securities*	1,706
R0180	*Collective Investments Undertakings*	1,403
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	4,025
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	1,780
R0230	Loans and mortgages	826
R0240	*Loans on policies*	40
R0250	*Loans and mortgages to individuals*	51
R0260	*Other loans and mortgages*	735
R0270	Reinsurance recoverables from:	-843
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*	-843
R0320	*Health similar to life*	-849
R0330	*Life excluding health and index-linked and unit-linked*	6
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	35
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	853
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	6,278
R0420	Any other assets, not elsewhere shown	2,740
R0500	**Total assets**	95,289

		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)	74,844
R0610	*Technical provisions - health (similar to life)*	21,177
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	19,913
R0640	*Risk margin*	1,264
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	53,667
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	49,473
R0680	*Risk margin*	4,194
R0690	Technical provisions - index-linked and unit-linked	1,625
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	1,611
R0720	*Risk margin*	14
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	389
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	1,108
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	-119
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	139
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1,765
R0900	**Total liabilities**	79,751
R1000	**Excess of assets over liabilities**	15,538

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		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	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	7,645	1,126	25	13,256					22,052
R1420	Reinsurers' share	1,652			1,979					3,631
R1500	Net	5,992	1,126	25	11,278					18,421
	Premiums earned									
R1510	Gross	7,645	1,126	25	13,256					22,052
R1520	Reinsurers' share	1,652			1,979					3,631
R1600	Net	5,992	1,126	25	11,278					18,421
	Claims incurred									
R1610	Gross	7,111	5,141	83	3,913					16,248
R1620	Reinsurers' share	1,228			1,929					3,157
R1700	Net	5,883	5,141	83	1,984					13,091
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0	0	0	0					0
R1900	**Expenses incurred**	2,799	1,067	33	7,891					11,790
R2500	**Other expenses**									453
R2600	**Total expenses**									12,242

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	22,052						22,052
R1420	Reinsurers' share	3,631						3,631
R1500	Net	18,421						18,421
	Premiums earned							
R1510	Gross	22,052						22,052
R1520	Reinsurers' share	3,631						3,631
R1600	Net	18,421						18,421
	Claims incurred							
R1610	Gross	16,248						16,248
R1620	Reinsurers' share	3,157						3,157
R1700	Net	13,091						13,091
	Changes in other technical provisions							
R1710	Gross							0
R1720	Reinsurers' share							0
R1800	Net	0						0
R1900	**Expenses incurred**	11,790						11,790
R2500	**Other expenses**							453
R2600	**Total expenses**							12,242

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	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**										0						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**	36,466		1,611			13,007				51,084		19,913				19,913
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						6				6		-849				-849
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	36,466		1,611	0		13,001	0			51,077		20,761	0			20,761
R0100	**Risk margin**	233	14			3,960					4,208	1,264					1,264
	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**	36,699	1,625			16,967					55,291	21,177					21,177

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	76,468	0	325	0	0
R0020	Basic own funds	15,538	0	-326	0	0
R0050	Eligible own funds to meet Solvency Capital Requirement	15,538	0	-326	0	0
R0090	Solvency Capital Requirement	10,825	0	25	0	0
R0100	Eligible own funds to meet Minimum Capital Requirement	15,538	0	-326	0	0
R0110	Minimum Capital Requirement	3,126	0	0	0	0

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	15,538	15,538			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	0	0			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	15,538	15,538	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	15,538	15,538	0	0	0
R0510	Total available own funds to meet the MCR	15,538	15,538	0	0	
R0540	Total eligible own funds to meet the SCR	15,538	15,538	0	0	0
R0550	Total eligible own funds to meet the MCR	15,538	15,538	0	0	
R0580	**SCR**	10,825				
R0600	**MCR**	3,126				
R0620	**Ratio of Eligible own funds to SCR**	143.53%				
R0640	**Ratio of Eligible own funds to MCR**	497.04%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	15,538
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	15,538
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	0
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	15,219
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	15,219

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	6,402		
R0020	Counterparty default risk	677		
R0030	Life underwriting risk	7,405		
R0040	Health underwriting risk	2,277		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-4,665		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	12,097		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	983
R0140	Loss-absorbing capacity of technical provisions	-2,255
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**	10,825
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	10,825
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Not applicable

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

S.28.01.01

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

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

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	1,589

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	30,032	
R0220	Obligations with profit participation - future discretionary benefits	6,434	
R0230	Index-linked and unit-linked insurance obligations	1,611	
R0240	Other life (re)insurance and health (re)insurance obligations	34,281	
R0250	Total capital at risk for all life (re)insurance obligations		115,628

	Overall MCR calculation	C0070
R0300	Linear MCR	1,589
R0310	SCR	10,825
R0320	MCR cap	4,871
R0330	MCR floor	2,706
R0340	Combined MCR	2,706
R0350	Absolute floor of the MCR	3,126
R0400	**Minimum Capital Requirement**	3,126

Validation

National Deposit Friendly Society Limited (the 'Society')

Approval by the Board of Directors of the Solvency and Financial Condition Report

Financial period ended 31 December 2021.

We certify that:

1. The Solvency and Financial Condition Report ('SFCR') has been properly prepared in all material respects in accordance with the PRA Rulebook; and

2. We are satisfied that:
    a. Except as described, and fully reported to the PRA at the time, throughout the financial year in question the Society has complied in all material respects with the requirements of the PRA Rulebook as applicable to the Society: 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.

Approval by the Board of the SFCR and reporting templates

Graham Singleton
Chief Executive Officer
For and on behalf of the Board
Date: