

Solvency and Financial Condition Report (SFCR)

As at 31 December 2019



O^{the} **DDfellows** SINCE 1810
making friends, helping people

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Terms used in this document:

FCA:	Financial Conduct Authority
LTB	The Long Term Business of the Society
ORSA:	Own Risk and Solvency Assessment
PRA:	Prudential Regulatory Authority
SF	Standard Formula
The Board:	The Society's Main Board
The Society:	The Independent Order of Odd Fellows Manchester Unity Friendly Society Limited

Introduction and Summary

This is the Solvency and Financial Condition Report (SFCR) for the Independent Order of Oddfellows Manchester Unity Friendly Society Limited (the “Society”) and the Fraternal Branches (together the ‘Wider Society’), it is based on the financial position as at 31 December 2019.

The report covers the following information as set out in the Solvency II regulations:

- Business and Performance;
- Systems of Governance;
- Risk Profile;
- Valuation for Solvency Purposes; and;
- Capital Management.

The Society’s Directors have ultimate responsibility for these areas, with the support of various governance and control functions which manage and monitor the business.

The contents of the report are considered to be appropriate for the nature, scale and complexity of the Society’s business

1. Business and performance

The Society is one of the largest and oldest branch based friendly societies in the United Kingdom and undertakes both regulated and discretionary social and benevolent activities.

The Society’s LTB Business encompasses regulated with-profits, non-profit and unit linked life and pensions business. There is a very small amount of regulated non-life business (short term medical cover) written via the Guernsey and Jersey Branches.

The social and benevolent business conducted by the Society’s Branches is known as its Fraternal business.

As a mutual organisation, the Society does not have any shareholder interests to consider. However, as the LTB Fund ultimately benefits from the availability of support from the Society’s Fraternal assets (which form part of the total assets of the Society) the Fraternal business is considered to be a stakeholder with an interest in the running of the LTB Fund.

2. Systems of governance

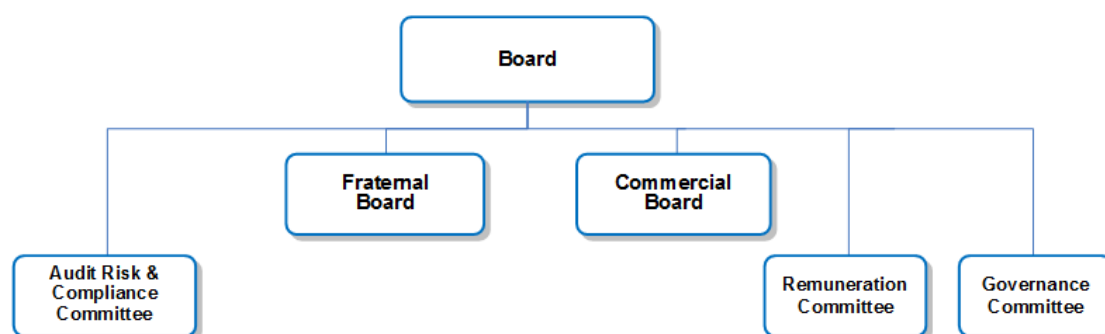
As a mutual, the Society’s members can have a say in how the Society operates, which is very important to the Society’s culture and ethos. It ensures the Society remains focused on what really matters – its members and their needs.

The Board believes in responsible, respectful collaboration, and over 200-plus years as a friendly society, it has shown that so much more can be achieved by coming together.

The Directors are appointed by resolution, in accordance with the Rules, at the annual general meeting of the Society (AMC).

The Society recognises the importance of strong corporate governance and has established a well-defined governance framework, systems of control and committee structure.

Overview of Board and Sub Board/Committee structure:



The Society is a proud member of the Association of Financial Mutuals (AFM), the trade body that represents mutual insurers, friendly societies such as ourselves and other financial mutuals across the UK. Our CEO, Jane Nelson, is currently the AFM's Chair.

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) regulate the Society, and the Board takes seriously its responsibilities to treat its customers – its members – fairly.

3. Risk profile

The key risks faced by the Society are influenced by the nature and scale of business currently in-force, the assets held to back the business and the management actions around bonus distribution and investment policy in the future as the business runs off.

The risks to the Society may change over time depending on how the current strategy evolves and the changes to the environment under which the Society operates.

The risk assessment calculates the Solvency Capital Requirements (SCR) using Standard Formula and the risk profile as at 31 December 2019 is as follows:

Standard Formula Risk	%
Market Risk	94.3%
Counterparty Default	1.2%
Life Underwriting Risk	4.3%
Health Underwriting Risk	0.0%
Non-Life Underwriting Risk	0.2%

As can be seen from the table above the SCR occurs mainly from market risk. This is because the assessment includes the Fraternal assets of the Wider Society.

4. Valuation for solvency purposes

The policies used for valuing assets and liabilities for solvency purposes have remained consistent throughout the reporting period.

The Society has aligned the valuation of Technical Provisions between their GAAP basis and the Solvency II basis in the period.

There are no new material classes of assets or liabilities to which the Society is exposed.

5. Capital management

For the purposes of assessing the Society's available funds and solvency capital requirements the Fraternal assets of the Wider Society are included, as Fraternal assets are available to support the Society's solvency capital requirements in extremis.

As at 31 December 2019, the Society's Own Funds for Solvency II purposes were £322.34m and the Solvency II ratio was 401%.

The SCR calculation only uses simplification for the calculation of the mortality-catastrophe SCR component. This is applied on materiality grounds.

The Society's objective is to manage the capital position so that there are sufficient Own funds to cover the Solvency Capital Requirements (SCR) and Minimum Capital Requirements (MCR) at all times.

Board Statement

The Board are responsible for preparing the Solvency and Financial Condition Reports ('SFCR') in accordance with applicable law and regulations.

The PRA Rulebook for Solvency II firms in Rule 6.1(2) and Rule 6.2(1) of the reporting Part requires that the Society must have in place a policy of ensuring the ongoing appropriateness of any information disclosed and that the Society must ensure that its SFCR is approved by the Board.

The Directors below certify that:

- a) the Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations;
- b) throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Society; and
- c) it is reasonable to believe that, at the date of the publication of the SFCR, the Society has continued so to comply, and will continue so to comply in future.


By order of approval Board.



Jane Nelson (Mrs)

Chief Executive Officer

21 May 2020



Stephen J Code

Insurance Director

21 May 2020

A. Business and performance

A.1 Business

The Independent Order of Oddfellows Manchester Unity Friendly Society Limited (the “Society”) is an incorporated Friendly Society founded in 1810.

a) Name and legal form

The Society’s registered office address is:

Oddfellows House
184-186 Deansgate
Manchester M3 3WB

The Society is a mutual organisation and, therefore, does not have any shareholder interests to consider.

b) Supervisory authority

The Society is regulated by both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The PRA is the lead supervisor for the purposes of Solvency II regulation. As the Society is a Category 5 firm it is managed through the smaller insurer regime and has no named supervisor.

The contact details for the PRA and the FCA can be found on their respective websites:

www.bankofengland.co.uk/pr
www.fca.org.uk

c) External auditor

The external auditor of the Society is:

Deloitte LLP (Manchester)
2 Hardman Street
Manchester M3 3HF

d) Material lines of business and geographical areas

The Society’s LTB encompasses with-profits, non-profit and unit linked life and pensions business.

Under Solvency II, the Society’s LTB obligations are classified as Life (non-health).

The Society’s LTB business is transacted in the United Kingdom under the Unity Mutual brand.

In addition, there is an immaterial amount of non-life business based in the branch network in Guernsey and Jersey.

e) Structure of the Society

The Society is one of the largest and oldest branch based friendly societies in the United Kingdom and consists of semi-autonomous Branches spread throughout the UK which are supported by a Central Office based in Manchester.

The Long Term Business (LTB) administration is managed from Offices in Manchester and Liverpool, with no regulated life insurance business being carried out by the Branches. There is a very small amount of regulated non-life business (short term medical cover) written via the Guernsey and Jersey Branches.

The Society is a mutual organisation and, therefore, does not have any shareholder interests to consider. However, as the LTB Fund ultimately benefits from the availability of support from the Society's Fraternal assets (which form part of the total assets of the Society on a Solvency II basis) the Fraternal business is considered to be a stakeholder with an interest in the running of the LTB Fund.

i. The Society's Fraternal Business

The social and benevolent business conducted by the Society's Branches is known as its Fraternal business. Administration of this business at national level is carried out by a Central Office (also known as Unity Office) in Manchester where full-time staff provide services to Branches and members alike.

Whilst services and support for members are provided by Unity Office the main point of contact for members is their local Branch.

The Fraternal assets of the Society are used to provide social and benevolent benefits to members as well as discretionary support for dental and optical treatment, as well as contributing to the funding of Unity Office and its supportive functions. The Society provides social activities, care and support and non-contractual benefits to in the region of 49,000 Fraternal members including juniors through the UK-wide network of 121 Branches. As well as caring for members, the Society has a tradition of support for both local and national charities. Each Branch has its own Committee of Management but support and guidance for Branches and members are also provided by Unity Office.

The Society's aim is to continue as a Branch based friendly society growing both its numerical strength of members and the coverage of Branches around the UK. Each Branch is separately registered with the Society and is responsible for managing its own assets subject to the Rules and Procedures of the Society.

ii. The Society's Long Term Business (LTB)

As at 31 December 2019 the Society's LTB consisted of approximately 258,000 policies, of which approx. 238,000 were unit-linked Child Trust Fund (CTF) accounts. The LTB is administered from the Manchester and Liverpool offices by a dedicated insurance team. Since 2007, the Society has successfully integrated LTB books from four other friendly societies in

line with its strategy of expanding its LTB by proactively seeking transfers of engagements from other friendly societies.

The LTB has assets under management of approximately £264.5m, which sit separately from the Fraternal business of the Society. Under delegated authority of the Main Board, the Commercial Board is responsible for the strategic direction of the Society's LTB and oversight of operational issues affecting LTB.

f) Significant business events

Covid-19 pandemic

2020 has begun with the spread of a new strain of the Coronavirus (COVID-19), with confirmed cases in more than 50 countries. The virus has caused disruptions to businesses and economic activity which has precipitated substantial daily fluctuations in interest rates and global stock markets. There remains significant uncertainty in the weeks and months to come. The Board is monitoring the situation and have made preparations to ensure the Society's operations is able to operate effectively, and any impact on the Society's Solvency Capital Ratio (SCR) continues to be monitored on an ongoing basis.

The financial and operational impacts of the COVID-19 pandemic are emerging at a pace. The Society has in place a number of measures that are ensuring that the business continues to operate fully with all staff working from home. The Society has kept the Regulators informed of its actions and has received no challenges at this date. The Board is closely monitoring the situation and will continue to do so. The key aspects being monitored are:

- Solvency
- Liquidity
- Governance
- Operations
- Regulatory requirements

The Society set up a Coronavirus Working Group consisting of the CEO, Insurance Director, Compliance & Risk Officer and HR & Office Manager, with both formal and informal reporting being provided to the Society's Audit, Risk & Compliance Committee (ARCC) and Board on the steps being taken to manage and mitigate the risks resulting from the coronavirus pandemic.

Brexit

The United Kingdom voted to leave the European Union on 23 June 2016 and duly left on 31 January 2020. During 2020 negotiations will take place regarding the trade arrangements between the UK and EU and this will include the passporting of financial services. The aim is to have the trade deals in place by the end of 2020 otherwise the UK will sever its ties with the EU under a no deal arrangement. Until trade deals are put in place or until 31 December 2020 the existing trade deals are to continue.

As a result of leaving the EU, and until trade arrangements are put in place, the most likely impacts are:

- The effect on the wider economy; for example, how it affects the investment climate, interest rates and general prosperity. The referendum result has generated nervousness in the financial markets and this may have a knock-on effect to the solvency position of the LTB funds.
- The effect on regulation. In recent years the majority of insurance regulation has emanated from Europe (e.g. Solvency II). Much of the UK rulebook will need to be rewritten, though as the UK regulators have actively embraced European rules, and as issues such as consumer protection and effective stewardship are now universally accepted, it is not expected that the tone of regulation would change significantly.

If the UK leaves the EU without a trade deal in place, one potential issue is the passporting of financial services. The position being adopted by the EU is that there will no longer be any legal basis for a UK-domiciled insurer to 'carry on' (or effect) insurance business in any of the EU territories other than through either:

- a directly authorised and regulated branch (i.e. a branch in Germany authorised and regulated by BaFin etc), or
- a separate subsidiary authorised and regulated somewhere in the EU, which then can itself provide services to any other EU territory.

Therefore, if a UK insurer has policyholders that are ordinarily resident in an EU territory then it will not be legally permissible for them to 'carry on' insurance business (e.g. collect premiums or pay claims) without having one of these arrangements in place. As such, this would impact on existing business if this was to be the case, although nothing has been finalised at present, and it may be part of the political trading yet to be finalised that such a situation (which harms the interests of the policyholders) is allowed to exist.

High-level analysis has been undertaken on the location of policyholders and this has established that there are approximately 1,300 overseas policyholders of which approximately 1,200 reside in the EU.

Child Trust Fund Maturities

Through the transfers of engagements the Society manages approximately 238,000 Child Trust Fund (CTF) accounts. The CTFs mature at the child's 18th birthday with the first ones becoming due for maturity on 1 September 2020. A run-off plan has been produced which shows an even spread across a ten year time span (2020 – 2030).

The most likely impacts are:

- Workload: There will be an increase in the number of enquiries from accountholders, the number of accounts to be closed, the number of cheques to be processed and the number of letters to be produced.
- A reduction in the assets under management: It is anticipated that most of the 18 year olds will want to withdraw their maturity funds.
- Cashflow: As the CTF is a unit linked contract units will have to be sold to generate sufficient capital to pay out the maturities.

- Reputational risk: As the CTF is a stocks and shares tracker fund which is priced weekly the performance of the stock markets at the time of maturity will determine the maturity value. The volatility of the investment markets over the last few years could mean that if the markets are down any adverse reaction from the CTF accountholders may result in reputational damage to the brand.

CRM Systems

Investment is being made in the Society's LTB systems particularly for the JISA, ISA and CTF. Whilst the aim is to address the additional workload which will arise from the maturing CTF accounts it will cause disruption and involve taking up valuable staff resource time in the development and testing of the new system.

Transfers of Engagements

The Business Plan outlined that inward transfers of engagements was a key strategy of the Society. In November 2019 discussions were held with another friendly society and the Society was invited to submit a detailed Expression of Interest which was done at the end of November 2019. In January 2020 the Society was informed that they had been selected as the preferred partner and work is progressing on the transfer into the Society and the target date, subject to Board and regulatory approval, is 30 November 2020.

A.2 Underwriting performance

Existing policyholders are generally located in the United Kingdom, although, there are a small number of policies owned by former UK residents.

The table below sets out the Society's premiums, claims and expenses as shown in the Financial Statements of the Society for 1 January to 31 December 2019:

£000s	Life SLT
Premiums	1,100
Claims	(3,972)
Change in Technical Provisions	(28,001)
Investment Income	35,763
Expenses	(2,985)
Other Expenses	(897)
Net Underwriting Performance	(1,008)

Some of the Society's business is classed as Investment Contracts in the accounting basis, FRS 102, and are accounted for on a deposit basis. As such premiums are not included in the premium line in the technical account, but are reported in the change in technical provisions in the technical account.

A.3 Investment performance

The table below sets out details of the Society's investments over 2019:

Assets £000s	Valuation 1 Jan 19	Additions	Disposal Proceeds	Realised Gains/Losses	Unrealised Gains/Losses	Valuation 31 Dec 19
Land & Buildings	80,219	760	(2,567)	(463)	(1,873)	76,076
Shares & Other Variable Yield Securities	56,243	13,466	(15,645)	638	9,157	63,858
Debt & Other Fixed Income Securities	91,692	22,488	(16,410)	(39)	4,692	102,423
Assets Held to Cover Linked Liabilities	152,457	14,891	(10,264)	1,616	21,101	179,801
Cash at Bank and in Hand	18,617	-	-	-	(219)	18,398
Total Assets	399,229	51,604	(44,886)	1,752	32,858	440,557

Over the year, the value of financial assets increased by £41.33m an increase of 10.35%.

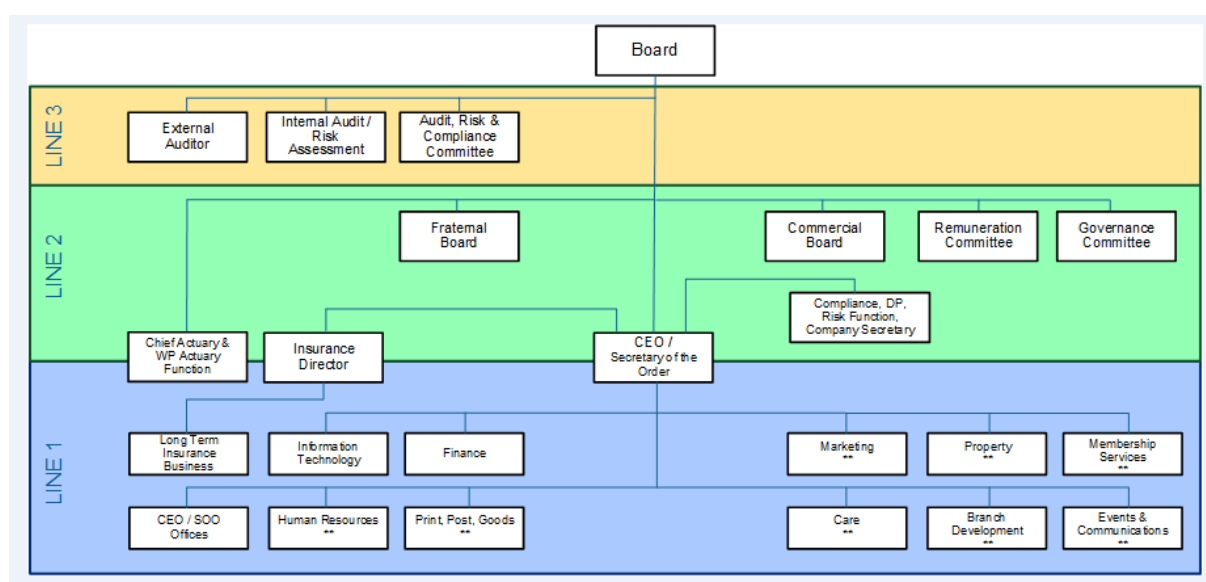
B. System of governance

B.1 General information on system of governance

The Board is accountable to the Society's members for the operation of the Society and good governance is fundamental to this responsibility. The principal role of the Board is to focus on the Society's strategy. As the business develops and changes and, as the challenges the Society faces change, the Board has to ensure that there are the necessary resources in place with the relevant competencies, skills and experience. It is also essential that financial and Risk Management Framework and internal controls are robust and effective. In particular, the Board's role is to provide general direction to the Society and to safeguard the interests of its Members.

a) Corporate governance structure

The Society's corporate governance structure encompasses the following Sub-Boards and/or Committees and business functions



The Board is not involved in the conduct of the day-to-day business of the Society, apportionment of significant responsibilities or overseeing the establishment and maintenance of systems of control. These functions are delegated to the Chief Executive Officer (CEO).

There are a number of different Sub-Boards and/or Committees within the Society, the Chairman of each presents summaries of their activities to the Board, which include:

i. Audit, Risk & Compliance Committee (ARCC)

The ARCC is responsible for:

- Risk Management and Internal Controls
- Compliance and Prevention of Financial Crime
- Financial Reporting

- Internal Audit
- External Audit
- Whistleblowing

The overall role of the ARCC is to protect the interests of the members as regards the effectiveness of the Society's internal control framework and appropriate management of risk and compliance, the integrity of the published financial information and the effectiveness of the auditors.

ii. Commercial Board

The Commercial Board works with the Board in respect of all regulated business and Unity Office Investments. This includes responsibility for matters not related to Branches already dealt with by the Commercial Board as well as all matters previously under the remit of the Insurance Committee.

The responsibilities of the Commercial Board cover the tactical application and implementation of policy with respect to matters listed below:

- Strategy and Management of the Society's LTB Funds
- Operational Management of the LTB Funds
- Risk Management
- Compliance & Prevention of Financial Crime
- Appointment of the Society's Chief Actuary and With-Profits Actuary, Actuarial Valuations
- TCF and Conduct Risk
- Determination of bonus rates and declarations of bonuses on consideration of recommendations from the With Profits Actuary
- Finance – assess strategy for Unity Funds and LTB and appointment of external Investment Managers

The Commercial Board is responsible for the investments of the Society and as such appoint Investment Managers and meet with them on a quarterly basis to challenge and discuss their performance. The strategy for the investments of the Society is determined in conjunction with advice from the Actuaries as and when appropriate. One of the roles of the Commercial Board is to act as the Investment Committee.

iii. Governance Committee

The Governance Committee considers aspects of the Society's corporate governance and regulatory matters. Where appropriate it makes recommendations based on its deliberations and conclusions to the Board and/or other standing committees. The Committee also acts as the Society's Nominations Committee with regards the appointment of Member Elected Non Executive Directors.

iv. Remuneration Committee

The Remuneration Committee is responsible for:

- Determining and agreeing with the Board the framework or broad policy for remuneration of Executive Directors, Non-Executive Directors and External Skilled Persons
- Fulfilling duties as laid down by the Directors' Remuneration Report Regulations 2002
- Performance reviews of Executive Directors
- Liaising with the Board in respect of succession planning for Executive Directors

Annual performance reviews of the Executive Directors are undertaken by the Remuneration Committee, based on the objectives derived from the Society's Strategic Plan.

The Committee reviews Executive Directors' remuneration annually. It considers it is in the members' interests for remuneration packages to be competitive in order to attract, retain and motivate people of the required calibre.

b) Changes to Society's systems of governance

In May 2019, one Director retired from the Board:

- Charles Vaughan.

Two new Directors were elected at the same AGM:

- Barbara Needham and David Webster.

The system of governance is considered to be appropriate for the Society, taking into account the nature, scale and complexity of the risks inherent in the business.

c) Remuneration Policy

The Society's remuneration structure has traditionally been a fairly straightforward one that is aimed at providing a fixed level of remuneration to employees, and does not include performance related bonuses.

The overall remuneration structure and practice are in line with the business and risk strategy, risk profile, objectives, values, risk management practices, and long-term interests of the Society.

The Remuneration Policy is intended to recruit and retain employees whose values are aligned to the Society's culture and values.

The Society achieves this through a robust performance management practice, which ensures equitable and, where appropriate, competitively benchmarked pay levels. Annual performance reviews of the Executive Directors are undertaken by the Remuneration Committee, based on the Executive Directors' objectives derived from the Society's Strategic Plan.

B.2 Fit and Proper requirements

The Society ensures that all persons who effectively run the Society and hold PRA & FCA Senior Manager or Certification Regime (SM&CR) roles are fit and proper to provide sound and

prudent management through their professional qualifications, skills and experience, including collective experience and knowledge, depending on their role, in:

- Market Knowledge;
- Business Strategy and Model;
- Risk Management and Control;
- Financial Analysis and Controls;
- Governance, Oversight and Controls; and
- Regulatory Framework and Requirements.

In order to ensure persons holding PRA and FCA SM&CR roles are fit and proper in accordance with Regulatory requirements they are subject to Regulatory due diligence, which includes:

- Five year employment history;
- Credit and Disclosure & Barring Service (DBS) checks;
- FCA and Directorship register search;
- Professional Qualifications / Membership check; and
- Identity check.

In addition to the above initial Regulatory due diligence all persons holding PRA and FCA SM&CR roles are subject to an annual fitness and propriety assessment, overseen by the Society's Governance Committee.

All Directors and External Skilled Persons participate in the Training & Development Scheme, which ensures that Committee members are competent to perform their role.

The Training and Development Scheme ensures that the training, development and knowledge standards are appropriate not only to demonstrate a level equal to the Regulatory requirements and obligations, but also appropriate and suitable to meet the needs of Directors and External Skilled Persons and the Society.

The table below lists those persons in the Society who are responsible for the key functions:

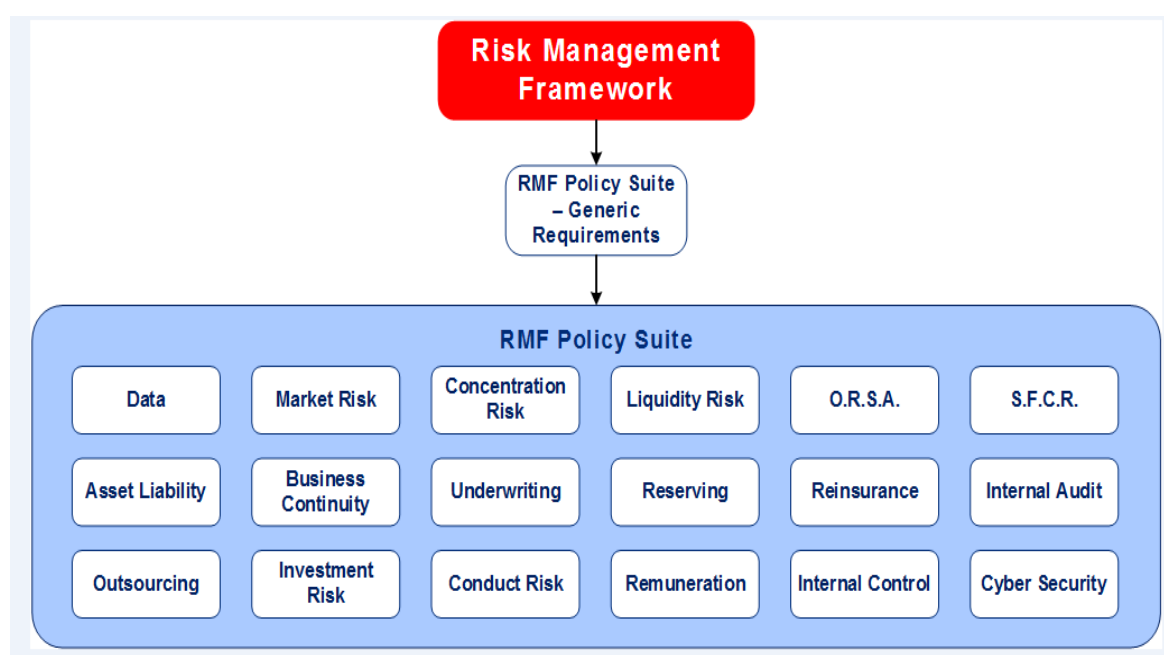
¹ Key Function	Person Responsible for Key Function
*Investment Managers	CEO
*Property Managers	CEO
Compliance & Risk	CEO
*Actuarial	Insurance Director
Internal Auditors	Chairman of Audit, Risk & Compliance Committee

¹ * denotes outsourced key functions

B.3 Risk management system including the own risk and solvency assessment

The Society's risk management systems and controls are articulated in its 'Risk Management Framework (RMF)'. The strategic aims of the RMF are for the Board, Sub Board / Committees, Executive Directors and all Staff to have an understanding and ownership of, and commitment to, the control and management of all reasonably foreseeable risks that may arise within the context of the Society's LTB activities. The management of risk is the responsibility of all staff. All staff will be involved in the identification, management and mitigation of risks in their day-to-day work.

The RMF includes the following Risk Policies to ensure that adequate processes and procedures are in place to manage all types of risk:



The RMF encompasses the following cyclical process:



The Society's RMF operates around the proven 'three lines of defence model' for overseeing its internal control frameworks:

First line of defence: this encompasses the controls the Society has in place to deal within the day-to-day business. The controls are embedded within the Society's business departments' systems and processes to highlight control breakdown, inadequacy of process and unexpected events, and appropriately mitigate risk.

Second line of defence: this encompasses the Society's Sub Boards/Committees and key functions that are in place to provide an oversight of the effective operation of the internal control framework. The Society's Sub Boards/Committees review the management of risk in relation to the particular risk appetite of the business, as determined by the Board.

Third line of defence: this encompasses the independent assurance and challenge provided by the Society's ARCC and internal and external audit functions, which undertake a programme of risk based audits covering all aspects of both first and second lines of defence, and External Auditors who provide independent challenge of the internal control framework in respect of financial reporting.

The Society's Board has responsibility for determining the strategic direction of the Society and retains ultimate responsibility for the RMF, but delegates some of its decision making to responsibilities to the Executive Directors and/or Sub Boards/Committees.

All key decisions made in the Society such as product launches, capital management, investment strategy, follow internal governance processes, which includes an assessment of the risk exposure and mitigation strategies.

The Compliance & Risk Function provides the Audit, Risk & Compliance Committee with quarterly assurance reports to confirm the adequacy and effectiveness of the Society's compliance and risk management systems and controls, and that they are appropriate and proportionate to the Society's scale, complexity and business model.

B.4 Own Risk Solvency Assessment (ORSA)

The Society undertakes an ORSA assessment each year. In addition, material changes in the business may trigger an ad-hoc ORSA to be completed.

This ORSA report assists the Board in considering and managing the risks faced by the Society and its capital requirements under different scenarios. It discusses the main risks faced by the Society, the processes and procedures in place to monitor, mitigate and manage these risks, the capital set aside against these risks and the risks that may arise in the future. The ORSA forms an integral part of the Society's business strategy and is taken into account on an on-going basis in the development of the future strategy.

The ORSA considers the Long Term Business (LTB) for the purposes of defining and assessing key risks and calculating capital requirements. However, the financial structure of the Society allows that Fraternal business can provide such cover.

The ORSA includes the consideration of operational risks within the Society, and again these have focused on the LTB.

The following principles guide the performance and cycle of the Society's ORSA:

- The ORSA is forward-looking, taking into account the Society's business strategy, business plans and projections.

- The ORSA encompasses all material risks that could impact obligations to policyholders and the Society's business strategy.
- The ORSA is proportionate, providing more detail on the highest ranked risks.
- The ORSA demonstrates that capital levels and liquidity are in line with the risk profile and suitable management procedures and actions in place to remain within risk appetite.
- The ORSA demonstrates robust processes exist to assess solvency requirements and that information from these processes influences decision making.
- The ORSA demonstrates robust processes exist to identify, measure, monitor, manage and report risk exposures and that information from these processes influence decision making including the determination of the appropriate amount and quality of capital required.
- The ORSA is sufficiently documented and evidenced to support independent review.
- The ORSA contains feedback loops to support on-going improvement of ORSA processes.

ORSA process

The ORSA is undertaken in line with the requirements of the ORSA policy and follows the documented ORSA procedure.

The ORSA Report sets out the results of the ORSA of the Society for review and approval by the Commercial Board and the Board.

The 31 December 2018 Report incorporated the financial analysis and commentary provided by Zenith Actuarial (the Society's Actuarial Function). This also included discussions around the content of the Report, agreement over assumptions and the methodology used and establishing how this links to the overall ORSA process and the current business strategy.

The governance process for the development and approval of the ORSA included:

- discussions with Zenith Actuarial on the initial ORSA results;
- approval by the Society of reports from Zenith Actuarial setting out the assumptions to be used for the ORSA ie the base and stress assumptions;
- approval by the Society of the Zenith Actuarial ORSA results; and
- approval by the Society of this ORSA Report.

The Society's approval process included:

- discussions at the Commercial Board of the various ORSA papers, with the Commercial Board providing a recommendation to the Board for the approval of the ORSA;
- reviews of the process by the Internal Audit function;
- oversight by the ARCC of the process involved in approving the ORSA, and recommendation to the Board that an appropriate governance process has been adopted; and

- approval of the Board of the recommendations from the Commercial Board and ARCC, and therefore, approval of the ORSA.

B.5 Internal control system

As previously detailed the Society operates a 'three lines of defence model' for overseeing its internal control frameworks.

The Society maintains a financial control framework that governs financial and regulatory reporting. The financial control framework is subject to annual review of the appropriateness and effectiveness of the controls. The Internal Audit Function conducts this review and the results are submitted to the Audit, Risk & Compliance Committee.

The Society's Reports and Financial Statements in their production and review leading up to publication are also subject to a robust review. The actuarial liabilities are produced using best practices and are subject to review by the Commercial Board. The Reports and Financial Statements are also subject to internal review and External Audit review. They are presented to the Audit, Risk & Compliance Committee, Board and AMC for sign-off prior to publishing.

i. Compliance & Risk Function

The Compliance & Risk Function is responsible for the independent assessment of the Society's conduct of regulated business, including risk management processes and procedures to ensure compliance with Regulatory Principles, Rules and / or Guidance and the policies and standards established by the Society.

The Society's Compliance & Risk Function has direct reporting lines to the CEO and TCF & Conduct Risk Champion who sit on the Commercial Board, and has access to all information and staff necessary to carry out its strategy and responsibilities.

The Society's Compliance & Risk strategy is as follows.

- Create and maintain a compliance and risk, money laundering / financial crime environment within the Society, in which the Board, Sub Board/Committees and staff understand their roles and responsibilities for ensuring they operate in a manner, which complies with Regulatory Principles, Rules, Guidance and the Society's own policies and procedures.
- Create and maintain a vigilant Compliance & Risk Function that:
 - advises the Board, Sub Board/Committees, line management and staff as appropriate on matters of Regulatory compliance and in particular in respect of Regulatory change and development as well as any areas of particular focus raised by the Regulators (e.g. relevant thematic reviews);
 - serves to monitor and report to the Board, Sub Board/Committees and line management as appropriate on the compliance and risk performance of the regulated functions of the Society, proposing any necessary remedial actions;
 - ensures the Society's TCF and risk cultures and values are understood across all levels of the Society; Board, Sub Board/Committees and Staff;

- provides timely guidance and support to foster a culture of compliance and risk in the Society;
- if necessary prompts or initiates timely and effective disciplinary action; and
- ensures the Society deals with its Regulators in an open and cooperative way at all times.

B.6 Internal Audit Function

The Society outsources the performance of the Internal Audit Function to MHA Moore & Smalley, therefore, the people that carry out the audit work and report the findings to the Audit, Risk & Compliance Committee are independent from the Staff that work in the areas under review.

Each year the Internal Audit Function undertakes a programme of internal audit work on the Society's business functions. The audit work is based on an annual assessment of the Society's audit needs and in accordance with the Society's Internal Audit policy. The Society's CEO and the Audit, Risk & Compliance Committee agree the scheduled work, from which a strategic audit plan is drawn up setting out the specific areas to be audited including the scope of each audit.

The audit programme and strategy is developed and maintained in accordance with the Society's Internal Audit & Internal Control Policies and Risk Management Framework (RMF) to provide the Board with its opinion on the effectiveness of the Society's risk management, internal control, and governance arrangements. The strategy aims to add value for Line Managers by providing them with audit analyses, findings and recommendations.

Internal Audit Policy

The effective operation of internal audit is a key part of the control environment required for the Society to achieve its objectives and to meet its obligations.

The Society's Internal Audit Policy details the relevant responsibilities, objectives, processes and reporting procedures to be applied by the Internal Audit Function.

The Society has designed processes and controls, which are in place to ensure that the requirements set out in this Policy are met on an on-going basis in practice.

The Policy is reviewed on an annual basis to ensure that it is still applicable and aligned with the business strategy and Risk Management Framework of the Society. In 2019 no significant changes were made to the Policy.

B.7 Actuarial

The Society's Actuarial Function is outsourced to Zenith Actuarial (Zenith).

The position of Chief Actuary (specified as SIMF20 under the Senior Insurance Management Function Regime) is held by Scott Robinson.

The position of With-Profits Actuary (specified as SIMF21 under the Senior Insurance Management Function Regime) is held by Andy Pennington.

The Chief Actuary and the With-Profits Actuary are supported by Fellows and members of the Institute and Faculty of Actuaries at Zenith.

The Chief Actuary and With-Profits Actuary are not involved in the day to day business of the Society.

The Actuarial Function produces a series of reports, which are submitted to the Commercial Board and Board each year. These reports detail the work undertaken, the assumptions used, the results and resulting recommendations.

B.8 Outsourcing

Prior to outsourcing a key function the Society's Outsourcing Policy ensures that:

- a detailed examination is performed to ensure that the potential service provider has the ability and capacity and any authorisation required by law to deliver the required functions or activities satisfactorily, taking into account the Society's objectives and needs (e.g. including TCF considerations) and Regulatory requirements;
- the service provider has adopted all means to ensure that no conflicts of interest exist;
- a written agreement is entered into between the Society and the service provider which clearly defines the respective rights and obligations of both parties;
- the general terms and conditions of the outsourcing agreement are clearly explained and understood, at a high-level, by the Board and authorised by them;
- the outsourcing does not breach any law or regulatory requirements in particular with regard to rules on data protection;
- the service provider is subject to the same provisions on the safety and confidentiality of the information as the Society.
- the service provider has in place adequate risk management and internal control systems;
- where required, that the fitness and propriety requirements are met by the persons employed by the service provider to perform the outsourced functions;
- activities are established; a contractual right to information about the outsourced activities and a contractual right to issue instructions concerning the outsourced activities;
- the service provider has the necessary financial resources to perform the outsourced tasks in a proper and reliable way; and
- the service provider has adequate contingency plans in place to deal with emergency situations or business disruptions and periodically tests backup facilities where necessary, taking into account the outsourced functions and activities.

The above requirements allow the Society to understand the main risks that might arise from the outsourcing and where necessary identify the most suitable processes for mitigating and managing any risk to ensure the service provider has the ability, capacity and authorisation

required by law and/or regulatory standards to perform the outsourced functions and activities.

The Society currently outsources the following key functions:

Key Function	Name of Firm	Jurisdiction
Investment Managers	Fidelity Worldwide Investment	United Kingdom
	Close Brothers	United Kingdom
	Investec Wealth & Investment Limited	United Kingdom
	LGT Vestra Wealth	United Kingdom
Actuarial	Zenith Actuarial	United Kingdom
Internal Auditors	MHA Moore and Smalley	United Kingdom
Property Managers	Christopher Dee LLP	United Kingdom

Internal Audit

The Internal Audit Function of the Society in terms of its offices in Manchester and Liverpool are carried out by MHA Moore and Smalley LLP based in Preston Lancashire. The Society's Head of Internal Audit is also outsourced and the position of SIMF5 is held by Karen Hain of that firm. MHA Moore and Smalley report to the Society's Audit Risk and Compliance Committee (ARCC) on a quarterly basis on their findings from the audits carried out and agrees with the ARCC a five year plan and detailed one year plan each year. In addition the Head of Internal Audit also meets with the CEO on a quarterly basis to discuss any operational issues.

C. Risk profile

C.1 Overview

The key risks faced by the Society are influenced by the nature and scale of business currently in-force, the assets held by the Wider Society to back the business and the management actions around bonus distribution and investment policy in the future as the business runs off.

The risks to the Society may change over time depending on how the current strategy evolves and the changes to the environment under which the Society operates.

The highest ranked risks are identified via the Risk Management system and/or those risks requiring the largest capital support under the SCR calculation.

The risk assessment calculates the SCR using Standard Formula and the risk profile as at 31 December 2019 is as follows:

Standard Formula Risk	%
Market Risk	94.3%
Counterparty Default	1.2%
Life Underwriting Risk	4.3%
Health Underwriting Risk	0.0%
Non-Life Underwriting Risk	0.2%

As can be seen from the table above the SCR occurs mainly from market risk. This is because the assessment includes the Fraternal assets of the Wider Society.

C.2 Risk summary

a) Underwriting risk

Underwriting risk arises through adverse claims experience, and, where expenses are higher than anticipated.

The Society has a medium appetite for taking underwriting risk.

The level of underwriting risk is assessed by the calculation of the SCR for each of the following risks:

- mortality risk;
- longevity risk;
- morbidity risk;
- expense risk;
- lapse risk; and
- catastrophe risk.

i. Key underwriting risks

The Society is exposed to each of the underwriting risks to varying degrees with the most significant risks being set out below:

Expense risk

Expense risk arises from the impact on the own funds of changes in expenses and expense inflation and, also from the profile of expenses as policies run-off.

The management of this risk falls to the Society's internal infrastructure, processes, procedures and controls. However, whilst the Society can point to internal controls, including budgeting processes etc. this does not alleviate the need to undertake the expense stress test and, therefore, the requirement to hold capital against this risk.

The Society recognises that this risk exists and considers different ways in which it can be contained. This could include improving the efficiency of operations, and thereby reducing expenses, or providing a greater base to spread expenses across via writing new business or the acquisition of other long term insurance blocks.

Lapse risk

Lapse risk is a material risk with the capital requirement for LTB, and relates mainly to a mass lapse / surrender event. The mass lapse event assumes that 40% of policies would instantaneously lapse/surrender and, the impact of this is that a large proportion of future profits would not materialise.

The mass lapse stress of 40% of business is prescribed under the Solvency II Standard Formula approach.

b) Market risk

Market risk arises through the possibility of losses on the Society's financial investments through movements in market prices.

The Society has a medium appetite for taking market risk in order to achieve favourable returns for policyholders.

The level of market risk is assessed by the calculation of the SCR for each of the following risks:

- interest rate risk;
- equity risk;
- property risk;
- spread risk;
- currency risk; and;
- concentration risk

i. Key market risks

The Society is exposed to each of the market risks to varying degrees with the most significant risks being set out below:

Equity risk

Equity risk is material for the Society's Fraternal business due to the size of the equity holdings. Equity risk is also a key market risk in the Society's LTB business, where it arises mainly in relation to unit-linked business where the equity stress results in lower future expected profits as a result of lower income, its impact is, however, less significant.

Property risk

Property risk is the key market risk in the Society's Fraternal business due to the significant property holdings. It arises through the impact of a reduction in property values.

c) Credit risk

Credit risk arises if another party fails to meet its financial obligations to the Society, and, is assessed through the measurement of counterparty default, concentration and credit risk.

The Society's credit risk arises primarily from its cash holdings; it has minimal reinsurance arrangements in place.

d) Liquidity risk

Liquidity risk arises in circumstances where, while the Society remains solvent, it is unable to meet its financial obligations as they fall due.

The Society's exposure to liquidity risk is generally low as it aims to ensure it has sufficient liquid investments to meet its liabilities in the short to medium term.

e) Operational risk

Operational risk occurs from the failure of internal processes, people or systems and from external events.

The Society aims to minimise the potential impact of operational risk across the business by operating within an appropriate control environment.

The Society assesses operational risk by considering different types of events, using a risk-based analysis of the likelihood of an event and the severity of possible losses.

C.3 Risk mitigation

In order to mitigate risks faced by the Society, risks are included in the risk register and are reviewed on a regular basis, and a number of actions are in place.

In relation to underwriting risk:

- Expense information is monitored on a regular basis;
- Lapse rates are monitored and are reported to the Commercial Board on a quarterly basis; and

- An experience analysis is undertaken as part of the annual Solvency II assessment.

In relation to market and counterparty default risk:

- The Society has clearly defined investment strategies which include agreed tolerance limits with regard to asset and cash counterparty; these strategies are reviewed on a regular basis;
- Admissibility reporting is undertaken on a quarterly basis; and
- The Society's overall risk strategy and appetite in relation to concentration risk is to avoid any material concentration risk.

In order to mitigate liquidity risk the Insurance Department will notify the Finance Department of the amount of claims that are expected to be due within the next month, and pending claims of a material amount.

C.4 Prudent person principle for asset investment

The Society has set out how it will invest its assets in accordance with the prudent person principle (required under Solvency II), as follows:

- To only invest in assets and instruments whose risks the Society can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs under Pillar 2;
- All assets will be invested to ensure the security, quality, liquidity and expected returns of the various funds.
- Assets held to cover the technical provisions will be invested appropriately given the nature and duration of the insurance liabilities. Those assets will be invested in the best interest of all policyholders and beneficiaries taking into account any policyholder disclosures.
- Subject to the relevant Market Risk Policy the use of derivative instruments shall be possible insofar as they contribute to a reduction of risks or facilitate efficient portfolio management.
- Investments and assets (excluding property) which are not traded on a regulated financial market shall be avoided.
- Assets shall be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer, geographical area etc.
- Investments in assets issued by the same company, or by companies belonging to the same group, will be limited to ensure the Society is not exposed to excessive risk concentration.
- Fraternal assets will be invested in a manner that is appropriate for the fund mandates in place and the target objectives of the fund, or where the investment strategy is at the discretion of the Society in a manner which is considered appropriate by the Commercial Board.

C.5 Stress and scenario tests

The Society includes a number of stress and sensitivity tests covering market and underwriting risk, including reverse stress tests, within its ORSA process to assess the robustness of the Society's capital position.

D. Valuation for solvency purposes

D.1 Assets

a) Solvency II valuation of assets

The table below sets out the Society's financial assets as at 31 December 2019:

Assets £000s	Solvency II	GAAP
Land and Buildings	236,486	76,076
Shares and Other Variable Yield Securities	64,602	63,858
Debt and Other Fixed Income Securities	103,510	102,423
Assets Held to Cover Linked Liabilities	179,801	179,801
Cash at Bank and In Hand	17,653	18,398
Total Financial Assets	602,052	440,557
Debtors	600	600
Tangible assets	4,964	4,964
Loans	292	292
Other	409	2,035
Total Assets	608,317	448,448

Assets are valued as follows:

- Land and Building valuations are based on open market value in accordance with the provisions of the RICS Appraisal and Valuation Manual. No allowances have been made for the costs of realisation.
- Shares and Other Variable Yield Securities valuations are the fair value as at 31 December 2019. Fair values are determined by reference to observable market prices where available and reliable. The fair value of financial assets quoted in an active market, are their bid prices at the Balance Sheet date.
- Debt and Other Fixed Income Securities valuations are the market value as at 31 December 2019 and include accrued interest on interest bearing securities.
- Assets Held to Cover Linked Liabilities were valued as at 31 December 2019 in at fair value. Fair values are determined by reference to observable market prices where available and reliable. The fair value of financial assets quoted in an active market, are their bid prices as at the Balance Sheet date.
- Cash and Cash equivalents are valued at the amount of cash held, not including any accrued income. This is limited to non-linked assets. The cash value of any linked assets are included within Assets held for index-linked and unit linked contracts.

The Land and Building figure is higher under Solvency II because the totals include investments held by Branches. In total this amounts to an additional £160.4m. These assets are not included under UK GAAP as the investments are not controlled by Unity Office. However, on

a Solvency basis the capital can be accessed under the rules of the Society in a number of circumstances. As such, the amounts are brought into the Solvency II Balance Sheet and are available for use in extremis.

b) Solvency II and UK GAAP valuation differences

There are differences between Solvency II and UK GAAP valuations for Fixed Income Securities and Other as accrued income is included in 'Other' for UK GAAP but in Fixed Income Securities for Solvency II.

For the purposes of assessing the Society's available funds and solvency capital requirements under Solvency II Fraternal assets are included, as Fraternal assets are available to support the Society's solvency capital requirements in extremis. These assets are not consolidated for UK GAAP reporting purposes.

D.2 Technical provisions

a) Valuation results

The Solvency II Pillar I technical provisions at 31 December 2019 for the Society as a whole are set out in the table below. The 31 December 2018 figures are shown for comparison:

Total LTB		2019	2018
		(£000)	(£000)
<i>Best Estimate Liability</i>	With Profits - Guaranteed	29,757	32,376
	With Profits - Discretionary	14,319	13,818
	Non-Profit	40,379	32,785
	Unit Linked	171,501	145,209
	Total	255,957	224,188
<i>Risk Margin</i>	With Profits	53	370
	Non-Profit	891	587
	Unit Linked	1,544	2,480
	Total	2,488	3,437
<i>Technical Provisions</i>	With Profits	44,129	46,564
	Non-Profit	41,271	33,372
	Unit Linked	173,044	147,689
	Total	258,444	227,625
<i>General Technical Provisions</i>	Total	1,537	1,484
Total Technical Provisions		259,981	229,109

Valuation Methodology – Best Estimate Liabilities

All policyholder cashflows are included within the calculation of best estimate liabilities (“BEL”) where these are based on the best estimate of future experience. These include:

- All expected future death, maturity, surrender and sickness claims.
- All expected future renewal and investment expenses.
- All expected future premiums, subject to Solvency II contract boundary restrictions.

Reinsurance arrangements are considered to be immaterial.

The BEL for with-profits products is calculated in terms of previously guaranteed benefits and future discretionary benefits. BEL is valued stochastically using an asset share projection approach in order to accurately value the cost of contractual guarantees. With-profits future discretionary benefits are set using expert judgement to determine the best estimate of the value of future bonus declarations.

Non-profit liabilities are valued using a gross premium reserve approach.

Unit linked liabilities are valued as the sum of unit fund liabilities and non-linked reserves. Unit fund liabilities are equal to the value of the units allocated to policies on the valuation date. Non-linked reserves are equal to the present value of all non-unit cashflows including charges, expenses and claims in excess of unit funds.

Credit is taken for negative liabilities where a policy is assumed to be profitable.

For General technical provisions, the best estimate liabilities are based on prior years’ experience as the cover is provided on a one year renewable basis.

No simplifications are applied within the calculation of best estimate liabilities except where these relate to materiality and proportionality as allowed by Article 56 of the Delegated Acts.

Valuation Methodology – Risk Margin

The risk margin is calculated in accordance with Article 37 of the Delegated Acts using a simplified risk driver approach as allowed under Article 58. This assumes that the non-hedgeable risks reduces over time in line with the BEL.

Within the risk margin calculation, it is assumed that assets are selected in such a way as to minimise the SCR for market risk so that only non-hedgeable risks are allowed for. These include:

- All life underwriting risks
- Operational risks
- Counterparty default risk excluding those relating to cash holdings

The cost of capital rate is assumed to be 6% as specified by Article 39 of the Delegated Acts.

Main Assumptions

All assumptions are on a best estimate basis with no prudent margins such that:

- Mortality, morbidity and surrender assumptions are based on the Society's actual experience of deaths, sickness and surrender claims.
- Expense assumptions are based on actual and budgeted expenses (with allowances made for expected one-off expenses and the risk that expenses do not run off as quickly as expected).
- Investment return and discounting assumptions are based on the prescribed Solvency II interest rate curves.
- Retrospective asset share roll-forward assumptions are based on actual expenses incurred and investment returns earned by the fund over the previous year.
- Prospective asset share roll-forward assumptions are based on expected expenses and prescribed Solvency II investment returns.

b) Material Uncertainty

The uncertainty associated with the value of technical provisions is primarily driven by the uncertainty associated with the assumptions of future experience. Technical provisions are calculated on a best estimate basis and as such, are sensitive to future economic and non-economic experience. Any change in experience could have an impact on future levels of technical provisions.

Other Relevant Information

There are no material differences between the valuation of liabilities for solvency purposes and those used for statutory reporting purposes.

The Matching Adjustment has not been applied in the calculation of the Society's technical provisions.

The Volatility Adjustment has not been applied in the calculation of the Society's technical provisions.

The transitional risk-free interest rate-term structure has not been applied in the calculation of the Society's technical provisions

The transition deduction referred to in Article 308d of Directive 2009/138/EC has not been applied in the calculation of the Society's technical provisions.

D.3 Other liabilities

The table below shows the other liabilities as at 31 December 2019:

Other liabilities £000s	Solvency II	GAAP
Pension benefit obligations	2,071	2,071
Financial liabilities other than debts owed to credit institutions	19,000	159,546
Payables	4,924	4,924
Total Other liabilities	25,995	166,541

The differences in liabilities are as follows:

- The £159,546k for 'Financial liabilities other than debts owed to credit institutions' included under GAAP has been re-measured on a Solvency II basis. As a result of the inclusion of branch asset amounts within the capital calculation (as outlined in D.1(a)) the liability to branch invested amounts has been revalued to nil. This revaluation is made to reflect the nature of the capital contribution of the branch network towards the Solvency's capital base, and to reflect the purely discretionary nature of these funds.

D.4 Alternative methods of valuation

No alternative methods of valuation have been used.

D.5 Any other information

The Society believes the information provided in Section D is comprehensive. There is no other material information regarding the valuation of the Society's assets and liabilities to add.

As previously detailed branch held assets are included in the capital calculations, although they are not consolidated for UK GAAP reporting purposes.

E. Capital management

E.1 Own funds

a) Objectives, policies and processes for managing own funds

The Society's objective is to manage the capital position so that there are sufficient own funds to cover the Solvency Capital Requirements (SCR) and Minimum Capital Requirements (MCR) at all times.

There have been no material changes to the Society's objectives, policies and processes relating to the management of Own Funds over 2019.

The Society's business planning period is 3 years.

Given the size of the Society's Own Funds the issue of how Own Funds will potentially run-off over time is not considered to be a material aspect for the Society providing capital cover.

b) Classification of own funds

The Society has a simple capital structure, with Balance Sheet reserves comprising a single item: tier 1 unrestricted capital. These own funds have arisen from past underwriting and investment surpluses.

Under Solvency II there are no liabilities to investing Branches as the underlying benefits are purely discretionary and this has the effect of increasing own funds item.

On a Solvency II basis, the Fraternal surplus is classified as Basic Own Funds, covered under Article 69a of the Solvency II Directive as "surplus funds that are not considered as insurance and reinsurance liabilities" and, as such, is included within the Solvency II Balance Sheet of the Society.

In addition, there are Branch held investments totalling £160.4m in the Solvency II Balance Sheet, these are not included in the statutory valuation as they are not consolidated under UK GAAP.

c) Eligibility of own funds

The Eligible amount of Own Funds to cover MCR and SCR is £322.3m.

There are no items of Own Funds subject to transitional arrangements.

There are no ancillary Own Funds items.

The Society does not disclose any additional ratios to those shown S.23.01

d) Reconciliation of excess assets to Reports and Financial Statements

A reconciliation between equity as shown in the Reports and Financial Statements and the Solvency II value excess of assets over liabilities is shown below:

£000s		31 December 2019
Equity in financial statement		23,462
Asset adjustments:		
Inclusion of Branch assets		160,410
Removal of prepayments		(541)
Liability adjustments:		
Removal of Liabilities to Investing Branches		140,546
Inclusion of Technical provision – non-life		(1,537)
Solvency II excess assets over liabilities		322,341

e) Deductions from Own Funds

There are no items deducted from Own Funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

a) Amount of Solvency Capital Requirement and Minimum Capital Requirement

The Solvency Capital Requirement for the Society is calculated using the Standard Formula approach. The Life Underwriting Risk, Market Risk, Counterparty Default Risk and Operational Risk modules are applicable to the LTB funds. The market risk, non-life underwriting risk and counterparty default risk modules are applicable to the Fraternal funds including Branch held assets.

The calculation of the MCR is based on the prescribed Solvency II methodology. This includes components relating to the non-life technical provisions, life technical provisions and SCR as well as being subject to a floor of the GBP equivalent of €6.2 million.

The table below sets out the SCR and MCR as at 31 December 2019:

£000s	31/12/2019	31/12/2018
SCR	80,421	76,074
MCR	20,105	19,019

The SCR amount is subject to Supervisory assessment at present.

b) Solvency Capital Requirement split by risk modules

The SCR at 31 December 2019 is shown in the table below, split by risk module.

2019 Solvency Capital Requirements £000s		Total
Standard Formula Risk Module		
Market Risk		89,139
Counterparty Default		1,183
Life Underwriting Risk		10,411
Health Underwriting Risk		-
Non-Life Underwriting Risk		185
BSCR – Gross		92,666
Loss absorbing capacity of technical provisions		(13,105)
BSCR – Net		79,560
Operational Risk		861
SCR		80,421

The SCR shown above is subject to supervisory assessment.

c) Simplified calculations in risk modules

The simplification described in Article 96 of the Delegated Acts is used in the calculation of the mortality-catastrophe SCR component. This is applied on materiality grounds. No other simplifications are made.

d) Undertaking-specific parameters

No undertaking-specific parameters are used in the SCR calculations.

e) Inputs used to calculate the MCR

The table below sets out the inputs for the MCR calculation as at 31 December 2019. Note the Absolute Floor MCR (Euros) and the Exchange Rate are prescribed by EIOPA:

MCR Inputs £000s		Net SCR
MCR floor		
Absolute Floor MCR (Euros)		6,200
Exchange Rate (Euro to GBP)		0.86133
Absolute Floor MCR (GBP)		5,340
Combined MCR		
SCR		80,421
BSCR – Net		79,560
25% SCR		20,105
MCR		20,105

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Society does not use the duration-based equity risk sub-module and, therefore, this section is not relevant.

E.4 Differences between the standard formula and internal model used

The Society does not use an internal model and, therefore, this section is not relevant.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Society has complied with the MCR and SCR throughout the period covered by the report and does not foresee any risk of non-compliance in future.

F. Templates

The following QRTs are included in **Appendix A** of the SFCR:

QRT ref	QRT Template name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses
S.05.02.01	Premiums, claims and expenses by country
S.12.01.02	Life and Health SLT Technical Provisions
S.17.01.02	Non-Life Technical Provisions
S.19.01.01	Non-Life insurance claims
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.02.01	Minimum Capital Requirement –Life and non-life insurance or reinsurance activity

Appendix A SFCR templates