Solvency and Financial Condition Report as at 31 December 2021

Contents

Introduction

This Solvency and Financial Condition Report (SFCR) has been prepared to assist members to understand the capital position of the Society.

The contents of the SFCR are prescribed by EU regulation and must contain the following sections:

SFCR Section	Description of Contents
Business and Performance	Information about the Society and a summary of business and financial performance over the year.
System of Governance	Information about the Society's organisational structure and system of governance, including risk management, internal control, internal audit and the actuarial function.
Risk Profile	Information about the key risks facing the Society and how these are managed.
Valuation for Solvency Purposes	Valuation of the Society's assets and liabilities in accordance with accounting standards and solvency rules, including details on the assumptions used to calculate them and the differences between them.
Capital Management	Information on the capital requirements of the Society in line with Solvency II regulations.

Business and Performance

All of the Society's business risks and returns continued to be within one business segment i.e. long term with-profits regular savings plans with life and/or disablement cover.

Premiums earned for the year were approximately 4% lower at £4,267k against the £4,447k achieved in 2020. This was largely due to lower levels of new business during 2021, coupled with the fact that 2021 had a high number of maturing policies.

Net Operating Costs were significantly lower than in the prior year at £912k (2020: £1,094k). This reflects the full-year impact of a cost reduction exercise that took place in the latter half of 2020. Exceptional costs of approximately £96.8k were incurred in 2020 as a result of the staff restructure, whilst a one-off cost of £21.6k was incurred in 2021 for the refurbishment of the flat above the office.

Investment income was lower than in the prior year at £887k (2020: £957k). During the year, there were net gains on the realisation of investments of £169k compared to net losses on the realisation of investments of £317k in 2020. There were also unrealised gains on investments of £692k as at 31 December 2021 compared to unrealised gains of £1,462k as at 31 December 2020.

Claims amounting to £5,041k were incurred during the year compared to the £4,343k incurred during 2020.

The Management Committee has assessed the potential implications of Covid-19 and the war in Ukraine on the Society's business and performance, including the impact on asset values, solvency, the possibility of increased levels surrenders and the possibility of reductions in new business levels. As a result of this assessment, the Management Committee has no material concerns relating to the effect of Covid-19 or the war in Ukraine on the Society's viability. Further information is provided in section A5.

System of Governance

The Society operates under the direction of the Management Committee, with day-to-day management responsibility delegated to the Chief Executive. The Society also has an Audit and Risk Management sub-Committee that deals with matters relating to financial and regulatory reporting, internal and external audit, internal control and risk management. The Society also has a With-Profits Advisory Arrangement whose role is to protect the interests of With-Profits policyholders and ensure that the With-Profits Fund is managed in accordance with the Principles and Practices of Financial Management.

The Society has strong risk management arrangements, including an Own Risk and Solvency Assessment (ORSA) process. This is a rolling process, under the governance of the Management Committee, that provides a detailed analysis of the Society's capital adequacy, risk management and forward-looking perspective.

The adequacy and effectiveness of the Society's risk management, internal control and governance processes are subject to periodic review by Internal Audit, which reports its findings and recommendations independently to the Audit and Risk Management sub-Committee.

Risk Profile

The Society manages its risks to ensure that it can meet its obligations to policyholders as they fall due, whilst aiming to provide them with a reasonable return on their investment. The principal risks faced by the Society are:

- Life underwriting risk, which arises from the underwriting of the Society's policies and includes mortality, longevity, morbidity, lapse rates, expense levels and life catastrophe risk.
- Market risk, which is the risk that a financial instrument will fluctuate in value because of the volatility of market prices.
- Counterparty risk, which is the risk of potential losses due to unexpected default, or deterioration in the credit standing of counterparties and debtors.
- Liquidity risk, which is the risk that the Society, though solvent, does not have sufficient financial resources to meet its obligations as they fall due.
- Operational risk, which is the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.

Valuation for Solvency Purposes

The table below summarises the Society's assets and liabilities in accordance with Financial Reporting Standards and Solvency II Regulations:

£000	31 December 2021	31 December 2020
Assets	37,331	37,255
Technical Provisions	25,611	27,914
Other Liabilities	706	599
Own Funds	11,013	8,742

Asset values were at a very similar level to last year. Technical provisions decreased by approximately £2.3million. The change in technical provisions is mainly due to an increase in risk-free rates, a change in data from 2020 to 2021 (i.e. policies moving one year closer to maturity and policies terminating) and a change to the valuation model, offset partially by an increase in assumed future bonuses.

Capital Management

The capital requirement is the amount that insurers are required to hold in excess of technical provisions. The table below summarises the Society's Own Funds, Capital Requirement and Free Assets in accordance with Solvency II Regulations:

£000	31 December 2021	31 December 2020
Own Funds	11,013	8,742
Capital Requirement	4,703	4,028
Free Assets	6,310	4,715

The Society's Own Funds have increased as per the movements in assets, technical provisions and other liabilities as shown above. The increase in the Solvency Capital Requirement (SCR) is primarily attributable to the following factors:

- An increase in the value of equities due to market movements;
- An increase in the equity stress, in line with regulatory requirements;
- An increase in the holdings of non-sterling assets.

Approval by the Management Committee

The Management Committee is responsible for preparing the Solvency and Financial Condition Report in accordance with the Prudential Regulation Authority (PRA) rules and Solvency II Regulations.

The members of the Management Committee confirm that, to the best of their knowledge,

- throughout the 2021 year, the Society has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable, and
- it is reasonable to believe that, at the date of publication of the SFCR, the Society continues so to comply and will continue so to comply in the future.

By order of the Management Committee,

J W Goolamier, Chair

30 March 2022

M A Bicknell, Chief Executive

30 March 2022

A Business and performance

A1 Business

A1.1 Corporate structure

The Society, which was founded in 1865, is a mutual friendly society, incorporated under the Friendly Societies Act 1992. The registered number of the Society is 708F.

The Society is not part of a group and does not have any subsidiaries.

A1.2 Business objectives

The Society's principal activity is to provide savings plans with life assurance through endowment policies, which, in the case of those with relevant certification, can include cover against permanent disablement.

A1.3 Registered office

The registered office of the Society is:

727 Washwood Heath Road
Ward End
Birmingham
B8 2LE

A1.4 Regulators

The Society is authorised by the Prudential Regulation Authority. The Society is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Prudential Regulation Authority
Bank of England
20 Moorgate
London
EC2R 6DA

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

The Society, as a category 5 firm, is supervised through the smaller insurer regime at the Prudential Regulation Authority.

A1.5 Auditors

The statutory auditor of the Society is Royce Peeling Green Limited and can be contacted as follows:

Royce Peeling Green Limited
The Copper Room
Deva City Office Park
Trinity Way
Manchester
M3 7BG

A1.6 Lines of business

All of the Society's business risks and returns are within one business segment i.e. long term with-profits regular savings plans with life and/or disablement cover. All of the Society's business is transacted in the United Kingdom, although members may move overseas subsequent to taking out a policy. The premium income is as follows:

£000	2021	2020
total gross premiums written	4,267	4,447

For Solvency II purposes, all the Society's activity is classed as 'Insurance with profit participation.'

A1.7 Significant business events during the year

There were no significant business events during the year. Further detail on the Society's business is contained in the Annual Report and Financial Statements, which can be found on the Society's website.

A2 Underwriting performance

A2.1 Premiums and Claims

The table below shows the Society's premiums and claims for the year:

£000	2021	2020
gross premiums	4,267	4,447
reinsurers' share of premiums	0	0
gross claims	5,041	4,343
reinsurers' share of claims	0	0

Underwriting and reserving risks arise within with-profits business due to fluctuations in persistency, expenses and claims rates relative to the actuarial assumptions made in the pricing process. These risks are managed by the Society through its Underwriting Arrangements Policy. The permitted classes and characteristics of business to be written are discussed by the Management Committee at least annually. The capacity to accept new business is determined by the Society's available capital resources, in accordance with the ORSA process. The pricing of the Society's products is reviewed on a periodic basis, taking account of underwriting data and experience and in accordance with the professional advice of the Chief Actuary. The Society has robust underwriting arrangements in place, which include prospective policyholders being required to declare any pre-existing conditions and, in relation to disability plan business, to provide evidence that they carry out safety critical functions on the railway.

Due to the nature of business transacted, the Society does not use reinsurance arrangements. The Society's lack of reinsurance arrangements is consistent with its risk appetite. They are not required to mitigate the volatility of capital. There is therefore no allowance for reinsurance in the estimation of technical provisions. Exposure of the Society's portfolio to catastrophic claims experience is considered by the Management Committee on a periodic basis.

A2.2 Operating Expenses

The Society's operating expenses are set out below:

£000	2021	2020
acquisition costs	103	129
administrative expenses	808	965
total operating expenses	912	1,094

The Society does not have any material leasing arrangements.

A3 Investment performance

Performance for the year ended 31 December 2021 and for the prior year was as follows:

£000	Interest, dividends receivable and rent 2021	realised gains/(losses) 2021	unrealised gains/(losses) 2021	total 2021	total 2020
government bonds	152	(43)	(491)	(382)	644
corporate bonds	294	(21)	(424)	(151)	453
equities	156	169	766	1,091	175
collectives	33	64	701	798	555
cash and cash equivalents	0	0	0	0	2
loans and mortgages	42	0	0	42	50
investment property	210	0	140	350	223
Total	887	169	692	1,748	2,102

Investment costs for the various categories were as follows:

£000	investment costs	
	2021	2020
government bonds corporate bonds equities collectives	108	103
cash and cash equivalents	0	0
loans and mortgages	0	0
investment property	17	19

A4 Performance of other activities

The Society does not carry out any other activities.

A5 Other material information

A5.1 Impact of Covid-19 on the Society

During 2021, the Society continued to witness the devastating impact on human life of the Covid-19 pandemic. The Society's investments, which are mainly bonds and equities, plus some property and deposits, performed well during the year.

Overall, 2021 life assurance claims were within their normal range. There is general uncertainty about the long-term effects of Covid-19, both through "long Covid" and through treatments for other illnesses that have not taken place due to the pandemic, but the Society's products are not particularly sensitive to increases in mortality or morbidity, so this does not create any material concerns.

Levels of surrenders have increased significantly from the levels seen in 2020, but remain low compared to historic levels. A reduction in surrenders during the first twelve months of the pandemic was a pattern seen by many insurers and is likely to be related to "accidental saving" from a reduction in spending due to restrictions, with jobs in the railway industry largely sheltered from the pandemic due to government intervention.

New business levels in 2021 were higher than those seen in April to December 2020 but lower than in early 2020 and previous years. The reduction in new business is mainly related to the inability of the Area Representatives, the Society's main source of sales, to have face-to-face interaction with members during the pandemic. This has been partially offset by expansion of sales via other distribution channels through increased marketing.

The Society is in a strong solvency position. Own Funds remained significantly above the SCR during 2021, with Own Funds increasing from 217% of the SCR at 31 December 2020 to 234% at 31 December 2021.

We will continue to closely monitor the impact of Covid-19 on the operating performance of the Society. We will also maintain our monitoring of the valuation of assets and the valuation of technical provisions, which are sensitive to movements in risk-free rates. The Society's business model is very reliant on the UK railway industry, although it is slowly expanding into other areas. Therefore, we will continue to monitor the industry, including the implementation of *Great British Railways: The Williams-Shapps Plan for Rail*.

We have no material concerns relating to the effects of Covid-19 on the Society.

A5.2 Impact of Russian invasion of Ukraine on the Society post year-end

We are deeply saddened by the situation in Ukraine and our heart-felt thoughts are with the Ukrainian people and all those who are impacted by this humanitarian crisis.

Compared to the devastating impact on people's lives of this conflict, any analysis of the financial impact on the Society's business is very much of secondary importance. The safety and wellbeing of people across the region is our paramount concern. However, as a responsible mutual, it is important that we assess the impact on the Society and where necessary take action to protect our members' investments.

The Society does not hold any direct Russian or Belarusian investments and has no direct exposure to their markets or currencies. The Society's investments are well diversified within asset classes, sectors and regions and are designed to cushion it from unexpected market uncertainty. The high level of financial strength that the Society enjoys enables us to take a long-term view and weather any short-term volatility for the benefit of our members.

We continue to closely monitor the impact of the current situation on investment markets and on our capital position as part of our ORSA process. Whilst asset values have fallen, Own Funds have remained significantly above the SCR at all points since the year-end.

We have assessed the potential impacts of the economic outlook, including inflation rates, on consumer confidence. We do not anticipate that there will be any significant effect on our new business levels in the short, medium or long terms. However, this will be closely monitored as maintaining new business volumes is key, given that expenses are largely fixed in nature.

As a result of the situation in Ukraine, there is an increased risk of cyber-attacks targeting the UK financial services sector. We believe that the Society's exposure to this risk is relatively low. However, we continue to review our security arrangements with the aim of strengthening controls and reducing vulnerabilities.

We have no material concerns relating to the effect of the war in Ukraine on the Society's business.

B System of governance

B1 General information on the system of governance

The Society operates under the direction of the Management Committee, with day-to-day management responsibility delegated to the Chief Executive. The strategic direction of the Society, performance against annual and long-term plans and targets, monitoring of the business and reviewing the work of sub-Committees is within the remit of the Management Committee.

The core responsibilities of the Management Committee are to:

- ensure that the Society operates within an effective system of internal control, risk management, governance and compliance,
- ensure that the SCR and minimum capital requirement are maintained at all times,
- determine the strategy and approve the Business Plan,
- ensure that the business is conducted in an efficient and effective manner and that the interests of members are at the heart of everything the Society does, and
- support key persons, including those subject to the Senior Managers and Certification Regime, to discharge their responsibilities in respect of the area of the business for which they are responsible.

There are certain decision-making powers that are reserved for the Management Committee. These include:

- declaration of bonus rates,
- approval of the Annual Report and Financial Statements,
- approval of the ORSA,
- appointment and dismissal of the Chief Executive,
- approval of the Business Plan and budgets,
- acquisition and disposal of significant assets.

At the end of 2021, the Management Committee comprised a Chair, Chief Executive, two Non-Executive Professional Directors and four Non-Executive Member Directors. A 'Professional Director' is classed as one who possesses an appropriate professional qualification or has recent and relevant experience within the financial services industry. A 'Member Director' is classed as one who is drawn directly from the membership and has a knowledge of the railway industry in which the Society operates. The Management Committee considers that the balance of knowledge, experience, skills and independence is appropriate although it continues to monitor the situation to comply with regulatory requirements and to reflect the Society's strategy. The Society also has an Audit and Risk Management sub-Committee and a With-Profits Advisory Arrangement. The Chief Executive is responsible for overseeing all activities of the Society and refers material matters to the Management Committee.

B1.1 Membership of the Management Committee

The following individuals were members of the Management Committee as at 31 December 2021:

J W Goolamier	Chair
M A Casey	Deputy Chair
L P Davies	Senior Independent Director
R A J Townsley	Chair of Audit and Risk Management sub-Committee
M A Bicknell	Chief Executive
J McKenna	Chair of With-Profits Advisory Arrangement
R T Brushfield-Hodges	
D I Storrie	

B1.2 Audit and Risk Management sub-Committee

The main responsibilities of the Audit and Risk Management sub-Committee are to:

- review the effectiveness of the Society's financial and regulatory reporting,
- review the system of internal control,
- review the arrangements for identifying and evaluating risks in relation to the Society's current and future activity in accordance with the Business Plan,
- monitor the effectiveness of the external audit function including a review of the external auditor's appointment, fees and independence, and
- monitor the role and effectiveness of the internal audit function, including a review of the internal auditor's appointment, fees and independence.

The Audit and Risk Management sub-Committee met four times during the year. The sub-Committee has unfettered access to both the internal and external auditors and, equally, the audit firms have right of access to the sub-Committee and to the Management Committee as deemed appropriate. In addition to monitoring the external audit from the outset of the planning stage, the sub-Committee also considers the significant findings and recommendations arising from the audit of the Society's Annual Report and Financial Statements.

It is considered that the members of the sub-Committee possess the necessary mix of skills and knowledge of the Society to enable them to exercise appropriate judgements and bring challenge and debate to issues as appropriate.

The Terms of Reference of the Audit and Risk Management sub-Committee are available on the Society's website.

B1.3 Membership of the Audit and Risk Management sub-Committee

The following individuals were members of the Audit and Risk Management sub-Committee as at 31 December 2021:

R A J Townsley	Chair
M A Casey	
J McKenna	
D I Storrie	

B1.4 With-Profits Advisory Arrangement

The purpose of the With-Profits Advisory Arrangement (WPAA) is to protect the interests of With-Profits policyholders and ensure that the With-Profits Fund is managed in accordance with the Principles and Practices of Financial Management (PPFM). The WPAA is advisory in nature i.e. it is not a decision-making body; instead, its role is to inform the decision making of the Management Committee.

The main responsibilities of the WPAA are to:

- assess, report on and provide advice to the Management Committee on the manner in which the With-Profits business is administered in accordance with the PPFM,
- review the way in which the Management Committee exercises its discretion in the management of the With-Profits Fund including matters relating to the calculation and application of asset shares, smoothing and bonus calculations,
- challenge any significant changes to the risk profile or investment strategy of the Society, and
- assess the performance of the With-Profits Actuary.

The WPAA met four times during the year. The WPAA has unfettered access to the With-Profits Actuary and, equally, the With-Profits Actuary has open access to the WPAA and Management Committee as deemed appropriate.

The PPFM and the Terms of Reference of the WPAA are available on the Society's website.

B1.5 Membership of the With-Profits Advisory Arrangement

The following individuals were members of the With-Profits Advisory Arrangement as at 31 December 2021:

J McKenna	Chair
R T Brushfield-Hodges	
M A Casey	
L P Davies	

B1.6 Key functions

The Society follows 'fit and proper person' principles to ensure that key functions are led by appropriately skilled people. All outsourced services are reviewed periodically and, when considered appropriate, are re-tendered or re-negotiated.

Key Function	Provider	Key roles and responsibilities and how they report to the Management Committee
Internal Audit	outsourced – CKCA Ltd	The Internal Audit function is delivered through an outsourced arrangement by a regional firm of Chartered Accountants. The purpose of Internal Audit is to provide the Audit and Risk Management sub-Committee with assurance that the Society's risk management, internal control and governance arrangements are operating effectively to protect the assets, reputation and sustainability of the Society. The Chair of the Audit and Risk Management sub-Committee has regulatory responsibility for safeguarding the independence and oversight of the performance of the Internal Audit function. Further information regarding Internal Audit is contained in section B5.
Risk Management	in-house	The Risk Management function is delivered in-house. The Finance Manager, as Chief Risk Officer (SMF 4), has responsibility for the Society's overall risk management arrangements and reports to the Audit and Risk Management sub-Committee in this capacity. Further information regarding Risk Management is contained in section B3.
Actuarial	outsourced – SDA LLP	The Actuarial Function is delivered through an outsourced arrangement. The roles of Chief Actuary (SMF 20) and With-Profits Actuary (SMF 20a) are currently held by the same person. The Chief Actuary reports to the Management Committee and the Audit and Risk Management sub-Committee. The With-Profits Actuary reports to the Management Committee and the With-Profits Advisory Arrangement. Further information regarding the Actuarial Function is contained in section B6.

Key Function	Provider	Key roles and responsibilities and how they report to the Management Committee
Compliance	in-house	The Compliance Function is delivered in-house with external support as and when required. Regulatory responsibility for the Compliance Oversight Function (SMF 16) is held by the Chief Executive. The Chief Executive reports any significant compliance issues to the Management Committee. The Chief Executive is also the Society's Money Laundering Reporting Officer (SMF 17). Further information regarding the compliance function is contained in section B4.

B1.7 Changes to system of governance during 2021

There were no changes to the system of governance during 2021.

B1.8 Remuneration policy

The principles underlying the remuneration policy of the Society apply to all employees. These include the following:

- the remuneration package needs to be sufficient to attract and retain high-calibre individuals, whilst demonstrating value for money to the Society,
- the remuneration package should be appropriately constructed so that it contributes to the retention and motivation of key individuals,
- remuneration packages should reflect the individual's role and responsibilities.

All employees receive a fixed salary that is appropriate to their role. In addition, employees may be awarded small bonus payments to reflect their performance and contribution to the Society's objectives. All employees are eligible to join the Society's Group Personal Pension Scheme. The Society does not operate supplementary pension or enhanced early retirement arrangements.

Non-Executive Directors of the Management Committee are remunerated by way of an annual fee and a meeting attendance allowance. In addition, reasonable expenses incurred in the course of Society business are reimbursed. Non-Executive Directors are not entitled to join the Pension Scheme.

B1.9 Transactions with Committee Members, Officers and their close family members

The following transactions have been undertaken as part of the normal business of the Society. These transactions were originally made on the same terms and conditions as applicable to other members of the Society, or on commercial terms.

life assurance policies	2021 persons	2021 amount £	2020 persons	2020 amount £
premiums paid during the year	10	17,971	11	24,818
total sum assured at 31 December	10	235,450	9	240,827

Commission payments of £1,493 (2020: £1,983) were made in 2021 to some Committee members in relation to their duties as Depot Introducers.

During the year, Mr R T Brushfield-Hodges was paid £190 (2020: £1,339) for consultancy services provided to the Society.

During the year, Mrs E J Brushfield-Hodges was paid £375 (2020: £Nil) for consultancy services provided to the Society.

B2 Fit and Proper requirements

B2.1 Skills, knowledge and expertise

The Society has arrangements in place to ensure that its Management Committee and Senior Managers collectively possess the skills, qualifications and experience to provide sound and prudent management of the Society. The key areas of knowledge are:

- insurance and financial services,
- business strategy and business model,
- solvency II requirements,
- financial and actuarial understanding,
- statutory and regulatory requirements.

A Management Committee evaluation is carried out periodically to ensure that those charged with the Society's governance possess the attributes required in the regulated financial services industry. Skills gaps or areas for development that are identified through this process are addressed through the provision of training or, where appropriate, through the recruitment of additional Committee members.

B2.2 Fitness and propriety of persons

The Society has arrangements in place to ensure that its Management Committee and Senior Managers meet the regulatory 'fit and proper' requirements. The following factors are taken into account when deciding whether an individual is fit and proper:

- honesty, integrity and reputation,
- competence and capability,
- financial soundness.

The Society employs the following procedures, as deemed appropriate to the nature of the appointment, to assess fitness and propriety:

- annual self-declaration,

- credit reference agency checks,
- professional qualifications check,
- FCA Register search.

B2.3 Controlled Function holders

The following persons were responsible as at 31 December 2021 for carrying out the controlled functions:

Controlled Function		name
SMF 1	Chief Executive Officer	Marc Bicknell
SMF 2	Chief Finance Officer	Lynsey Inglis
SMF 4	Chief Risk Officer	Lynsey Inglis
SMF 9	Chair of the Governing Body	Joe Goolamier
SMF 11	Chair of the Audit Committee	Andrew Townsley
SMF 14	Senior Independent Director	Lee Davies
SMF 20	Chief Actuary	Alison Carr
SMF 20a	With-Profits Actuary	Alison Carr
SMF 16	Compliance Oversight	Marc Bicknell
SMF 17	Money Laundering Reporting	Marc Bicknell

B3 Risk management system including Own Risk and Solvency Assessment

B3.1 Risk management framework

Effective risk management is fundamental to the Society's strategy as it protects members' funds, ensures the efficient use of capital and helps to deliver the Business Plan. The Society manages its risks within a defined framework. The framework comprises the Risk Appetite Statement, the Capital Assessment of Risks and the Key Risks Summary. Ultimate responsibility for identifying and managing the risks faced by the Society rests with the Management Committee whilst the Audit and Risk Management sub-Committee has responsibility for the detailed scrutiny of risk management issues.

B3.2 Risk identification

The Society assesses its risks on an ongoing basis throughout the financial year. Key risks, and the mitigating actions and controls in place to manage the risks, are recorded in the Key Risks Summary, which is maintained by the Finance Manager, in her capacity as Chief Risk Officer.

B3.3 Risk appetite, tolerances and limits

The Society's Risk Appetite is determined by the Management Committee and is reviewed on a regular basis as new risks emerge, or at least annually. The Risk Appetite Statement is translated into risk thresholds and risk trigger points, which are used to manage the Society's solvency.

B3.4 Three Lines of Defence

The Society has adopted Three Lines of Defence principles in its risk management framework. The First Line of Defence is the management activity, checking and validation carried out in accordance with policies and procedures. The Chief Executive is responsible for the First Line of Defence. The Second Line of Defence is the Risk Management function, which seeks to ensure conformity with risk, actuarial and compliance policies and procedures. The Finance Manager, as Chief Risk Officer, is responsible for the Second Line of Defence. The Third Line of Defence is the Internal Audit function, which provides an independent, objective and critical assessment of the design and effectiveness of the Society's internal control, risk management and governance arrangements.

B3.5 Own Risk and Solvency Assessment

The Society's ORSA is a rolling process that provides a detailed analysis of the Society's capital adequacy, risk management and forward-looking perspective. This is achieved using a combination of internal, actuarial and regulatory documents and information to report appropriately on the Society's financial position. The ORSA is carried out in accordance with the ORSA Policy agreed by the Management Committee. The intention of the Society's ORSA is to develop an understanding of the risks that the Society is exposed to and the associated capital requirements, thereby improving business decision-making processes.

B3.6 Capital requirements

A key element of the ORSA is an assessment of the Society's capital requirements. The Society uses the standard formula methodology as outlined in the Delegated Text and associated guidelines. Further information on this is provided in section E.

B3.7 Own Risk and Solvency Assessment programme of review

The ORSA is undertaken throughout the year in a way that is dovetailed with the business decision-making cycle, culminating in an annual ORSA submission to the Prudential Regulation Authority. The scheduled review programme for the various elements of the ORSA is as follows:

section of ORSA	frequency of review
Financial Performance	twice per year
Risk Appetite Statement	twice per year
Capital Assessment of Risks	annually
Key Risks Summary	annually
Business Plan	annually
Actuarial Reporting: • Solvency II Technical Provisions and Capital Requirements • Forward-Looking Assessment of Solvency	annually
Investment Policy	annually
Corporate Control Manual	annually

In addition, the ORSA is considered if any significant events occur or risks emerge that could impact the ability of the Society to achieve its Business Plan. Examples of significant events or emerging risks could include:

- significant falls in asset values,
- significant reduction in the risk-free discount rate, leading to increased technical provisions,
- increase in the sterling value of the Minimum Capital Requirement,
- mass surrenders of policies.

B3.8 Governance of the ORSA

The Management Committee has ownership and ultimate responsibility for the ORSA, including the appropriateness and completeness of the processes and procedures and the approval of the disclosures and submissions to the Prudential Regulation Authority. The Society's Finance Manager carries out the Senior Manager Function of Chief Risk Officer and as such is responsible for the maintenance of the Society's risk management processes and procedures, for the accuracy of the financial data underlying the ORSA and for ensuring the continuous adequacy of the solvency of the Society through appropriate capital management. The Chief Actuary has a key role in the preparation of specific reports in the ORSA and for the provision of technical actuarial advice.

B4 Internal control and compliance arrangements

B4.1 Internal control system

The Society's internal control arrangements are designed to provide reasonable assurance as to the reliability of the Society's financial reporting, to ensure compliance with applicable statutory and regulatory requirements and to provide for the economic, efficient and effective management of the Society's business. The Management Committee has ultimate responsibility for the maintenance of adequate and effective internal control, risk management and governance arrangements. It is supported in this by the Audit and Risk Management sub-Committee. Operational responsibility for the design and maintenance of the internal control system rests with the Chief Executive. The Society's internal control arrangements are subject to periodic review by the Internal Audit function, the results of whose work is reported to the Audit and Risk Management sub-Committee.

The Society's Financial Statements are subject to strong internal controls in their preparation prior to audit by the Society's statutory auditor. They are also subject to detailed scrutiny by the Audit and Risk Management sub-Committee and formal approval by the Management Committee ahead of submission to the Regulator and publication to the membership. The technical provisions and capital requirement are calculated by the Chief Actuary and are subject to scrutiny by a reviewing actuary, who is appointed by the statutory auditor.

Key elements of the Society's internal control system include:

Reconciliation procedures	These include the preparation of bank reconciliations and the reconciliation of the general ledger.
IT controls	These include processing controls, security of data and systems, authorisation and access controls, back up procedures, anti-virus, firewall protection, disaster recovery arrangements, control over systems developments and changes and business continuity planning.
Management information	This includes the monthly reports prepared for the Management Committee on investments, new business volumes, claims and performance against budget.
Segregation of duties	This includes the processes for the initiation and authorisation of payments.
Data controls	This includes the checking and reconciliation of policy data to ensure the completeness and accuracy of the data upon which the actuarial valuation is undertaken.
Physical security	This includes the access to the office premises and the locking away of cheque books and other valuable or sensitive documents.

B4.2 Implementation of the Compliance Function

The compliance function is delivered in-house with external support as and when required. Regulatory responsibility for the Compliance Oversight Function (SMF 16) rests with the Chief Executive.

B5 Internal Audit Function

B5.1 Implementation of the Internal Audit Function

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Society's operations. It helps the Society accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Audit is currently delivered under an outsourced arrangement by CKCA Limited, a regional firm of Chartered Accountants.

All of the Society's activities (including outsourced activities) are within the scope of Internal Audit. Internal Audit carries out an Audit Needs Assessment (ANA) to determine which areas of activity need to be subject to internal audit scrutiny and the frequency with which a review is carried out over the cycle of the Internal Audit strategy. The ANA is used to direct internal audit resources to those areas of the Society's operations that are assessed as generating the greatest risk to the achievement of its objectives. Internal Audit takes a risk-based approach and does not necessarily have to cover all of the potential scope areas every year. Its focus may change in light of emerging risks and Internal Audit's ongoing assessment of risk. Internal Audit can also, where appropriate, undertake special investigations and consulting arrangements at the request of the Audit and Risk Management sub-Committee, Management Committee or regulators.

B5.2 Independence of the Internal Audit Function

The Internal Audit function derives its authority from the Management Committee through the Audit and Risk Management sub-Committee. The Internal Audit function is authorised by the Audit and Risk Management sub-Committee to have full and complete access to any of the Society's records and personnel. The Internal Audit function, under the governance of the Audit and Risk Management sub-Committee, is free to decide which audits to perform, the scope, frequency and timing of its work, the procedures it follows and the content of its reports. The Internal Audit function does not have any operational responsibility or authority over any of the activities audited. It is not responsible for the implementation of internal controls, the development of procedures, the installation of systems, the preparation of regulatory submissions or any other activity that may impair, or be perceived to impair, its objectivity.

The Chair of the Audit and Risk Management sub-Committee has regulatory responsibility for safeguarding the independence and oversight of the performance of the Internal Audit function.

B6 Actuarial Function

The Society has an Actuarial Function, which is wholly outsourced. The roles of Chief Actuary (SMF 20) and With-Profits Actuary (SMF 20a) are held by Mrs. A E Carr of SDA LLP. Mrs. Carr is a Fellow of the Institute and Faculty of Actuaries.

The specific responsibilities of the Chief Actuary are to:

- calculate the Society's Technical Provisions and SCR,
- assess the suitability of using standard formula methodology to calculate the Society's SCR,
- undertake the risk modelling underlying the calculation of the capital requirements of the Society,
- prepare the Society's Forward-Looking Assessment of Solvency and
- issue an opinion on the adequacy of the Society's underwriting policy and reinsurance arrangements.

The specific responsibilities of the With-Profits Actuary are to:

- advise the Management Committee on the key aspects of discretion to be exercised in the administration of the With-Profits Fund,
- advise the Management Committee as to whether the assumptions used to calculate the future discretionary benefits within the technical provisions are consistent with the Principles and Practices of Financial Management,
- report to the Society's With-Profits policyholders as to whether the discretion exercised by the Society in respect of the period covered by the Annual Report may be regarded as taking the interests of the relevant classes of the Society's With-Profits policyholders into account in a reasonable and proportionate manner.

B7 Outsourcing

The policy of the Society is that its core policy administration, information systems and finance functions are managed in-house. Outsourcing is generally restricted to key areas where either professional expertise is not available from within the Society's own resources or where third-party provision of a service or function is preferable, for example to help demonstrate independence.

The key areas where functions are currently outsourced are:

- Internal Audit
- Actuarial function
- Investment Fund Management
- Investment Property Management
- Information Systems Software Support

All outsourced providers are based in the United Kingdom.

In determining the award of an outsourced contract, the Society undertakes due diligence to establish a provider's financial stability and track record in providing similar services. In this regard, references are sought from amongst the Society's friendly society peer group.

B8 Assessment of system of governance

The Society is committed to adopting best practice in Corporate Governance. As a member of the Association of Financial Mutuals (AFM), it uses the AFM's Corporate Governance Code to demonstrate this. Further information regarding this is contained in the Report on Corporate Governance within the Society's published Annual Report and Financial Statements.

B9 Other material information

No other material information is necessary to give a full picture of the Society's system of governance.

C Risk Profile

C1 Risk management framework

The Society manages its risks within a defined framework. The framework comprises the Risk Appetite Statement, the Capital Assessment of Risks and the Key Risks Summary. Ultimate responsibility for identifying and managing the risks faced by the Society rests with the Management Committee whilst the Audit and Risk Management sub-Committee has responsibility for the detailed scrutiny of risk management issues. The Finance Manager, as Chief Risk Officer (SMF 4), has responsibility for the Society's overall risk management arrangements, including the maintenance of adequate levels of solvency.

C2 Prudent Person Principle

The Society invests its assets in accordance with the 'prudent person principle' as set out in Article 132 of the Directive 2009/138/EC. The fund manager operates in accordance with the Investment Policy, which specifies the type of investments that they are allowed to invest in, the minimum and maximum proportions allowable, the maximum exposure to overseas holdings, the required modified duration of bonds and their levels of credit rating. The Society's Management Committee undertakes regular reviews of the performance of the fund manager and reviews the Investment Policy at least annually. The Society's Principles and Practices of Financial Management (PPFM) document sets out how the Society conducts its With-Profits business. The PPFM makes reference to the Investment Policy of the Society, the purpose of which is to maximise the overall return of the investments of the Society subject to ensuring that guarantees are met through maintaining adequate solvency and liquidity.

C3 Loans portfolio

As at 31 December 2021, the Society had no loans secured by mortgages (2020: £34,538). The one remaining loan secured by a mortgage was repaid in full in October 2021.

As at 31 December 2021, the Society had policy loans of £652,077 (2020: £767,869). Policy loans are available to members as an alternative to early surrender of their policies. Premiums continue to be collected until the maturity date or earlier death or disability of the life assured. Interest is charged based on the rate set by the Management Committee. The loan amount is then deducted from the policy proceeds at maturity or when a death or disablement payment is made.

C4 Risk sensitivity

For the key risks that the Society is exposed to, the sensitivity of the Society's surplus assets is investigated annually.

C5 Overview of key risks

An overview of the principal risks associated with the business including an outline of how they are each managed is provided as follows:

C5.1 Life Underwriting risk

Life underwriting risk considers the risks arising from the underwriting of the Society's policies. For each risk, the stress is considered only for those policies where this increases the technical provisions. The SCR for life underwriting risk is quantified in section E2.2.

C5.1.1 *Mortality*

This stress covers the loss or change in technical provisions following a permanent 15% increase in the expected mortality rates.

C5.1.2 *Longevity*

This stress covers the loss or change in technical provisions following a permanent 20% decrease in the expected mortality. As the effect for the Society is to reduce liabilities and have no effect on assets, the stress is therefore assumed to be nil.

C5.1.3 *Morbidity*

This stress covers the loss or change in technical provisions following a permanent increase in expected morbidity. The disability inception stress is based on a 35% increase in disability claims in the first 12 months from the valuation date and then 25% thereafter.

C5.1.4 *Lapse*

This stress covers the loss or change in technical provisions as a result of the change in the expected exercise rate of policyholder surrenders and lapses.

The lapse stress is based on three scenarios, with the scenario having the greatest impact on total liabilities being used to calculate the additional capital to cover lapse risk:

- future lapses 50% higher than expected
- future lapses 50% lower than expected
- mass lapse of 40% of in-force business, i.e. a one-off event

C5.1.5 *Expense*

This stress covers the risk of expense levels of administering the in-force policies being higher than assumed. This can arise from an increase in expenses through inflation or unexpected costs. The expense stress is a permanent 10% increase in administration expenses plus a 1% increase per annum in expense inflation.

C5.1.6 *Life Catastrophe*

This stress covers the risk of loss, or of adverse change in the value of the technical provisions, resulting from the significant uncertainty of pricing and provisioning assumptions related to outbreaks of major epidemics, as well as the unusual accumulation of risks under extreme circumstances.

The life catastrophe stress is a 0.15% increase in mortality rates, for the next twelve months, for each policy where the payment of benefits is dependent on the policyholders' survival or death.

The Delegated Act does not require the application of a morbidity catastrophe stress for health insurance that has not been unbundled from life assurance.

C5.1.7 *Correlation*

The Delegated Act takes into account the diversification within the life underwriting risks by using a correlation matrix. This is because it is unlikely that all these risks (major and individual) will occur simultaneously.

C5.1.8 *Life Underwriting risk mitigation*

This Society's approach to underwriting aims to protect members from external anti-selection factors and means that if a policyholder has a pre-existing condition, they would not be able to claim for death or disablement due to that condition.

C5.2 Market risk

Market risk is the risk that the value of a financial instrument will fluctuate because of the volatility of market prices. Exposure to market risk is measured by the impact of movements in the level of financial variables such as stock prices, interest rates, property prices and exchange rates.

The market risk module considered for the Society's asset portfolio consists of the asset stresses described below, with the SCR for market risk quantified in section E2.3.

C5.2.1 *Interest rate*

This stress allows for movements in the risk-free rates used for discounting within the calculation of technical provisions. The risk-free rate term structures are provided by the Prudential Regulation Authority on a monthly basis. The impacts of the change in risk-free rates are measured against both the assets and liabilities to give a net impact. The net impact (up or down movement) which generates the greatest capital requirement allowing for loss absorbency of technical provisions is then used for the capital requirement before loss absorbency.

C5.2.2 *Equity*

The Delegated Act requires an immediate fall of 39% plus a symmetric adjustment for equities listed on regulatory markets in countries that are members of the EEA or OECD (and 49% for other equities). However, the Society has taken advantage of Article 308b of Omnibus 2 section 9a to apply a transitional adjustment to the standard stress. This allows equities listed on regulated markets in countries that are members of the EEA or OECD and bought before 2016 to have a 22% stress, which then moves up to 39% plus symmetric adjustment over a seven-year period after 1 January 2016. However, equities purchased after 2015 will have the full equity stress of 39%/49% plus symmetric adjustment.

LGT Vestra, the investment manager, has supplied the Society with details of which direct assets were bought after 1 January 2016 and thus have the full equity stress applied. For collective investments, it has been assumed that all equities were purchased after 2015.

As at 31 December 2021 the symmetric adjustment was calculated as +7.09%.

C5.2.3 *Property*

The asset stress allows for an instantaneous fall of 25% in the value of property, including property held via collective investment schemes. The Society owns four properties for investment purposes, along with its head office. Additionally, the Society owns shares in Real Estate Investment Trusts (REITs). A REIT is a company that invests wholly in physical real estate, so this investment is treated as property rather than equity for the purposes of determining the SCR.

C5.2.4 *Currency*

The currency risk takes into account the impact of a sharp rise or fall in currency exchange rates. The currency stress allows for an instantaneous fall of 25% in the sterling market value of non-sterling assets.

The currency forwards held are assumed to be part of a continuing rolling hedge strategy, to be within the Society's investment policy and well understood by the Society and its investment managers and are therefore allowed within the calculations.

C5.2.5 *Spread*

The spread is an additional return over the risk-free rate earned on bonds and is a representation of the riskiness of bond returns. The spread risk considers the impact of bond spreads increasing. It takes into account the term of the assets and liabilities. Bonds that are not risk-free are normally considered to have two spreads over the risk-free yield. The liquidity spread is compensation for investors for non-risk-free bonds not usually being traded in such high volumes as risk-free bonds such as government bonds and hence not being as easy to sell. The credit spread is compensation for investors for the possibility of the bond issuer defaulting.

All financial instruments that provide a predetermined income stream will be sensitive to the risk of the credit spread increasing. An increase to the credit spread does not have an impact on the value of the liabilities as they are valued using a risk-free rate.

The Delegated Act defines a set of spread increase stresses based on the duration to maturity and the current credit rating of the issuer.

C5.2.6 *Concentration*

Concentration risk considers the impact of a large exposure with a particular counterparty. This exposure may result from holding a number of different asset classes with a single counterparty. The Delegated Act defines a set of excess exposure thresholds which depend on the credit rating of the counterparty.

C5.2.7 *Correlation*

The Delegated Act takes into account the diversification within the asset portfolios by using a correlation matrix. This is because it is unlikely that all these risks (major and individual) will occur simultaneously.

C5.2.8 *Market risk mitigation*

The Society normally calculates its solvency position weekly or more frequently if circumstances require it. If the free assets fell below the trigger point for action then the Society would consult with the Investment Manager and Chief Actuary with a view to realigning the investment portfolio so that the Society's risk threshold was not breached.

C5.3 Counterparty risk

The counterparty risk module considers the risk of potential losses due to unexpected default, or deterioration in the credit standing of counterparties and debtors over the ensuing year. The method given within the Delegated Act assesses the probabilities of default and losses given default based on current credit ratings. The exposures considered are split into types 1 and 2. Type 1 exposures include cash deposits at banks whilst type 2 exposures include policy holder debtors. The capital requirements for type 1 and type 2 exposures are calculated separately and then used to calculate an overall SCR counterparty risk allowing for diversification. For type 1 counterparties, the Society uses Standard and Poor's credit ratings. The SCR for counterparty default risk is quantified in section E2.4.

C5.3.1 *Counterparty risk mitigation*

Counterparty default risk in relation to financial investments is managed by ensuring that the fund manager avoids excessive exposure to any one single counterparty. Additionally, the maximum exposure to fixed income holdings of different ratings is specified to ensure that the Society is not exposed to undue risk.

C5.4 Liquidity risk

Liquidity risk is the risk that the Society, though solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due. The Society's exposure to liquidity risk is considered to be low, since it maintains a high level of liquid assets to meet its liabilities. The only significant investments that are considered illiquid are the investment properties.

The SCR does not include any allowance for liquidity risk.

C5.5 Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events. The capital requirement for operational risk uses a formulaic approach based on either office premiums or technical provisions, which is quantified in section E2.6.

The operational risks include:

- Compliance – the risk of not meeting legal or regulatory requirements, including Conduct of Business rules, anti-money laundering and data protection.
- Business Continuity – the risk of inability to provide service to members due to events beyond the Society's control, including failure of ICT systems or disruption to head office.

- Staff – the risk to the Society's operations as a result of staff turnover or non-availability of key staff.
- Fraud – the risk of members' funds being misappropriated.
- Outsourcing – the risk of a service provider failure or non-performance.
- Reputation – the risk of the Society suffering from adverse publicity.
- Customer Services – the risk of complaints and poor customer outcomes arising from delays, errors and omissions.
- Financial returns for members – the risk that the Society might be unable to offer products that provide a reasonable return to members. The ongoing low interest rate environment in which the Society operates impacts on its ability to provide reasonable returns to its members on the policies they hold. The Society has addressed this by reducing its overhead costs.
- New Business levels – the risk that the Society's new business levels may not grow as expected, particularly if Area Representatives are not replaced as and when they retire. The Society aims to address this by recruiting new Area Representatives and Depot Introducers. The Society has sought to reduce its dependence on this channel through investment in a new website, digital marketing initiatives, voucher incentive schemes and tactical expansion beyond its core train crew market.

C6 Other material risks

The Society does not sell or re-pledge collateral within the meaning of Article 214 of the Delegated Act.

The Society has not entered into securities lending or borrowing transactions, repurchase or reverse repurchase agreements as referred to in Article 4(1)(82) of Regulation (EU) No 575/2013.

The Society does not sell variable (or any other) annuities.

No further material risks have been identified.

C7 Risk exposure over the business planning period

There are no material risk exposures during the business planning period that the Society was not exposed to during 2021.

C8 Expected profit in future premiums

The expected profit included in future premiums (EPIFP) is £2,068,955. This is disclosed in form S.23.01.01. The EPIFP has been calculated assuming that no further premiums are paid, but expenses, normally calculated as a proportion of premium, are assumed to continue at the same level. All insurance contracts are then assumed to be made into paid-up policies with a reduced sum assured. Although technically the Society's products allow policies to become paid up, such a request has never been made and therefore the Society does not have a formal basis for setting the sum assured for a paid-up policy. Therefore, for the purpose of the EPIFP we have assumed a simple basis, where the reduced sum assured is calculated as the original sum assured multiplied by the ratio of the time the policy has been in force divided by the term of the policy. Surrender values, which are calculated as a proportion of premiums paid to date, are based on premiums paid up to the valuation date. The technical provisions are then recalculated for each policy and the EPIFP is determined as the difference between the recalculated figure and the actual technical provision.

C9 Other material information

No other material information is necessary to give a full picture of the Society's risk profile.

D Valuation for solvency purposes

D1 Valuation of assets

The table below details the basis for the Society's Solvency II asset valuation for each material class of assets. Assets are measured on a market value basis as at 31 December 2021.

£000	Solvency II	Financial Statements
Property	3,489	3,080
Financial Investments	32,231	32,569
Loans and Mortgages	652	652
Cash and cash equivalents	468	540
Insurance receivables	135	135
Any other assets, not elsewhere shown	355	355
Total assets	37,331	37,331

D1.1 Property

For Solvency II purposes the properties have been valued at fair value, this is the same basis as the Financial Statements, which follow UK GAAP. Full valuations are made by an independent, professionally qualified surveyor, on an annual basis.

For Solvency II purposes, any Real Estate Investment Trusts (REITs) held directly have also been included in the property asset category. The REIT value is taken at market value as at 31 December 2021 and then increased by the loan to value ratio. The increased value is assumed to be supplemented by cash deposits.

D1.2 Financial Investments

The Society's investments are valued at fair value. Fair value is the quoted mid-market value as at 31 December 2021.

The separate financial investment categories have been analysed in the following table.

	Solvency II £'000	Financial Statements £'000	Difference	Comments
Government bonds	10,468	10,449	20	The Solvency II value includes £20k of government bonds held as part of a collective.
Other fixed interest securities	9,695	9,471	224	Some of the collectives hold corporate bonds as underlying assets.
Directly held equities	12,068	6,205	5,863	The difference is mainly due to the fact that the majority of the assets held in collectives are actually equities. Some holdings are REITs and so are treated as property for Solvency II purposes.
Collectives	0	6,444	-6,444	Assets are valued on a look-through basis and have therefore been allocated to equities, bonds or cash deposits.
Total financial investments	32,231	32,569	-338	

D1.3 Loans and Mortgages

Loans and mortgages are valued on the same basis for Solvency II purposes as they are in the Financial Statements. The Society did not have any loans secured by mortgages as at the year-end date.

D1.4 Cash and Cash Equivalents

Cash and cash equivalents are valued at carrying value on 31 December 2021. A reduction has been applied to the cash and cash equivalents under Solvency II for the gearing of the REITs. It is assumed that the difference between market value and the underlying Solvency II value would be financed by a reduction in cash. There are also some collective investments that hold deposits as underlying assets and these have also been included in the cash and cash equivalents value for Solvency II purposes.

D1.5 Other Assets

All other assets, including insurance receivables, are valued for Solvency II purposes on the same basis as the Financial Statements, at fair value or settlement value.

D1.6 Recognition and Valuation Basis

There has been no change to the recognition or valuation basis of assets for Solvency II purposes during the reporting period.

D2 Valuation of technical provisions

D2.1 Results

All of the Society's business is classified as one line of business. The total technical provisions are shown below:

£000	31 December 2021
best estimate	25,153
risk margin	458
technical provisions	**25,611**

D2.2 Method of valuation

The methodology for the calculation of technical provisions is outlined in the Delegated Act and associated guidelines. In broad terms, the gross technical provisions can be defined as the sum of the best estimate and risk margin.

D2.2.1 *Calculation of best estimate*

The best estimate is the total of the discounted policy cash-flows. The policy cash-flows allowed for within the cash-flow projection are:

income	Premiums
expenditure	expenses plus surrender, death, disability and maturity benefits (including future bonus declarations where applicable) and tax (if applicable)

The expected cash-flows are generated using product details, individual policy data and assumptions on future expenses and mortality, morbidity and surrender rates.

The valuation uses both the current surrender factors, as set out in the 2020 actuarial valuation Surrender Report, assumed to apply until 31 May 2022 and the recommended factors as set out in the 2021 actuarial valuation Surrender Report, assumed to apply from 1 June 2022

The cash-flows also include a 'cost of guarantee' to allow for the value of the guarantees, given that actual returns may not be equal to those assumed in the valuation. We consider the effect on both assets backing the liabilities, the guaranteed cashflows and the total cashflows, based on volatility assumptions for each asset type. We use a Black-Scholes formula method.

D2.2.2 *Calculation of risk margin*

The risk margin is a part of the technical provisions required to ensure that the value of technical provisions is equivalent to the amount that an insurance undertaking would expect to require in order to take over and meet the insurance obligations.

The risk margin is calculated as the cost of providing an amount necessary to support the insurance obligations up until their maturity or final claim date. Under the Delegated Act, the amount required is equal to the SCR for the insurance obligations. The cost of providing this amount is calculated as the cost of capital rate multiplied by the SCR at each time interval in the future up until the policy end date and discounted back to the valuation date. The cost of capital rate within the Delegated Act is 6%.

For the calculation of the risk margin, Article 38 of the Delegated Act states that the risk margin calculation should assume that the assets are selected in such a way that they minimise the SCR for market risk. Therefore, it has been assumed that the Society would be able to rebalance its asset portfolio in order to minimise the market risk SCR down to zero. This is a consequence of the Society's policy liabilities being held within a With-Profits Fund, which allows such rebalancing to take place. A similar argument applies for the counterparty risk. The calculation of the risk margin therefore only includes life underwriting and operational risk.

D2.2.3 *Unbundling*

Unbundling refers to the requirements to separate, where possible, different lines of business that are included within one contract. The Society's death and disability policies include elements of health insurance (with profit participation) and life insurance (with profit participation), but it would be difficult to define obligations and premiums attributable to each part, so the two lines of business have not been separated and all business is assumed to be life insurance with profit participation.

D2.2.4 *Contract Boundaries*

Article 18 of the Delegated Act provides principles to follow when determining the contract boundary of a policy type i.e. the future point at which the calculation of future net cash-flows should cease. As the Society has fixed premium rates throughout the term of its policies, the contract boundary is the maturity date for all the Society's policies.

D2.3 Assumptions

The assumptions used are supposed to reflect a reasonable best estimate of the likely experience, with no prudence margins.

D2.3.1 *Expenses*

We have assumed an expense allowance of 16.1% of gross premiums. This is consistent with the Society's expected future expenses over the next ten years. We have also assumed an investment management fee of 0.334% of the policy reserve.

D2.3.2 *Mortality and morbidity*

The table below summarises the mortality and morbidity assumptions. In addition, a small mortality loading has been applied for the first 12 months of the projection in respect of COVID-19.

	mortality	morbidity
under 17	40% ELT15	
17 or over	70% AMC00/AFC00 ultimate	40% of the Society's own table of disablement rates

D2.3.3 *Future bonuses*

We have assumed the following pattern of reversionary bonuses:

reversionary bonus rate as % pa of sum assured	2021	2022	2023	2024	Thereafter
policies issued on or before 13/3/1984	1.50	1.00	0.50	0.00	0.00
policies issued 14/3/1984 to 31/12/2017	0.75	0.50	0.25	0.00	0.00
policies issued after 31/12/2017 (1)	1.00	0.75	0.50	0.25	0.00

(1) In practice, a small number of members applied for policies in November and December 2017 but their policies were not issued until January and February 2018. These policies received sums assured under the old rates and therefore will receive bonuses on the relevant bonus scales.

Final bonuses are based on the current rates up to 31 May 2022. From 1 June 2022 to 31 May 2022, final bonuses are based on the rates approved by the Management Committee as part of the 31 December 2021 actuarial valuation. The final bonus rates are shown in the tables which follow:

Maturity or Death/Disability Claim 1 January 2022 to 31 May 2022	
inception year	final bonus rate %
1974-1976	14.00
1977-1984	0.00
1985-1987	21.50
1988-1993	21.25
1994-2001	22.25
2002-2004	18.50
2005-2009	12.25
2010-2018	4.50
2019-2021	6.10

Maturity or Death/Disability Claim 1 June 2022 to 31 May 2023	
inception year	final bonus rate %
1974-1975	16.75
1976-1983	0.00
1984-1992	27.25
1993-2001	23.00
2002-2006	17.50
2007-2011	10.75
2012-2022	6.25

D2.3.4 *Lapses*

We assume that lapses occur at the following rates per annum in the table which follows. The surrender value is calculated as the premiums paid multiplied by the relevant surrender factor.

Age Band	Duration Band	Saver and Disability	Saver	Child
0-20, 40+	0	2.2%	3.0%	2.4%
	1-2	8.4%	11.4%	8.9%
	3	5.5%	7.5%	5.9%
	4-7	4.8%	6.6%	5.2%
0-20, 40+	8	3.4%	4.7%	3.7%
	9-20	2.6%	3.5%	2.8%
	20+	3.5%	4.8%	3.8%
20-29	0	3.0%	4.2%	3.2%
	1-2	11.5%	15.7%	12.3%
	3	7.5%	10.3%	8.1%
	4-7	6.7%	9.1%	7.1%
	8	4.7%	6.5%	5.1%
	9-20	3.5%	4.8%	3.8%
	20+	4.9%	6.7%	5.2%
30-39	0	2.6%	3.6%	2.8%
	1-2	9.9%	13.5%	10.5%
	3	6.5%	8.9%	6.9%
	4-7	5.7%	7.8%	6.1%
	8	4.1%	5.6%	4.3%
	9-20	3.0%	4.2%	3.2%
	20+	4.2%	5.7%	4.5%

D2.3.5 *Investment Returns*

The investment returns assumed within the valuation follow the risk-free rates for sterling assets provided by EIOPA.

D2.3.6 *Surrender Values*

The surrender values are calculated using the current surrender values up to 31 May 2022 and then the recommended surrender factors from 1 June 2022 as per the Report of the With-Profits Actuary in respect of the 31 December 2021 actuarial valuation.

D2.3.7 *Tax*

A tax rate of 0% has been assumed for all policies.

D2.4 Level of uncertainty

There are no material deficiencies in the data used for the calculation of the technical provisions.

By definition, the models used in the calculation of the technical provisions are a simplified version of real life but are designed to capture the key features of the cashflows being modelled. The Society is not aware of any material features that have been excluded from the calculations and the methodology employed is proportionate to the nature, scale and complexity of the risk accepted by the Society.

The cashflows projected in determining the technical provisions are best estimates. However, there is always uncertainty in projecting those cashflows, including uncertainty of timing, frequency of and severity of claim events, uncertainty in claim amounts, uncertainty in expenses and uncertainty in policyholder behaviour.

A robust assumption setting process is followed to ensure that uncertainties are well understood. Historical experience is used to guide the assumption setting, but past experience is no guarantee of future experience. Analysis of how the model results compare to past experience can be used as a guide and is part of the assumption setting process. The sensitivity of the results is also central to the assumption setting process. The technical provisions are most sensitive to discount rates, lapse and expense assumptions.

D2.5 Explanation of material differences between Financial Statements and Solvency II

The technical provisions shown in the Society's Financial Statements are equal to the Solvency II technical provisions, therefore there are no differences in the bases, methods and assumptions used.

D2.6 Transitional adjustments

The regulations allow insurers, in some circumstances, to use transitional adjustments to smooth the change between the Solvency I and Solvency II regimes. The Society has not used any of the following:

- the matching adjustment referred to in Article 77b of the Directive
- the volatility adjustment referred to in Article 77d of the Directive
- the transitional risk-free interest rate-term structure referred to Article 308c of the Directive
- the transitional deduction referred to in Article 308d of the Directive.

The Society has used the equity transitional measure referred to in Article 308b(12) of the Directive.

D2.7 Recoverables from reinsurance and Special Purpose Vehicles

The Society does not have any reinsurance or use any Special Purpose Vehicles.

D2.8 Material changes in assumptions and methods from previous reporting period

The table below analyses the change in technical provisions from 31 December 2020 to 31 December 2021:

Change	Reason	Effect £000
Change in valuation model	See comment below	(503)
Unwinding of discount rate	Impact of discount rate moving forward one year	(29)
Change in data from 2020 to 2021	Policies moving one year closer to maturity and policies terminating	(1,644)
Change in mortality assumptions	Changed due to higher recent mortality experience	16
Change in lapse assumption	Reduced rates, due to lower recent lapse experience	82
Change in risk-free rates	Changed, as required by regulations	(1,139)
Change in expense assumption	Change to ensure projected expenses approximately equal budgeted expenses	(7)
Change in volatility assumption	Updated to methodology	(7)
Change in surrender value factors	Change in factors from June 2022, as agreed by the Management Committee	42
Change in bonus rate recommendations	Change in rates from June 2022, as agreed by the Management Committee	579
Allowance for new business	Liability for 2021 new business	307

The change in valuation model referred to above relates to the changeover from Excel to SDA Frame. This resulted in a reduction to the technical provision of £503k. Two of the changes were more significant: the change in the cost of guarantee calculation increasing the technical provision by £66k and the change to allow for rebasing in the risk margin calculation reducing the technical provision by £616k. The other changes did not relate to methodology as such but involved, for example, more accurate modelling, simplifications where this was proportional, rounding differences or timing changes.

D3 Valuation of other liabilities

The table below details the valuation of other liabilities for Solvency II purposes and as per the Financial Statements, which follow UK GAAP.

£000	Solvency II	Financial Statements
claims outstanding	172	172
other creditors	534	534
total other liabilities	706	706

D3.1 Recognition and Valuation Basis

There has been no change to the recognition or valuation basis of other liabilities for Solvency II purposes during the reporting period.

D4 Alternative methods for valuation

There were no alternative methods required for the valuation of the Society's assets or liabilities.

D5 Other material information

No other material information is necessary to give a full picture of the Society's valuation for solvency purposes.

E Capital Management

E1 Own funds

The Society is a mutual organisation and so does not have any shareholders. The Society's own funds are essentially the surplus accumulated that has not yet been allocated to policies. It forms the working capital of the Society and is available to meet risk and capital requirements, as well as any uncertain additional liabilities that may arise in the future. It is classified as Tier 1 own funds.

£000	31 December 2021	31 December 2020
total basic own funds	11,013	8,742

Asset values were at a very similar level to last year. Technical provisions decreased by approximately £2.3million. The change in technical provisions is mainly due to an increase in risk-free rates, a change in data from 2020 to 2021 (i.e. policies moving one year closer to maturity and policies terminating) and a change to the valuation model, offset partially by an increase in assumed future bonuses. There has been an increase in capital requirements, mainly due to a higher equity risk. Overall, the free asset position is significantly higher than at 31 December 2020.

All the own funds are eligible to cover the SCR and Minimum Capital Requirement (MCR).

E1.1 Objectives, policies and processes for managing own funds

The Society has a Risk and Capital Management Policy, which includes a minimum level of free assets (i.e. own funds less capital requirement) that the Society aims to maintain. This is set with the aim of ensuring that the Society can still meets its liabilities and capital requirements in a wide range of future circumstances. The policy also states potential actions to be taken if the free assets reach a specified "trigger point" which is higher than the minimum level, such as realignment of investment portfolios.

The Society's solvency position is monitored regularly:

- Liabilities are revalued at least annually, with revaluation more regularly if conditions suggest its free assets may be approaching the trigger point.
- Weekly calculations are normally carried out using the most recently calculated liabilities and estimated assets, based on market movements.
- The estimated solvency position is provided to the Management Committee each month.

The Society also carries out annual projections of its business, focussed on its business planning period of five years, but projecting for at least ten years, and including projections under a variety of scenarios.

E1.2 Comparison of own funds under Solvency II and in Financial Statements

The Own Funds shown in the Society's Financial Statements are equal to the Solvency II Own Funds.

E1.3 Other issues

None of the basic Own Funds are subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of the Directive. There are no ancillary Own Funds. No deductions are made from Own Funds as there are no significant restrictions affecting the availability and transferability of Own Funds within the Society.

E2 SCR and MCR

E2.1 Overall method for calculating SCR

The Society has adopted the standard formula methodology approach. The methodology for the calculation of capital requirements is outlined in the Delegated Act and associated guidelines.

The SCR is capital that needs to be held in addition to the technical provisions (best estimate plus risk margin). There is no capital add on. The Society does not use any of the standard formula simplifications set out in the Delegated Act for the SCR calculation, nor any undertaking-specific parameters. The SCR is assessed based on the Society's risks as being sufficient to cover possible losses due to those risks. It considers four different risks: market, counterparty, life underwriting and operational.

The capital requirements under each risk module (apart from operational risk) are calculated and then correlated together to form the BSCR. The capital requirements are calculated both before and after the loss absorbency of technical provisions so that an adjustment to the BSCR can be made to allow for the fact that capital requirements will change if future discretionary benefits can be changed. The capital requirement for operational risk is then added on as an additional requirement at the end of the calculation.

In summary the SCR formula is:

- BSCR + Adjustment for Loss Absorbency of Technical Provisions + Operational Risk

The resulting SCR by risk module is shown below. The SCR is still subject to supervisory assessment, but we have not had any queries from the PRA on previous submissions.

E2.2 Life underwriting risk

£000	before loss absorbency	after loss absorbency
mortality	63	0
longevity	0	0
morbidity	68	0
lapse	0	0
expense	568	0
CAT	38	38
total before correlation	**737**	**38**
total after correlation	**636**	**38**

E2.3 Market risk

£000	before loss absorbency	after loss absorbency
interest rate	51	0
equity	5,496	3,867
property	872	83
currency	1,829	860
spread	1,245	385
concentration	96	0
total before correlation	**9,589**	**5,195**
total after correlation	**7,862**	**4,523**

The Society does not use the duration-based equity risk sub-module option set out in Article 304 of the Directive.

E2.4 Counterparty risk

£000	before loss absorbency	after loss absorbency
counterparty	104	0

E2.5 BSCR

		£000
BSCR before loss absorbency		8,072
BSCR after loss absorbency		4,533
Y =	BSCR before loss absorbency less BSCR after loss absorbency	3,540
Z =	total value of technical provisions in relation to future discretionary benefits	8,046
loss absorbency of technical provisions = maximum(minimum(Y, Z), 0)		**3,540**

E2.6 Operational risk

	£000
premiums earned in prior year	4,447
premiums earned in this year	4,267
technical provisions (without risk margin)	25,153
OP (premiums)	171
OP (technical provisions)	113
SCR operational risk	**171**

E2.7 Overall SCR

£000	31 December 2021	31 December 2020
BSCR	8,072	6,596
less loss absorbency of technical provisions	3,540	2,746
plus SCR operational risk	171	178
overall SCR	**4,703**	**4,028**

The increase in the SCR is primarily attributable to the following factors:

- An increase in the value of equities due to market movements;
- An increase in the equity stress, in line with regulatory requirements;;
- An increase in the holdings of non-sterling assets.

E2.8 Minimum Capital Requirement

The calculation below shows that the €3.7m absolute floor bites, so the minimum capital requirement is £3,126k, lower than at 31 December 2020 due to an increase in the value of sterling relative to the euro. As last year, this is less than the SCR.

£000	31 December 2021	31 December 2020
SCR	4,703	4,028
technical provisions - guaranteed benefits	17,107	18,481
technical provisions - discretionary benefits	8,046	8,400
MCR_{linear}	230	263
SCR-related floor (25% SCR)	1,176	1,007
SCR-related ceiling (45% SCR)	2,117	1,812
absolute floor	3,126	3,338
MCRSCR	3,126	3,338

E3 Non-compliance

The Society had sufficient assets to cover the technical provisions, MCR and SCR at all times during 2021.

E4 Other material information

There is no other material information to disclose regarding the capital management of the Society.

Railway Enginemen's Assurance Society

Solvency and Financial Condition Report

Disclosures

31 December

2021

(Monetary amounts in GBP thousands)

General information

Undertaking name	Railway Enginemen's Assurance Society
Undertaking identification code	213800RM1N52XCQ96840
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2021
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	414
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	35,376
R0080	*Property (other than for own use)*	2,954
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	5,742
R0110	*Equities - listed*	5,742
R0120	*Equities - unlisted*	
R0130	*Bonds*	20,048
R0140	*Government Bonds*	10,480
R0150	*Corporate Bonds*	9,568
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	6,633
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	652
R0240	*Loans on policies*	652
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	0
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*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	135
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	540
R0420	Any other assets, not elsewhere shown	213
R0500	**Total assets**	37,330

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)	25,611
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	25,611
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	25,153
R0680	*Risk margin*	458
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	298
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	220
R0820	Insurance & intermediaries payables	172
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	16
R0900	**Total liabilities**	26,317
R1000	**Excess of assets over liabilities**	11,013

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross		4,267							4,267
R1420	Reinsurers' share									0
R1500	Net		4,267							4,267
	Premiums earned									
R1510	Gross		4,267							4,267
R1520	Reinsurers' share									0
R1600	Net		4,267							4,267
	Claims incurred									
R1610	Gross		5,041							5,041
R1620	Reinsurers' share									0
R1700	Net		5,041							5,041
	Changes in other technical provisions									
R1710	Gross		2,303							2,303
R1720	Reinsurers' share									0
R1800	Net		2,303							2,303
R1900	**Expenses incurred**		912							912
R2500	**Other expenses**									
R2600	**Total expenses**									912

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	4,267						4,267
R1420	Reinsurers' share							0
R1500	Net	4,267						4,267
	Premiums earned							
R1510	Gross	4,267						4,267
R1520	Reinsurers' share							0
R1600	Net	4,267						4,267
	Claims incurred							
R1610	Gross	5,041						5,041
R1620	Reinsurers' share							0
R1700	Net	5,041						5,041
	Changes in other technical provisions							
R1710	Gross	2,303						2,303
R1720	Reinsurers' share							0
R1800	Net	2,303						2,303
R1900	**Expenses incurred**	912						912
R2500	**Other expenses**							
R2600	**Total expenses**							912

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						
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						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	25,153									25,153						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default										0						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	25,153									25,153						
R0100	**Risk margin**	458									458						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						
R0120	Best estimate										0						
R0130	Risk margin										0						
R0200	**Technical provisions - total**	25,611									25,611						

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	11,013	11,013			
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				
R0290	**Total basic own funds after deductions**	11,013	11,013	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	11,013	11,013	0	0	0
R0510	Total available own funds to meet the MCR	11,013	11,013	0	0	
R0540	Total eligible own funds to meet the SCR	11,013	11,013	0	0	0
R0550	Total eligible own funds to meet the MCR	11,013	11,013	0	0	
R0580	**SCR**	4,703				
R0600	**MCR**	3,126				
R0620	**Ratio of Eligible own funds to SCR**	234.15%				
R0640	**Ratio of Eligible own funds to MCR**	352.29%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	11,013
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	11,013
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	2,069
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	2,069

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	7,862		
R0020	Counterparty default risk	104		
R0030	Life underwriting risk	636	9	
R0040	Health underwriting risk	0	9	
R0050	Non-life underwriting risk	0	9	
R0060	Diversification	-529		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	8,072		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	171
R0140	Loss-absorbing capacity of technical provisions	-3,540
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**	4,703
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	4,703
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

USP Key

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

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

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

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

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

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	0

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

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCR_L Result	230

		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	17,107	
R0220	Obligations with profit participation - future discretionary benefits	8,046	
R0230	Index-linked and unit-linked insurance obligations	0	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		22,143

Overall MCR calculation

		C0070
R0300	Linear MCR	230
R0310	SCR	4,703
R0320	MCR cap	2,117
R0330	MCR floor	1,176
R0340	Combined MCR	1,176
R0350	Absolute floor of the MCR	3,126
R0400	**Minimum Capital Requirement**	3,126