



National Deposit Friendly Society Limited

Solvency and Financial Condition Report

For the financial year ended 31 December 2024

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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.

2024 overview

For another year the environment in which our Society operates has been challenging. Despite a pickup in the economy in the first half of the year, the second half saw a slowdown, with reduced confidence in the economy (especially in key customer demographics) leading to reduced volumes of business. A dip in confidence amongst intermediaries also had an impact, despite the continued growth in our reach across the market.

Despite this we have continued to deliver on our strategy, grounded in our mutuality and commitment to creating and protecting value for our members. We launched innovative products, designed to meet the needs of our target markets (being those traditionally underserved by insurers), and continued to invest in developing our organisation to become even more focussed on providing great service to our members, and to live our values of Caring, Credible, Agile and Dedicated.

Our success is borne out by key metrics:

- A sustained increase in policies inforce (61,000 at end 2024; 53,000 at end 2023)
- Growth in Own Funds, a fundamental measure of value creation (£26.4m at end 2024, from £22.7m at end 2023)
- Rising levels of gross written premium income (£45.7m in 2024; £31.2m in 2023)
- Adequate SCR coverage (140% in 2024; 148% at YE2023)

Externally, our achievements have been recognised through multiple industry award nominations, reflecting our commitment to excellence in customer service, innovation, and supporting our staff.

While challenges persist, our outlook remains positive. As validated by the new Government, the societal need for the insurance protection we offer, coupled with our mutual structure, free from conflicting shareholder demands, positions us for continued success in serving the best interests of our members, current and future.

Financial position

The table below summarises the Society’s capital position under the solvency regime at the end of 2024. The Society applies the Standard Formula for the calculation of its SCR.

Please note, the numbers in the below tables are rounded to the nearest £000 and match the figures within the relevant QRT templates which are input to the penny. As such, there may be small rounding differences between the individual line items and the totals.

Solvency Balance Sheet (£000)	2024	2023
Assets	56,933	53,084
Best Estimate Liabilities ¹	11,347	23,348
Other Liabilities	15,593	4,095
Risk Margin	3,589	2,966
Total Technical Provisions	30,530	30,409
Eligible Own Funds to cover capital requirements	26,403	22,675
Solvency Capital Requirement	18,919	15,364
Excess Own Funds	7,484	7,311
SCR Coverage Ratio	140%	148%

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 are 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 increased by £3.7m during the year, driven mainly by the writing of profitable new business.

The SCR coverage ratio is a measure of how many times 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.

Over 2024 the Society's SCR coverage ratio decreased, from 148% to 140%. This movement was the net impact of a range of underlying factors, the most material of which are set out in section E.1.

¹ 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. As at the end of 2024 the amount of TMIR was quantified as being immaterial, therefore zero TMIR has been included as at that date. This was also the case at the end of 2023. **Given that neither the current year nor prior year figures include TMIR, we have not shown separate "With TMIR" and "No TMIR" results in this report.**

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 Society’s registered office and operating address is:

11-12 Queen Square
Bristol
BS1 4NT

The Society’s Friendly Society number is 369F.

The Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (FRN 110008) 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
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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 2024 comprise 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 most of its Private Medical Insurance products with Gen Re and reinsures the Immediate and Deferred Care Plans with Hannover Re. For partially underwritten Guaranteed Life Assurance contracts, the Society has a mass lapse reinsurance treaty in place, with Axis Re. In addition, for MyPMI Level 2 policies, an excess of loss reinsurance treaty is in place.

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 2024.

£000	2024					2023
	Health	With-Profit	Unit-Linked	Other Life	Total	Total
Gross Premiums	8,322	133	20	37,267	45,742	30,753
Reinsurers' share of premiums	(2,310)	-	-	(7,657)	(9,967)	(7,853)
Gross Claims	(10,016)	(3,502)	(375)	(12,864)	(26,758)	(22,968)
Reinsurers' share of claims	3,128	-	-	7,700	10,828	7,703
Expenses (acquisition & administration)	(5,222)	464	(22)	(17,421)	(22,202)	(19,470)

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 considered 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 of 31 December 2024, the Society's investment portfolio comprised the following assets:

Type of Assets	2024		2023	
	Amount (£m)	% of portfolio	Amount (£m)	% of portfolio
Property (other than for own use)	3.5	6.3%	4.3	9.4%
Holdings in related undertakings	0.5	0.9%	0.5	1.1%
Government bonds	22.4	40.8%	26.8	58.6%
Corporate bonds	9.7	17.6%	9.8	21.4%
Collateralised securities	(0.5)	-1.0%	0.0	0.0%
Collective investment undertakings	1.4	2.5%	1.5	3.3%
Deposits other than cash equivalents	17.7	32.3%	1.9	4.2%
Loans and mortgages to individuals	0.3	0.6%	0.9	2.0%
Total	54.9	100.0%	45.7	100.0%

Note that values above are taken from QRTs and include accrued interest therefore do not reconcile neatly to the financial accounts.

The Society's investment assets are held in government bonds, corporate bonds, equities, commercial property and bank deposits.

In 2024, the total investment asset value increased from £45.7m to £54.9m, driven by the writing of new annuity business (including in relation to some of the Society's pension scheme members, as described further in section D.3), net of the impact of writing new regular premium business on which upfront commission is payable.

Investment income:	2024	2023
	£000	£000
Income from land and buildings	406	1,033
Fixed interest stocks	512	2,004
Ordinary shares	78	27
Income from listed investments:	590	2,031
Bank interest	164	158
Mortgages	1	2
Income from other investments:	165	160
Income from investments	1,161	3,224
Net gain/(losses) on realisation of land and buildings	626	(84)
Net gain/(losses) on realisation of listed investments at fair value through profit and loss	198	(689)
Net gains/(losses) on realisation of investments	824	(773)
Investment income/(loss)		2,451
Net unrealised gains/(losses) on investments		
- Land and buildings	(90)	853
- Listed investments at fair value through profit and loss	(3,022)	7,164
- Assets held to cover linked liabilities at fair value through profit and loss	(36)	136
	(3,148)	8,153
Total investment return	(1,164)	10,604
Investment Expenses		
Investment management expenses	169	182
Investment property direct costs	53	314
	222	496

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 2024, the Board comprised four Non-Executive Directors and three Executive Directors:

- Mark Searles (Chairman (from November 2024) & Non-Executive Director)
- Simon Thomas (Senior Independent Director (from November 2024) & Non-Executive Director)
- Geoff Brown (Non-Executive Director)
- Rebecca Hall (Non-Executive Director)
- Graham Singleton (Executive Director)
- Julian Ellacott (Executive Director)
- Oliver Jones (Executive Director)

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. Throughout 2024, 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 important for the Audit Committee to benefit from the successive Chairs' experience of the Society. Membership of all Board Committees is reviewed at least annually.

The Committee consists of all Non-Executive Directors.

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 oversight of strategic risks when there is significant change to the Society's strategic business plan.
- Oversee and provide input and challenge to the production of the Society's Own Risk Solvency Assessment and related stress tests and make recommendations.
- Make recommendations concerning the Society's overall risk appetite, tolerances and strategy.

- Review any material breaches of risk appetite and risk tolerance together with 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 at least an annual basis.
- Review the Society's procedures for the prevention and detection of bribery and corruption; oversee anti-money laundering and financial crime systems and controls.
- Ensure that Consumer Duty is implemented, embedded and overseen within the Society.

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 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.
- Periodically review the Investment & Liquidity Policy, in particular in respect of capital requirements, overall market conditions and environmental, social and governance considerations.
- Oversee the application of the Investment & Liquidity Policy.
- 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 consists of 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 consists of all Non-Executive Directors, plus the Chief Executive Officer.

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 consists of all Non-Executive Directors. The Chief Executive attends 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 all members of the Executive that are in place to support the Chief Executive Officer.

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 operational 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. Risk KPIs plus risk and control ratings are reviewed regularly
- 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 its 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

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

Pay reviews may take place at other times of the year to reflect a change in role and/or significant change in responsibilities. The Committee may consult with external advisors as appropriate for such pay reviews, who can undertake a job evaluation to provide a guide salary range relevant to the role. The evaluation considers the demands of the role and then applying factors derived from salary research data, takes account of the Society's size, sector and location.

Performance Related Pay

The Executive Directors and members of the Executive Committee are eligible for annual Performance Related Pay. This comprises two component parts; a short term incentive plan with a maximum potential cash bonus of 60% of base salary, 30% of which is deferred. Performance is assessed across a collective basis against corporate objectives identified within the Society's balanced score card and delivery of personal objectives.

LTIP

In addition to the deferred component to the performance related pay, from January 2024 a formal Long Term Incentive Plan ("LTIP") scheme was introduced, not only for Executive Directors but for all staff. This takes into account the Society's performance in terms of Excess Own Funds over a 3 year time horizon, aligning the interests of staff with the interests of members, and promoting good management of risk.

Retirement and Related Benefits

The Executive Directors are members of a defined contribution pension scheme which is available to all employees. The Society contributes up to a maximum of 12% of base salary per Director, dependent upon personal contribution levels and consistent with the contribution levels for all staff. The Chief Executive receives an allowance in lieu of a contribution to a defined contribution pension scheme, the cost to the Society is the same as a 12% contribution to a pension scheme.

Other Benefits

Executive Directors 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 and the cycle to work initiatives and for season ticket loans.

Non-Executive Directors

All Non-Executive Directors including the Chair have letters of appointment which set out their duties and responsibilities. The appointment of Non-Executive Directors is usually for a period of three years and is subject to election and re-election at the Society's AGM. After nine years of service or when a director reaches the age of 70, re-election becomes an annual process.

Fees are benchmarked against similar roles in comparable organisations. Fees are 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 and training courses.

Non-Executive Directors' remuneration is not performance related nor pensionable and Non-Executive Directors do not participate in any incentive plans. However, a formal bi-annual appraisal process is undertaken where the views of all Directors are taken into consideration and the outcome of this is ratified by the Board.

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.

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 assessment 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.
- The third line of defence represents independent assurance on the effectiveness of the Society's systems and internal controls, and 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.
- Leading the review of all risks within the Society's Risk Universe on at least 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.
- Leading 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.
- **Escalation processes** – the control processes above in addition to other key measures e.g. risk appetite measures, loss events, root cause analysis and progress against audit actions are presented to the appropriate Committee within the Society. This is designed to allow each Committee to assess emerging risks and provide appropriate oversight of the Society's control environment.

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 has operated the Internal Audit function as an in-house function since 2023. The Head of Internal Audit holds qualifications with both the Chartered Institute of Internal Auditors and the Chartered Management Institute. Internal Audit reports administratively to the Chief Executive Officer and to maintain the independence of internal audit activities they report functionally 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 the Internal Audit function formulates and presents an annual audit plan to the Audit Committee for approval. The internal audit plan is risk based and appropriate to the nature, scale and risks of the Society. The plan is developed to make sure that all areas within the business are subject to a regular review. The plan is flexible so that changes can be made during the year as a result of changes in priorities, external conditions and risk areas.

Based on 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

Since September 2021 the Chief Actuary position has been held by Executive Director, Julian Ellacott, 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 Chief Actuary is supported by an internal team including at least one qualified actuary, and external peer review of key pieces of work is also obtained. The Chief Actuary is the management function holder approved by the regulators under the SMR.

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 role of With-Profits Actuary is a separate independent function which is outsourced to Sally Butters of SDA LLP. 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 and Purchasing Policies. Service quality is monitored through an ongoing review of service level agreements with each third party.

The Outsourcing 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 and deemed material, 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
SDA LLP	With-profits Actuary	UK
Medicals Direct Group	Specialist medical screening	UK
Healix Health Services	Medical insurance claims administration	UK
XPS Pensions Group	Pension policy administration	UK
Link Group	Unit linked policy administration	UK
Royal London Asset Management	Investment Managers - fixed income & equities	UK
Church House Investments Ltd	Investment Managers – unit-linked fund	UK
Northern Trust Corporation	Investment custodians	US
HybriT Services Ltd	Hosted IT infrastructure services	UK
Spark Data Systems Ltd	Policy administration system support, development and data migration	UK

C. 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 2024, 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 2024 the Society had over 61,000 in force long-term policies (compared to approximately 53,000 as at 31 December 2023). The relative proportions of policy numbers and Best Estimate Liabilities ("BEL") are as follows:

Product Group	Policies	BEL (£m)	Policies %	BEL %
With profits contracts	4,273	25.2	7%	222%
Life Annuities	1,042	32.9	2%	290%
Other life contracts	42,525	50.9	69%	-449%
Health similar to life contracts	13,590	3.1	22%	27%
Unit linked contracts	62	1.1	0%	10%
Total	61,492	11.3	100%	100%

The high number of "Other life contracts" which give rise to net negative BEL is driven by:

- The Society has Death Benefit Only contracts with low sums assured. These account for 5% of the total policies by number, but only 2% of the BEL.
- The Society has just over 38,000 Guaranteed Life Assurance ("GLA/GLAP") policies, which in aggregate have negative BEL.

Given the wide range of inforce 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 tables under section C.1.

Contract Type	Mortality	Longevity	Morbidity	Lapse	Expense
With-profits contracts	Y	Y			Y
Life Annuities		Y			Y
Other life contracts	Y	Y		Y	Y
Health similar to life contracts		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	2024 (£m)	2023 (£m)	2024	2023
Market Risk	2.4	3.6	7%	14%
Counterparty Risk	0.9	0.6	3%	2%
Underwriting Risk (Life)	21.8	17.2	66%	67%
Underwriting Risk (Health SLT)	6.3	2.9	19%	11%
Operational Risk	1.5	1.3	5%	5%
Total	32.8	25.6	100%	100%

The most significant risk faced by the Society is life underwriting risk, followed (by some distance) by market risk and health underwriting risk.

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 2024 by key risk.

SCR	Life Underwriting Risk (£m)	Health Underwriting Risk (£m)	Total £m
Mortality	6.7	0.0	6.7
Longevity	1.1	0.0	1.1
Morbidity	0.0	2.5	2.5
Lapse	11.2	3.2	14.5
Expenses	2.2	0.5	2.7
Pandemic	0.5	0.0	0.5
Total	21.8	6.3	28.0

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 2024, they accounted for 60% of the in force book (by policy count) (2023: 58%).

Mortality risk is an increasing risk for the Society because of increased sales of the GLAP product.

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 was not evident as a result of the COVID pandemic. They could arise from other types of pandemic, or other phenomena, but overall this is not currently 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 and health insurance 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, where premiums cannot be reviewed to offset the impact.

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 demonstrated by the COVID pandemic.

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 a permanent 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, GLA/GLAP and income protection products that the Society has launched in recent years. During 2022 the Society executed a reinsurance arrangement to mitigate the impact of a mass lapse event on the GLAP product, and this arrangement has been renewed subsequently.

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 month ends. The SCR coverage is reported routinely to the Society's Board.

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 2024 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	4.5
Property	5.2
Government Bonds	22.3
Corporate Bonds	8.9
Cash	4.8
Other Assets	11.2
Total	56.9

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 18% of the undiversified net SCR in respect of market risk.

SCR Market Risk	Insurance (£m)	Pension Scheme	Total (£m)	% of total
Interest Rates	2.3	-0.8	1.6	66%
Equity	0.4	0.0	0.4	16%
Property	0.2	0.0	0.2	9%
Credit Spread	0.2	0.0	0.2	6%
Currency	0.0	0.0	0.0	2%
Concentration	0.0	0.0	0.0	1%
Total	3.1	-0.7	2.4	100%

The most significant components of market risk at 31 December 2024 are interest rates and credit spreads, accounting for 66% and 16% of the undiversified market SCR respectively. Property risk, which arises mainly from exposure to property backing the with-profits liabilities where the guaranteed policy values are now biting or where there is surplus property, in excess of the allocation to liabilities, has reduced in significance over the past year, as a result of the sale of a further property, leaving only two properties remaining.

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 interest rate increase stress is the more onerous on the combined position of the 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 limited exposure to this risk, as no corporate bonds are used to back non-profit liabilities. Corporate bonds are used to back with-profits liabilities but the loss absorbing capacity of with-profits contracts mitigates a proportion of the resulting credit spread risk.

In relation to the pension scheme, under FRS 102 liabilities are discounted using spread from a corporate bond index, although none of the assets are invested in corporate bonds. Therefore to the extent that the liability discount rate and asset yields do not move in line with each other, an “inverse” credit spread risk arises.

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 from 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 at least quarterly with a summary reported to the Risk and Compliance Committee on a quarterly basis.
- Regular cash flow analysis takes place and is monitored internally by the Capital Management, Investment & Liquidity Working Group.
- Projected liability cashflows are provided to the Society’s asset managers in order to ensure asset liability matching remains appropriate.
- 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.

- Weekly 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.

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.

The Capital Management, Investment & Liquidity Working Group meets monthly to review the latest cashflow forecasts, and to decide whether management action needs to be taken to address any risk of liquidity shortfall over the following 3-6 months.

Risk sensitivity for liquidity risks

The Society has set a risk appetite measure and Minimum Liquidity Requirement metrics to maintain minimum cash deposits that would be sufficient to cover a proportion of projected claims and expense outgoings, net of projected premium income, over various short and medium terms, 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 2026 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:

- The 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 financial 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 implementation work being undertaken by the Consumer Duty project is helping to mitigate conduct risk for the Society.

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 2024:

Assets (£000)	FRS 102	Solvency
Intangible assets	707	-
Property, plant & equipment	3,464	3,464
Investments	55,175	54,889
Assets held to cover linked liabilities	1,379	1,379
Loans and mortgages	311	311
Reinsurance asset ¹	(8,587)	(8,587)
Insurance and intermediaries receivables	3	3
Trade receivables (not insurance)	377	377
Cash and cash equivalents	2,277	2,277
Other assets	2,833	2,833
Total assets	57,938	56,945

¹ The reinsurance asset represents the Technical Provisions associated with the reinsured policies that have been ceded to a reinsurer, as outlined in section D.2. 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 31 December 2024 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	707	Intangible assets	-
Net pension asset	-	Pension benefit surplus	-
Investment Property	2,350	Property (other than for own use)	2,350
Investment in subsidiaries	476	Holdings in related undertakings	190
Fixed interest securities	31,594	Government bonds	22,437
		Corporate bonds	9,695
		Collateralised securities	(538)
Listed shares	3,031	Collective investments undertakings	3,031
Investment cash	17,723	Deposits other than cash equivalents	17,723
Subtotal	55,175	Subtotal	54,889
Assets held to cover linked liabilities	1,379	Assets held for index-linked and unit-linked contracts	1,379
Reinsurance asset/(payable)	(8,587)	Reinsurance recoverable from: Life and health similar to life excluding index-linked and unit-linked	(8,587)
		Loans on policies	37
		Other loans and mortgages	227
		Loans and mortgages to individuals	47
Debtors	311	Subtotal	311
		Property, plant & equipment held for own use	3,464
		Cash and cash equivalents	2,277
Other assets	5,741	Subtotal	5,741
		Receivables (trade, not insurance)	377
		Insurance and intermediaries receivables	3
		Any other assets, not elsewhere shown	2,833
Prepayments/accrued income	3,213	Subtotal	3,213
Total	57,938	Total	56,945

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 2024) 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 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 £476,000 under FRS102 to £190,000 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 (theoretical) 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 – however as previously noted, the TMIR as at 31 December 2024 was zero (hence the figures in the two tables below are the same).

Technical Provisions at 31 December 2024:

Analysis of Technical Provisions (£000)	Gross Best Estimate Liabilities	Risk Margin	Value of Technical Provisions for solvency purposes
With-Profits Contracts	25,164	125	25,289
Life Annuities	32,925	281	33,205
Other Life	(50,897)	2,426	(48,470)
Health Similar to Life	3,077	741	3,818
Unit Linked	1,078	16	1,094
Total	11,347	3,589	14,937

The Best Estimate Liabilities shown above is a net figure, comprising some product lines whose aggregate BEL is positive, and others whose aggregate BEL is negative. These subsets are shown below, reconciling to the total gross BEL set out in the above table:

Netting of positive and negative BEL (£000)	Gross Best Estimate Liabilities
Product classes with net positive liabilities	79,666
Product classes with net negative liabilities	(68,318)
Total	11,347

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 2024, the value of reinsurance recoverables was (£8.587m). This item is a net liability as the value of future reinsurance premiums payable exceeds the value of expected reinsurance claims recoverable.

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 4% 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:

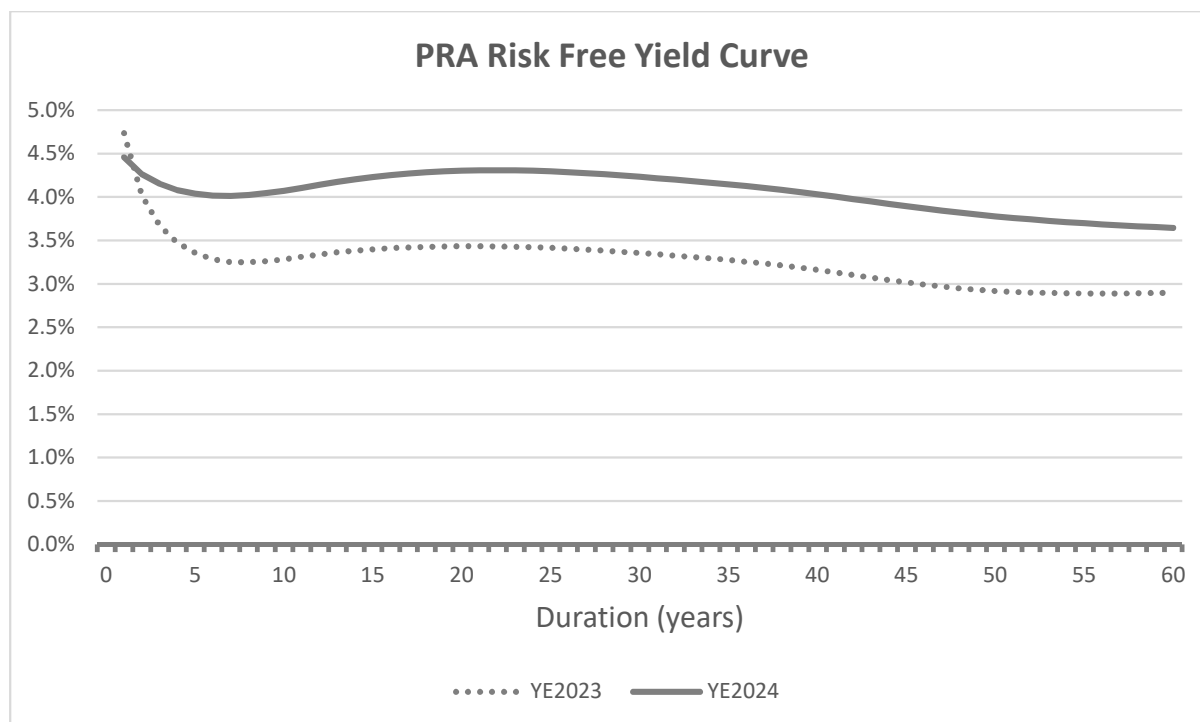
- Allowance for tax as a percentage of investment return and expenses which reflect the tax regime of a friendly society;
- Use of annual cash flows in stochastic calculations;
- Age approximations on joint life policies.

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 2024 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 increased across all but the very short end of the curve during 2024, as shown below.



The Society has been approved by the PRA to use TMIR. This allows firms a transitional period to move from the interest rate structure in force under the pre-2016 regime (“Solvency I”) to that required by the current regime over a period of 16 years, in respect of insurance contracts in force prior to 1 January 2016. The benefit therefore reduces as those liabilities run off, and as the 16 year amortisation works its way through. It is also sensitive to the assets actually held by the Society, and for these reasons the assessed value as at 31 December 2024 was immaterial, hence a value of zero has been used for the TMIR.

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 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. Inflation projections from the Bank of England are also used as a reference point.

- 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 contractual investment expenses paid by the Society to its asset managers.

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 2024 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 2024 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 relevant projections from the Continuous Mortality Investigation ("CMI").

Mortality assumptions were updated in the calculation of Technical Provisions at 31 December 2024 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 2024 are:

- Mortality assumptions have been strengthened on average, increasing the BEL by £0.8m.
- Morbidity assumptions have been strengthened on average, increasing the BEL by £0.1m.

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. In some categories 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. These are still relatively new products and therefore the Society has limited relevant data on which to base long term assumptions, 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 historic data on which to base assumptions, morbidity assumptions continue to be uncertain as the book ages and as events such as premium reviews and the after effects of the COVID pandemic 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, as previously described. 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.

Best Estimate of Liabilities

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. In line with the reforms introduced from 31 December 2023, a tapering factor is applied to the projected SCRs.

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
		Insurance & intermediaries payables	-901
		Payables (trade, not insurance)	766
		Any other liabilities, not elsewhere shown	8,791
Creditors	8,658	Subtotal	8,658

Derivatives

No derivatives were held as at the year-end.

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.

In December 2024 the Trustees purchased from the Society annuity policies which replicate the benefits of 59 pensioner members of the Scheme, a transaction which has been appropriately allowed for in the valuation of the Scheme assets and liabilities as at 31 December 2024.

The latest formal actuarial valuation of the SSF for funding purposes was carried out as at 31 December 2022. Separately, for the purposes of the accounting and solvency balance sheets a valuation is undertaken at each year end by a qualified independent actuary in line with IAS 19.

As at 31 December 2024 these calculations indicated that the SSF has a net deficit of £6.935m. This figure reflects the accounting treatment of the transaction with the Society described above, whereby, effectively as an internal transaction, the Scheme does not allow for the value of the annuity policies, but does allow for the reduction in assets as a result of paying the premium (£8.591m). Upon consolidation with the Society's insurance business however there is no net impact.

FRS 102 has been brought in line with the International Financial Reporting Standards, and in the opinion of the actuaries who calculated the FRS 102 position, the surplus or deficit under IAS 19 (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 target 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 the glossary of the PRA Rulebook:

"accumulated profits which have not been made available for distribution to policyholders."

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 1 capital and are presented in the table below:

Solvency Balance Sheet (£000)	2024	2023
Assets	56,933	53,084
Best Estimate Liabilities	11,347	23,348
Other Liabilities	15,593	4,095
Risk Margin	3,589	2,966
Total Technical Provisions	30,530	30,409
Eligible Own Funds	26,403	22,675

The components of the change in Own Funds from £22.7m at 31 December 2023 to £26.4m at 31 December 2024 are:

- -£0.2m: Changes in demographic assumptions
- -£1.5m: Changes in economic valuation assumptions

- -£0.6m: Movements in inforce business
- +£6.9m: Impact of writing new business (excluding expense overruns)
- -£1.9m: Strategic expenses/expense overruns
- +£2.9m: Model changes
- -£0.6m: Other items

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	£000
Fund for future appropriations	27,244
Less: Intangible asset	(707)
Less: Investment in subsidiary valuation difference	(134)
Plus: Impact of TMIR on Technical Provisions	-
Own Funds	26,403

E.2 Solvency and Capital Requirement and Minimum Capital Requirement

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

£000	2024	2023
SCR	18,919	15,364
MCR	4,730	3,841

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)	2024	2023
Market Risk	2,376	3,627
Counterparty Risk	897	637
Underwriting Risk (Life)	21,753	17,227
Underwriting Risk (Health SLT)	6,281	2,853
Operational Risk	1,479	1,251

The overall SCR has increased in absolute terms driven by a continued increase in life underwriting risk, in turn largely due to the strong growth of the GLAP product, which generates 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, although reinsurance executed during 2022 has reduced the exposure to this mass lapse risk.

Note that the final SCR is subject to supervisory confirmation.

MCR

The components of the MCR calculation are shown below. The absolute floor of the MCR is prescribed by the PRA Handbook rules as €4m for an insurer with long-term liabilities. This equates to £3.495m in pounds sterling using the prescribed exchange rate for year end 2024.

At 31 December 2024 the MCR absolute floor was less than 25% of the SCR, therefore the MCR is equal to the MCR floor, ie 25% of SCR.

Overall MCR calculation (£000)	2024	2023
Linear MCR	504	818
SCR	20,360	15,495
MCR cap (45% of SCR)	8,513	6,914
MCR floor (25% of SCR)	4,730	3,841
Combined MCR	4,730	3,841
Absolute floor of the MCR	3,495	3,495
MCR	4,730	3,841

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 valuation as at 31 December 2024, 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 2024 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
IR.02.01.02	Balance Sheet
IR.05.02.01	Premiums, claims and expenses by country: Life insurance and reinsurance obligations
IR.05.03.02	Life income and expenditure
IR.12.01.02	Life technical provisions
IR.22.01.21	Impact of long term guarantees measures and transitionals
IR.23.01.01	Own Funds
IR.25.04.21	Solvency Capital Requirement
IR.28.01.01	Minimum Capital Requirement – Only Life or only non-life insurance or reinsurance activity

General information

Entity name	National Deposit Friendly Society Limited
Entity identification code and type of code	LEI/21380062E42V3LV4Y497
Type of undertaking	Life undertakings
Country of incorporation	GB
Language of reporting	en
Reporting reference date	31 December 2024
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

-

IR.02.01.02 - Balance sheet

IR.05.02.01 - Premiums, claims and expenses by country: Life insurance and reinsurance obligations

IR.05.03.02 - Life income and expenditure

IR.12.01.02 - Life technical provisions

IR.22.01.21 - Impact of long term guarantees measures and transitionals

IR.23.01.01 - Own Funds

IR.25.04.21 - Solvency Capital Requirement

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

IR.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	3,464
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	37,166
R0080	<i>Property (other than for own use)</i>	2,350
R0090	<i>Holdings in related undertakings, including participations</i>	190
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	31,594
R0140	<i>Government Bonds</i>	22,437
R0150	<i>Corporate Bonds</i>	9,157
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	3,031
R0190	<i>Derivatives</i>	0
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	1,379
R0230	Loans and mortgages	311
R0240	<i>Loans on policies</i>	311
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	0
R0270	Reinsurance recoverables from:	-8,587
R0280	<i>Non-life and health similar to non-life</i>	
R0315	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	-8,587
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	377
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	20,000
R0420	Any other assets, not elsewhere shown	2,821
R0500	Total assets	56,933

		Solvency II value
Liabilities		C0010
R0505	Technical provisions - total	14,937
R0510	Technical provisions - non-life	0
R0515	Technical provisions - life	14,937
R0542	Best estimate - total	11,347
R0544	Best estimate - non-life	
R0546	Best estimate - life	11,347
R0552	Risk margin - total	3,589
R0554	Risk margin - non-life	
R0556	Risk margin - life	3,589
R0565	Transitional (TMTP) - life	0
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	6,935
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	0
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	-901
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	766
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in Basic Own Funds	
R0870	Subordinated liabilities in Basic Own Funds	0
R0880	Any other liabilities, not elsewhere shown	8,792
R0900	Total liabilities	30,530
R1000	Excess of assets over liabilities	26,403

IR.05.02.01

Premiums, claims and expenses by country: Life insurance and reinsurance obligations

	C0150	C0160	C0170	C0180	C0190	C0200	C0210
	Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
	C0220	C0230	C0240	C0250	C0260	C0270	C0280
R1400							
Premiums written							
R1410 Gross	45,742						45,742
R1420 Reinsurers' share	9,967						9,967
R1500 Net	35,775						35,775
Premiums earned							
R1510 Gross	34,671						34,671
R1520 Reinsurers' share	9,967						9,967
R1600 Net	24,704						24,704
Claims incurred							
R1610 Gross	26,758						26,758
R1620 Reinsurers' share	674						674
R1700 Net	26,084						26,084
R1900 Net expenses incurred							0

IR.05.03.02

Life income and expenditure

	Insurance with profit participation	Index-linked and unit-linked insurance	Life annuities	Non-life annuities	Other life insurance	Health insurance	Total life and health
	C0010	C0020	C0030	C0040	C0050	C0060	C0070
Premiums written							
R0010 Gross direct business	133	20	23,560		13,707	8,322	45,742
R0020 Gross reinsurance accepted							0
R0030 Gross	133	20	23,560	0	13,707	8,322	45,742
R0040 Reinsurers' share			7,655		2	2,310	9,967
R0050 Net	133	20	15,905	0	13,704	6,012	35,775
Claims incurred							
R0110 Gross direct business	3,502	375	9,314		3,550	10,016	26,758
R0120 Gross reinsurance accepted							0
R0130 Gross	3,502	375	9,314	0	3,550	10,016	26,758
R0140 Reinsurers' share			113		0	561	674
R0150 Net	3,502	375	9,201	0	3,550	9,455	26,084
Expenses incurred							
R0160 Gross direct business	-464	22	0	0	17,421	5,222	22,202
R0170 Gross reinsurance accepted							0
R0180 Gross	-464	22	0	0	17,421	5,222	22,202
R0190 Reinsurers' share							0
R0200 Net	-464	22	0	0	17,421	5,222	22,202
R0300 Other expenses							
Transfers and dividends							
R0440 Dividends paid							

IR.12.01.02

Life technical provisions

	Insurance with profit participation	Index-linked and unit-linked insurance	Life annuities	Non-life annuities	Other life insurance	Health insurance	Total life and health
	C0010	C0020	C0030	C0040	C0050	C0060	C0070
Best estimate							
R0025 Gross Best Estimate (direct business)	25,164	1,078	32,925		-50,897	3,077	11,347
R0026 Gross Best Estimate (reinsurance accepted)							0
R0030 Gross Best Estimate	25,164	1,078	32,925	0	-50,897	3,077	11,347
R0080 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					3	-8,591	-8,587
R0090 Best estimate minus recoverables from reinsurance/SPV and Finite Re	25,164	1,078	32,925	0	-50,900	11,668	19,935
R0100 Risk margin	125	16	281	0	2,426	741	3,589
Amount of the transitional on Technical Provisions							
R0140 TMTP - risk margin							0
R0150 TMTP - best estimate dynamic component							0
R0160 TMTP - best estimate static component							0
R0170 TMTP - amortisation adjustment							0
R0180 Transitional Measure on Technical Provisions	0	0	0	0	0	0	0
R0200 Technical provisions - total	25,289	1,094	33,205	0	-48,470	3,818	14,937

IR.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	14,937	0	0	0	0
R0020 Basic own funds	26,403	0	0	0	0
R0050 Eligible own funds to meet Solvency Capital Requirement	26,403	0	0	0	0
R0090 Solvency Capital Requirement	18,919	0	0	0	0
R0100 Eligible own funds to meet Minimum Capital Requirement	26,403	0	0	0	0
R0110 Minimum Capital Requirement	4,730	0	0	0	0

IR.23.01.01
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	Amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above

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

R0290 Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees
R0350	Letters of credit and guarantees other
R0360	Supplementary members calls
R0370	Supplementary members calls - other
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580 SCR

R0500	JCR
R0600	MCR

R0620 Ratio of Eligible own funds to SCR

R0640 Ratio of Eligible own funds to MCR

Reconcilliation reserve

	Reconciliation reserve
R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0725	Deductions for participations in financial and credit institutions
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0	0		0	
0	0		0	
0	0		0	
0		0		0
26,403	26,403			
0		0	0	
0		0	0	
0	0			
0		0	0	
0				
0	0	0	0	
0				
0				
26,403	26,403	0	0	
0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	
26,403	26,403	0	0	
26,403	26,403	0	0	
26,403	26,403	0	0	
26,403	26,403	0	0	
18,919				
4,730				
139.56%				
558.25%				
C0060				
26,403				
0				
26,403				
0				
0				

IR.25.04.21

Solvency Capital Requirement

Net of loss absorbing capacity of technical provisions

Market risk		C0010
R0070	Interest rate risk	1,560
R0080	Equity risk	367
R0090	Property risk	218
R0100	Spread risk	154
R0110	Concentration risk	28
R0120	Currency risk	39
R0125	Other market risk	
R0130	Diversification within market risk	-655
R0140	Total Market risk	1,710
Counterparty default risk		
R0150	Type 1 exposures	0
R0160	Type 2 exposures	897
R0165	Other counterparty risk	
R0170	Diversification within counterparty default risk	0
R0180	Total Counterparty default risk	897
Life underwriting risk		
R0190	Mortality risk	6,708
R0200	Longevity risk	1,109
R0210	Disability-Morbidity risk	0
R0220	Life-expense risk	2,229
R0230	Revision risk	0
R0240	Lapse risk	11,244
R0250	Life catastrophe risk	-460
R0255	Other life underwriting risk	
R0260	Diversification within life underwriting risk	-6,959
R0270	Total Life underwriting risk	14,791
Health underwriting risk		
R0280	Health SLT risk	4,434
R0290	Health non SLT risk	0
R0300	Health catastrophe risk	35
R0305	Other health underwriting risk	
R0310	Diversification within health underwriting risk	-26
R0320	Total Health underwriting risk	4,443
Non-life underwriting risk		
R0330	Non-life premium and reserve risk (ex catastrophe risk)	
R0340	Non-life catastrophe risk	
R0350	Lapse risk	
R0355	Other non-life underwriting risk	
R0360	Diversification within non-life underwriting risk	
R0370	Non-life underwriting risk	0
R0400	Intangible asset risk	
Operational and other risks		
R0422	Operational risk	1,481
R0424	Other risks	90
R0430	Total Operational and other risks	1,572
R0432	Total before all diversification	31,052
R0434	Total before diversification between risk modules	23,412
R0436	Diversification between risk modules	-4,493
R0438	Total after diversification	18,919
R0440	Loss absorbing capacity of technical provisions	0
R0450	Loss absorbing capacity of deferred tax	
R0455	Other adjustments	
R0460	Solvency capital requirement including undisclosed capital add-on	18,919
R0472	Disclosed capital add-on - excluding residual model limitation	
R0474	Disclosed capital add-on - residual model limitation	
R0480	Solvency capital requirement including capital add-on	18,919
R0490	Biting interest rate scenario	
R0495	Biting life lapse scenario	

IR.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		504
		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		20,264
R0220	Obligations with profit participation - future discretionary benefits		4,866
R0230	Index-linked and unit-linked insurance obligations		1,078
R0240	Other life (re)insurance and health (re)insurance obligations		0
R0250	Total capital at risk for all life (re)insurance obligations		
Overall MCR calculation		C0070	
R0300	Linear MCR		504
R0310	SCR		18,919
R0320	MCR cap		8,513
R0330	MCR floor		4,730
R0340	Combined MCR		4,730
R0350	Absolute floor of the MCR		3,500
R0400	Minimum Capital Requirement		4,730

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 2024.

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. 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

A handwritten signature in black ink, appearing to read 'G. Singleton', followed by a period.

Graham Singleton
Chief Executive Officer
For and on behalf of the Board
Date: 9 April 2025