Scottish Friendly

Solvency and Financial Condition Report 2018

Contents

We are proud to have been awarded the best UK Mutual Insurer at this year's Capital Finance International Awards.

This is an interactive pdf – links are enabled throughout the contents list and the section tabs to provide easy navigation to section content.

Summary

Scottish Friendly Assurance Society Limited (Scottish Friendly) is a modern financial mutual based in Glasgow, with roots that stretch back to 1862.

Comprising Scottish Friendly Assurance, Scottish Friendly Asset Managers and Scottish Friendly Insurance Services, the Group develops and administers a range of life and investment products including ISAs. These products are marketed under the Scottish Friendly brand or are "white labelled" by other financial services providers.

Today, as at 31 December 2018, the Group has assets under management of over £2.8bn (2017: £2.7bn) and has 594,000 members (2017: 559,000).

In 2018 Scottish Friendly continued its record of delivering strong financial results. Statutory earned premiums increased by 18% to £110.5m (2017: £93.9m), underpinned by total sales of £38.6m APE[1] (2017: £44.4m). Under the Solvency II regulations our solvency ratio[2] is 188% (2017: 199%[3]), showing a significant excess over the required minimum. Our solvency ratio demonstrates that, even in an extreme 1 in 200 year scenario, we have enough capital to payout our liabilities to policyholders.

Over the past decade, Scottish Friendly significantly restructured its business, reducing administration costs and maintaining efficient acquisition costs. The Group flourishes through a three-part growth strategy of organic growth, mergers and acquisitions and business process outsourcing.

Since 2012, Scottish Friendly's organic growth has been founded on the introduction of innovative and affordable ISA investments via the Group's My Plans platform, including a Junior ISA for children, and a range of protection products. Scottish Friendly has continued to deliver sales and increase membership as a result of strong e-business and direct marketing and major collaborations with companies like the BGL Group and Guardian Financial Services.

Mergers and consolidation within the life insurance sector is a key component of Scottish Friendly's strategy that produces long term economies of scale. 2018 saw the continuation of this strategy, with the completion of a transfer of £0.3bn of pension liabilities from Mobius Life Limited in November 2018 and the agreement to transfer a significant block of business from Canada Life Limited (CLL). The CLL business will represent Scottish Friendly's largest transaction to date, nearly doubling the assets under management, and is expected to complete later in 2019, subject to regulatory approval.

This report is the Solvency Financial Condition Report (SFCR) for Scottish Friendly Assurance Society Limited. It is a solo report covering Scottish Friendly Assurance Society Limited's activities.

[1] Annual Premium Equivalent, the industry standard measure of premium volumes, calculated as the annual amount of regular premiums plus one tenth of the single premiums on business written during the year.

[2] The solvency ratio is the Own Funds divided by the Solvency Capital Requirement (SCR).

[3] Restated, as set out in Section E.

Directors' Report

Left to right:

Jim Galbraith
Chief Executive

Martin Pringle
Finance Director and
Company Secretary

Directors' responsibilities statement in respect of the Solvency and Financial Condition Report ("SFCR")

The Directors are responsible for preparing the Solvency and Financial Condition Report ('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 Scottish Friendly must have in place a policy of ensuring the ongoing appropriateness of any information disclosed and that Scottish Friendly must ensure that its SFCR is approved by the directors.

Each director certifies 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 Company has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and

(c) it is reasonable to believe that, at the date of the publication of the SFCR, the Company has continued so to comply, and will continue so to comply in future.

By order of approval of the board.

Jim Galbraith	**Martin Pringle**
Director	Director
17 April 2019	17 April 2019

Independent Auditors' Report

Report of the External Independent Auditor to the Directors of Scottish Friendly Assurance Society Limited ('Scottish Friendly')

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR")

Opinion

Except as stated below, we have audited the following documents prepared by Scottish Friendly as at 31 December 2018:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of Scottish Friendly as at 31 December 2018, ('the Narrative Disclosures subject to audit'); and
- Scottish Friendly's templates S02.01.02, S12.01.02, S23.01.01, S25.01.021 and S28.02.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the SFCR'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- Scottish Friendly's templates S05.01.01 and S.05.02.01;
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

In our opinion, the information subject to audit in the relevant elements of the SFCR of Scottish Friendly as at 31 December 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of Scottish Friendly in accordance with the ethical requirements that are relevant to our audit of the SFCR in the UK, including the APB's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditors’ Report (cont)

Emphasis of Matter – Basis of Accounting

We draw attention to the ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the SFCR, which describe the basis of accounting. The SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors’ use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the Directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about Scottish Friendly’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

We have nothing to report in relation to these matters.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the SFCR does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the SFCR, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the SFCR, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the SFCR or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the SFCR in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a SFCR that is free from material misstatement, whether due to fraud or error.

Independent Auditors' Report (cont)

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the SFCR are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. The same responsibilities apply to the audit of the SFCR.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Scottish Friendly's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Use of our Report

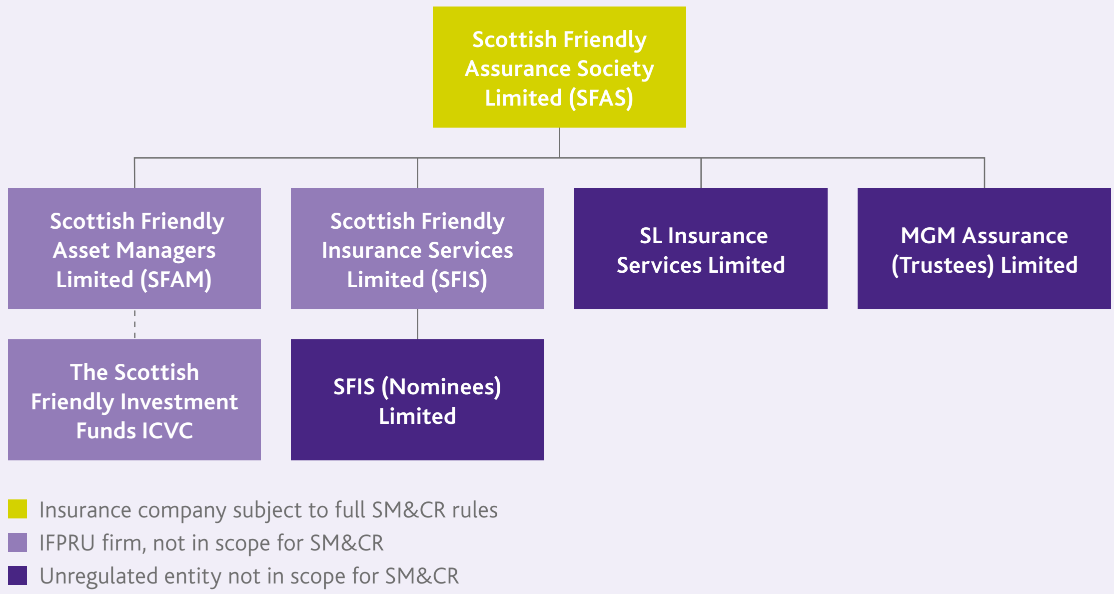
This report is made solely to the Directors of Scottish Friendly in accordance with our engagement letter dated 19 February 2019. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the PRA, for our audit work, for this report or for the opinions we have formed.

Stephen Williams (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
17 April 2019

A. Business and Performance

A.1. Business

Scottish Friendly is an incorporated friendly society, a type of mutual, and consequently there are no shareholders in Scottish Friendly. The organisational structure of the business is detailed below.



Scottish Friendly offers a range of life insurance products to policyholders in the United Kingdom. The main products are whole of life policies, endowment assurances, team assurance and ISAs.

The Scottish Friendly balance sheet is split between its Main Fund, which is open to new business, and four sub funds to the Main Fund, which are closed to new business. The closed sub funds, are the Rational Shelley sub fund, London, Aberdeen and Northern Mutual Assurance Society (LANMAS) sub fund, the Scottish Legal Life sub fund and Marine & General Mutual (M&GM) sub fund.

Limited volumes of legacy products were sold across Europe either by Scottish Friendly, Scottish Legal or M&GM and, where relevant, premiums are still received for these.

As noted above, on 9 November 2018, Scottish Friendly completed the transfer of a block of unit-linked pension policies from Mobius Life Limited. These policies were transferred to the Main Fund. Scottish Friendly also signed an agreement to take over a substantial book of life and pensions business from CLL. The transfer is expected to complete in the fourth quarter of 2019.

Scottish Friendly is authorised and regulated by the Prudential Regulatory Authority (“PRA”), which is located at 20 Moorgate, London EC2R 6DA.

Scottish Friendly is also regulated by the Financial Conduct Authority (“FCA”), which is located at 12 Endeavour Square, London, E20 1JN.

Scottish Friendly’s auditor is Deloitte LLP, whose Glasgow office is 110 Queen Street, Glasgow, G1 3BX.

A. Business and Performance (cont)

A.2. Underwriting Performance

The following table illustrates the Scottish Friendly's performance over 2018, as reflected in the 2018 Annual Report and Accounts:

Technical Account – Long Term Business

For year ended 31 December

	2018 £000	Restated[4] 2017 £000
Earned Premiums	**110,468**	93,940
Reinsurance Premiums	**(44,772)**	(33,089)
Earned Premiums, Net of Reinsurance	**65,696**	60,851
Investment Income	**87,403**	75,269
Unrealised (Losses)/Gains on Investments	**(135,642)**	37,427
Other Technical Income	**14,199**	16,866
	31,656	190,413
Claims Incurred	**154,161**	174,956
Reinsurance Claims	**(76,786)**	(76,439)
Net Claims Incurred	**77,375**	98,517
Change in Other Technical Provisions	**(93,489)**	44,842
Operating Expenses	**45,085**	38,913
Investment Expenses & Charges	**422**	644
Other Technical Charges	**777**	–
Tax attributable to Long Term Business	**(4,467)**	9,581
Actuarial (Gain)/Loss re pension scheme	**(8,481)**	(3,621)
Transfer to/(from) the Fund for Future Appropriations	**14,434**	1,537
	31,656	190,413

Scottish Friendly writes three lines of business as detailed below:

- Insurance with participation (i.e. with-profits business)
- Index Linked and Unit Linked
- Other Life Insurance

The table below illustrates Scottish Friendly's premiums, claims and expenses split by Solvency II lines of business for the periods ended 31 December 2018 and 31 December 2017.

[4] Details of the restatement are provided in Section D.

A. Business and Performance (cont)

2018

	Insurance with participation £000	Index Linked & Unit Linked Insurance £000	Other Life Insurance £000	Total £000
Gross Premiums	24,667	7,011	78,790	110,468
Gross Claims	54,302	17,142	82,242	153,686
Expense	5,689	1,222	39,543	46,455

Restated 2017

	Insurance with participation £000	Index Linked & Unit Linked Insurance £000	Other Life Insurance £000	Total £000
Gross Premiums	26,771	7,141	60,028	93,940
Gross Claims	76,302	18,513	79,666	174,481
Expense	7,979	1,578	30,473	38,913

The claims incurred on the Technical Account on page 9 include claims management fees of £475,000 which are not included in the gross claims figures above. The claims management fees have been added to expenses in the above tables.

The 2017 comparatives have been restated to take into account the prior year adjustment as shown in Section D.

A.3. Investment Performance

The return of the asset shares within the Scottish Friendly With-Profits fund for 2018 was -3.7% (2017: 9.2%) reflecting a year of significant market volatility, particularly towards the end of the year. As a result of this, final bonus rates for most with-profits customers fell slightly as at 31 December 2018. The Group assets under management grew slightly to £2,800m (2017: £2,706m).

Financial investments, are recognised at fair value through profit or loss.

Scottish Friendly manages these investments and makes purchase and sale decisions based on their fair value in accordance with Scottish Friendly's investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss as incurred. Financial investments at fair value through profit or loss are measured at fair value and changes therein are recognised in profit or loss.

The following table illustrates Scottish Friendly's investment performance over 2018 by asset class, as reflected in the annual report and accounts:

A. Business and Performance (cont)

	Group		Scottish Friendly	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Income from land & buildings	**86**	157	**86**	157
Income from other investments	**26,152**	26,606	**26,152**	26,606
Net gains on the realisation of investments	**61,165**	48,506	**61,165**	48,506
Unrealised (Losses)/Gains on Investments	**(136,479)**	36,583	**(135,642)**	37,427
	(49,076)	111,852	**(48,239)**	112,696

A.4. Performance of other activities

Other technical income comprises fee income. Fee income is charged to policyholders for administration services, investment management services and surrenders. These fees are recognised in the period over which the services are performed.

In 2018 this totalled £14.2m compared to £16.9m in 2017.

A.5. Any other material information

There is no other material information to provide in this report.

B. System of Governance

B.1. General information on the system of governance

As a mutual organisation, the Board of Management is responsible to the members for the performance of Scottish Friendly, and the service that is provided. This accountability is exercised through the Delegates system of member representation.

Scottish Friendly operates a delegate system to ensure that it engages with, and is accountable to, its members. Scottish Friendly has 30 delegate positions, each representing one of five geographical electoral districts (Scotland, Northern Ireland, North of England, South of England & Wales and Republic of Ireland). In addition to any vacancies that arise from time to time, one third of delegates have to retire in rotation each year and may offer themselves for re-election. The system allows members to have their views represented at the Annual General Meeting through their representative delegate (typically the delegate closest to them geographically).

The Board Members and Scottish Friendly Executives who have duties in relation to Scottish Friendly's subsidiaries are fully responsible for ensuring that they are managed to the same high standards and principles set out by Scottish Friendly.

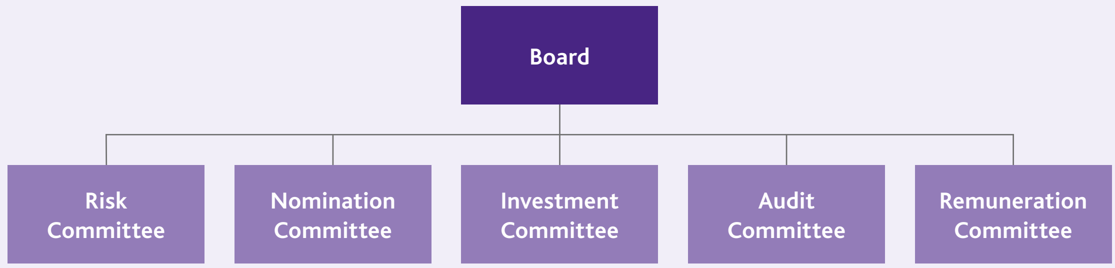
Responsibilities have been allocated to senior management in accordance with the Senior Managers and Certification Regime (SM&CR). The functional structure of Scottish Friendly and roles and responsibilities of key function holders are set out in Appendix F.1. and F.2.

As a mutual, Scottish Friendly has no shareholders.

Internal Control Framework

The Board is responsible for directing the affairs of Scottish Friendly. In addition to the principles of prudent management, there are several specific powers given to the Board, which are defined in the Scottish Friendly Rules. Although many of the powers regarding business conduct, operational management and day-to-day activities of Scottish Friendly are delegated to Executive Management, through the Chief Executive, there is a formal schedule of matters reserved to the Board for approval which includes: the authorisation regime for bank accounts, changes to investment parameters and deals outwith those parameters, transfers of engagement, the budget and the distribution of surpluses and bonuses. The Board also retains responsibility for a number of statutory duties relating to the prudent management of Scottish Friendly's activities; these include responsibility for maintaining required solvency and liquidity levels as well as maintenance of requisite accounting records and systems of control. The powers retained by the Board, and those delegated to the Chief Executive and to Board Committees, are reviewed at least annually by the Board.

B. System of Governance (cont)



The committee and governance structure is set out in detail in Appendix F.1. The high level structure is set out above and the responsibilities of the Committees are as follows:

Risk Committee

- Provides focused support and advice on risk governance, assisting the Board in reviewing the systems for managing all aspects of business risk.
- Takes account of the most significant issues and risks, both operational and financial, likely to impact on the Group's financial statements.
- Reviews, challenges and approves the Risk Appetite Methodology and Statements including monitoring measures with limits and triggers that are the basis for regular Own Risk and Solvency Assessment (ORSA) reporting.
- Shapes the design and content of the Annual ORSA report to meet the requirements of the Board in terms of risk insights and forward-looking threats.
- Receives regular reports from Risk and Compliance teams outlining the key prudential and conduct risks facing Scottish Friendly and the controls and actions in place to mitigate their impacts.
- Provided risk oversight of the proposed CLL transaction.

Nomination Committee

- Ensures that plans are in place for orderly succession for appointments to the Board.
- Leads the process for such appointments and makes recommendations to the Board, taking into consideration the time commitments required of Non-Executive directors and their independence.
- Considers the overall balance of skills, experience and knowledge to ensure that Directors bring informed and independent judgement to the Board.
- Ensure that Scottish Friendly's employee policies are applied in Board nomination matters.

B. System of Governance (cont)

Investment Committee

- Oversees Scottish Friendly's investment holdings and performance on behalf of the Board.
- Make decisions on asset allocation and strategy of the Scottish Friendly funds in line with the liabilities, relevant risk appetite and parameters established by the Board or by the relevant fund objective.
- Monitor risk appetite, investment parameters and fund objectives, making recommendations to the Board as appropriate.

Audit Committee

- Review internal control systems, including internal financial controls and ensure that these continue to be effective; advise the Risk Committee as appropriate of any concerns regarding the effectiveness of the current control framework.
- Considers the Audit Plan which highlights key judgement areas and summarises changes in reporting requirements.
- Reviews the annual financial statements and regulatory returns and approves these for submission to the Board.
- Approve the internal audit programmes and receives regular process reports from internal audit and ensures that recommendations made are followed up. Also monitors co-ordination between the internal and external auditors and ensures that the Internal Audit Function (IAF) is adequately resourced and has appropriate standing within the organisation.
- Assesses the effectiveness of the internal and external audit processes through the reporting that it receives from the respective auditors who are present at each Committee meeting.

Remuneration Committee

- Review the remuneration of the Chairman and determines appropriate levels of Executive Management remuneration.

Remuneration Policy

Scottish Friendly's policy is to provide a competitive remuneration package which will attract and retain the appropriate calibre of Executive and Non-Executive Directors.

Executive Director salaries are reviewed annually. A range of data is taken into account to inform the review including comparable positions in other organisations, remuneration trends in the financial services sector, as well as wider economic influences. Any change in salary is effective from 1 January. The Remuneration Committee ensures that it remains appraised of these factors and of best practice, taking external advice where appropriate.

The remuneration package for Executive Directors incorporates a performance element which is targeted at increasing growth and cost efficiencies, generating longer term value for members. Payments are capped at 60% of salary. In line with relevant Solvency II requirements, 40% of bonus payments may be deferred for 3 years, if applicable.

B. System of Governance (cont)

The Executive Directors are entitled to a company car and healthcare insurance.

Non-Executive Director's duties and responsibilities are set out in Scottish Friendly's Governance and Control Procedures Manual. Non-Executive Directors initially hold office until the conclusion of the Annual General Meeting following their appointment, at which they are eligible for election without nomination. The circumstances in which a Board member would be required to vacate office are set out in the Rules of Scottish Friendly.

Fees for the Chairman are set by the Committee in his absence. Fees for Non-Executive Directors are monitored and reviewed annually with changes effective from 1 May through approval by the Executive Directors and the Chairman. Fees are designed to recognise the responsibilities of Non-Executive Directors and to attract individuals with the necessary skills and experience to contribute to the future development of Scottish Friendly.

Non-Executive Directors receive reimbursement of travel and accommodation costs where required for attending meetings.

The aggregate premiums payable for the year by nine Directors in respect of Scottish Friendly's products amounted to £52,000 (2017: £31,000).

At the year end, no Director of Scottish Friendly had any beneficial interest in shares of Scottish Friendly's subsidiary companies.

Service contracts

The Executive Directors have service agreements with a notice period of less than 12 months. The service agreements do not have a fixed term and provide for retirement at age 65.

In the event of termination, any payments made would be based on individual circumstances including the reason for termination and contractual obligations.

B.2. Fit and Proper requirements

The following section contains more details about Scottish Friendly's "fit and proper" procedures.

When recruiting an individual to perform a controlled function, Scottish Friendly takes appropriate steps to obtain sufficient information about a candidate's previous relevant activities and training. Criteria to assess competence will be established and a role profile developed to measure their suitability, competence and performance against the role requirements.

When making an offer of employment, SF will issue the following:

- a questionnaire (to establish the fitness and propriety of the candidate);
- a statement of their regulatory responsibility and a guide to being an approved person; and
- the Statements of Principle and the Code of Conduct for Approved Persons.

The Compliance Officer will submit an approved person application to the relevant regulator (depending on the controlled function) before the activities requiring approval commence. Applications will always be completed fully and honestly. The regulator will grant/approve

B. System of Governance (cont)

an application only if they are satisfied that the candidate is a fit and proper person to perform the controlled function stated on the application.

Responsibility for ensuring that the candidate is fit and proper remains with Scottish Friendly.

Scottish Friendly requires all Approved Persons to provide evidence of their on-going fitness and propriety. This is completed as part of the annual appraisal process and is assessed following the completion of an annual questionnaire by the individual which is then reviewed by the Chief Executive. When assessing fitness and propriety, the following are considered:

- Honesty, integrity and reputation;
- Competence and capability; and
- Financial soundness.

B.3. Risk management system including the Own Risk and Solvency Assessment

The Role of Risk Management

Scottish Friendly considers risk management to be fundamental to good management practice and a significant aspect of corporate governance. Effective management of risk provides an essential contribution towards the achievement of strategic and operational objectives. Risk management is an integral part of Scottish Friendly's routine decision making and management activity and is incorporated within the strategic and operational planning processes at all levels throughout the business.

Risk governance

Scottish Friendly adopts the "Three Lines of Defence" model to define the roles and responsibilities for risk management throughout the organisation.

- The First Line of Defence is represented by the operational areas across Scottish Friendly which are responsible for the identification and management of day-to-day risks and controls across the business. The management of risks, monitoring of risks and the reporting of breaches of risk appetite are the responsibility of each Executive owner.

- In addition, the governance structure includes first line oversight committees such as the Information Security and Business Continuity Committee (ISBCC) and Product and Distribution Committee (PADCOMM). These meetings are chaired by the relevant Executive and membership includes the Risk and Compliance function.

- The Second Line of Defence is represented by the Committees and control functions that provide ongoing oversight and challenge of the risk exposures and internal control environment. The Risk and Compliance functions provide independent challenge and oversight of each business function, led by a designated Chief Risk Officer. Primary activities include risk assurance reviews, compliance monitoring reviews and reviews of risk and control self-assessments.

- Internal Audit provides the Third Line of Defence by delivering a cyclical and prioritised programme of risk based audits covering all aspects of work undertaken in the First and Second

B. System of Governance (cont)

Line business areas over a period of years. Internal Audit may take some assurance from the work of the Second Line functions to reduce or tailor its checking of the First Line operations.

The overall accountability for risk within the business ultimately rests with the Board. Some responsibilities have been delegated to the Audit Committee of the Board, to assist the Board in reviewing the systems of internal controls and the external financial reports of the business, and to the Risk Committee of the Board (BRC), to provide focused support and advice on risk governance and to assist the Board in reviewing the systems for managing all aspects of business risk, including operational, prudential, conduct and strategic risks. On behalf of the Board, the BRC also conducts an annual assessment of the effectiveness of the Risk function. Further information is set out below on the activities of the Audit and Risk Committees during 2018.

In addition, the Executive Risk Committee (ERC) is the primary forum for Executive oversight and challenge of the risk and control environment across the business and is chaired by the Chief Risk Officer. All Executives are responsible for the identification, assessment, management and control of risks in their respective areas, delegating such parts of this responsibility to appropriate managers or other individuals where practical and are required to report on their respective area at the ERC on at least a quarterly basis.

Risk management is embedded in the duties and responsibilities of all employees and it is the responsibility of managers to ensure that this approach is maintained, and the responsibility of the ERC to ensure that this is effectively monitored. The Corporate Risk Register is reviewed by the ERC on a quarterly basis and challenged by the BRC. This sets out the key strategic, conduct and operational risks facing Scottish Friendly, the likelihood of occurrence and the potential impact.

The Board has overall responsibility for the system of internal control and, through a combination of the above activities, is able to review its effectiveness annually, including financial, operational and compliance controls and risk management systems. Its effectiveness has also been reviewed by the Board specifically for the purposes of this statement.

Principal Risks

The key risks facing Scottish Friendly are considered within the Own Risk and Solvency Assessment (ORSA) and presented to the BRC and the Board on at least an annual basis. EROs review key risk appetite metrics on a monthly basis to assess whether Scottish Friendly is within its risk appetite and also to confirm whether the key risk appetite metrics remain up to date. This analysis is formally presented on a quarterly basis to the ERC, BRC and Board to highlight any significant movements in the risk profile of the business or the forward-looking risks.

The principal risks to which Scottish Friendly is exposed are strategic, solvency, liquidity, operational, reputation and conduct risks as well as cyber-crime and Brexit. The Strategic Report on pages 1 to 5 discusses, in overview, Scottish Friendly's assessment of the current risks and uncertainties facing the Group and the strategies and other activities being exercised to mitigate these risks.

B. System of Governance (cont)

Strategic risk is the risk that the business is unable to implement its strategy, or elements of its strategy or that implementing the strategy may give rise to unexpected or unintended consequences which harm the business model. This is mitigated through the ongoing Strategic and Business Planning processes. Solvency risk is defined as the risk that Scottish Friendly does not retain appropriate levels of solvency. This is mitigated by Scottish Friendly maintaining a target capital coverage. A number of risks will impact the overall Solvency risk including market, underwriting and credit risk.

Liquidity risk is the risk that loss or adverse circumstances will result in the inability of Scottish Friendly, although solvent, to meet its liabilities as they fall due. This is mitigated by monthly budget vs. actual reporting, regular key account reconciliations and Board review of the business plan.

Operational risk is the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, in particular cyber risk, or from external events. This is mitigated through effective first line of defence controls within procedures and where appropriate automated processes.

Cyber-crime is continuing to increase and as such Scottish Friendly continue to focus on developing robust controls to monitor and mitigate the threat of cyber risk, which is identified as a key risk within Scottish Friendly given our use of innovative technology for policy administration, sales and customer interaction. Consideration of cyber risk is embedded within the RMF and forms part of the annual stress and scenario testing considered within the ORSA.

Reputation and Conduct risk is the risk that our products, distribution or post-sales practices result in poor customer outcomes. This is mitigated via the use of a robust product development process, including customer focus groups as well as post-launch monitoring such as complaints reviews and root cause analysis.

Brexit has been a key consideration of the RMF and the ORSA process. These included consideration of the potential risks arising from the UK's withdrawal from the EU. Potential risks to Scottish Friendly as a result of Brexit include economic downturn and changes in customer behaviour, both of which could pose threats to the strategic objectives of Scottish Friendly. Stress and scenario testing is carried out under various Brexit scenarios as part of the ORSA (such as a "no-deal" scenario) to measure Scottish Friendly's exposure and resilience to the uncertainties posed by Brexit. In addition, Brexit has the potential to cause operational risks. Scottish Friendly is actively engaging with the UK and overseas regulators to ensure that this risk is minimised and overall Brexit is expected to have a limited impact on the Society.

Risk Management Framework

Scottish Friendly maintains a robust Risk Management Framework (RMF) that creates an effective risk management capability across the business. The RMF describes both the strategic aspects of risk management, such as stress testing, as well as the more operational aspects such as risk assessment and assurance. The components of the RMF are shown below.

B. System of Governance (cont)

Risk Management Framework

The RMF sets out the basis of how risks are managed across the business and the linkage between the various activities. Each risk category is allocated an Executive Risk Owner (ERO).

Board approved Risk Appetite Statements (RAS) are in place for each risk category; these consider the implications of the current strategy and the risks that are created in pursuit of the objectives. The assessment considers not only the strategic priorities at the point in time assessment, but also what is proposed over the planning horizon and potential deviations from the agreed strategy.

The Own Risk and Solvency Assessment (ORSA) is an integral part of the strategic decision making process within Scottish Friendly and its results inform capital management, investment and product development decisions taken by the Executive and the Board. As well as this, the ORSA creates a link between the risks that are being taken to deliver the strategy and the capital implications that arise as a consequence of the chosen strategy.

Risk policies are in place; these define the principles and standards for managing key risks across the business. Each policy has been allocated an ERO who is responsible for ensuring compliance with the standards across the company on an ongoing basis.

For each risk category, Key Risk Indicators (KRIs) and associated metrics have been developed and agreed. These enable risk to be measured on an ongoing basis against agreed tolerance levels. Metrics include not only the solvency specific metrics, but also a range of additional elements covering the risks to which Scottish Friendly is exposed. The KRIs also highlight whether risks are increasing or otherwise.

Scottish Friendly maintains a Risk Register that categorises risks at 3 levels appropriate to the characteristic of the risk:

- An ongoing process of Risk and Control Self-Assessment (RCSA) is in place for monitoring and managing inherent and residual risk exposures. A key element of the RCSA process is the identification of risks and the management of risk through the assessment of the performance of key controls. This process is performed at both a functional and at a consolidated corporate

A. Business and Performance
B. System of Governance
C. Risk Profile
D. Valuation for Solvency Purposes
E. Capital Management
F. Appendices

B. System of Governance (cont)

wide level and is the mechanism for identifying, assessing and reporting the key risks from a strategic perspective.

- The RCSA process also requires the identification and assessment of emerging risks. These are risks that may arise from changing external factors and that are not of immediate concern but which may however, pose a threat to the business model over the longer term.
- The output of the RCSA process enables EROs at functional area level, as well as at risk category level, to attest to their assessment of residual risk. The Risk function performs regular sampling of the RCSA returns to determine the quality of the assessments and provide reporting to the ERC and Risk Committee on the results of the RCSA.

B.4. Internal Audit System

The following provides more information about Scottish Friendly's Internal Audit Function:

The Internal Audit Function (IAF) has the objective of providing management and the Audit Committee of the Board (AC) with an independent assessment of the effectiveness of internal control systems in the areas outlined and agreed in the Internal Audit Plan.

The Internal Audit Plan is prepared annually and approved by the AC. All IAF reports are presented to the AC.

Fundamental Principles under Solvency II (Articles 47 and 50)

SFA incorporates the IAF and associated reporting lines into the organisational structure in a way that ensures that the IAF is free from influences that may compromise the IAF's ability to undertake its duties in an objective, fair and independent manner. The persons carrying out the IAF shall not assume any responsibility for any other function.

The IAF operates under the ultimate responsibility of, and report to the AC and, where appropriate, cooperates with other functions in carrying out their roles.

The persons carrying out the IAF will have the necessary authority, resources and expertise to carry out their responsibilities. They will also have unrestricted access to all relevant information necessary to carry out their responsibilities. The persons performing the IAF will promptly report any major problem in their area of responsibility to the AC or Board.

The IAF shall:

- establish, implement and maintain an audit plan setting out the audit work to be undertaken, taking into account all activities and the complete system of governance of Scottish Friendly;
- take a risk-based approach in deciding its priorities;
- report the audit plan to the AC;
- issue recommendations based on the work carried out and submit a written report on its findings and recommendations;
- verify compliance with the decisions taken by the AC on the basis of those recommendations.

B. System of Governance (cont)

Where necessary, the IAF may carry out audits which are not included in the audit plan.

Relationship with Management/Other Stakeholders

IAF has a dual reporting role to Management for assistance and support in organising and conducting assignments, and to the AC for strategic direction and accountability. IAF will take account of the activities of external audit and external audit will review the planned activities of the function to assess the scope and relevance of the work to the external audit activity. This will facilitate a "joined up" approach where it is appropriate to do so.

Internal Audit cannot absolve management of responsibility for internal controls and must ensure it is not involved in the operation of controls.

IAF Process

Internal Audit will produce a proposed schedule of audits to be performed during the year, to be submitted to the AC for approval.

At the conclusion of each element of the Internal Audit Plan a draft report will be prepared. Auditees will be required to consider their element of the report for factual accuracy and to provide management responses for considering the recommendations, and where applicable, realistic target dates for implementation. Final reports will then be issued to auditees, the Executive Team and the AC.

B.5. Actuarial Function

Scottish Friendly's actuarial function has the following responsibilities:

- To fulfil the Chief Actuary SMF20 role, responsible for taking all reasonable steps to ensure the continued solvency, safety and soundness of Scottish Friendly, including actuarial investigations and regular valuations on the Solvency II and ORSA reporting bases;
- Undertaking the capital calculations, and ensure adequate provisions are available to meet policyholder benefits in all reasonable foreseeable circumstances in accordance with the risk appetite and taking due account of liquidity;
- Ensuring regulatory and legislative requirements are met, including annual review of operation Principles and Practices of Financial Management (PPFM);
- Undertaking regular and ad hoc exercises including bonus investigations, calculations, reviews, analyses, profitability and experience monitoring, reinsurance arrangements, reports and regulatory submissions as required from time to time;
- Assisting in the Product Development processes. For example review of: product design, profit testing, specification and appropriate reinsurance arrangements; and
- Specifying and implementing claims calculations bases and methods including monitoring and application of Market Value Adjustments (MVAs) as and when required.

B. System of Governance (cont)

B.6. Outsourcing

Outsourcer Failure/Replacement risk is defined as failure of outsourcing or supplier arrangements and failures within the administration undertaken by partners, including breach of contract.

Scottish Friendly seeks to manage its exposure to Outsourcer Failure/Replacement risk by establishing minimum control standards and supporting practices/procedures that align with the agreed priorities. The principles seek to provide effective oversight controls to monitor the delivery of the services provided by outsourcers, suppliers and partners ensures that appropriate action is taken to address any issues identified. The Outsourcing Committee have responsibility for overseeing this.

As at 31 December 2018, the following key outsourced functions are considered critical and important in line with the terms of 7.2 of Conditions Governing Business in the PRA Rulebook for Solvency II Firms:

- Internal Audit (EY)
- With Profits Actuary (Oxford Actuaries and Consultants)
- Administration of Services (Aegon)

In addition there are three distribution contracts which involve an element of policy administration (BGL Group, Neilson Financial Services and Nucleus) and three investment management agreements (BlackRock, Mobius Life and Legal & General).

B.7. Other Information

There is no other material information to disclose in this situation.

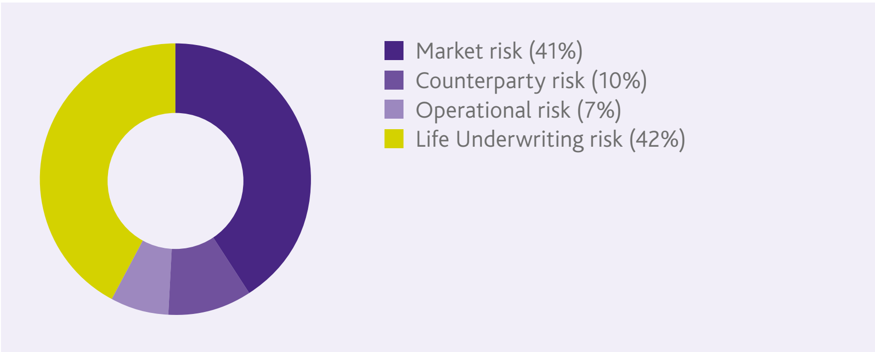
C. Risk Profile

The key risks facing Scottish Friendly are considered within the ORSA and presented to the Board on at least an annual basis.

Quarterly ORSA Dashboard reports are presented to the Executive Risk Committee, Risk Committee and Board to highlight any significant movements in the risk profile of the business or the forward-looking risks.

The principal risks to which Scottish Friendly is exposed are underwriting, market, counterparty credit, and operational risks. These risks are an integral component of Scottish Friendly's RMF. The RMF supports the identification, measurement, management, monitoring and reporting of these risks.

The figure below shows the split of the main risks to which Scottish Friendly is exposed. The capital requirements shown are based on the Standard Formula capital requirement for each risk:



C.1. Market Risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows from fluctuations in interest rates, foreign currency exchange rates, equity prices and property values. This is mitigated through ongoing solvency monitoring and oversight provided by the Investment Committee.

As at 31 December 2018 the total capital required in respect of market risk facing the business was £44.2m. This is comprised of the following risks across each of the sub funds.

C. Risk Profile (cont)

Business Block	SF main fund £m	LANMAS £m	Rational Shelley £m	Scottish Legal £m	M&GM £m	Aggregate £m
Interest rate risk	2.7	0.0	0.0	0.0	7.1	9.8
Equity risk	9.7	0.2	0.2	0.1	22.9	33.1
Property risk	0.6	0.0	0.0	0.0	1.8	2.4
Spread risk	0.8	0.0	0.0	0.0	3.2	4.0
Currency risk	0.0	0.0	0.0	0.0	0.9	0.9
Other market risk	0.0	0.0	0.0	0.0	0.0	0.0
Diversification	(1.4)	(0.0)	(0.0)	(0.0)	(4.6)	(6.0)
Total market risk	12.3	0.2	0.2	0.2	31.3	44.2

The primary driver of market risk is "equity risk" reflecting the investment in equities in respect of the with-profits asset shares, and the impact on the cost of guarantees for that business in the event of a fall in market values.

C.2. Life Underwriting Risk

Underwriting risk is the risk of potential losses arising from inaccurate assessment of the risks entailed in writing an insurance policy. This is mitigated by the provision of reinsurance arrangements, limits on cover and explicit exclusions.

As at 31 December 2018 the total capital required in respect of underwriting risk facing the business was £46.2m. This is comprised of the following risks across each of the sub funds.

Business Block	SF main fund £m	LANMAS £m	Rational Shelley £m	Scottish Legal £m	M&GM £m	Aggregate £m
Mortality	1.6	0.0	0.0	0.1	0.1	1.8
Longevity	1.9	0.0	0.0	0.6	8.6	11.0
Disability	0.0	0.0	0.0	0.0	0.0	0.0
Lapse	25.6	0.3	0.0	0.2	4.1	30.1
Expense	11.7	0.0	0.0	0.1	2.2	14.0
Revision	0.0	0.0	0.0	0.0	0.0	0.0
Catastrophe risk	0.3	0.0	0.0	0.0	0.0	0.3
Diversification	(7.2)	(0.0)	(0.0)	(0.3)	(3.5)	(11.0)
Total life underwriting risk	33.8	0.3	0.0	0.6	11.5	46.2

C. Risk Profile (cont)

C.3. Counterparty Default Risk

Counterparty default risk is the risk of financial loss as a result of the default or failure of third parties to meet their obligations. This is mitigated via diversified counterparties and minimum counterparty credit ratings when establishing new relationships.

As at 31 December 2018 the total capital required in respect of credit risk facing the business was £10.4m. This is comprised of the following risks across each of the sub funds.

Business Block	SF main fund £m	LANMAS £m	Rational Shelley £m	Scottish Legal £m	M&GM £m	Aggregate £m
Type 1	4.9	0.0	0.0	0.7	4.5	10.0
Type 2	0.5	0.0	0.0	0.0	0.0	0.5
Diversification	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)
Total counterparty risk	5.2	0.0	0.0	0.7	4.5	10.4

Note:

- Type 1 details the exposures to institutions with credit ratings.
- Type 2 details all remaining exposures.

The primary driver of counterparty default risk refers to the risks that reinsurers or banks are unable to satisfy their obligations and cause financial loss. Only high quality counterparties are sought as counterparties, collateral arrangements are put in place where appropriate and concentration risk is managed by using a number of banks and reinsurers to spread the risks.

C.4. Liquidity Risk

Liquidity risk is the risk that loss or adverse circumstances will result in the inability of Scottish Friendly to meet its liabilities when they fall due.

Liquidity risk is subject to extensive management oversight and reporting. Premium and claims analysis is performed by Finance with input from Actuarial and monitored via the Liquidity Cash Resources metric within the ORSA Dashboard, which monitors the cash available versus net cash outflows over the next 3 months.

Reinsurance claims payments and schedules are subject to regular monitoring and any issues raised at regular relationship management meetings. The Investment Committee provides oversight of the asset allocation and ultimately maintains a strategy that includes a proportion of the portfolio that is very liquid e.g. listed equities, gilts, which if required, could be sold to provide additional liquidity during stressed periods.

Given the nature of this risk and the controls in place, Scottish Friendly did not hold any capital against this risk as at 31 December 2018.

C. Risk Profile (cont)

C.5. Operational Risk

Operational risk is the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, cyber risk, or from external events. This is mitigated through effective first line of defence controls within procedures and where appropriate automated processes.

The operational risk capital requirement is calculated in line with the prescribed Standard Formula basis, with the results shown below. The capital requirement is a variable of the earned premiums and the expenses on unit linked business.

As at 31 December 2018 the total capital required in respect of operational risk facing the business was £7.5m. This is comprised of the following risks across each of the sub funds.

Business Block	SF main fund £m	LANMAS £m	Rational Shelley £m	Scottish Legal £m	M&GM £m	Aggregate £m
Total operational risk	4.2	0.1	0.0	0.3	4.0	7.5

C.6. Risk Sensitivities

Scottish Friendly conducts various stress tests to assess the implications of various scenarios on the capital position of the business. These are completed as part of the ORSA process which is completed at the same time as the Strategic Planning process. Overall the exercise concludes that under a number of financial scenarios, Scottish Friendly remains well capitalised with capital in excess of the SCR and also within internal Risk Appetite measures.

The following stress scenarios were defined and developed following input from both the Executive and Board:

- Bank of England anchor scenario
- Failure of the CLL acquisition
- Impact of low interest rates
- Radical back book review, with lower charges
- No-deal Brexit
- Sales boom of capital intensive products
- Loss of key partner
- Cyber crime

The scenarios consider the immediate impact to the capital position e.g. payment of remediation and costs, as well as the longer term impact on revenues e.g. cyber attack impacting ongoing sales volumes. The exercise concludes that under a number of adverse scenarios, Scottish Friendly remains well capitalised with capital in excess of the SCR and also within internal Risk Appetite measures.

C. Risk Profile (cont)

Additional management actions, beyond those modelled in the SCR calculation, have not been required to be incorporated, as the solvency position does not necessitate the use of the actions to maintain solvency.

In addition to the above reverse stress tests are also completed by the business based on input from the Executive and the Board.

C.7. Other Risks

There are no other material risks not already allowed for in the above sections.

D. Valuation for Solvency Purposes

Valuation Basis

The Solvency II Directive requires Scottish Friendly's assets and liabilities, other than Technical Provisions to be measured at fair value i.e. in accordance with the principles of an arm's length transaction between knowledgeable willing parties using market consistent valuation methods.

The differences between the Statutory Accounts and Solvency II Balance Sheet as at 31 December 2018 are shown below. As the Statutory Accounts are principally valued at fair value, the differences between the Solvency II Balance Sheet and the Statutory Accounts are minimal. As the technical provision and related reinsurance assets are calculated on a Solvency II basis, differences are either due to the reclassification of assets from one asset sector to another (with no change on the value of the balance sheet) or items not recognised on one or other of the balance sheets. As at 31 December 2018 no material reclassifications were required. A £1.5m liability is recognised on the Statutory Accounts balance sheet to defer the future profit arising from the transfer of business from Mobius Life Limited.

The differences between the Statutory Accounts and Solvency II Balance Sheet are shown below.

	Statutory Accounts £000	Solvency II Adjustments £000	Solvency II Balance Sheet £000
Property & Equipment	3,904	–	3,904
Investments	1,271,776	–	1,271,776
Reinsurance	1,199,149	–	1,199,149
Cash	140,806	–	140,806
Other	26,289	1,459	27,748
Total Assets	**2,641,924**	**1,459**	**2,643,383**
Technical Provisions	(2,339,732)	–	(2,339,732)
Other	(117,539)	–	(117,539)
Total Liabilities	**(2,457,271)**	**–**	**(2,457,271)**
Net Assets	**184,653**	**1,459**	**186,112**

D.1. Assets Valuation

The approach used to value assets is set out below. Assets are valued at fair value as at the balance sheet date of 31 December 2018.

Property, plant and equipment

Land and buildings are valued at fair value. This is the same basis as the Statutory Accounts for Solvency II purposes. A formal valuation, completed by a professional independent valuer was completed on 31 December 2018.

D. Valuation for Solvency Purposes (cont)

Plant and equipment are valued at their net realisable value. This is considered by management as an appropriate proxy for fair value of these assets.

Investments

Financial investments are valued at fair value in both the Statutory Accounts and Solvency II Balance Sheet. As such no valuation adjustments arise between the two bases.

Investments including those held to cover linked liabilities are stated at the current market value as described below:

- Shares and other variable-yield securities, units in unit trusts and shares in OEICs are shown in the balance sheet at mid-market value at the balance sheet date.
- Debt securities and other fixed income securities are valued at the current market value at the balance sheet date.
- Investments in Group undertakings (detailed as Participations under Solvency II) are valued at the net asset value which the Directors believe is a fair proxy for fair value.

Scottish Friendly applies the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Each financial instrument is categorised according to the lowest level of input that is significant to the fair value measurement of the financial instrument. Both price volatility and market information on assets are reviewed periodically to see if there is any indicator that an asset may require reclassification due to illiquidity or impairment.

Level 1: unadjusted prices quoted in active markets for identical assets or liabilities.

Prices are obtained from pricing service providers where there is clear evidence that valuations are based on traded prices in an active market. The prices for assets in this category are received daily from Thomson Reuters, or are provided by third parties based on active market prices.

Level 2: inputs other than quoted prices that are observable either directly (as prices) or indirectly (as derived from prices).

Where it is not possible to determine prices based on actual transactions in an active market, the fair value is based on broker quotes and information from fund managers. Assets in this category include the investment property held by Scottish Friendly and derivatives.

Level 3: the inputs are not based on observable market data (unobservable inputs).

In a minority of cases there are no market observable inputs and therefore the fair value is determined using a valuation technique based on assumptions that are not supported by observable market transactions nor based on market data. Such assets include Scottish Friendly's investment in private equity funds and the subsidiary companies.

D. Valuation for Solvency Purposes (cont)

As at 31 December 2018 the following investments were held by Scottish Friendly:

	Scottish Friendly			
	Level 1 £000	Level 2 £000	Level 3 £000	**Total £000**
Financial instrument assets 2018				
Financial investments designated at fair value;				
Shares, other variable yield securities and units in OEICs and unit trusts	1,087,943	5,387	–	**1,093,330**
Debt securities and other fixed income securities	6,281	–	4,032	**10,313**
Private equity investments	–	–	3,264	**3,264**
Financial assets measured at fair value through profit and loss	1,094,224	5,387	7,296	**1,106,907**
Loans and receivables;				
Deposits with credit institutions	164,865	–	–	**164,865**
Policyholder loans	–	–	4	**4**
	164,865	–	4	**164,869**
Total financial assets	–	–	–	**1,271,776**

Reinsurance assets

The recoverables from reinsurance contracts relate to annuity business, which is almost entirely reinsured, term assurance business, of which a large proportion is reinsured, and reinsurance of certain investment funds (including the pension funds which transferred from Mobius Life Limited). The reinsurance arrangements involve a number of different reinsurers. Regular monitoring is carried out to assess the ongoing risk associated with these arrangements.

The reinsurance assets for Solvency II reporting and Statutory Accounts have been calculated on best estimate basis in line with Solvency II requirements. On a Solvency II basis we allow for expected losses on reinsurance recoverables due to counterparty default but this is not allowed for on a Statutory Accounts basis.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and cash in hand as well as short-term deposits with a maturity of three months or less and known redemption values which are held to manage short-term operational cash requirements on origination. They are valued at market value.

Other Assets

These include sundry debtors and prepayments and are valued at fair value in both the Statutory Accounts and Solvency II. The Statutory Accounts also include a negative goodwill asset, which was recognised on the transfer of a block of business from Mobius Life Limited. As an intangible asset, this is not recognised on the Solvency II basis.

D. Valuation for Solvency Purposes (cont)

D.2. Technical Provisions

The Technical Provisions represent the best estimate liability of future policyholders along with a Risk Margin. The Risk Margin is intended to reflect the difference between the amount which must be paid to another insurer to meet the future obligations for a block of policies and the best estimate value of liabilities for the same block of policies.

The key demographic assumptions in the realistic basis (expense, mortality, morbidity and persistency) are based on the experience investigations carried out in late 2018 and presented to the Board in December 2018. The economic assumptions in the realistic basis (e.g. yield curves and volatilities) are based on relevant market data at 31 December 2018.

The key components of the Technical Provisions are the with-profit benefit reserves, the cost of guarantees, non-profit reserves, unit linked reserves and the Risk Margin. The with-profit benefits reserves (i.e. the asset share for with-profits business) may be calculated using a retrospective or prospective approach.

The retrospective approach involves rolling the asset share forward month-on-month allowing for premiums, investment returns, charges and any other relevant factors.

The prospective approach involves discounting the expected payout to policyholders (including allowance for future bonuses) to the valuation date, allowing for future expenses and premiums.

The with-profits benefit reserves at 31 December 2018 are all valued using a retrospective approach except for the Rational Shelley business, which is valued using a prospective approach and accounts for under 1% of the total with-profits benefit reserve.

The with-profits benefit reserves on Rational Shelley policies were originally calculated using a prospective approach because it wasn't possible to undertake a retrospective valuation as there was no historical asset share information available when the business was acquired. The asset shares are recalibrated once a year to ensure that they remain appropriate.

	2018 £000	2017 £000
Best Estimate Liabilities	**2,313,974**	2,221,770
Risk Margin	**25,758**	20,939
Technical Provisions	**2,339,732**	2,242,709

Prior Year Restatements

Following a detailed actuarial review, errors have been identified in the measurement of the technical provisions and claims outstanding in relation to the reserving methodologies applied to certain products.

The Board consider that reflecting these changes in the measurement of technical provisions and claims outstanding results in a more appropriate quantification of the required reserves and provisions for these products. The adjustments to the technical provisions and claims

D. Valuation for Solvency Purposes (cont)

outstanding resulting from the errors impact the liabilities on both the Statutory Accounts and Solvency II bases.

As part of the review, errors were also identified in the quantification of the capital requirements for the business and the modelling of the actions management would take under stress scenarios. These changes had an impact on the ring-fencing restriction in respect of the sub funds, as discussed in E.1. below.

Impact on the 2017 Solvency II Balance Sheet

	2017 as previously reported £000	Adjustment One £000	Adjustment Two £000	Restated 2017 £000
Claims outstanding	26,602	–	7,201	33,803
Technical Provisions	2,228,680	14,029	–	2,242,709
Solvency II Unrestricted Own Funds	**191,345**	**(14,029)**	**(7,201)**	**170,115**
Ring-fencing restriction	(32,380)	(2,161)	(457)	(34,998)
Solvency II Own Funds	**158,965**	**(16,190)**	**(7,658)**	**135,117**

Adjustment 1: these adjustments relate to the measurement of technical provisions in relation to the reserving methodologies applied to certain products and comprise the methodology applied to subfund charges for expenses, the reserves required for the mutuality benefit bonus in relation to the FIA policies, the projection of expenses for certain unit-linked policies subject to contract boundaries and the asset share calculation methodology. These adjustments also include the impact on the Risk Margin of changes to the aggregation of capital requirements of non-market risks and the modelling of future management actions. The impact on the ring-fencing restriction is a consequence of the various changes.

Adjustment 2: this adjustment related to omitted claims outstanding in relation to certain pension products which had passed their nominated retirement date and an adjustment to the methodology of calculating the claims outstanding reserve.

The changes to the unrestricted Own Funds were reflected in an equal and opposite change to the Fund for Future Appropriations (FFA), which forms part of the Statutory Accounts balance sheet. The FFA as at 31 December 2017 was restated to £170,219k from £191,450k. As a result of the changes, the transfer to the FFA in 2017 was restated to £1,537k from £14,524k.

D.3. Uncertainties within the Technical Provisions

The basis items with the largest impact on the overall valuation of Technical Provisions are the assumptions surrounding the yield curves, the realistic discount rate and the expense basis.

D. Valuation for Solvency Purposes (cont)

D.4. Other Liabilities

The other liabilities included in Scottish Friendly's solvency calculation relate mainly to creditors, accruals and deferred income. These are valued at fair value in both the Statutory Accounts and Solvency II.

The total amount of other liabilities is £107.3m. The key liabilities within this total are detailed in the table below:

	2018 £000	Restated 2017 £000
Deposits from reinsurers	**44,607**	48,686
Claims Outstanding	**39,568**	26,602
Payable (trade)	**21,260**	13,927
Other	**11,604**	11,818
Total	**117,539**	108,234

D.5. Alternative Valuation Methods

As there are no alternative valuation methods for Scottish Friendly's holdings in loans and receivables and property, plant and equipment, alternative valuation methods, as detailed in D.1., are used to determine the fair value of these assets.

D.6. Other Material Information

The information presented in Section D provides a true and fair view of the valuation for Solvency purposes of Scottish Friendly.

E. Capital Management

E.1. Own Funds

Scottish Friendly's capital management objectives are:

- To protect Scottish Friendly's financial strength, providing security to policyholders,
- To comply with the PRA's capital requirements,
- To enable smoothing of investment returns and payouts, and
- To ensure that Scottish Friendly's capital position is sufficient to enable it to invest in the development of the business in order to fulfil its core strategic objectives as determined by the Board.

The capital position of Scottish Friendly is monitored on a regular basis by the Risk Committee as part of the Risk Management Framework and reviewed formally by the Board. Scottish Friendly has not breached the PRA's capital requirements at any point in the current or prior year.

Composition of Own Funds

Scottish Friendly's capital comprises of its Own Funds. As a mutual these comprise 100% of the profits not yet allocated to members. All Scottish Friendly's Own Funds are Tier 1 capital and there are no restrictions on the availability of these to support either the Minimum Capital Requirement (MCR) or Solvency Capital Requirement (SCR).

The following table provides a breakdown of the components of the Own Funds.

	2018	Restated 2017
Own Funds	**110,770**	135,117
Tier 1	**110,770**	135,117
Surplus Funds	**186,112**	170,115
Reconciliation Reserve	**(75,342)**	(34,999)
Tier 2	**–**	–
Tier 3	**–**	–
% Tier 1	**100%**	100%

The Surplus Funds item represents the excess of the assets over the liabilities in Scottish Friendly and is the surplus that has not yet been distributed to our participating members. The reconciliation reserve reflects the ring-fencing restriction relating to the closed sub-funds, as described below.

The Own Funds as at 31 December 2017 have been restated due to refinements and corrections to the evaluation of various items of the Technical Provisions and other liabilities that occurred in 2018. Further details are set out in D.2. above.

E. Capital Management (cont)

Reconciliation to Funds for Future Appropriations shown in the financial statements

There is a small difference between net assets as shown in the financial statements and the Solvency II value excess of assets over liabilities, which is due to the recognition of an intangible negative goodwill on the Statutory Accounts basis but not on the Solvency II basis. This reflected the transfer of business from Mobius Life Limited and, as an intangible asset, is not recognised on a Solvency II basis. As at 31 December 2018, excess assets over liabilities were £184.7m on a Statutory Accounts basis and £186.1m on a Solvency II basis.

The following table shows the change in Scottish Friendly's Own Funds from 31 December 2017 to 31 December 2018.

	2018 £000
Opening Own Funds	135,117
Increase/(Decrease) in Total Assets	97,893
(Increase)/Decrease in Technical Provisions	(97,022)
(Increase)/Decrease in Current Liabilities	15,125
Total	15,996
Increase/(Decrease) in ring-fencing of available capital	(40,343)
Closing Own Funds	110,770

The assets and liabilities in the table above are shown net of reinsurance.

Ring Fenced Funds

The Solvency II excess of assets over liabilities is reduced to reflect the impact of ring fencing of individual sub funds. The sub funds are closed to new business and they have separate equity backing mixes resulting in different investment experiences and bonus policies. The excess assets over liabilities in the sub fund are not treated as transferable.

The impact of this on the Own Funds position is shown below. These sub funds are the Rational Shelley sub fund, LANMAS sub fund, the Scottish Legal Life sub fund and the M&GM sub fund.

	2018 £000	2017 £000
Excess assets over liabilities	186,112	170,115
Adjustment for restrictions due to ring fencing	(75,342)	(34,999)
Own Funds	110,770	135,117

E. Capital Management (cont)

E.2. Solvency Capital Requirement and Minimum Capital Requirement

Scottish Friendly uses the Standard Formula as the basis for calculating capital requirements having reviewed them and assessed them as appropriate for the firm. Scottish Friendly complies in all material respects with the requirements of the PRA rules and Solvency II Regulations related to the SCR and MCR.

The capital position of the business is calculated on a monthly basis and results communicated to the Board. The Risk Committee reviews solvency by risk indicators and the stock market is continuously monitored with solvency assessed if volatility triggers are breached.

The Own Funds are summarised below with more detail provided in the Appendices which contain the relevant Quantitative Reporting Templates.

	2018 Solvency II £000	2017 Solvency II £000
Own Funds	**110,770**	135,117
Minimum Capital Requirement	**23,559**	28,288
Solvency Capital Requirement	**58,820**	67,823
Solvency Ratio	**188.3%**	199.2%

The position as at 31 December 2017, as reported above, reflects a restatement of the capital requirements as a result of changes to the actuarial modelling of liabilities and capital requirements, as set out in D.2. above. In addition, the modelling of the symmetric adjustment to equity risk was updated.

The impact of the changes was to reduce the SCR from £80.6m to £67.8m, largely reflecting the enhanced modelling of management actions and the change to the equity risk capital requirements.

The SCR reduced relative to the restated 31 December 2017 position, primarily as a result of reductions to the Standard Formula equity risk stress.

E. Capital Management (cont)

Solvency Capital Requirement split by risk modules

The table below shows the risk modules that make up Scottish Friendly Assurance Limited's SCR at 31 December 2018.

	2018 Net SCR £000
Market Risk	44,232
Life Underwriting	46,233
Counterparty Default Risk	10,408
Undiversified BSCR	100,872
Diversification Credit	(25,404)
Basic SCR	75,468
Operational Risk	7,519
Adjustment due to RFF/MAP	4,429
Loss-absorbing capacity of technical provisions	(22,884)
Loss-absorbing capacity of deferred taxes	(5,713)
Solvency Capital Requirement	58,820

The components of these risk modules are shown in Section C of this report.

The calculation of Scottish Friendly's SCR has been carried out using the parameters of the Standard Formula. No simplification has been applied to the calculation of the SCR.

No capital add-on has been applied to the SCR calculated by Scottish Friendly.

Minimum Capital Requirement

The MCR has been calculated as the minimum of 45% of the SCR and the greater of 25% of the SCR and the linearly derived MCR.

The detail of the MCR calculation is shown below:

	2018 £000
Linear MCR	23,559
SCR	58,820
MCR cap	26,469
MCR floor	14,705
Combined MCR	23,559
Absolute floor of the MCR	3,288
Minimum Capital Requirement	23,559

E. Capital Management (cont)

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

Scottish Friendly is not using the duration-based equity risk sub-module.

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

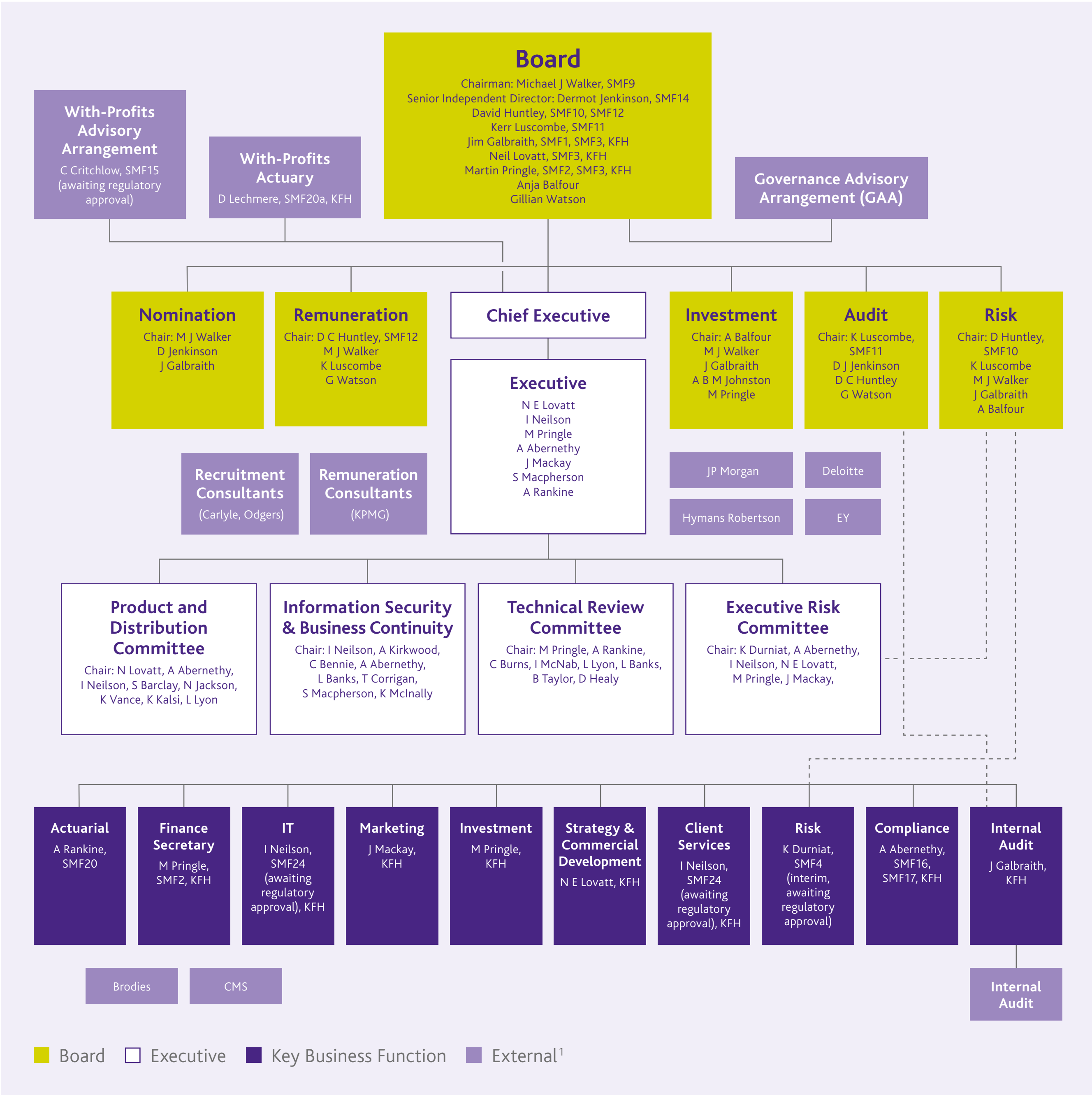
Scottish Friendly has not used an internal model or partial internal model in the calculation of the SCR.

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

Scottish Friendly has complied with the MCR and the SCR throughout the period.

F. Appendices

F.1. Functional Structure (as at 31 December 2018)



SMF designations are noted at Board and Exec level, and not duplicated at Committee level other than were applicable to that Committee.

[1] List of external advisors is not exhaustive in that others are called upon as required, driven by project demands.

F. Appendices (cont)

F.2. Individual Performing Function (as at 31 December 2018)

SMF/KFH	Regulator	Function	Individual Performing Function
SMF1	PRA	Chief Executive Function	Jim Galbraith
SMF2	PRA	Chief Finance Function*	Martin Pringle
SMF3	FCA	Executive Director	Jim Galbraith
SMF3	FCA	Executive Director	Neil Lovatt
SMF3	FCA	Executive Director	Martin Pringle
SMF4	PRA	Chief Risk Function*	Kim Durniat (interim, subject to regulatory approval)***
SMF9	PRA	Chairman	Michael Walker
SMF10	PRA	Chair of the Risk Committee	David Huntley
SMF11	PRA	Chair of the Audit Committee	Kerr Luscombe
SMF12	PRA	Chair of the Remuneration Committee	David Huntley
SMF14	PRA	Senior Independent Director	Dermot Jenkinson
SMF15	FCA	Chair of the With-Profits Committee/ With-Profits Advisory Arrangement	Christopher Critchlow
SMF16	FCA	Compliance*	Aileen Abernethy
SMF17	FCA	Money Laundering Reporting	Aileen Abernethy
SMF20	PRA	Chief Actuary Function	Alan Rankine
SMF20a	PRA	With-Profits Actuary Function*	David Lechmere
SMF24	PRA	Chief Operations Function	Ian Neilson (subject to approval)
KFH	PRA	Internal Audit Function**	Jim Galbraith
KFH	PRA	Investment	Martin Pringle
KFH	PRA	Client Services	Ian Neilson
KFH	PRA	Marketing	Jill Mackay
KFH	PRA	IT	Ian Neilson
KFH	PRA	Strategy and Commercial Development	Neil Lovatt

* Denotes SIMF's and CFs that are also key functions.

** Jim Galbraith is the Key Function Holder for Internal Audit however the prescribed responsibility sits with Kerr Luscombe, Chair of the Audit Committee.

*** Genevieve Humphreys appointed as SMF4 with effect from 1 April 2019.

Note: Anja Balfour and Gillian Watson do not hold a SMF role under the regime but retain the role of non-executive director.

F. Appendices (cont)

F.3. Public Quantitative Reports Template

The following public Quantitative Reports Templates (QRTs) are disclosed:

S.02.01.02	Balance Sheet
S.05.01.02	Premiums, Claims & Expenses by line of Business
S.05.02.01	Premiums, Claims & Expenses by Country
S.12.01.02	Life & Health SLT Technical Provisions
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement
S.28.01.01	Minimum Capital Requirement

General information

Undertaking name	Scottish Friendly
Undertaking identification code	21380058XYHZJQMXDQ26
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2018
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	3,904
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	722,261
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	3,114
R0100	*Equities*	149
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	149
R0130	*Bonds*	10,313
R0140	*Government Bonds*	6,281
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	4,032
R0180	*Collective Investments Undertakings*	708,685
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	549,511
R0230	Loans and mortgages	4
R0240	*Loans on policies*	4
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	1,199,149
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	896,772
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	896,772
R0340	*Life index-linked and unit-linked*	302,377
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	13,729
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	3,474
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	140,806
R0420	Any other assets, not elsewhere shown	339
R0500	**Total assets**	2,633,178

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	1,524,951
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	1,524,951
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	1,510,128
R0680	*Risk margin*	14,822
R0690	Technical provisions - index-linked and unit-linked	814,781
R0700	*TP calculated as a whole*	832,768
R0710	*Best Estimate*	-28,922
R0720	*Risk margin*	10,936
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	-10,205
R0770	Deposits from reinsurers	44,607
R0780	Deferred tax liabilities	1,850
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	48,882
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	19,911
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	2,289
R0900	**Total liabilities**	2,447,066
R1000	**Excess of assets over liabilities**	186,112

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross		24,667	7,011	78,790					110,467
R1420	Reinsurers' share		2,577	0	42,188					44,765
R1500	Net		22,090	7,011	36,601					65,702
	Premiums earned									
R1510	Gross		24,667	7,011	78,790					110,467
R1520	Reinsurers' share		2,577	0	42,188					44,765
R1600	Net		22,090	7,011	36,601					65,702
	Claims incurred									
R1610	Gross		54,302	17,142	82,242					153,686
R1620	Reinsurers' share		29,809	0	46,977					76,786
R1700	Net		24,493	17,142	35,264					76,900
	Changes in other technical provisions									
R1710	Gross		-110,019	-19,953	5,074					-124,899
R1720	Reinsurers' share		-56,531		8,623					-47,908
R1800	Net		-53,488	-19,953	-3,549					-76,990
R1900	**Expenses incurred**		5,689	1,223	39,543					46,455
R2500	**Other expenses**									
R2600	**Total expenses**									46,455

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400			IE	BE	DE	NL		
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	110,074	394					110,467
R1420	Reinsurers' share	44,755	10					44,765
R1500	Net	65,319	383	0	0	0	0	65,702
	Premiums earned							
R1510	Gross	110,074	394					110,467
R1520	Reinsurers' share	44,755	10					44,765
R1600	Net	65,319	383	0	0	0	0	65,702
	Claims incurred							
R1610	Gross	150,161	1,314	171	1,720	319		153,686
R1620	Reinsurers' share	76,786						76,786
R1700	Net	73,375	1,314	171	1,720	319	0	76,900
	Changes in other technical provisions							
R1710	Gross	-116,698	-1,081	-568	-6,277	-274		-124,899
R1720	Reinsurers' share	-47,908	0	0	0	0		-47,908
R1800	Net	-68,789	-1,081	-568	-6,277	-274	0	-76,990
R1900	**Expenses incurred**	46,399	20	0	36	0		46,455
R2500	**Other expenses**							
R2600	**Total expenses**							46,455

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**		832,768								832,768						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		302,377								302,377						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	943,138		-28,922			566,990				1,481,206						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	398,516					498,256				896,772						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	544,622		-28,922	0		68,734	0			584,434						
R0100	**Risk margin**	12,709	10,936			2,113					25,758						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						
R0120	Best estimate										0						
R0130	Risk margin										0						
R0200	**Technical provisions - total**	955,847	814,781			569,104					2,339,732						

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	186,112	186,112			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-75,342	-75,342			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	110,770	110,770	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	110,770	110,770	0	0	0
R0510	Total available own funds to meet the MCR	110,770	110,770	0	0	
R0540	Total eligible own funds to meet the SCR	110,770	110,770	0	0	0
R0550	Total eligible own funds to meet the MCR	110,770	110,770	0	0	
R0580	**SCR**	58,820				
R0600	**MCR**	23,559				
R0620	**Ratio of Eligible own funds to SCR**	188.32%				
R0640	**Ratio of Eligible own funds to MCR**	470.19%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	186,112
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	186,112
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	75,342
R0760	**Reconciliation reserve**	-75,342
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	15,386
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	15,386

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	46,828		
R0020	Counterparty default risk	11,019		
R0030	Life underwriting risk	48,946		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-26,895		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	79,898		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	7,519
R0140	Loss-absorbing capacity of technical provisions	-22,884
R0150	Loss-absorbing capacity of deferred taxes	-5,713
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	58,820
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	58,820
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	31,146
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	28,042
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

USP Key

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

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

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

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	23,559

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	521,738	
R0220	Obligations with profit participation - future discretionary benefits	22,884	
R0230	Index-linked and unit-linked insurance obligations	501,469	
R0240	Other life (re)insurance and health (re)insurance obligations	68,170	
R0250	Total capital at risk for all life (re)insurance obligations		717,694

	Overall MCR calculation	C0070
R0300	Linear MCR	23,559
R0310	SCR	58,820
R0320	MCR cap	26,469
R0330	MCR floor	14,705
R0340	Combined MCR	23,559
R0350	Absolute floor of the MCR	3,288
R0400	**Minimum Capital Requirement**	23,559