National Deposit Friendly Society Limited

Solvency and Financial Condition Report

(for the financial year ended 31 December 2020)

Contents

Executive Summary

The Solvency II regime requires reporting and public disclosures by insurers including some that are required to be made available through the company's website. This document is the Solvency and Financial Condition Report ("SFCR") that is required to be published by National Deposit Friendly Society Ltd ("National Friendly" or "the Society").

The Society continued to develop its overall welfare and healthcare proposition during 2020, providing both insurance and investment products to help members to insure and/or save towards meeting their long term care needs.

The year was dominated by the COVID pandemic, its impact on financial markets and the Society's response to those impacts. As disclosed in a note to the 2019 SFCR the Society fell below full coverage of the SCR as at 31 March 2020, with an SCR coverage ratio of 92% (the MCR coverage ratio was 369%). The Society notified the PRA accordingly, and submitted a Capital Recovery Plan in July 2020. A number of management actions were taken, immediately following the identification of SCR coverage being below 100% through to the end of the year, in order to restore the solvency position to 130% by the year end (as set out in this SFCR).

The Society's pilot Immediate Needs Annuity product continued to sell well, through the single broker with whom the pilot was conducted. Following a review of the pilot the Board decided to launch the product to the full market from early 2021. The Society also prepared an Income Protection product for launch in 2021, and undertook routine product and pricing reviews in relation to other products (principally guaranteed life assurance and health insurance products).

In respect of the Society's governance framework, two long standing Non-Executive Directors, Peter McIlwraith and Mark Jackson, stepped down on 30 September 2020. The Society appointed two new Non-Executive Directors, Mark Searles from 1 June 2020 and Mary Gavigan from 1 September 2020. Further details of Mark and Mary's experience will be set out in the Society Annual Report and Accounts (and are also shown on its website).

Very sadly, Chief Executive Jonathan Long passed away in December 2020. A permanent replacement is due to be announced in April 2021.

Christopher Critchlow resigned as the Society's Chief Actuary and With-Profits Actuary with effect from 2 June 2020 and was replaced by John Burgum of OAC plc as the Chief Actuary and by Sally Butters of OAC plc as the With-profits Actuary.

In response to the impact of the COVID pandemic on the Society's solvency position, as mentioned above various management actions were taken. These had the impact of reducing the level of risk exposure of the Society.

During 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 Solvency II regime over a 16-year period as these policies mature. For comparison purposes, figures below are shown excluding and including TMIR.

The table below summarises the Society's capital position, under Solvency II, at the end of 2020. The Society applies the standard formula for calculation of its Solvency Capital Requirement ("SCR"). The SCR is the amount of regulatory capital that the Society must hold to protect it from risk events and to comply with the PRA Rulebook.

Solvency II Balance Sheet (£'000)	**2020 With TMIR**	**2020 No TMIR**	**2019 With TMIR**	**2019 No TMIR**
Assets	101,770	101,770	107,628	107,628
Best Estimate Liabilities	79,502	80,744	82,479	83,683
Other Liabilities	3,320	3,320	3,229	3,229
Risk Margin	4,347	4,347	3,654	3,654
Total Liabilities	87,169	88,411	89,362	90,566
Eligible Own Funds to cover capital requirements	**14,601**	**13,359**	**18,266**	**17,062**
Solvency Capital Requirement	11,212	11,227	13,024	13,264
Excess Own Funds	**3,389**	**2,132**	**5,242**	**3,798**
SCR Coverage Ratio	**130%**	**119%**	**140%**	**129%**

At the time of finalising this SFCR the Statutory Accounts as at 31 December 2020 are in draft form, therefore references to these accounts should be construed accordingly.

A. Business and Performance

A.1 Business

The Society was founded in 1868 and is a mutual friendly society incorporated under the Friendly Societies Act 1992. The Company number is 369F.

The Society's registered office and operating address is:

11-12 Queen Square
Bristol
BS1 4NT

The Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority.

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

The Society's external auditor is:

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

The Group consists of National Deposit Friendly Society Limited and two wholly owned subsidiaries, National Friendly Financial Solutions Limited and National Friendly Software Solutions Limited. National Deposit Friendly Society Limited is regulated as a solo insurance entity and therefore, is the only entity within the group that undertakes insurance activities.

The Society writes and administers contracts of insurance as follows:

- With-profits life and pension contracts
- Non-profit life contracts
- Non-profit annuity contracts
- Healthcare contracts
- 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 the year relate to regular premiums on existing policies and premiums on new contracts of insurance written in 2020. The Society utilises reinsurance to limit its overall risk exposure as well as reduce the volatility of its claims, particularly in respect of new healthcare policies.

The Society prepares its financial statements in accordance with UK General Accepted Accounting Principles ("UK GAAP") and therefore the underwriting performance information given in this section is on a UK GAAP basis. The Society's reporting of the technical provisions in the financial statements is aligned to Solvency II.

The table below shows the Society's premiums, claims and expenses split by Solvency II lines of business for the period ended 31 December 2020.

			2020			2019
£'000	Health	With-Profit	Unit-Linked	Other Life	**Total**	**Total**
Gross Premiums	7,887	1,279	28	7,139	**16,333**	**14,370**
Reinsurers' share of premiums	(1,150)	-	-	(1,296)	**(2,446)**	**(861)**
Gross Claims	(6,983)	(4,569)	(65)	(2,226)	**(13,843)**	**(19,158)**
Reinsurers' share of claims	696	-	-	1,361	**2,057**	**266**
Expenses (Acquisition & administration)	(2,282)	(2,618)	(27)	(6,228)	**(11,155)**	**(8,143)**

A.3 Investment Performance

The Society has an investment policy, which complies with the requirements under the 'prudent person principle'.

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

The investment strategy of the long-term business fund is to maximise returns, whilst retaining an ability to maintain adequate solvency, an appropriate degree of matching of assets to liabilities and to provide sufficient liquidity to meet the Society's cash-flow needs.

As at 31 December 2020, the Society's investment portfolio comprised the following assets:

Type of Assets	2020 Amount (£m)	2020 % of portfolio	2019 Amount (£'000)	2019 % of portfolio
Property (other than for own use)	19.9	21.9%	22.4	22.4%
Holdings in related undertakings	0.6	0.6%	0.6	0.6%
Government bonds	22.5	24.7%	10.3	10.3%
Corporate bonds	36.3	40.0%	22.0	22.0%
Collateralised securities	2.1	2.3%	37.6	37.5%
Collective investment undertakings	6.4	7.1%	3.0	3.0%
Derivatives	1.6	1.8%	0.7	0.7%
Deposits other than cash equivalents	1.4	1.5%	3.4	3.4%
Loans and mortgages to individuals	0.1	0.1%	0.1	0.1%
Total	**91.0**	**100.0%**	**100.1**	**100.0%**

The COVID pandemic had significant impacts on financial markets, especially in the early part of 2020, with a degree of recovery over the remainder of the year. The performance of the asset classes in the Society's portfolio over the year was as follows:

- The fixed interest portfolio returned gains of 9.9%, driven principally by the significant fall in risk free yields.
- The equity portfolio returned losses of 9.6%, driven by the impacts of the COVID pandemic (this result is in line with the performance of the FTSE All Share Index).
- The property portfolio returned losses of 2.0%, driven by the impacts of the COVID pandemic. However it should be noted that this is based on the professional valuation of the portfolio as at the start and end of the year, with only one actual property sales taking place during the year (on which the sale proceeds indicated a growth in value, contrary to the valuation of the other properties).

Investment income:	2020 £'000	2019 £'000
Income from land and buildings	**1,514**	**1,524**
Fixed interest stocks	2,059	2,331
Ordinary shares	263	428
Income from listed investments:	**2,322**	**2,759**
Bank interest	10	19
Mortgages	3	3
Income from other investments:	**13**	**22**
Income from investments	**3,849**	**4,305**
Net gains/(losses) on realisation of land and buildings	308	(370)
Net gains on realisation of listed investments at fair value through profit and loss	4,407	(327)
Net gains/(losses) on realisation of investments	**4,715**	**(697)**
Investment income	**8,564**	**3,608**
Net unrealised gains/(losses) on investments		
- Land and buildings	(2,238)	1,040
- Listed investments at fair value through profit and loss	(1,511)	6,647
- Assets held to cover linked liabilities at fair value through profit and loss	(32)	168
	(3,781)	**7,855**
Total investment return	**4,783**	**11,463**
Investment Expenses		
Investment management expenses	253	255
Investment property direct costs	497	575
	750	**830**

A.4 Performance of other activities

The Society has no other material commitments to report.

B. System of Governance

B.1 Governance Structure

The Board of Directors of the Society has responsibility for the oversight of the Society's business and sets its strategy and risk appetite. The Board has established sub committees, under its overall authority, to deal with certain functions in detail. Each committee is chaired by a Non-Executive Director and all members are considered to have appropriate skills and expertise to undertake their role within the committees. Non-Executive Directors are free to attend all sub-committee meetings.

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 understood and 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. The Board of Directors as at 31 December 2020 was:

- Tracy Morshead (Chairman – Non-Executive Director)
- Geoff Brown (Senior Independent Non-Executive Director)
- Mary Gavigan (Non-Executive Director) – Appointed 1 September 2020
- Mark Searles (Non-Executive Director) – Appointed 1 June 2020
- Graham Singleton (Non-Executive Director)
- Sandy Richards (Executive Director)
- (As noted in the Executive Summary, the Chief Executive role was sadly vacant as at 31 December 2020.)

Audit Committee

The role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities in respect of the integrity of the Society's systems of internal control, financial processes, financial statements and performance of its internal audit function.

Members of the Audit Committee are appointed by the Board and made up of at least three Non-Executive Directors that have been determined by the Board to be independent.

The primary responsibilities of the Audit Committee are to:

- Inform the Board of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting.
- Monitor the financial reporting process and submit recommendations on proposals to ensure its integrity.
- Monitor the effectiveness of the Society's internal control and risk management systems and internal audit.
- Monitor the statutory audit of the annual financial statements, in particular its performance, taking into account any findings and conclusions.
- Review and monitor the independence of the statutory auditors and in particular the appropriateness of the provision of non-audit services.
- Be responsible for the procedure for selection of statutory auditors and recommend the auditor to be appointed.

Risk and Compliance Committee

The Risk and Compliance Committee assists the Board in its leadership and oversight of risk across the Society including the understanding and, where appropriate, optimisation of current and future risk strategy, overall risk appetite and tolerance, risk management framework including risk policies, process and controls, and the promotion of a risk awareness culture throughout the Society.

The Committee consists of two independent Non-Executive Directors and the two Executive Directors.

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

- Ensure that independent, effective and sufficiently resourced Risk Management and Compliance functions are established and that these functions operate effectively as the second line of defence.

- Review and assess the adequacy and effectiveness of the risk and compliance management systems across the Society.
- Review and recommend the approval of the risk management, compliance and governance policies across the Society.
- Make recommendations to the Board concerning the Society's overall risk appetite, tolerance and strategy.
- Monitor, and advise the Board on, the current risk exposures of the Society and future risk strategy.

Investment Committee

The Investment Committee oversees compliance with the terms of the Principles and Practices of Financial Management ("PPFM") in relation to the Investment Strategy and reviews its continuing appropriateness in the light of changing circumstances with consideration to the needs of both with-profit and non with-profit policyholders.

The Committee consists of three independent Non-Executive Directors and the two Executive Directors.

The primary responsibilities of the Investment Committee are to:

- Set the Investment Policy 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 policy holders.
- Periodically review the appropriateness of the Investment Policy in light of current circumstances of the Society, in particular in respect of capital requirements and overall market conditions.
- 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.
- Oversee the application of the Investment Policy.
- Appoint and monitor the performance of the Society's external investment and property managers.

With-Profits Advisory Arrangement

The role of the With-Profits Advisory Arrangement ("WPAA") is to independently monitor and bring some independent judgment to the extent to which procedures, systems and controls are adequate and effective to enable the Society to comply with the requirements contained within the FCA Handbook over the management and governance of with-profits business.

The WPAA comprises two 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 way in which the Society exercises discretion in the conduct of the with-profits business.
c) The way 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 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 leads the appraisal process for appointments to the Board and makes recommendations to the Board and members on the appointment and re-appointment of Directors.

The Committee comprises three Non-Executive Directors.

The primary responsibilities of the Nomination Committee are to:

- Review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes.
- Keep under 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 Board vacancies as and when they arise.

Remuneration Committee
The underlying purpose of the Remuneration Committee is to manage the overall remuneration policy of the Society.

The Committee comprises three Non-Executive Directors. The Chief Executive and / or another Executive Director attend on an ex-officio basis as required.

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 objective.
- Observe industry standards for corporate governance as regards Executive Director, Non-Executive Director, and Key Function Holder remuneration, including disclosure requirements and avoidance of conflict between business objectives and compliance with legal and regulatory requirements.
- Review and approve an appropriate remuneration package for members of the Executive Committee.

- Review and approve the remuneration package for key function holders in Risk, Compliance, Internal Audit and Actuarial.

Executive Committee

The Executive Committee forms part of the Society's documented internal corporate governance structure. The Board is the main decision making body of the Society and the Executive Committee, whilst not a sub-committee of the Board, is charged (either individually or collectively) with running the Society's business within the delegated authority of the Board.

The primary responsibilities of the Executive Committee are to:

- Implement the Society's business plan and review financial and operational performance, taking appropriate actions.
- Review the Society's strategic plan with recommendations, modifications and developments being presented to the Board for consideration.
- Implement and maintain an effective member relations strategy.
- Review strategic projects and oversee their return on investments and their performance against delivery time and budget.
- Establish effective systems of controls for business relationships/partnerships, particularly outsourced arrangements, so that regulatory obligations are complied with, contractual service standards are delivered, and business needs met.
- Embed, maintain 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
- Undertake tasks delegated to it by the Board as required.

The system of governance is considered 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 governance structure have taken place during the year.

Remuneration Policy

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

a) Reward and remuneration will be clear and up to date with the market so that individuals are motivated and the Society is able to attract and retain key talent.
b) Remuneration packages will be competitive and recognise the relative remuneration in comparable markets through benchmarking. The benchmarking may be undertaken by external advisers appointed by the Society.
c) Remuneration will be determined fairly and objectively across the Society.
d) Variable reward for the Directors, Senior Managers and key function holders will be linked to strategic objectives as well as considering current and future risks.
e) Total remuneration will include a fixed base salary as well as a variable discretionary bonus and other financial and non-financial employee benefits.
f) The remuneration policy will be transparent and accessible to all staff across the Society.

Remuneration for Executive Directors and persons responsible for key functions consists of a fixed salary, variable incentive pay, pension and other benefits including company car allowance. All benefits (other than variable pay), including pension arrangements, are on the same terms as employees.

Fixed Remuneration

This is the core element of the remuneration for Executive Directors and persons responsible for key functions within the Society. It is the Society's policy to pay a salary that is relevant to the specific role and responsibilities.

The Remuneration Committee may consult with external advisors as appropriate to 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.

Each year the level of Directors' remuneration is reviewed so that it continues to be competitive and provides proper and risk-based incentives to the Executive Directors.

Base pay will normally be reviewed annually in January taking into consideration RPI and CPI as a guide in any cost of living uplift.

Variable Remuneration

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

The Executive Directors may participate in a Long Term Incentive Plan ("LTIP") that is linked to achievement of strategic objectives over an extended time period, designed to enhance overall performance. There is currently no LTIP scheme in operation. The Remuneration Committee will give consideration to the terms of such a scheme now that the Society has re-opened to new business. The scheme will consider the Society's medium and long term objectives over an extended time horizon, taking account of the Society's risk profile and including an adjustment for future risks.

Other persons responsible for key functions (other than an Executive Director) are eligible for a variable (PRP) remuneration of up to 12%, which is assessed on the same basis as all employees on individual performance against pre-defined personal objectives and behaviours aligned to the Society's values. No financial performance targets in respect of the performance of the Society are included in assessing the level of payout.

Retirement and Related Benefits

The Executive Directors and key function holders 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, dependent upon personal contribution levels.

Other Benefits
Executive Directors and key function holders are entitled to private medical insurance, 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 salary sacrifice schemes for pension contributions, the child care voucher scheme, the cycle to work initiatives and season ticket loans.

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

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

Fees are benchmarked against similar roles in comparable organisations and calculated on an annual rather than a daily basis. However, it is assumed that to fulfil the basic role of a Non-Executive Director, sufficient time and commitment is required each month for review work and attendance at regular Board meetings, the Society's AGM, Special General Meetings where appropriate, other ad hoc meetings with regulators and advisers as may be required 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 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 makes sure that persons who effectively run the business or hold responsibility for other 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 staff fall within the financial regulators' Senior Managers Regime ("SMR") that designates a number of defined senior management function ("SMF") roles and are subject to additional conduct standards. These individuals must also be approved by the regulator before they are appointed to their new role and are subject to regular assessment of fitness and propriety.

The Senior Managers collectively possess appropriate qualification, experience, and knowledge about at least:

1. Insurance and financial markets.
2. Business strategy and business model.
3. System of governance.
4. Financial and actuarial analysis.
5. Regulatory framework and requirements.

Fitness and Propriety

To make sure that Senior Managers are fit and proper, they are recruited giving due regard to the following:

1. Job application answers e.g., questionnaire, declarations.
2. Interviews, case studies, role plays, knowledge and skills tests and other recruitment assessments.
3. Employment history and experience e.g., CV and employment references.
4. Character references.
5. Identity verification, financial sanctions checks, and work permit checks.
6. Financial services register and Companies House checks.
7. Qualifications checks e.g., certificates, membership of professional bodies.
8. Background financial checks e.g., credit checks.
9. Background criminal checks e.g., disclosure and barring service.
10. Background social media checks e.g., LinkedIn, Facebook.
11. Background reputational and disciplinary/enforcement checks.
12. Regulatory authorisation application form declarations.
13. The candidate's openness and co-operation in providing such information when requested.

There are specific regulatory requirements relating to the obtaining and giving of employment references and the Society takes reasonable steps to obtain employment references from current and previous employers covering at least the previous six years.

The regulator also requires us to identify individuals who are not Senior Managers but anyone identified as a key person either, because they have a significant management function, or because they have skills or knowledge that would be difficult to replace, or could cause customers or the business significant harm if they failed to perform effectively. These individuals are classed as 'Certification staff'.

Certification staff are subject to the same fitness and propriety expectations as the Senior Managers. We have to provide an annual certificate to say whether they are, and continue to be, fit and proper to carry out their function in the business.

All staff (regardless of role) are required under their contract of employment to observe and act in accordance with the Society's Code of Ethics and Conduct.

The Society has a 'Fit and Proper' policy including an annual Fit and Proper declaration applicable to all Senior Managers. It requires information in respect of the following matters:

- Honesty, integrity & reputation

- Competence & capability
- Financial soundness
- Conflicts of interest

B.3 Risk Management Systems

Risk Management system

Risk management is a central part of the Society's business strategy and Own Risk and Solvency Assessment ("ORSA") process. It is a continuous and developing process whereby the Society methodically identifies, assesses and responds to the risks attached to its objectives and activities with the goal of achieving sustained benefit for both the Society and its policyholders.

Risk management governance operates on the basis of 'the three lines of defence'.

- Board and executive management are responsible for setting strategy, performance, measurement and implementation of suitable risk management systems and controls.
- The Risk function sets the Society's policies and procedures. This function is responsible for overseeing risk management across the Society, being a function reporting to the Risk and Compliance Committee, a sub-committee of the Board.
- Independent assurance on the effectiveness of the Society's systems and internal controls. This is a role fulfilled by the Audit Committee, internal auditors, external auditors and other skilled external practitioners e.g. consulting actuaries.

The Board has the ultimate responsibility for setting the Society's risk management strategy, 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 risk management strategy is documented and together with the supporting high-level risk policies for the defined categories of risk is subject to regular review, update and approval.

The business strategy has been converted into key strategic risk appetite measures. In order to establish parameters within which risk must be managed, the Society has developed statements of 'Risk Appetite' and associated measures/triggers for action.

The Risk and Compliance Committee reviews the risk appetite at least annually before it is submitted to the Board for approval. The Board determines the risk appetite, taking into consideration recommendations from the Risk and Compliance Committee and senior management.

The extent to which the Society tolerates risks is described by performance indicators, operational parameters and process controls.

Risk Function

The Risk function is currently headed by the Executive Director, Finance & Risk and includes the Risk and Assurance Manager.

Key responsibilities of the function include:

- Promotion, training, maintenance and development of the risk management framework.
- Monitoring of the consistency of application and embeddedness of the risk management framework across the Society.
- Providing regular risk reporting to the Risk and Compliance Committee and other Committees, as required.
- Undertaking second line monitoring to assess whether the first line of defence if operating effectively.

To ensure independence of the Risk function, it has a reporting line to the Risk & Compliance Committee and has access to the Chairman of that Committee.

B.4 Own Solvency and Risk Assessment

The Board uses the ORSA process and report to assess its risk-based capital requirement, based on the Society's business strategy.

The Society has determined that the Solvency II standard formula is appropriate to calculate the required solvency capital and to assess overall solvency needs. A five year base case projection of the Solvency II Balance Sheet and SCR position is produced based on a number of key assumptions about the level of new business, economic and demographic risks, insurance risks including morbidity, lapses and future expense assumptions. These projections are then subjected to a range of stress tests in robust upward and downward scenarios including stresses for lower than expected new product sales, worsening morbidity, lapses and expenses over and above assumptions.

The ORSA process is an integral part of the Society's governance and risk management framework and risk management system enabling the Board to make risk based informed decisions aligned to business strategy, risk appetite, capital and solvency needs. The framework below evidences the key steps of the ORSA Framework and feedback loop embedded in the process.

The Board is ultimately responsible for ORSA framework, ORSA Policy and Process approval and ORSA report. The Board reviews, challenges and has approved the ORSA Policy and Process. The Board can delegate the responsibilities to its sub-committee and key business functions for the on-going review of ORSA in the day to day business activities and monitoring of any significant changes that impact on the ORSA. The Risk function is responsible for the day to day ORSA Policy and Process and will inform the Board regularly through the Risk and Compliance Committee for review and approval.

The Society's ORSA process operates continuously through the course of the year and is accompanied with periodic formal reporting. The full ORSA report is produced at least annually for the Board with monitoring of critical metrics from the ORSA on a quarterly basis through regular risk and capital reporting. Additionally, the ORSA is performed 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.

B.5 Internal Control Systems

The Society has established an internal control framework encompassing key controls of the business, both financial and non-financial, which enables the Society to achieve its key business objectives within its defined risk appetite. The effectiveness of these controls and their delivery of the key business objectives and risk appetite of the Society are regularly reviewed by the Board and its appointed sub-committees.

A risk management framework is in place so that risks are managed within the stated risk appetite. The Society's risk registers, both `top down' and `bottom up' document the Society's key risks and associated controls. These risks and controls have assigned owners and are subject to periodic reviews as part of the risk management process.

Key controls include:

- **Business planning process** – performed annually and sets the business objectives and key performance indicators. 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 –** across the Society set against underwriting guidelines in addition to normal business operations e.g. claims payment authorities, other financial payment authorities, invoice approval and bank transfers etc.

- **Investment risk controls –** have been developed and documented within the Investment Policy and PPFM detailing the investment principles and strategy as well as defining investment parameters, policies and controls and how the assets are valued.

- **Data validation processes –** detailed data quality control procedures, including analytical review and detailed cross checking 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 sub-committee.

The financial control system is subject to periodic Internal Audit reviews of the appropriateness and effectiveness of the controls. The results of the review are reported to the Audit Committee.

The financial statements are subject to controls in the production and review before they are published. The actuarial methodology and assumptions follow actuarial practices and standards and are subject to review and approval by the Board. The final statements are also subject to external audit review and are signed-off by the Board prior to being published.

Compliance Function

The overall responsibility for overseeing the compliance of the Society, advising and supporting the business on compliance matters is a key function and approved by the regulators as a senior management function (Compliance Oversight). This function is held by the Executive Director, Finance & Risk, 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, and compliance reporting to the regulators.

The Compliance function is established as an independent control function and has formal status within the overall governance framework. The Compliance team is not engaged in areas of the business, which could create a conflict of interest.

The function has access to all information as necessary to carry out its responsibilities and is responsible for reporting to executive management any breaches or non-compliance with relevant policies, rules and regulations.

The main activities of the Compliance function include:

- Training – to make sure staff receive regulatory training and information.
- Advice and Guidance – to support the business in respect of regulatory requirements and to make sure that any new regulatory rules are communicated to the relevant business areas.
- Compliance Monitoring – to assess the appropriateness of compliance controls and make sure that a monitoring plan is produced and implemented.
- Financial Promotions – approval of all financial promotions to make sure they comply with regulatory rules and treat customers fairly.
- Regulatory reporting – to respond to regulatory requests for information and submit reporting and information as required.
- Reporting – the function provides an annual Compliance report and ongoing quarterly information to the Risk and Compliance Committee.

B.6 Internal Audit

The Internal Audit function is outsourced to Mazars LLP and therefore, independence of the activities is maintained to enable unbiased judgements reported directly to the Audit Committee. Responsibility for safeguarding the independence of and oversight of the performance of the internal audit function is held with the Chair of the Audit Committee.

On an annual basis the Internal Audit function with the outsourced provider 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 areas within the business are subject to a review at least every 3 years although key business risks including claims administration are subject to annual 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.

In carrying out its role, the Internal Audit function (with the outsourced provider) seeks to:

a) Work in partnership with management to add value through high-quality analysis, innovative and pragmatic recommendations, observations and guidance.
b) Identify areas of good practice and themes where lessons can be learned.
c) Be risk-based and have regard to value for money considerations, both in the recommendations it makes and in its evaluation of the functions it reviews.
d) Maintain professional audit staff with sufficient skills, knowledge and experience.

B.7 Actuarial Function

Christopher Critchlow of OAC plc held the Chief Actuary role until resignation on 2 June 2020 and John Burgum of OAC plc held the role threafter. Although the Chief Actuary role is outsourced, an internal actuarial team including two qualified Actuaries supports it.

The Chief Actuary has overall responsibility for the actuarial function and is the management function holder approved by the regulators under SMR.

The function holder is a qualified actuary who is a Fellow of the Institute and Faculty of Actuaries, holds the appropriate Practising Certificate and has complied continuously with the specific professional obligations this requires.

The Actuarial function is established as an independent control function and has formal status within the overall governance framework. The function is required to provide an annual report to the Board setting out the tasks undertaken by the function and its results.

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 solvency capital requirements.
- Contributing to effective risk management system through modelling of risks and actuarial forecasts that form part of the ORSA process.
- Ensuring the effectiveness of the Society’s actuarial methodology, assumptions, systems and controls for actuarial investigations and reports.
- Providing actuarial opinion on data quality, underwriting and reinsurance effectiveness.

The With-Profits Actuary role is established as an independent function and is also outsourced. It was held by Christopher Critchlow of OAC plc until his resignation on 2 June 2020 and by Sally Butters of OAC plc thereafter.

The With-Profits Actuary reports to the Board through the WPAA and has the following responsibilities:

- Advising on key aspects of the discretion to be exercised affecting the with-profits insurance business of the Society.

- Advising as to whether the assumptions used to calculate the future discretionary benefits within the technical provisions under Technical Provisions 9.1 are consistent with the Society's PPFM in respect of with-profits insurance business.
- At least once a year, report to the Board on key aspects (including those aspects of the Society's application of its PPFM on which the advice has been given of the discretion exercised in respect of the period covered by his report affecting the with-profits insurance business.

B.8 Outsourcing

When considering outsourcing, the Society considers how it will fit with business strategy, the key risks the arrangement could present and the ability to continue to meet regulatory requirements.

The Society has an Outsourcing Policy in place, which provides guidance and sets out the process to follow when considering an outsourced service provider.

The policy sets out at least the following:

- The due diligence includes an assessment of key risks and material factors that could affect the potential service provider's ability to perform the required business activity. This includes checks including financial, regulatory, conflicts of interest, information security and business continuity.
- All outsourcing arrangements must be established with a written contractual agreement setting out the expectations and obligations of each party. The agreements must include certain terms to make sure they address risks and meet regulatory requirements.
- The contract requires internal approval as set out in the policy, and where a critical function is outsourced, this requires Board approval.
- A record of all outsourced arrangements is maintained with a process for regular monitoring and annual certification by the person responsible for the outsourced activity, overseen by the Risk function.
- Outsourced contracts provide for the Society to undertake Internal Audit reviews of the outsourced activity to give further appropriate assurance.

The Society is currently utilising the following service providers to undertake critical and important functions on its behalf.

Outsourced Provider	Service outsourced	Jurisdiction
OAC plc	Chief Actuary With-profits Actuary Mo.net actuarial system development and support	UK
Axa PPP Healthcare Limited	Healthcare claims administration	UK
Trigon Pensions Limited	Pension policies administration	UK
Reliance Mutual	Unit-linked policies administration	UK
Fidelity International	Investment Managers – Fixed Income and Equities	US

Outsourced Provider	Service outsourced	Jurisdiction
Church House Investments Ltd	Investment Managers – Unit-linked fund	UK
Mellersh & Harding LLP	Property management and surveyors	UK
Northern Trust	Investment Custodians	US
Brightcloud Technologies Ltd	Hosted IT infrastructure services	UK
Mazars LLP	Internal Audit Taxation services and advice	UK
Thrings HR	HR Consultancy	UK
Spark Data Systems Ltd	Policy administration system support Policy administration system development and data migration	UK
Lake Financial Systems	Sun accounting system support	UK

C. Risk Profile

Risk Assessment Process

Risk management is an integral part of the Society's business activities to ensure that the strategic objectives are maintained. The integrated approach ensures that value is created by identifying the right balance between risk and reward, whilst making sure that obligations are met and the outcomes remain in the best interest of policyholders.

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

The Society's risk appetite determines the level of action/mitigation to be implemented against identified risks. There is direct interaction between the risk appetite and those risks highlighted in the risk assessment. Risks are rated on impact and probability and it has been determined that any risk with a residual risk rating 'high' will require an action plan which will state what action is to be taken and on what timescale.

Concentrations

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

Risk Profile

The Society faces a number of risks, which are summarised below and detailed in sections C1 – C5.

The risk profile depends on the nature of the insurance policies issued as at 31 December 2020, 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 has around 34,700 in force long-term investment, pensions, healthcare and protection policies. The relative proportions of policy numbers and Best Estimate Liabilities (BEL) are as follows:

Product Group	Policies	BEL (£m)	Policies %	BEL %
With-Profits Contracts	6,609	39.7	19%	50%
Non-Profit Annuity	803	11.1	2%	14%
Non-Profit Non-Annuity	12,582	3.7	36%	5%
Health Similar to Life Techniques	14,673	23.5	42%	30%
Unit Linked	76	1.5	0%	2%
Total	**34,743**	**79.5**	**100%**	**100%**

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

- The Society has Death Benefit Only contracts with low sums assured. These account for 18% of the total policies by number, but for less than 1% of the BEL.
- The Society has just over 11,000 Guaranteed Life Assurance ("GLA/GLAP") policies, which in aggregate have negative BEL (of £5.0m).

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

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

Overall risk exposure

The Society uses the Solvency II Standard Formula approach to assess 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	2020	2019	2020	2019
Market Risk	8,584,130	12,009,460	39%	52%
Counterparty Risk	668,941	607,757	3%	3%
Underwriting Risk (Life)	8,796,764	6,510,634	40%	28%
Underwriting Risk (Health SLT)	3,175,781	3,085,444	15%	13%
Operational Risk	656,199	672,652	3%	3%
Total	**21,881,815**	**22,885,947**	**100%**	**100%**

The most significant risks faced by the Society are market and underwriting risk. The proportion of market risk has reduced during 2020 as a result of management actions.

C.1 Underwriting Risk

Underwriting risk arises when premiums and investment income are insufficient to pay the contractual benefits on a policy or when the actual demographic experience and/or expenses of administering a group of policies is worse than assumed in the calculation of 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", ie long term) business. The table below compares the capital requirements comprising the BSCR as at 31 December 2020 by key risk.

SCR	Life Underwriting Risk (£m)	Health Underwriting Risk (£m)	Total £m
Mortality	1.7	0.0	1.7
Longevity	1.6	0.4	2.1
Morbidity	0.0	1.1	1.1
Lapse	3.2	0.8	4.1
Expenses	2.1	0.8	2.9
Pandemic	0.1	0.0	0.1
Total	**8.8**	**3.2**	**12.0**

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. Sales of these products increased significantly during 2020. At 31 December 2020, they accounted for 32% of the in force book (by policy count) (2019: 20%).

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

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

Longevity Risk

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

Morbidity Risk

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

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

Lapse Risk

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

Overall, a mass lapse scenario leads to the greatest loss in Own Funds when compared to an increase or decrease in lapses. A mass lapse risk leads to a loss in Own Funds for reviewable premium Healthcare policies and for the new Health and Guaranteed Life Assurance products that the Society has launched in recent years.

Expense Risk

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

Assessment and risk mitigation techniques

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

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

A full valuation of the technical provisions and life obligations SCR is performed at the year-end and the half year end with the SCR coverage reported to the Society’s Board. Monthly solvency estimates are also produced for intervening months ends.

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 2020 for the purpose of calculating 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 and is therefore subject to all aspects of the Market Risk Module.

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	8.2
Property	22.9
Sovereign Bonds	20.6
Corporate Bonds	40.1
Cash	7.6
Other Assets	2.8
Total	**102.1**

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 7% of the undiversified net SCR in respect of market risk.

SCR Market Risk	Insurance (£m)	Pension Scheme (£m)	Total (£m)	% of total market risk
Interest Rates	2.0	-0.8	**1.2**	14%
Equity	0.5	0.1	**0.5**	6%
Property	2.2	0.9	**3.1**	36%
Credit Spread	3.2	0.2	**3.4**	40%
Currency	0.0	0.1	**0.1**	1%
Concentration	0.2	0.1	**0.3**	3%
Total	**8.0**	**0.6**	**8.6**	**100%**

The most significant components of market risk at 31 December 2020 are credit spread and property, accounting for 40% and 36% of the undiversified market SCR respectively. The credit spread risk arises mostly on the insurance portfolio where a significant proportion of the liabilities are matched by credit assets. The property risk arises mainly from property assets which are backing Own Funds, although there is also some exposure from property backing the with-profits liabilities where the guaranteed policy values are now biting.

Interest Rate Risk

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

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 also held to provide real returns to with-profits life and unit-linked contracts. Surplus equity assets are also held as Own Funds including a strategic equity participation. The loss absorbing capacity of with-profits life 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. Surplus property assets are also held as Own Funds. The loss absorbing capacity of with-profits life mitigates a proportion of the property risk. However, at 31 December 2020, the Society still has a large exposure to this risk.

Credit Spread Risk

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

The Society has a large exposure to this risk as the risk free yield curve is used to derive the valuation interest rate used to discount liabilities. Thus the value of non-profit liabilities does not change under this stress and hence there is no compensation for the loss in value of assets under the stress.

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 and directly held overseas assets are hedged using derivatives. There is now very little exposure to currency risk.

Assessment and risk mitigation techniques

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

- The risk register covers key market risks and is reviewed quarterly with a summary reported to the Risk and Compliance Committee on a quarterly basis.
- Regular cash flow analysis takes place and is provided to asset managers in order to ensure asset liability matching remains appropriate.
- A regular review of assets held against Own Funds takes place at Investment Committee Meetings.
- Investment mandates specify maximum exposure limits to lower quality bond assets.

- A process is in place whereby management are informed before any transactions take place that would reduce average credit rating of the bond portfolios.
- Daily monitoring of investment indices takes place to identify the movement in key investment metrics with triggers set to prompt consideration on any actions that should be taken in response.
- New product terms are tested for their sensitivity to market risk as part of the profit testing work.

Prudent person principle

The Solvency II Regulations require that the "Prudent Person Principle" is applied to the Society's asset investment. The Society adheres to the principle by investing in a range of equity, property, fixed interest and money market assets of an appropriate quality and level of diversification. There are also holdings in currency 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 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 2020 for the purpose of calculating the SCR. The most onerous of the sensitivities identified is the standard formula credit spread stress.

C.3 Credit Risk

Material Credit risks

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

Counterparty Default Risk

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

Assessment and risk mitigation techniques

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

- The risk register covers 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 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 the 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 of high quality and readily realisable, providing a high degree of mitigation of liquidity risk.

Risk sensitivity for liquidity risks
This is not currently a significant risk for the Society however; the Society has set a risk appetite measure to maintain minimum cash deposits that would be sufficient to cover a minimum of 2 months cash-flow 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 2021 reflecting the maturing profile of the Society's business, combined with sales of protection contracts that require initial financing. The Society has developed a plan to ensure it has 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 types of operational risks faced and the processes in place to identify, assess, manage, monitor and report risks and events.

The following processes are in place to manage operational risk:

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

Risk sensitivity for operational risks

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

Conduct Risk

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

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

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

C.6 Other Material risks

There are no other material risks to disclose.

D Valuation for Solvency Purposes

D.1 Assets

Summary of asset valuation

The table below sets out the valuation of the Society's assets on FRS102 and Solvency II bases as at 31 December 2020:

Assets (£'000)	FRS 102	Solvency II
Intangible assets	555	-
Property, plant & equipment	3,137	3,137
Investments	90,930	90,454
Assets held to cover linked liabilities	1,603	1,603
Loans and mortgages	580	580
Reinsurance asset	-1,859	-1,859
Insurance and intermediaries receivables	63	63
Receivables (trade, not insurance)	830	830
Cash and cash equivalents	4,328	4,328
Any other assets, not elsewhere shown	2,633	2,633
Total assets	**102,800**	**101,769**

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 of sufficient taxable income is generated 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 is expected to remain so for the foreseeable future, therefore it is uncertain when this asset will be realised. Therefore, no deferred tax asset has been recognised on the Balance Sheet for Solvency II or FRS102 purposes.

Differences between valuation for solvency purposes and valuation in financial statements

Assets on the Solvency II balance sheet are generally valued on the same basis as in the financial statements of the Society. The only differences being:

- The investment in subsidiaries, as these are valued on a look through basis under Solvency II. Therefore, intangible assets contained within the subsidiaries are valued at nil as there are currently no quoted prices in an active market for similar assets.

The table below provides a mapping of the FRS 102 balances to the Solvency II balance sheet. Values are shown in £'000s.

FRS 102 description	FRS 102 value	Solvency II description	Solvency II value
Intangible assets	**555**	Intangible assets	-
Investment Property	19,925	Property (other than for own use)	19,925
Investment in subsidiaries	593	Holdings in related undertakings	118
Fixed interest securities	61,002	Government bonds	22,531
Listed shares	6,440	Corporate bonds	36,375
Derivatives	1,602	Collateralised securities	2,096
Investment cash	1,367	Collective investments undertakings	6,440
Mortgages	113	Derivatives	1,602
		Deposits other than cash equivalents	1,367
		Loans and mortgages to individuals	113
Subtotal	**91,043**	**Subtotal**	**90,567**
Assets held to cover linked liabilities	**1,603**	Assets held for index-linked and unit-linked contracts	**1,603**
Reinsurance asset/(payable)	**-1,859**	Reinsurance recoverable from: Life and health similar to life excluding index-linked and unit-linked	**-1,859**
Debtors	**530**	Loans on policies	55
		Other loans and mortgages	412
		Insurance and intermediaries receivables	63
		Subtotal	**530**
Other assets	**7,465**	Property, plant & equipment held for own use	3,137
		Cash and cash equivalents	4,328
		Subtotal	**7,465**
Prepayments and accrued income	**3,463**	Receivables (trade, not insurance)	830
		Any other assets, not elsewhere shown	2,633
		Subtotal	**3,463**
Total	**102,800**	**Total**	**101,769**

Valuation of most financial assets is based on fair value. In the paragraph below the valuation methodology is described.

No changes were made to the recognition and valuation bases used or to estimations during the reporting period.

Fair value measurement

In accordance with the Delegated Regulation, Solvency II figures are based on fair value. Where applicable, the Society measures the fair value of a financial instrument using the quoted price in an active market for that instrument. Otherwise, the Society uses the valuation hierarchy summarised below to determine the fair value when accounting for assets and liabilities, in line with the valuation methodology set out in Article 75 of the Solvency II directive and Articles 9 and 10 of the Delegated Acts.

Fair value based on quoted prices in an active market

The default valuation 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 (from an exchange, broker, 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 process for identical or similar assets in inactive markets.
- Input variables, which may not directly be observable, but 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 inputs are not available. The basic principle of fair value measurement is still to determine a fair, arm's length price. Unobservable inputs therefore reflect management's own assumptions about the assumptions that market participants would use in pricing an asset or liability (including assumptions about risk). These inputs are generally based on available observable data (adjusted for factors that contribute towards the value of the asset) and own source information.

Property (other than for own use)

The Society recognises property at market value, based on observable market data of similar assets. It is based on the latest valuation, as at 31 December 2020, performed by Mellersh and Harding LLP in accordance with the requirements of the Royal Institution of Chartered Surveyors' Valuation - Professional Standards effective from 6 January 2014.

Holdings in related undertakings

Valuations of holdings in related undertakings is based on the fair value or, if not applicable, the net equity method, and is the method used relating to the investments in subsidiaries and valued as the Society's share of the subsidiaries' net assets. Under Solvency II 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 relating to a customer book and a Policy Administration System. Under Solvency II, these assets are valued at nil as there are no quoted prices for a similar asset in an active market, reducing the value of holdings in related undertakings from £593k under FRS102 to £118k under Solvency II.

Bonds – including Government bonds, Corporate bonds and Collateralised securities

Government bonds consist of UK government 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 and collateralised securities) are based on observed market data of same or similar assets.

Collective investments 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. The valuation of this is the actual total cash balances held and includes the interest accrued on the deposits up until the balance sheet date.

Loans and mortgages to individuals

Loans and mortgages to individuals are valued at fair value, based on the discounted cash flow method, based on appropriate interest rates. The values are not material.

Loans on policies

There is no difference between the Solvency II valuation and the FRS 102 valuation and reflect the actual amounts outstanding.

Other loans and mortgages

These assets are valued based on the amounts owed at the valuation date. Included within this amount is a 'claims float' of £0.4m relating to cash held in a separate bank account used to pay healthcare claims administered by AXA PPP Healthcare and the value reflects the actual balance. The remainder relates to loans to subsidiaries.

Assets held for index-linked and unit-linked contracts

The valuation of these assets is consistent with the fair value hierarchy. The assets held are part of an investment fund, which is not exchanged 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 relating to the reinsured policies that have been ceded to the reinsurer. This asset has been valued under Solvency II in line with the Technical Provisions as described in section D.2. This asset is in a payable position so is negative, but must be accounted for in this manner in the Solvency II accounting.

Insurance and intermediaries receivables

The valuation of these assets, which are amounts owed at the valuation date, follows the Solvency II fair value hierarchy.

Property, plant & equipment held for own use

Property, plant & equipment are held at fair value following the Solvency II valuation using either observable market data or alternative valuation method. This includes the Society's occupied section of the Bristol property, shown at fair value. Other assets (for example IT and office equipment) used for the Society's own use are valued at cost less depreciation which the Society deems to be a reasonable estimate for the replacement cost of these assets.

Cash and cash equivalents

This consists of liquid cash holdings held and valued at their actual balances.

Receivables (trade, not insurance)

There is no difference between the Solvency II valuation and the FRS 102 valuation.

Any other assets, not elsewhere shown

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

The Society had no financial or operating leasing arrangements in place for any class of its assets.

D.2 Technical Provisions

Analysis of Technical Provisions

The tables below show the Technical Provisions split by line of business and between the Best Estimate Liability and Risk Margin. The only difference in the valuation of Technical Provisions for solvency purposes and those used in the financial statements is that the TMIR is included for solvency purposes.

Technical Provisions at 31 December 2020:

Analysis of Technical Provisions (£'000) With TMIR	Gross Best Estimate Liabilities	Risk Margin	Solvency II Value of Technical Provisions
With-Profits Contracts	39,700	262	39,961
Other Life	14,804	2,958	17,762
Health Similar to Life	23,465	1,117	24,582
Unit Linked	1,533	11	1,543
Total	**79,502**	**4,347**	**83,849**

Analysis of Technical Provisions (£'000) No TMIR	Gross Best Estimate Liabilities	Risk Margin	Solvency II Value of Technical Provisions
With-Profits Contracts	39,859	262	40,121
Other Life	15,238	2,958	18,196
Health Similar to Life	24,113	1,117	25,230
Unit Linked	1,533	11	1,544
Total	**80,744**	**4,347**	**85,091**

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 they are included in the asset valuation. At 31 December 2020, the value of reinsurance recoverables was £(1,859)k. This item is a net liability because the value of future reinsurance premiums payable exceeds the value of expected reinsurance claims.

The key characteristics of the methodology and assumptions used for the Solvency II technical provisions are as follows:

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

The Solvency II Regulations permit a number of simplifications in the calculation of the Technical Provisions. The key simplification used 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 BEL or policy run off, as appropriate (eg 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:

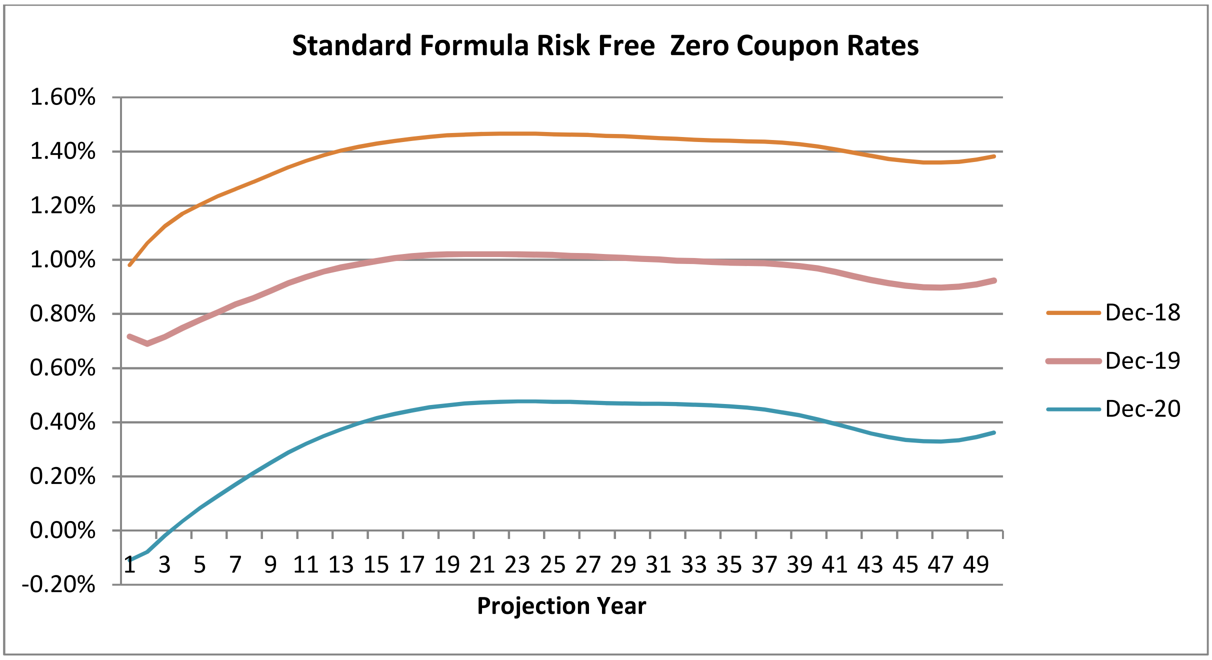
- Allowance for tax as a percentage of investment return and expenses which reflect the relatively simple tax regime of a friendly society;
- Use of annual cash flows in stochastic calculations;
- Age approximations on joint life policies.

Main Assumptions

Valuation Discount Rates

The valuation interest rates used to discount the best estimate liability and risk margin is the relevant basic sterling risk free term structure of interest rates as at 31 December 2020 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 fell significantly during 2020, following the fall in 2019, as shown below.



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

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

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

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

Expenses

Best estimate per-policy expenses have been calculated such that there is recognition for the anticipated new business the Society expects to write.

The methodology is based on setting per policy expenses such that they equal the budgeted maintenance expenses in 5 years' time divided by the expected number of policies in force at that time. The expected number of policies is based on the run-off of the Society's current in-force book plus projected new business.

The expense inflation assumption is set by reference to:

- the assumed future CPI rate which is taken as the Bank of England's target rate of 2.00% a year; plus
- an allowance for salary inflation equal to 0.75% above the CPI rate; and
- assuming that 66% of the Society's costs are salary related and hence subject to the extra inflation of 0.75% a year.

The assumption for investment expenses is based on the actual investment expenses for the latest complete year.

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 2020 based on actual experience and expert judgement. The change in assumptions varied according to product groups.

Morbidity Assumptions

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

For some contracts, an assumption for inflation of future medical expense inflation 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 2020 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 by males/females and by smoker/non-smoker. Annuitant mortality rates are adjusted for projected mortality improvements.

Mortality assumptions were updated in the calculation of Technical Provisions at 31 December 2020 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 2020 are:

- The per-policy expenses have been reduced based on a revised expense base and updated projections of new and in-force business volumes, reducing the BEL by £0.8m.
- Mortality assumptions have been strengthened on average, increasing the BEL by £0.5m.
- Morbidity assumptions have been weakened on average, reducing the BEL by £0.2m.
- Lapse assumptions have been strengthened on average, increasing the BEL by £0.4m.

Uncertainty associated with the value of the Technical Provisions

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

Assumptions with the most uncertainty are as follows:

- Longevity assumptions. The Society has a number of annuity contracts which are sensitive to longevity assumptions, including with profit retirement annuity contracts with valuable guarantees. The Society's staff defined benefit pension scheme is also sensitive to longevity assumptions. However, the volume of business is insufficient to inform a credible experience analysis and so there is increased uncertainty around these assumptions.
- Mortality and lapse assumptions on the Guaranteed Life Assurance contracts. The Society has a lack of recent relevant data to base assumptions on and hence there is greater uncertainty around these assumptions. Experience is being closely monitored.
- Expense assumptions are calculated with reference to future new business volumes. The actual volumes of new business may be higher or lower than those forecast.
- Whilst the Society has a reasonable amount of data on which to base assumptions, morbidity assumptions continue to be uncertain as the book ages and as events such as premium reviews could trigger changes in experience.

Methodology

Technical Provisions are defined as the sum of the Best Estimate of Liabilities and the Risk Margin. The best estimate 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 Best Estimate of Liabilities. 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 best estimate of insurance liabilities 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 thus allow appropriately for the time value of money.

For with-profit contracts, total reserves are calculated using an asset share approach. Benefits payable on exit (death, maturity or surrender) are calculated as the higher of the accumulated asset share or the guaranteed benefits (sum assured plus attaching bonus) at each future time point. The cost of financial guarantees on Retirement Annuities has been valued using a probability weighted cash flow technique which identifies on a policy by policy basis the cost of the financial guarantee. The sum of the probability weighted amounts is added to the higher of the current asset share or basic reserves.

Stochastic methods are used to determine the value of financial options on pension and bond contracts.

The Best Estimate of Liabilities is calculated gross of reinsurance recoverables. These are calculated separately. If the present value of future cash flows on a contract gives rise to a negative best estimate of liabilities, this has been allowed.

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 some cases, if a contract has a negative best estimate of liabilities, projected policy volumes are used to run off the SCR.

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 an FRS 102 and Solvency II basis. Values are shown in £'000s.

FRS 102 description	FRS 102 value	Solvency II description	Solvency II value
Financial liabilities	**74**	Derivatives	**74**
Creditors	**1,668**	Insurance & intermediaries payables	-100
		Payables (trade, not insurance)	251
		Any other liabilities, not elsewhere shown	1,517
		Subtotal	**1,668**
Net pension liability	**1,586**	Pension benefit obligations	**1,586**

Derivatives

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

No estimates or judgements are used by the Society in the valuation of the derivatives and the valuation is the same under FRS102 and Solvency II.

Insurance and Intermediaries payables

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in section D.1. There is no difference between the Solvency II valuation and the FRS 102 valuation of these liabilities.

Payables (trade, not insurance)

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in section D.1. There is no difference between the Solvency II valuation and the FRS 102 valuation of these liabilities.

Any other liabilities, not elsewhere shown

The valuation of these liabilities follows the Solvency II fair value hierarchy as described in section D.1. There is no difference between the Solvency II valuation and the FRS 102 valuation of these liabilities.

Pension benefit obligations

The Society 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 last formal actuarial valuation of the SSF was carried out as at 31 December 2019. The calculations for the FRS102 disclosures in the annual report have been carried out by running full actuarial calculations as at 31 December 2020. These calculations indicated that the SSF has a deficit of £1.6m. FRS102 has been brought in line with the International Financial Reporting Standards, and in the opinion of the actuaries who calculated the FRS102 position, the deficit under IAS19 would be materially the same. The explanatory guidelines explain that the IAS 19 valuations are consistent with Solvency II. Therefore, there is no difference between the FRS 102 and Solvency II valuations.

The composition of assets and methodology used to value the pension scheme liabilities can be found in the notes to the Society's Financial Statements.

Contingent liabilities
The Society has no contingent liabilities that require recognition.

There were no changes made to the recognition and valuation bases used or on estimations during the reporting period, in respect of other liabilities.

D.4 Alternative methods for valuation

A number of assets are outlined in Section D.1 where alternative methods of valuation have been used.

E Capital Management

E.1 Own Funds

Objective, policies and processes for managing Own Funds
The Society is a mutual organisation that does not have shareholders or access to shareholder funds. The assets and Own Funds belong to the Society's policyholders. 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 Risk and Compliance Committee on a bi-annual basis and more regularly by the Actuarial Function.

Own Funds represent the excess of assets over liabilities, which are invested in a diversified set of assets covering a range of asset types. 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 considers that all Own Funds meet the definition of 'surplus funds' as per Article 91 of the Solvency II Directive:

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

Business planning is performed annually, covering a five-year projection period and is reported in the Society's Own Risk and Solvency Assessment.

Own Funds classified by tiers

Own Funds are classed as Tier I capital as they are retained earnings and are shown in the table below.

Solvency II Balance Sheet (£'000)	2020 With TMIR	2020 No TMIR	2019 With TMIR	2019 No TMIR
Assets	101,770	101,770	107,628	107,628
Best Estimate Liabilities	79,502	80,774	82,479	83,683
Other Liabilities	3,320	3,320	3,229	3,229
Risk Margin	4,347	4,347	3,654	3,654
Total Liabilities	87,169	88,411	89,362	90,566
Eligible Own Funds	**14,601**	**13,359**	**18,266**	**17,062**

The main reasons for the change in Own Funds (with TMIR) from £18.3m at 31 December 2019 to £14.6m at 31 December 2020 are:

- The increase in reserves (£4.2m) due to the change in risk free discount rate was largely offset by investment income and gains (£3.7m) in excess of the risk free rate. The net impact was a reduction of £0.5m.
- Changes in valuation assumptions led to a net reduction of £0.6m in Own Funds.
- Strategic expenses of £1.8m were incurred.
- Other than for new business, the Risk Margin reduced by £0.3m due to the run off of inforce business.
- The net impact of new business was an increase of £0.5m to Own Funds.

Reconciliation from Fund for Future Appropriations to Own Funds

Financial Statements to Solvency II reconciliation	£'000s
Fund for future appropriations	14,388
Less: Intangible asset	(555)
Less: Investment in subsidiary valuation difference	(474)
Plus: Impact of TMIR on Technical Provisions	1,242
Own Funds (with TMIR)	**14,601**

E.2 Solvency and Capital Requirement and Minimum Capital Requirement

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

(£'000)	2020 With TMIR	2020 No TMIR	2019 With TMIR	2019 No TMIR
SCR	11,212	11,227	13,024	13,264
MCR	3,338	3,338	3,256	3,316

SCR Split by Risk Module

The Society uses the standard formula as set out in the Solvency II Directive Article 230 to calculate the SCR and does not use any undertaking specific parameters.

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

The risk module capital requirements are calculated without using simplifications.

Undiversified net SCR (£'000)	2020 With TMIR	2020 No TMIR	2019 With TMIR	2019 No TMIR
Market Risk	8,584	8,367	12,009	12,468
Counterparty Risk	669	669	608	608
Underwriting Risk (Life)	8,797	8,869	6,511	6,577
Underwriting Risk (Health SLT)	3,176	3,230	3,085	3,157
Operational Risk	656	656	673	673

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

Note that in terms of Article 297 (2)(a) SII Delegated Regulation, the final SCR is subject to supervisory confirmation.

MCR

The components of the MCR calculation are shown below (with TMIR). The absolute floor of the MCR is prescribed by the Solvency II rules as €3.7m for an insurer with long-term liabilities. This equates to £3.338m in pounds sterling using the exchange rate for year end 2020.

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

Overall MCR calculation - with TMIR (£'000)	2020	2019
Linear MCR	1,918	1,737
SCR	11,212	13,024
MCR cap (45% of SCR)	5,045	5,861
MCR floor (25% of SCR)	2,803	3,256
Combined MCR	2,803	3,256
Absolute floor of the MCR	3,338	3,187
MCR	**3,338**	**3,256**

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

Not Applicable.

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 full valuations as at 31 May 2020 and 31 December 2020, as well as producing solvency estimates at intervening dates.

As disclosed in the 2019 SFCR as a major development affecting the relevance of information in accordance with Article 54(1) of Directive 2009/138/EC, the Society fell below full coverage of the SCR as at 31 March 2020, with an SCR coverage ratio of 92% (the MCR coverage ratio was 369%). The Society notified the PRA accordingly, and submitted a Capital Recovery Plan in July 2020. A number of management actions were taken, following the identification of SCR coverage being below 100% and through to the end of the year, in order to restore the solvency position to 130% by the year end (as set out in this SFCR).

APPENDIX

Appendix 1 Quantitative Reporting Templates

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

QRT Ref	QRT Template name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses
S.05.02.01	Premiums, claims and expenses by country
S.12.01.02	Life and Health SLT Technical Provisions
S.22.01.01	Impact of long term guarantees measures and transitionals
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement – Only Life or only non-life insurance or reinsurance activity

General information

Undertaking name	National Deposit Friendly Society Limited
Undertaking identification code	213800K2D42V1L94Y497
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2020
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	Use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.12.01.02 - Life and Health SLT Technical Provisions
S.22.01.21 - Impact of long term guarantees measures and transitionals
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	3,137
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	90,454
R0080	*Property (other than for own use)*	19,925
R0090	*Holdings in related undertakings, including participations*	118
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	61,003
R0140	*Government Bonds*	22,531
R0150	*Corporate Bonds*	36,375
R0160	*Structured notes*	0
R0170	*Collateralised securities*	2,096
R0180	*Collective Investments Undertakings*	6,440
R0190	*Derivatives*	1,602
R0200	*Deposits other than cash equivalents*	1,367
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	1,603
R0230	Loans and mortgages	580
R0240	*Loans on policies*	55
R0250	*Loans and mortgages to individuals*	113
R0260	*Other loans and mortgages*	412
R0270	Reinsurance recoverables from:	-1,859
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-1,859
R0320	*Health similar to life*	-1,865
R0330	*Life excluding health and index-linked and unit-linked*	6
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	63
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	830
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	4,328
R0420	Any other assets, not elsewhere shown	2,633
R0500	**Total assets**	101,769

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	82,306
R0610	*Technical provisions - health (similar to life)*	24,175
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	23,063
R0640	*Risk margin*	1,111
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	58,131
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	54,906
R0680	*Risk margin*	3,225
R0690	Technical provisions - index-linked and unit-linked	1,544
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	1,533
R0720	*Risk margin*	11
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	1,586
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	74
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	-100
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	251
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1,517
R0900	**Total liabilities**	87,176
R1000	**Excess of assets over liabilities**	14,593

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	7,887	1,279	28	7,138					16,333
R1420	Reinsurers' share	1,150			1,296					2,446
R1500	Net	6,737	1,279	28	5,842					13,886
	Premiums earned									
R1510	Gross	7,887	1,279	28	7,138					16,333
R1520	Reinsurers' share	1,150			1,296					2,446
R1600	Net	6,737	1,279	28	5,842					13,886
	Claims incurred									
R1610	Gross	6,983	4,569	65	2,226					13,843
R1620	Reinsurers' share	696			1,361					2,057
R1700	Net	6,287	4,569	65	865					11,786
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0	0	0	0					0
R1900	**Expenses incurred**	2,283	2,618	27	6,228					11,155
R2500	**Other expenses**									1,888
R2600	**Total expenses**									13,043

S.12.01.02
Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**										0						0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole										0						0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	39,700		1,533			15,206				56,439		23,063				23,063
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						6				6		-1,865				-1,865
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	39,700		1,533	0		15,200	0			56,433		24,929	0			24,929
R0100	**Risk margin**	270	11			2,954					3,236	1,111					1,111
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						0
R0120	Best estimate										0						0
R0130	Risk margin										0						0
R0200	**Technical provisions - total**	39,970	1,544			18,161					59,674	24,175					24,175

National Deposit Friendly Society Limited Solvency and Financial Condition Report 2020

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	83,849	0	1,242	0	0
R0020	**Basic own funds**	14,593	0	-1,233	0	0
R0050	**Eligible own funds to meet Solvency Capital Requirement**	14,593	0	-1,233	0	0
R0090	**Solvency Capital Requirement**	11,212	0	15	0	0
R0100	**Eligible own funds to meet Minimum Capital Requirement**	14,593	0	-1,233	0	0
R0110	**Minimum Capital Requirement**	3,338	0	0	0	0

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S.23.01.01
Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	14,593	14,593			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	0	0			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	14,593	14,593	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	14,593	14,593	0	0	0
R0510	Total available own funds to meet the MCR	14,593	14,593	0	0	
R0540	Total eligible own funds to meet the SCR	14,593	14,593	0	0	0
R0550	Total eligible own funds to meet the MCR	14,593	14,593	0	0	
R0580	**SCR**	11,212				
R0600	**MCR**	3,338				
R0620	**Ratio of Eligible own funds to SCR**	130.15%				
R0640	**Ratio of Eligible own funds to MCR**	437.21%				
	Reconciliation reserve	C0060				
R0700	Excess of assets over liabilities	14,593				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	14,593				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	**Reconciliation reserve**	0				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	8,906				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	8,906				

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	11,545		
R0020	Counterparty default risk	669		
R0030	Life underwriting risk	5,989		
R0040	Health underwriting risk	2,135		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-5,040		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	15,298		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	656
R0140	Loss-absorbing capacity of technical provisions	-4,742
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	11,212
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	11,212
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

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

USP Key

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

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

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

S.28.01.01

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

		C0010
	Linear formula component for non-life insurance and reinsurance obligations	
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		

		C0040
	Linear formula component for life insurance and reinsurance obligations	
R0200	MCR_L Result	1,918

		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	24,440	
R0220	Obligations with profit participation - future discretionary benefits	5,288	
R0230	Index-linked and unit-linked insurance obligations	1,533	
R0240	Other life (re)insurance and health (re)insurance obligations	40,129	
R0250	Total capital at risk for all life (re)insurance obligations		91,190

		C0070
	Overall MCR calculation	
R0300	Linear MCR	1,918
R0310	SCR	11,212
R0320	MCR cap	5,045
R0330	MCR floor	2,803
R0340	Combined MCR	2,803
R0350	Absolute floor of the MCR	3,338
R0400	**Minimum Capital Requirement**	3,338

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 2020.

We certify that:

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

2. We are satisfied that:
    a. Except as described, and fully reported to the PRA at the time, throughout the financial year in question the Society has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Society: and
    b. It is reasonable to believe that, at the date of publication of the SFCR, the Society has continued so to comply, and will continue so to comply in future.

Approval by the Board of the SFCR and reporting templates

Graham Singleton
Chief Executive Officer
For and on behalf of the Board
Date: 7 April 2021