Solvency and Financial Condition Report as at 31 December 2025

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 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 UK Solvency II regulations.

On 17 October 2018, the Prudential Regulation Authority (PRA) published PS25/18 Solvency II: *External audit of the public disclosure requirement*. This policy statement confirms the removal of the audit requirement in respect of the public Solvency II reporting of smaller UK insurers. Railway Enginemen's Assurance Society has assessed whether it qualifies for the audit exemption based on the rules laid out in the policy statement and as a smaller insurer has decided, as in previous years, not to have the SFCR audited for the year ended 31 December 2025.

Business and Performance

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. The Society also has a single premium product, the Investment Bond. Premiums earned for the year were £5,551k in 2025 compared to £4,750k in 2024. This was due to strong growth in sales of the regular premium product in both 2024 and 2025.

Claims amounting to £5,144k were incurred during the year compared to £4,578k incurred in 2024. This was due to higher maturities and surrenders compared to the prior year.

Net Operating Costs for the year were £1,101k (2024: £1,049k). Within this, acquisition costs increased from £298k in 2024 to £335k in 2025, driven mainly by higher commission which is a result of the significant increase in new business. Administrative expenses increased from £752k in 2024 to £766k in 2025.

Investment income was similar to the prior year at £966k (2024: £1,010k). During 2025, there were net losses on the realisation of investments of £216k compared to net losses of £63k in 2024. There were also unrealised gains on investments of £1,922k at 31 December 2025 compared to £505k at 31 December 2024.

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.
- Climate change risk, which is the risk that the Society does not adapt to and mitigate against the impacts of climate change in all potentially affected areas of its business.

Valuation for Solvency Purposes

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

£000	31 December 2025	31 December 2024
Assets	36,147	34,116
Technical Provisions	22,243	21,406
Other Liabilities	708	652
Own Funds	13,196	12,059

Asset values have risen due to strong equity markets. Technical provisions have increased due to the increased bonus assumptions, including the allowance for future surplus distribution, and increased surrender factors. This has been partly offset by decreased expense assumptions.

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 Assets in excess of Capital Requirements in accordance with UK Solvency II Regulations:

£000	31 December 2025	31 December 2024
Own Funds	13,196	12,059
Capital Requirement	4,248	4,232
Assets in excess of Capital Requirements	8,948	7,827

The Society's Own Funds have increased as per the movements in assets, technical provisions and other liabilities as shown above.

The capital requirement is the higher of the Minimum Capital Requirement (MCR) set by the UK Solvency II Regulations and the Society's Solvency Capital Requirement (SCR). The MCR is set at a minimum of £3.5m.

All the Own Funds are eligible to cover the SCR and MCR.

The Society's Own Funds position remains strong at 31 December 2025, with surplus above risk appetite. It has implemented plans to reduce this over 5-10 years through declaring bonuses and surrender value factors above those that are justified from asset shares alone.

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 UK Solvency II Regulations.

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

- throughout the 2025 year, the Society has complied in all material respects with the requirements of the PRA rules and UK 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

13 April 2026

M A Bicknell, Chief Executive

13 April 2026

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. The Society also has a single premium product, the Investment Bond. The Society's core market is railway employees, although membership is now open to anyone.

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

The Society's lines of business are as follows:

- conventional with-profits endowments, with and without cover for disability, including children's policies, written as both taxable basic life assurance and general annuity business and tax-exempt business, and

- the Investment Bond, a single-premium accumulating with-profits product, written as taxable basic life assurance and general annuity business.

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	2025	2024
total gross premiums written	5,551	4,750

For UK 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	2025	2024
gross premiums	5,551	4,750
reinsurers' share of premiums	0	0
gross claims	5,144	4,578
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.

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	2025	2024
acquisition costs	335	298
administrative expenses	766	752
total operating expenses	1,101	1,049

One of the Society's investment properties is a leasehold property with a lease greater than 100 years. The Society currently pays an annual head rent of £5,905 plus VAT. The Society does not have any other material leasing arrangements.

A3 Investment performance

Performance for the year ended 31 December 2025 and for the prior year was as follows:

£000	Interest, dividends receivable and rent	realised gains/(losses)	unrealised gains/(losses)	total	total
	2025	2025	2025	2025	2024
government bonds	200	5	167	372	(301)
corporate bonds	188	7	213	408	336
equities	89	(144)	728	673	281
collectives	104	(84)	750	770	533
cash and cash equivalents	10	0	0	10	14
loans	37	0	0	37	37
investment property	338	0	64	402	552
Total	966	(216)	1,922	2,672	1,452

Investment costs for the various categories were as follows:

<table>
<tr><th rowspan="2">£000</th><th colspan="2">investment costs</th></tr>
<tr><th>2025</th><th>2024</th></tr>
<tr><td>government bonds</td><td rowspan="4">93</td><td rowspan="4">92</td></tr>
<tr><td>corporate bonds</td></tr>
<tr><td>equities</td></tr>
<tr><td>collectives</td></tr>
<tr><td>cash and cash equivalents</td><td>0</td><td>0</td></tr>
<tr><td>loans</td><td>0</td><td>0</td></tr>
<tr><td>investment property</td><td>42</td><td>37</td></tr>
</table>

A4 Performance of other activities

The Society does not carry out any other activities.

A5 Other material information

No other material information is necessary to give a full picture of the Society’s business and performance.

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 Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) are covered 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 2025, the Management Committee comprised a Chair, Chief Executive, two Independent Professional Non-Executive Directors and three Member Non-Executive Directors. An 'Independent Professional Non-Executive Director' is classed as one who possesses an appropriate professional qualification or has recent and relevant experience within the financial services industry and fully meets the expectations of the Prudential Regulation Authority in terms of independence. A 'Member Non-Executive 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 2025:

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

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 five 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 2025:

R A J Townsley Chair

S L Jeffery

J McKenna

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 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 2025:

S L Jeffery

D I Storrie

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 – Broadstone	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 2025

There were no changes to the system of governance during 2025.

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 for 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.

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.

	2025 persons	2025 amount £	2024 persons	2024 amount £
regular premium policies:				
premiums paid during the year	14	18,884	14	20,059
total sum assured at 31 December	13	262,532	14	276,885
Investment bonds:				
lump sums invested during the year	-	-	1	1,000
value as at 31 December	7	17,149	8	20,715

Commission payments of £220 (2024: £240) were made in 2025 to some Committee members in relation to their duties as Depot Introducers.

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,
- UK 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:
- periodic self-declaration,
- periodic credit reference agency checks,
- professional qualifications check,
- FCA Register search.

B2.3 Senior Management Functions

The following persons were responsible as at 31 December 2025 for carrying out the senior management functions:

Senior Management 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	Robert Kerry
SMF 20a	With-Profits Actuary	Robert Kerry
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, investment performance, liquidity, customer complaints and maturity payouts.

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 Regulations. 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	monthly
Risk Appetite Statement	annually
Capital Assessment of Risks	annually
Key Risks Summary	twice per year
Business Plan	annually
Actuarial Reporting: • UK 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,
- 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 and policy administration system.
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 based.
Physical security	This includes 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 role of the compliance function is to embed an appropriate compliance structure within the Society. 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. He is responsible for co-ordinating the relationship and engagement between the Society and the regulatory authorities, the PRA and FCA. The Management Committee is kept fully informed of any communications or contact with the regulators.

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.

B5.3 Internal Audit Policy

The Society's Internal Audit Policy provides the framework for the conduct of the Internal Audit function at the Society. The objective of it is to formally establish the purpose, authority and responsibilities of the Internal Audit function. Governance of the Internal Audit Policy rests with the Audit and Risk Management sub-Committee, acting under delegated authority from the Management Committee.

The Policy covers the following areas:

- purpose of Internal Audit
- definition of Internal Audit
- scope of Internal Audit
- authority
- responsibility
- Internal Audit within the Three Lines of Defence framework
- independence and objectivity
- professional competence and due care
- evaluation of Internal Audit
- reporting.

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) were held by Mrs. Alison Carr of SDA LLP until 25 November 2025. From that date, the same roles were held by Mr. R Kerry of Broadstone Regulatory and Risk Advisory Limited. Both Mrs. Carr and Mr. Kerry are Fellows 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,
- provide advice on the Society's Investment Policy and the limits under which the investment manager operates,
- 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, customer service 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 hardware and 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'. The fund manager operates in accordance with the Investment Policy, which specifies the type of investments that the Society is 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 normally reviews the Investment Policy at least annually. The Society's 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 2025, the Society had policy loans of £603,645 (2024: £681,720). 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 surrender 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 for those policies where this leads to an increase in best estimate liabilities.

C5.1.2 *Longevity*

This stress covers the loss or change in technical provisions following a permanent 20% decrease in the expected mortality for those policies where this leads to an increase in best estimate liabilities.

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 for those policies where this leads to an increase in best estimate liabilities.

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 for those policies where this leads to an increase in best estimate liabilities
- future lapses 50% lower than expected for those policies where this leads to an increase in best estimate liabilities
- mass lapse of 40% of in-force business, i.e. a one-off event, for those policies where this leads to an increase in best estimate liabilities.

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 Regulations do 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 Regulations take 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. In line with the PRA Rulebook, the stresses are assumed to change by at least 1% pa.

C5.2.2 *Equity*

The Regulations require an immediate fall of 39% plus a symmetric adjustment for equities listed on regulated markets in countries that are members of the EEA or OECD (and 49% for other equities). This fall is set to take into account the cyclical nature of market falls and rises, with the symmetric adjustment reflecting the strength of the stock market at the valuation date. Additionally, the Society owns shares in Real Estate Investment Trusts (REITs) that are included in the equity stress.

As at 31 December 2025 the symmetric adjustment was +7.81%.

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's property portfolio comprises freehold property and one leasehold interest of £561,417.

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.

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 risk-free rates.

The Regulations define 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 Regulations define a set of excess exposure thresholds which depend on the credit rating of the counterparty.

C5.2.7 *Correlation*

The Regulations take 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 Assets in excess of Capital Requirements 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 Regulations 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 items such cash deposits at banks whilst type 2 exposures include items such as policyholder debtors and the value of expected future ground rent payments from a tenant. As at 31 December 2025, the Society held more type 1 exposures than type 2.

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 Fitch credit ratings. For Type 2 counterparties, the assumed probability of default is 90% for all Type 2 assets that are already overdue by more than three months and 15% for all other Type 2 assets. 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 properties. The Society manages liquidity risk by monitoring forecast and actual cash flows and the maturity profiles of assets and liabilities. Liquidity management ensures that the Society has sufficient access to funds necessary to cover claims, surrenders, maturities and operating costs.

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, the Consumer Duty, 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.
- New Business levels – the risk that the Society's new business levels may not continue to grow, particularly if Representatives are not replaced as and when they retire. The Society has addressed this risk through the expansion of our Representative network and through investment in digital marketing initiatives, voucher incentive schemes and tactical expansion beyond its core train crew target market.
- Cyber Security – this is the risk of financial loss, disruption or damage to the Society's reputation and ability to perform operational tasks due to a failure of, or unauthorised access to information technology systems. In recent times, many organisations have been subject to deliberate attempts to cause harm through the exploitation of system vulnerabilities. Cyber security is under regular review at the Society and safeguards have been implemented to mitigate these risks; all relevant data is subject to back up.

C6 Other material risks

The Society does not sell or re-pledge collateral.

The Society has not entered into securities lending or borrowing transactions, repurchase or reverse repurchase agreements.

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 2025.

C8 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 compares the asset values used for UK Solvency II purposes to those shown in the Society's Financial Statements:

	UK Solvency II £'000	Financial Statements £'000	Difference	Comments
Government bonds	7,431	7,378	53	The difference in total is due to some fixed interest securities being treated as equities, partly offset by some collectives holding bonds as underlying assets.
Other fixed interest securities	6,457	6,304	153	
Directly held equities	14,940	6,267	8,673	The difference is mainly due to the fact that a large proportion of the assets held in collectives are equities.
Collectives	0	9,033	(9,033)	Assets are valued on a look-through basis and have therefore been allocated to equities, property, bonds or cash deposits.
Property	5,309	5,309	0	
Deposits	759	605	154	Some of the collectives hold deposits as underlying assets, so are treated as such.
Other	1,251	1,251	0	This includes policy loans and accrued interest and is set to equal the value in the Financial Statements.
Total	36,147	36,147	0	

D1.1 Financial Investments

The Society's investments are valued at fair value. Fair value is the quoted mid-market value as at 31 December 2025.

D1.2 Property

For UK 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 a surveyor, on an annual basis.

D1.3 Loans

Loans are valued on the same basis for UK Solvency II purposes as they are in the Financial Statements.

D1.4 Cash and Cash Equivalents

Cash and cash equivalents are valued at carrying value on 31 December 2025. 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 UK Solvency II purposes.

D1.5 Other Assets

All other assets, including insurance receivables, are valued for UK 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 UK Solvency II purposes during the reporting period.

D2 Valuation of technical provisions

D2.1 Results

The Society's lines of business are as follows:

- conventional with-profits endowments, with and without cover for disability, including children's policies, written as both taxable basic life assurance and general annuity business and tax-exempt business, and

- the Investment Bond, a single-premium accumulating with-profits product, written as taxable basic life assurance and general annuity business.

The total technical provisions are shown below:

£000	31 December 2025
best estimate	22,109
risk margin	134
technical provisions	**22,243**

D2.2 Method of valuation

The methodology for the calculation of technical provisions is outlined in the PRA Rulebook for UK Solvency II Firms. In broad terms, the gross technical provisions can be defined as the sum of the best estimate and risk margin. The total of best estimate and risk margin must correspond to the amount that an undertaking would expect to pay if they were to transfer their insurance obligations to another undertaking.

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, including those relating to future expenses and mortality, morbidity and surrender rates.

The surrender values up to 30 June 2026 are based on the current surrender value factors and the surrender values from 1 July 2026 are based on the factors set out in the Surrender Value Report by the With-Profits Actuary following the 2025 actuarial valuation.

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 Regulations, 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, multiplied by a tapering factor and discounted back to the valuation date.

For the calculation of the risk margin, the Regulations state 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*

Rule 3 of the Technical Provisions – Further Requirements part of the PRA Rulebook 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 endowment policies, the contract boundary is the maturity date for all the Society's endowment policies. However there is no contract boundary for the Investment Bond product, which is whole of life.

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 9.29% 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 0.380% of the policy reserve.

D2.3.2 *Mortality and morbidity*

The table below summarises the mortality and morbidity assumptions.

	mortality	morbidity
under 17	55% ELT15	
17 or over	90% AMC00/AFC00 ultimate	35% of the Society's own table of disablement rates

D2.3.3 *Future bonuses*

D2.3.3.1 Endowment Business: Reversionary Bonus

We have assumed the following pattern of reversionary bonuses:

reversionary bonus rate as % pa of sum assured	2025	2026	2027	2028	Thereafter
policies issued before 1 January 2018	2.25	1.50	1.00	1.00	1.00
policies issued after 31 December 2017	2.50	1.75	1.25	1.25	1.25

D2.3.3.2 Endowment Business: Final Bonus

We have assumed the final bonus rates for the endowment business will be as follows, although these are not guaranteed and could change:

Maturity or Death/Disability Claim 1 January 2026 to 30 June 2026		Maturity or Death/Disability Claim 1 July 2026 to 30 June 2027		Maturity or Death/Disability Claim 1 July 2027 onwards	
inception year	final bonus rate %	inception year	final bonus rate %	inception year	final bonus rate %
1985-1992	32.50	1985-1992	34.00	1985-1992	0.00
1993-2000	27.75	1993-2000	29.00	1993-2000	0.00
2001-2006	28.00	2001-2006	29.50	2001-2006	0.00
2007-2014	16.25	2007-2014	16.50	2007-2014	0.00

Maturity or Death/Disability Claim 1 January 2026 to 30 June 2026		Maturity or Death/Disability Claim 1 July 2026 to 30 June 2027		Maturity or Death/Disability Claim 1 July 2027 onwards	
inception year	final bonus rate %	inception year	final bonus rate %	inception year	final bonus rate %
2015-2019	13.25	2015-2019	17.00	2015-2019	0.00
2020-2024	25.75	2020-2024	26.00	2020-2024	0.00

D2.3.3.3 Investment Bond Business: Bonus Rate

We have assumed the following pattern of annual bonuses:

% of fund value	2025	2026	2027	2028	2029	Thereafter
Regular bonus rate	3.75	2.5	1.5	1.00	1.00	1.00

D2.3.4 *Lapses*

For the endowment policies excluding children's plans, we assume that lapses occur at the rates per annum in the table which follows:

Age Band	Duration Band	Saver & Disability (taxable)	Saver & Disability (tax-exempt)	Saver (taxable)	Saver (tax-exempt)
0-19 40+	0	0.8%	1.2%	2.6%	1.8%
	1-2	6.8%	4.5%	9.9%	9.0%
	3-7	4.8%	4.3%	5.6%	5.1%
	8+	2.6%	2.6%	2.5%	2.8%
20-29	0	2.8%	3.3%	13.9%	8.0%
	1-2	10.2%	3.5%	19.8%	11.5%
	3-7	10.4%	6.7%	4.2%	6.4%
	8+	3.8%	2.6%	3.0%	4.9%
30-39	0	2.8%	3.3%	6.0%	4.0%
	1-2	10.2%	3.5%	15.6%	10.2%
	3-7	10.4%	6.7%	8.5%	6.4%
	8+	3.8%	2.6%	3.0%	2.5%

For the Children's plans, we assume that lapses occur at the rates per annum in the table which follows:

Duration Band	Child Saver (taxable)	Child Saver (tax- exempt)
0	6.3%	3.9%
1-2	10.4%	5.6%
3-7	4.9%	2.9%
8+	2.5%	1.5%

For the Investment Bond we assume the following lapse rates:

Duration	0-1 years	2+ years	Every 5th policy anniversary
Lapse rate	2.5%	3.5%	20%

D2.3.5 *Investment Returns*

The investment returns assumed within the valuation follow the risk-free rates for sterling assets provided by the PRA. The rates at 31 December 2025 are lower for durations up to 10 years, and higher for all remaining durations.

D2.3.6 *Surrender Values*

The surrender values for the endowments are calculated using the current surrender value factors up to 30 June 2026 and then the recommended surrender value factors from 1 July 2026 as per the Report of the With-Profits Actuary in respect of the 31 December 2025 actuarial valuation. Surrender values for Investment Bond are assumed to be equal to the fund value.

D2.3.7 *Tax*

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

D2.3.8 *Future Management action assumptions*

The calculation of the risk margin should allow for the loss absorbency of technical provisions, taking into account future management actions. The Society has a Solvency Management Action Plan, which was reviewed and approved by the Management Committee on 26 February 2025. This sets out the circumstances in which the actions would be used, governance and reporting requirements and how they would be reflected in the calculations. The key management actions are:

- review of reversionary and final bonus rates, surrender value factors and market value reductions
- reduction of reversionary bonus, final bonus and/or surrender values where appropriate
- reversionary bonuses set at a sustainable level
- final bonuses and/or market value reductions will be used to bring final payments closer to asset shares.

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.

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

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

D2.6 Recoverables from reinsurance and Special Purpose Vehicles

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

D2.7 Analysis of movement in technical provisions from previous reporting period

The table below analyses the change in technical provisions from 31 December 2024 to 31 December 2025:

	Reason	Effect £000
Movement to be analysed		837
Model changes	Migration to Broadstone model	(26)
Change in lapse assumptions	Updated assumptions based on experience	138
Change in expense assumptions	Lower unit costs, ensuring projected expenses approximately equal to budgeted expense over the business plan period	(425)
Roll-forward	Moving valuation date forward to 31 Dec 2025	(251)
Updating data	Updating data to policies in-force at 31 Dec 2025, excluding new business written in 2025	37
Change in risk-free rates	Update to PRA published risk-free rates	170
Change in volatility assumption	Updated volatility assumption	(10)
Updated bonus rates	Updated bonus rates	846
Change in surrender value factors	Change in factors from July 2026, including effect of the enhanced surrender factors	502
New business	2025 new business	(128)
Change in Risk Margin	Change in risk margin	(15)

D3 Valuation of other liabilities

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

£000	UK Solvency II	Financial Statements
claims outstanding	197	197
other creditors	511	511
total other liabilities	708	708

D3.1 Recognition and Valuation Basis

There has been no change to the recognition or valuation basis of other liabilities for UK 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 2025	31 December 2024
Own Funds	13,196	12,059

There has been a small increase in the Society’s Own Funds.

Asset values have increased due to strong equity markets. Technical provisions have also risen, principally due to increased bonuses and surrender factors.

The capital requirement is the higher of the Minimum Capital Requirement (MCR) set by the UK Solvency II Regulations and the Society’s Solvency Capital Requirement (SCR). The MCR is set at a minimum £3.5m.

All the Own Funds are eligible to cover the SCR and Minimum Capital Requirement (MCR).

The Society’s Own Funds position remains strong at 31 December 2025, with surplus above risk appetite. It has implemented plans to reduce this over 5-10 years through paying out bonuses above those that are justified from asset shares alone.

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 assets in excess of capital requirements (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 minimum level is currently set at £1.5million and the maximum at £7.5million. The policy also states potential actions to be taken if the assets in excess of capital requirements 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 assets in excess of capital requirements may be approaching the trigger point.
- 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 UK Solvency II and in Financial Statements

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

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 Regulations 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 Regulation for the SCR calculation, nor any undertaking-specific parameters. The SCR is assessed based on the Society's risks 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 Basic Solvency Capital Requirement (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	41	0
longevity	0	0
morbidity	41	0
lapse	416	150
expense	444	0
CAT	75	75
total before correlation	**1,016**	**225**
total after correlation	**786**	**183**

E2.3 Market risk

£000	before loss absorbency	after loss absorbency
interest rate	1,774	522
equity	6,974	3,690
property	1,327	0
currency	2,866	0
spread	426	0
concentration	47	0
total before correlation	**13,416**	**4,212**
total after correlation	**10,872**	**3,976**

E2.4 Counterparty risk

£000	before loss absorbency	after loss absorbency
counterparty	110	0

E2.5 BSCR

		£000
BSCR before loss absorbency		11,095
BSCR after loss absorbency		4,026
Y =	BSCR before loss absorbency less BSCR after loss absorbency	7,069
Z =	total value of technical provisions in relation to future discretionary benefits	11,985
loss absorbency of technical provisions = maximum(minimum(Y, Z), 0)		**7,069**

E2.6 Operational risk

	£000
premiums earned in prior year	4,750
premiums earned in this year	5,551
technical provisions (without risk margin)	22,109
OP (premiums)	222
OP (technical provisions)	99
SCR operational risk	**222**

E2.7 Overall SCR

£000	31 December 2025	31 December 2024
BSCR	11,095	9,265
less loss absorbency of technical provisions	7,069	5,223
plus SCR operational risk	222	190
overall SCR	**4,248**	**4,232**

The Solvency Capital Requirement before loss absorbency is higher this year due to an increase in the market risk component. This is predominantly related to equity risk as the value of equities held by the Society has increased along with an increase in the equity symmetric adjustment. This has been more than offset by an increase in the loss absorbency of technical provisions. An increase in the premiums earned leads to the increase in the operational risk SCR.

E2.8 Minimum Capital Requirement

The calculation below shows that the SCR is above the £3.5m absolute floor, so the minimum capital requirement is equal to the SCR.

£000	31 December 2025	31 December 2024
Solvency Capital Requirement	4,248	4,232
best estimate liabilities - guaranteed benefits	10,124	10,768
best estimate liabilities - discretionary benefits	11,985	10,489
MCR_{linear}	(208)	(116)
SCR-related floor (25% SCR)	1,062	1,058
SCR-related ceiling (45% SCR)	1,912	1,904
absolute floor	3,500	3,500
Minimum Capital Requirement	**4,248**	**4,232**

E3 Non-compliance

The Society had sufficient assets to cover the technical provisions, MCR and SCR at all times during 2025.

E4 Other material information

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