Solvency and Financial Condition Report

2019

Scottish Friendly

Contents

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 2019, the Group has assets under management of £5.3 billion (2018: £2.8 billion) and has 712,000 members (2018: 594,000).

Over the past decade, Scottish Friendly significantly restructured its business, reducing relative 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.

This document is published against the backdrop of serious uncertainty as a result of the COVID-19 outbreak. The Group's immediate priority is the health and wellbeing of our colleagues in the business, so that it is able to continue to deliver for customers and clients. Scottish Friendly's ability to manage uncertainty and adapt to changing markets has underpinned its historical success and is a key enabler for future success.

The strength of the capital and liquidity position means that although the COVID-19 outbreak, and the associated significant global economic disruption, has impacted the capital ratio of the business since the year end, Scottish Friendly remains well capitalised. The solvency and liquidity position is being monitored frequently, with appropriate actions taken to protect the long-term interest of policyholders and the overall capital and liquidity position of Scottish Friendly.

Scottish Friendly continues to have a capital position in excess of both the levels required by the regulations, which themselves are designed to provide a strong level of protection for policyholders, and the minimum tolerance levels above this amount as set by the Board.

Mergers and consolidation within the life insurance sector is a key component of Scottish Friendly's strategy that produces long term economies of scale. 2019 saw Scottish Friendly complete the transfer of a significant portfolio of life and pensions policies from Canada Life Limited (CLL), continuing its strong track record of mergers and consolidations. This was the biggest single deal in Scottish Friendly's history, representing £2.4bn assets and around 90,000 new members.

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 an award-winning* 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.

The success of this strategy was reflected in another year of strong financial results. Scottish Friendly continued to deliver strong growth in statutory earned premiums, which increased by 18% to £125.5m (2018: £110.5m), underpinned by total sales of £37.8m APE** (2018: £38.6m). This growth has been built on the foundation of a robust capital position, with a solvency ratio*** of 169% (2018: 188%) under the Solvency II regulations. While this ratio has reduced over the year, this reflects the expected impact of the CLL business transfer and shows a significant excess over the required minimum. Our solvency ratio demonstrates that, even in an extreme 1-in-200 year scenario, we expect to have enough capital to meet our liabilities to policyholders.

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.

* Investment Life & Pensions Moneyfacts® Awards 2019: Best Junior ISA Provider
https://www.moneyfactsgroup.co.uk/awards/ilp/winners/2019

** 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.

*** The solvency ratio is the Own Funds divided by the Solvency Capital Requirement (SCR)

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
Director
21 April 2020

Martin Pringle
Director
21 April 2020

Report of the External Independent Auditor to the Directors of Scottish Friendly Assurance Society Limited ('Scottish Friendly') pursuant to Rule 4.1(2) of the External Audit chapter of the PRA Rulebook applicable to Solvency II Firms

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 2019:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of Scottish Friendly as at 31 December 2019, ('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 2019 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 Financial Reporting Council's (the 'FRC'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.

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 the 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.

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 FRC'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 Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. 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.

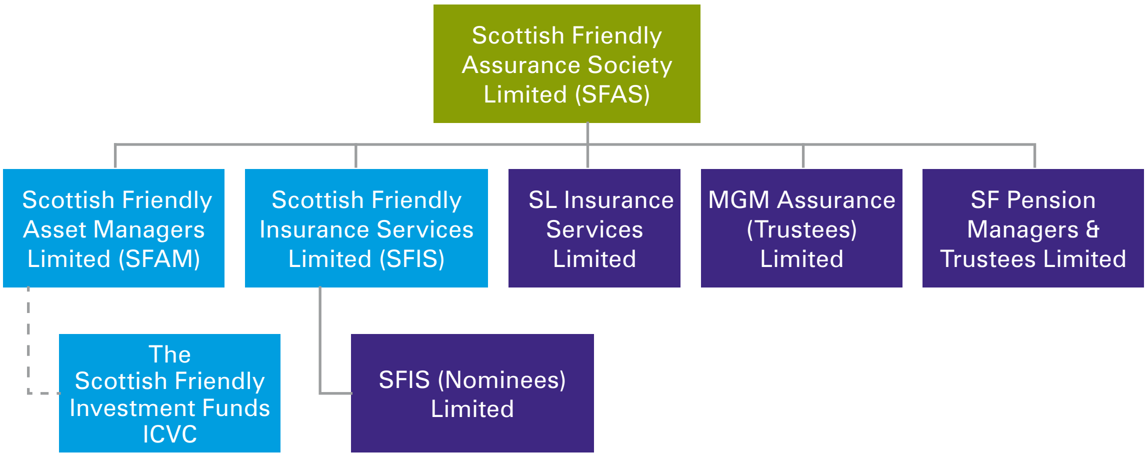
Stephen Williams
(Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
21 April 2020

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.



Green denotes insurance company, subject to full SM&CR rules.

Blue denotes IFPRU firm, in scope for SM&CR.

Purple denotes – unregulated entity not in scope for SM&CR.

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, term assurance and ISAs.

The Scottish Friendly balance sheet is split between its Main Fund, which is open to new business, and five 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, the Marine & General Mutual (M&GM) sub fund and the Manulife sub fund, which was created as part of the transfer from CLL.

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.

On 1 November 2019, Scottish Friendly completed the transfer of a block of life and pension policies from CLL. These policies were transferred to the Main Fund with the exception of policies that were previously held in the Manulife fund within CLL, which transferred to the newly created Manulife sub fund.

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.2 Underwriting Performance

The following table illustrates Scottish Friendly's performance over 2019, as reflected in the 2019 Annual Report and Accounts:

Technical Account - Long Term Business **For year ended 31 December**	**Group** **2019** **£000**	 **2018** **£000**
Earned Premiums	125,529	110,468
Reinsurance Premiums	(51,699)	(44,772)
Earned Premiums, Net of Reinsurance	73,830	65,696
Investment Income	60,323	87,403
Unrealised Gains/(Losses) on Investments	125,414	(135,642)
Other Technical Income	18,565	14,199
Release of Negative Goodwill	1,002	–
	279,134	31,656
Claims Incurred	175,730	154,161
Reinsurance Claims	(80,987)	(76,786)
Net Claims Incurred	94,743	77,375
Change in Other Technical Provisions	106,845	(93,489)
Operating Expenses	55,966	45,085
Investment Expenses & Charges	825	422
Other Technical Charges	1,080	777
Tax attributable to Long Term Business	10,954	(4,467)
Actuarial Loss/(Gain) re pension scheme	2,484	(8,481)
Transfer to/(from) the Fund for Future Appropriations	6,238	14,434
	279,134	31,656

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 2019 and 31 December 2018.

2019	Insurance with participation £000	Index Linked & Unit Linked Insurance £000	Other Life Insurance £000	Total £000
Gross Premiums	19,859	7,045	98,625	125,529
Gross Claims	99,358	25,050	50,846	175,255
Expense	5,227	1,854	50,184	57,266

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

The claims incurred on the Technical Account on page 10 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.

A.3 Investment Performance

The return of the asset shares within the Scottish Friendly With-Profits fund for 2019 was 12.0% (2018: (3.7)%) reflecting positive returns over a range of asset classes.

The Group assets under management grew significantly to £5,310 million (2018: £2,800 million), reflecting the positive asset return and the transfer of business from CLL.

Financial investments are recognised at fair value through profit or loss. Derivatives are recognised at their marked to market value.

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.

The following table illustrates Scottish Friendly's investment performance over 2019 by asset class, as reflected in the annual report and accounts:

	Group		Scottish Friendly	
	2019 £000	2018 £000	2019 £000	2018 £000
Income from land & buildings	245	86	245	86
Income from other investments	27,487	26,152	27,487	26,152
Net gains on the realisation of investments	32,591	61,165	32,591	61,165
Unrealised Gains/(Losses) on investments	124,596	(136,479)	125,414	(135,642)
	184,918	(49,076)	185,737	(48,239)

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 2019 this totalled £18.6 million compared to £14.2 million in 2018.

A.5 Any other material information

On 1 November 2019 Scottish Friendly acquired a book of business from Canada Life Limited. This resulted in an increase in assets of £2.4 billion. The portfolio has brought with it swaption derivatives, as well as Private Portfolio Funds, both of which are new to Scottish Friendly.

COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets since the year end.

In this environment, Scottish Friendly has adjusted its client service and operational capability, and has upscaled its ability to deliver core services from the home environment, and has executed plans to minimise the risk of transmission from within the Group's office space.

The strength of the capital and liquidity position means that although the COVID-19 outbreak, and the associated significant global economic disruption, has impacted the capital ratio of the business since the year end, Scottish Friendly remains well capitalised. The solvency and liquidity position is being monitored frequently, with appropriate actions taken to protect the long-term interest of policyholders and the overall capital and liquidity position of Scottish Friendly.

Scottish Friendly continues to have a capital position in excess of both the levels required by the regulations, which themselves are designed to provide a strong level of protection for policyholders, and the minimum tolerance levels above this amount as set by the Board.

To support the continuation of this position, certain actions have been taken to improve the solvency position and to reduce exposure to further market falls. These have focussed on the areas of the business with the greatest exposure to market risks, particularly the business held in the M&GM sub-fund, and have included de-risking of certain assets and additional matching activity.

The overall financial impact of COVID-19 on the financial results cannot be reliably and comprehensively assessed at this time. However, estimates of the position indicate that the capital position of Scottish Friendly remains in excess of that required by the Solvency II regulations and is above the minimum tolerance set out in the risk appetite framework.

Finally, the Group reinsures a significant level of its insurance risks to a number of reinsurers, and maintains an appropriate level of matching of its assets and related liabilities. At this time, Scottish Friendly has not seen any impact on the credit standing of its reinsurers or of the Group's access to such markets.

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).

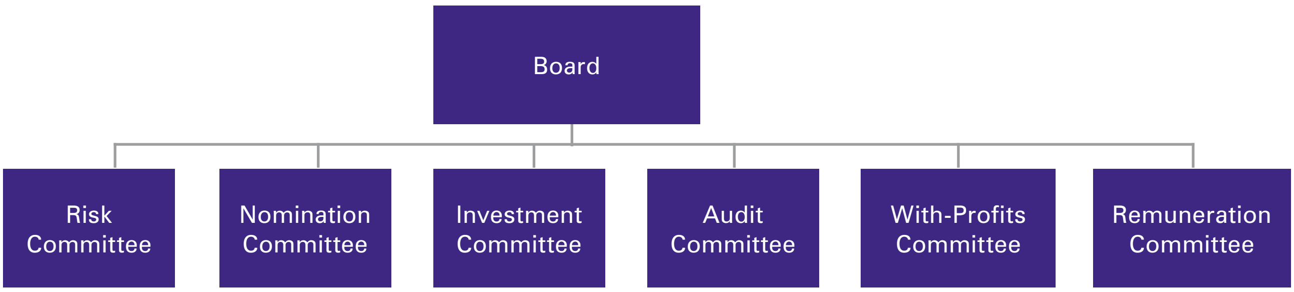
The Board Members and Scottish Friendly Executives who have duties in relation to Scottish Friendly's subsidiaries are fully responsible for ensuring that they are managed to the same high standards and principles set out by Scottish Friendly.

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 Appendices F1 and F2.

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.



The committee and governance structure is set out in detail in Appendix F1. 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 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.

Investment Committee

- Oversees Scottish Friendly's investment holdings and performance on behalf of the Board.
- Makes 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.
- Monitors risk appetite, investment parameters and fund objectives, making recommendations to the Board as appropriate.

Audit Committee

- Reviews internal control systems, including internal financial controls and ensures that these continue to be effective; advises 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.
- Approves 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.

With-Profits Committee

- Provides recommendations and advice to the Board on the way each with-profits fund is managed.
- Considers compliance with the principles and practices set out in the relevant Principles and Practices of Financial Management (PPFM).
- Provides recommendations to the Board relating to changes that would result in a revision to the PPFM(s).
- Provides advice to the Board as to whether Scottish Friendly has effectively addressed the conflicting rights and interests of with-profits policyholders and other policyholders or stakeholders.
- Considers other issues which with-profits policyholders might reasonably expect the With-Profits Committee to be involved in, including bonus setting, the development of run-off plans and the identification of surplus within the various funds.

Remuneration Committee

Reviews 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 100% of salary. In line with relevant Solvency II requirements, 40% of bonus payments may be deferred for three years, if applicable.

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 £51,328 (2018: £52,056).

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.

Changes to the System of Governance

The Board approved the initial terms of reference and membership of the With-Profits Committee in April 2019, with the first meeting of the With-Profits Committee held in May 2019. Other than this, there were no significant changes to the system of governance over 2019.

B.2 Fit and Proper requirements

Scottish Friendly has been subject to the Senior Managers and Certification Regime (SMCR) since December 2018. The aim of the SMCR is to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence.

The SMCR seeks to ensure that senior persons, who are responsible for overseeing and managing insurance firms, or who have responsibility for other key functions at those firms, will behave with integrity, honesty and skill.

The SMCR consists of 3 parts:

- The Senior Managers Regime, which focuses on individuals who hold key roles within Scottish Friendly
- The Certification Regime, which applies to other staff who could pose a risk of significant harm to Scottish Friendly or any of its customers
- The Conduct Rules, which are high level requirements that hold individuals to account

Scottish Friendly has implemented appropriate processes and controls to comply with the SMCR. All members of staff are provided with appropriate annual training on the Conduct Rules, how these apply to them and the standards of behaviour Scottish Friendly expects.

The responsibilities of Scottish Friendly`s senior managers, and those of key function holders (KFH's) within the business, are documented in Scottish Friendly`s Management Responsibilities Map and Manual.

Scottish Friendly ensures that individuals subject to the SMCR are fit and proper to do their jobs. This requirement to assess fitness and propriety applies to:

- Senior Managers
- Individuals subject to the Certification Regime (including KFH`s)

The fitness and propriety of an individual is performed before they commence the role, and thereafter on an annual basis.

In assessing whether an individual is fit and proper, Scottish Friendly will consider, and be satisfied that, an individual:

- Has the personal characteristics (including being of good repute and integrity);
- Possesses the level of competence, knowledge and experience;
- Has the qualifications; and
- Has undergone or is undergoing all training;

required to enable such person to perform their senior manager function, key function or certification function effectively and in accordance with any relevant regulatory requirements.

In determining whether an individual is fit and proper, Scottish Friendly considers the information contained in the following assessments:

Fitness and Propriety Questionnaire - considers honesty, integrity and reputation and considers whether the individual is financially sound.

Regulatory References (on commencement of employment) - provides information on previous employers' assessment of the individual`s conduct and fitness and propriety.

Employee Screening Check - supplements the self-attestation in the F&P questionnaire and identifies whether the individual has had any CCJ`s/Court Decrees or Bankruptcy, Sequestration or Insolvency arrangements.

Criminal Records Check (on commencement of employment) - supplements the F&P Questionnaire and considers whether the individual has been convicted of a criminal offence.

Competency Assessment - records why the individual is competent and capable to carry out the function.

Conduct Assessment - considers whether the individual`s past conduct has breached the regulator`s conduct rules.

The Chief Executive performs the F&P assessments.

For individuals in the certification regime, a certificate will be issued confirming

- that Scottish Friendly is satisfied that the person is a fit and proper person to perform the Certification Function
- the aspects of the Scottish Friendly`s business in which the individual is involved.

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

Risk governance

Scottish Friendly adopts the "Three Lines of Defence" model to define the roles and responsibilities for risk management throughout the organisation. The details of the Risk Management Framework are set out in the following sub-sections.

- 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 Risk Owner.
- In addition, the governance structure includes first line oversight committees. 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 the design and oversight of the Risk Management Framework, 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 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.

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 overseen 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.

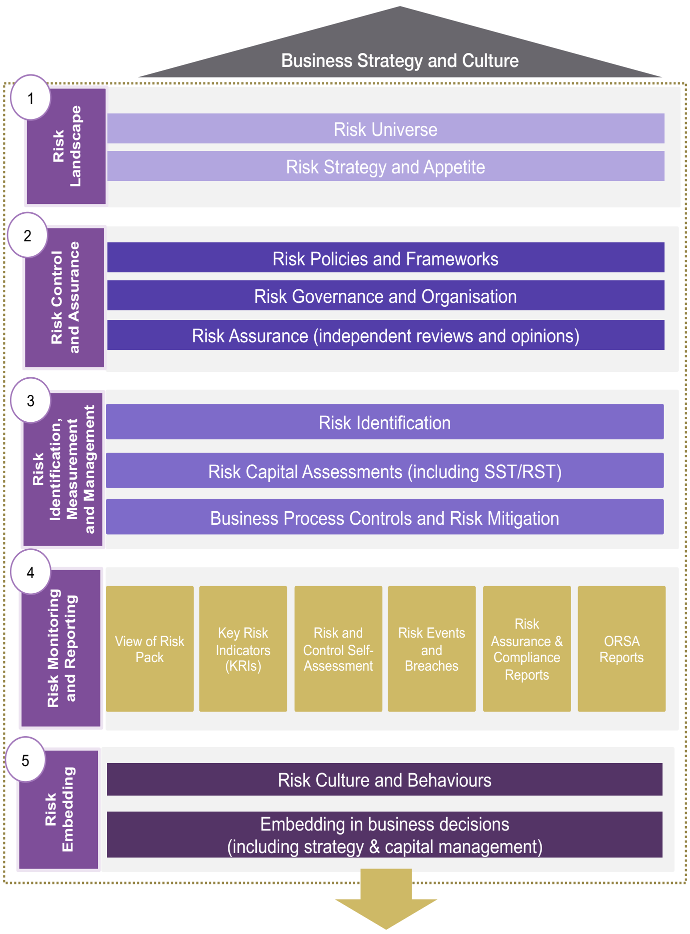
The Board has overall responsibility for the system of internal control and, through a combination of the above activities, is able to review its effectiveness annually, including financial, operational and compliance controls and risk management systems. Its effectiveness has also been reviewed by the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

The Risk Management Framework

Robust risk management is facilitated by embedding of the Risk Management Framework (RMF) and is enabled by a strong risk culture.

The framework comprises a number of key components which are operated across the 1st and 2nd lines of defence. Each component of the RMF feeds into the ORSA, in order to enable an integrated approach to risk management across SFA.

The five key components of the RMF are:



1. **Risk Landscape:** sets out the wide range of risks to which SFA is exposed, the risk strategy and appetite of the Board and associated risk triggers and tolerance levels.
2. **Risk Control and Assurance:** sets out the risk policies and frameworks that provide the mechanism which sets out how the identification, measurement and management of risk against appetite will operate. It sets out the organisation and governance structure which is in place to provide assurance to the Board, our members and other stakeholders that risks are being appropriately managed. Scottish Friendly operates a Three Lines of Defence governance model.
3. **Risk Identification, Measurement and Management:** sets out how current and emerging risks are identified, the forward looking assessment of the impact on the capital required to meet the risks and on the strategy, and the mechanism by which the business mitigates or manages the risks inherent in business processes.
4. **Risk Monitoring and Reporting:** a regular cycle of risk reporting through appropriate governance structures to inform decision making, monitoring and pro-active action.
5. **Risk Embedding:** a strong firm-wide risk culture is a key element of effective risk management. SFA aims to deliver a culture of risk awareness through desired behaviours, key business decisions, day-to-day operations and change management.

The value of risk management for the benefit of Scottish Friendly's members and business is achieved through embedding risk in key business decisions, day-to-day operations and the management of change:

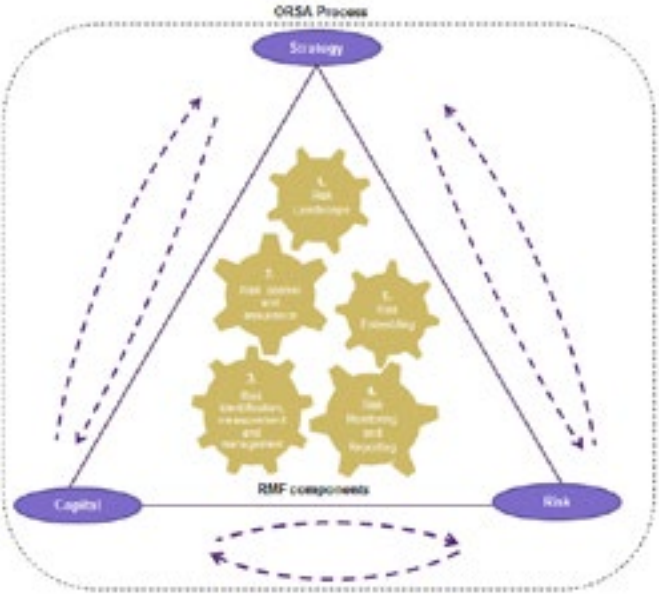
- This takes place at Board level and in day-to-day management of the business.
- Embedding is supported through provision of insightful and relevant information on risks and proposed measures to manage and respond to risks, together with representation of the 2nd line at key points in the decision making process.
- The business embed risk management in the day-to-day business processes through operation of effective controls.
- Embedding risk management in the management of change within our business.
- Embedding of risk supports enhancement of business performance and capital management to the benefit of our policyholders and delivery of SFA's strategy.

ORSA

The ORSA is a key process used in the identification, management and mitigation of risk. Each component of risk management framework feeds into the ORSA, in order to enable an integrated approach towards risk management throughout Scottish Friendly.

The ORSA process is a dynamic process which links:

- Business strategy to the risks SFA takes and manages;
- the risks managed to the capital held against those risks; and
- the capital held to the strategy (for example, as either a potential enabler or constraint on writing new business and continued merger and acquisition activity).



The purpose of the ORSA is to:

- understand and manage Scottish Friendly's risks and associated controls;
- assess the risk profile against risk appetite;
- review forward looking assessment of future solvency, based on the business plan, which takes into account both the current risk profile and the risk profile following acquisitions;
- carry out stress and scenario testing (including reverse stress testing) to understand the impact of changes to the risk profile; and
- allow the Executive team and Board to make informed strategic decisions that impact the firm's risk profile.

In particular, the ORSA considers the extent to which level and type of capital may be appropriate for risks identified over Scottish Friendly's five-year business planning period. To this end the ORSA process involves a forward-looking assessment of capital requirements and capital resources over a five year period based on Scottish Friendly's risk profile and strategic plans. Within this projection the ORSA considers whether the level of capital coverage is compliant with Scottish Friendly's solvency risk appetite statements as well as the associated limits / triggers.

The 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. The ORSA is completed alongside and is consistent with the business planning process.

Responsibility for co-ordination of the ORSA process, and ownership of the ORSA policy, resides with the Chief Risk Officer. The key output of the ORSA process is an annual ORSA report which is reviewed by senior management and approved by the Board. An ORSA report is also produced following a significant change to the risk profile of the business. The Board approved ORSA Report is sent to the PRA.

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

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

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 ensuring 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 the operation of the 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.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 Outsourcing Committee provides oversight controls to monitor the delivery of the services provided by outsourcers, suppliers and partners and ensures that appropriate action is taken to address any issues identified.

As at 31 December 2019, 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 (Hymans Robertson)

EY and Hymans Robertson are located within the United Kingdom.

In addition there are five contracts which involve an element of policy administration (Aegon, BGL Group, Neilson Financial Services, Nucleus and Guardian Financial Services) and three arrangements for investment administration or investment management (Canada Life, JP Morgan and Mobius).

B.7 Other Information

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

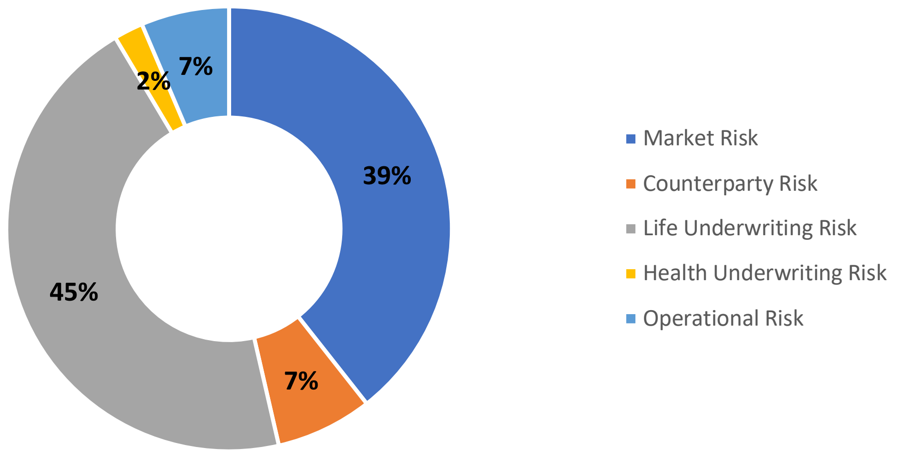
C Risk Profile

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. Within underwriting risk, the principal exposure is to life underwriting risk, with a relatively small exposure to health underwriting risk as a result of the transfer of business from CLL. 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, matching of assets and liabilities and oversight provided by the Investment Committee.

As at 31 December 2019 the total capital required in respect of market risk facing the business was £67.0m (2018: £44.2m). 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	Manulife £m	Aggregate £m
Interest rate risk	0.0	0.0	0.0	0.2	1.5	0.0	**1.8**
Equity risk	25.2	0.2	0.0	0.2	35.4	0.0	**61.0**
Property risk	0.0	0.0	0.0	0.0	0.3	0.0	**0.3**
Spread risk	3.1	0.0	0.0	0.0	2.1	0.0	**5.2**
Currency risk	0.4	0.0	0.0	0.0	2.3	0.0	**2.7**
Other market risk	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Diversification	(1.0)	0.0	0.0	(0.1)	(2.9)	0.0	**(4.0)**
Total market risk	**27.8**	**0.2**	**0.0**	**0.4**	**38.6**	**0.0**	**67.0**

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.

The increase in market risk over 2019 is primarily as a result of the transfer of business from Canada Life Limited in November 2019.

Note, the capital requirements for the Manulife sub-fund are shown as nil, as the sub-fund's distribution approach is that any losses would be directly reflected in lower payouts, with the strength of the sub-fund sufficient to absorb the prescribed Standard Formula stresses.

C.2 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.

Under the Solvency II regulations, underwriting risk is calculated separately for life insurance business and health insurance business. As a result of the transfer from Canada Life, Scottish Friendly has a small portfolio of health insurance business.

As at 31 December 2019 the total capital required in respect of the life underwriting risk exposure was £76.7m (2018: £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	Manulife £m	Aggregate £m
Mortality	14.4	0.0	0.0	0.1	0.0	0.0	**14.6**
Longevity	8.7	0.0	0.0	0.1	9.2	0.0	**18.0**
Disability	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Lapse	27.2	0.2	0.0	0.1	4.6	0.0	**52.2**
Expense	17.8	0.0	0.0	0.1	2.3	0.0	**20.1**
Revision	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Catastrophe risk	1.3	0.0	0.0	0.0	0.0	0.0	**1.4**
Diversification	(25.7)	0.0	0.0	(0.2)	(3.7)	0.0	(29.6)
Total life underwriting risk	**63.9**	**0.2**	**0.0**	**0.3**	**12.3**	**0.0**	**76.7**

The corresponding exposure to health underwriting risk was £3.6m (2018: nil), split as set out in the table below.

Business Block	SF main fund £m	LANMAS £m	Rational Shelley £m	Scottish Legal £m	M&GM £m	Manulife £m	Aggregate £m
Health Mortality	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Health Longevity	0.2	0.0	0.0	0.0	0.0	0.0	**0.2**
Health Disability	3.3	0.0	0.0	0.0	0.0	0.0	**3.3**
Health Expense	0.3	0.0	0.0	0.0	0.0	0.0	**0.3**
Health Revision	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Health Lapse	0.9	0.0	0.0	0.0	0.0	0.0	**0.9**
Diversification	(1.1)	0.0	0.0	0.0	0.0	0.0	**(1.1)**
Total life underwriting risk	**3.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.6**

The increase in underwriting risk over 2019 (including all of the health underwriting risk) is primarily as a result of the transfer of business from Canada Life Limited in November 2019.

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 2019 the total capital required in respect of credit risk facing the business was £11.9m (2018: £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	Manulife £m	Aggregate £m
Type 1	7.2	0.2	0.2	0.1	3.2	0.0	**10.8**
Type 2	1.4	0.0	0.0	0.0	0.0	0.0	**1.4**
Diversification	(0.3)	0.0	0.0	0.0	0.0	0.0	**(0.3)**
Total counterparty risk	**8.2**	**0.2**	**0.2**	**0.1**	**3.2**	**0.0**	**11.9**

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 ORSA Dashboard. Liquidity requirements are considered over both a one month and 6 month time horizon. Consideration is also given to longer term liquidity risks as part of the ORSA.

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 2019.

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 to minimise the risk of human error.

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

As at 31 December 2019 the total capital required in respect of operational risk facing the business was £10.9m (2018: £7.5m). This is comprised of the following risks across each of the sub funds.

The operational risk in respect of the Manulife fund is held in the SF Main Fund.

Business Block	SF main fund £m	LANMAS £m	Rational Shelley £m	Scottish Legal £m	M&GM £m	Manulife £m	Aggregate £m
Total operational risk	6.6	0.1	0.0	0.2	4.0	0.0	**10.9**

The increase in operational risk over 2019 is primarily as a result of the transfer of business from Canada Life Limited in November 2019.

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 Business Planning and, longer-term, Strategic Planning processes.

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

- Impact of low interest rates
- Cyber attack
- Failure of a key counterparty
- Insurance risk event
- Underperformance of CLL acquisition
- Sales boom of capital-intensive products
- Severe market shock
- Liquidity risk event
- Climate change losses

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 range of adverse scenarios, Scottish Friendly remains well capitalised with capital in excess of the SCR and also within internal Risk Appetite measures.

Additional management actions, beyond those modelled in the SCR calculation, have not been incorporated, as the solvency position does not necessitate the use of the actions to maintain solvency. In reality, such actions would be taken if the solvency of Scottish Friendly was under threat.

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

The ORSA considers the "emerging risks" to which Scottish Friendly is exposed. These are new or changing risks which could have a serious impact on the business or future strategy. These emerging risks are drivers of risk events on the underlying risk exposures (for example, a particular emerging risk could increase the chance of a large fall in equity values) and are used to inform the choice of stress scenarios considered in the ORSA. No capital is specifically held against emerging risks.

The current priority is the emerging risks from the COVID-19 pandemic. These include the health and wellbeing of the Group's employees so that the Group can continue to deliver for customers and clients, the operational resilience of the business, the capital and liquidity position of the Group and the credit rating of reinsurers.

D Valuation For Solvency Purposes

Valuation Basis

The Solvency II regulations require Scottish Friendly's assets and liabilities to be measured in accordance with the principles of an arm's length transaction between knowledgeable willing parties using market consistent valuation methods. In the case of assets, this is described as "fair value".

The differences between the Statutory Accounts and Solvency II Balance Sheet as at 31 December 2019 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 in the accounts 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 2019, certain cash assets held in respect of unit-linked contracts of insurance are recognised as cash on the Statutory Accounts basis and as investments on the Solvency II Balance Sheet. A £(59.6)m negative asset is recognised on the Statutory Accounts balance sheet which recognises that the price paid for the acquisition of business from Canada Life Limited and Mobius Life Limited, was less than the fair value of the net assets acquired. This amount will be amortised over time as the capital requirements run-off and expected profits from this book emerge. During the final reconciliation between the balance sheets a small difference of £38k was identified in the Other Liabilities. Given the trivial size of the difference, no adjustment was made.

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	4,011	-	4,011
Investments	3,510,129	30,110	3,540,239
Reinsurance	1,523,553	-	1,523,553
Cash	107,052	(30,110)	76,942
Pension scheme surplus	10,441	-	10,441
Negative Goodwill	(59,595)	59,595	-
Other	19,795	-	19,795
Total Assets	**5,115,385**	**59,595**	**5,174,980**
Technical Provisions	(4,825,500)	-	(4,825,500)
Other	(98,995)	(38)	(99,033)
Total Liabilities	**(4,924,495)**	**(38)**	**(4,924,533)**
Net Assets	**190,890**	**59,557**	**250,447**

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 2019.

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 of 14-16 Blythswood Square, completed by a professional independent valuer, was completed on 31 December 2018. This process takes place every three years therefore will be repeated in 2021.

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 excess of assets over liabilities within the balance sheet of the undertakings, which the Directors believe is an appropriate proxy for the value at which they could be exchanged between knowledgeable willing parties in an arm's length transaction.
- Derivatives are shown in the balance sheet at their marked to market value
- Property acquired as part of the acquisition from Canada Life is held in the Private Portfolio Funds. This was valued during 2019 as part of the transfer process and will be revalued every three years.

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.

As at 31 December 2019 the following investments were held by Scottish Friendly:

	Level 1 £000	Level 2 £000	Level 3 £000	**Total £000**
Financial instrument assets 2019				
Financial investments designated at fair value;				
Shares, other variable yield securities and units in OEICs and unit trusts	2,882,980	69,346	–	**2,952,326**
Debt securities and other fixed income securities	282,559	38,454	4,041	**325,054**
Private equity investments	–	–	81	**81**
Investments in Group Undertakings	–	–	3,448	3,448
Land and Buildings	–	3,655	–	**3,655**
	3,165,539	111,455	7,570	**3,284,564**
Derivative assets	–	25,218	–	**25,218**
Financial assets measured at fair value through profit and loss	3,165,539	136,673	7,570	**3,309,782**
Loans and receivables;				
Deposits with credit institutions	203,560	287	–	**203,847**
Loans secured by mortgages	–	–	–	**–**
Policyholder loans	–	–	–	**–**
	203,560	287	–	**203,847**
Total financial assets				**3,513,629**

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. The valuation in the Statutory Accounts basis is materially consistent with a fair value and therefore the valuation is unadjusted in the Solvency II balance sheet.

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 and a further amount recognised as part of the transfer of the Canada Life book. As an intangible asset, this is not recognised on the Solvency II basis.

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 2019 and presented to the Audit Committee of the Board in December 2019. The economic assumptions in the realistic basis (e.g. yield curves and volatilities) are based on relevant market data at 31 December 2019.

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 2019 are all valued using a retrospective approach except for the Rational Shelley business and the with-profits business held in the Manulife sub-fund, which are valued using a prospective approach.

The with-profits benefit reserves on Rational Shelley policies were originally calculated using a prospective approach because it was not 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.

The with-profits benefit reserves for the Manulife sub-fund policies are set based on the assets available in the sub-fund (after allowance for the non-profit business in that sub-fund), reflecting the expectation that all free assets will be distributed to the Manulife with-profits policies over time.

	2019 £000	2018 £000
Best Estimate Liabilities	4,781,881	2,313,974
Risk Margin	43,619	25,758
Technical Provisions	**4,825,500**	**2,339,732**

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 future claim rates and expenses and the future development of the economic markets, including equity markets and the interest rate yield curve.

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 £99.0m. The key liabilities within this total are detailed in the table below:

	2019 £000	2018 £000
Deposits from reinsurers	42,433	44,607
Claims outstanding	20,246	39,568
Payable (trade)	22,868	21,260
Other	13,486	11,604
Total	**99,033**	**117,539**

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 is also 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.

	2019	2018
Own Funds	**168,838**	**110,770**
Tier 1	168,838	110,770
Surplus Funds	250,447	186,112
Reconciliation Reserve	(81,609)	(75,342)
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.

Reconciliation to Funds for Future Appropriations shown in the financial statements

There is a difference between the 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 CLL and Mobius Life Limited and, as an intangible asset, is not recognised on a Solvency II basis. As at 31 December 2019, excess assets over liabilities were £190.9m on a Statutory Accounts basis and £250.5m on a Solvency II basis (before ring-fencing).

Change in Own Funds

The following table shows the change in Scottish Friendly's Own Funds from 31 December 2018 to 31 December 2019.

	2019 £000
Opening Own Funds	**110,770**
Increase/(Decrease) in Total Assets	2,211,164
(Increase)/Decrease in Technical Provisions	(2,165,369)
Decrease/(Increase) in Current Liabilities	18,544
Total Increase/(Decrease)	**64,339**
Increase/(Decrease)	
(Increase)/Decrease in ring-fencing of available capital	(6,270)
Closing Own Funds	**168,838**

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, the M&GM sub fund and the Manulife sub fund.

	2019 £000	2018 £000
Excess assets over liabilities	250,447	186,112
Adjustment for restrictions due to ring fencing	(81,609)	(75,342)
Own Funds	**168,838**	**110,770**

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.

	2019 Solvency II £000	2018 Solvency II £000
Own Funds	168,838	110,770
Minimum Capital Requirement	40,629	23,559
Solvency Capital Requirement	99,853	58,820
Solvency Ratio	**169.1%**	**188.3%**

The SCR has increased relative to the 31 December 2018 position, primarily as a result of acquisition of the portfolio of business from CLL.

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 2019.

	2019 Net SCR £000
Market Risk	67,035
Counterparty Default Risk	11,939
Life Underwriting	76,667
Health Underwriting	3,625
Undiversified BSCR	**159,266**
Diversification Credit	(39,948)
Basic SCR	**119,318**
Operational Risk	10,897
Adjustment due to RFF/MAP	6,150
Loss-absorbing capacity of technical provisions	(22,871)
Loss-absorbing capacity of deferred taxes	(13,641)
Solvency Capital Requirement	**99,853**

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:

	2019 £000
Linear MCR	40,629
SCR	99,853
MCR cap	44,934
MCR floor	24,963
Combined MCR	**40,629**
Absolute floor of the MCR	3,187
Minimum Capital Requirement	**40,629**

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

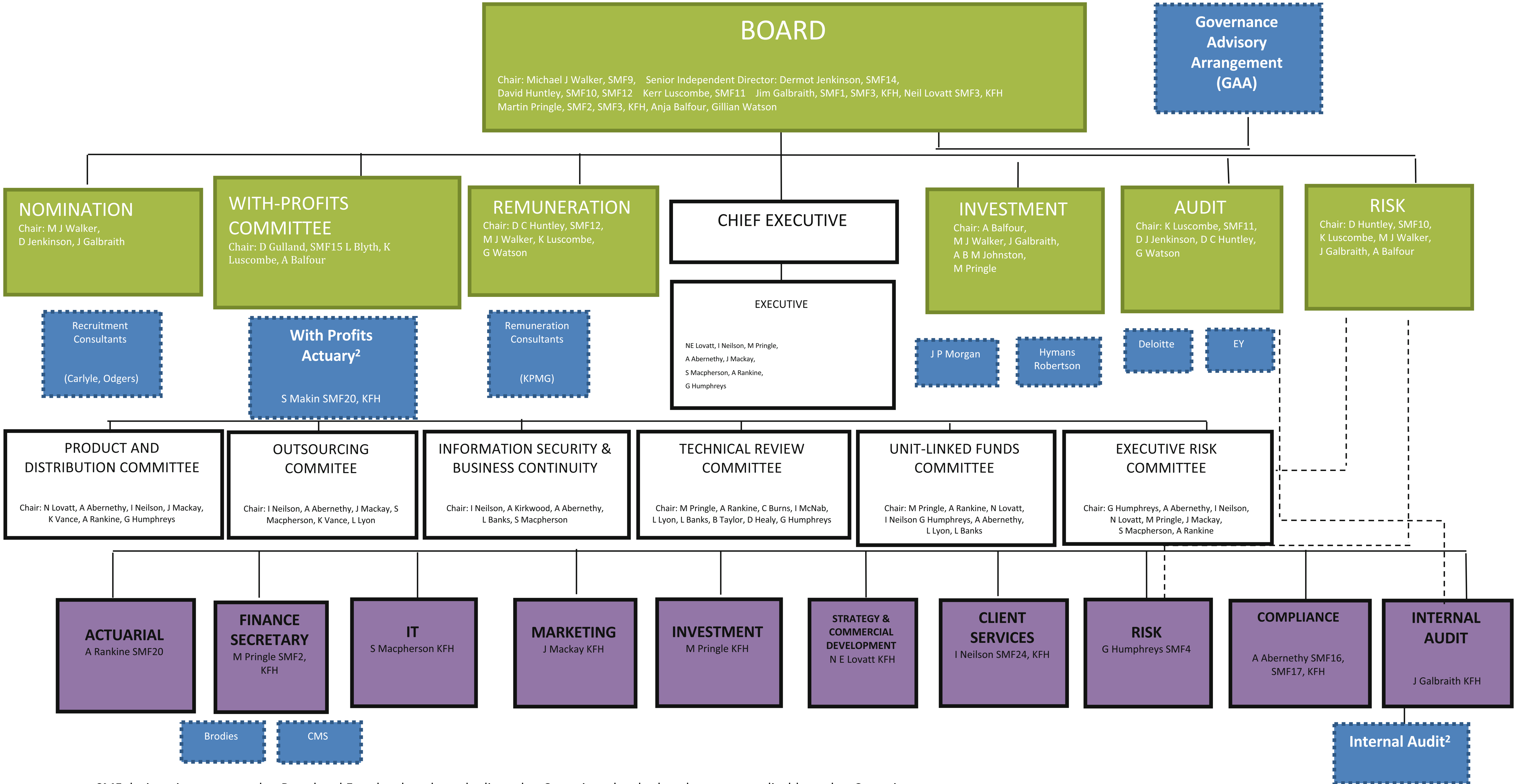
Scottish Friendly has not used an internal model or partial internal model in the calculation of the SCR.

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 Appendix – Functional Structure as at 31 December 2019



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

Board | Executive | Key Business Function | External[1]

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

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*	Genevieve Humphreys
SMF9	PRA	Chair	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	David Gulland
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*	Stephen Makin
SMF24	PRA	Chief Operations Function	Ian Neilson
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 SMF'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.

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

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 2019
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	10,441
R0060	Property, plant & equipment held for own use	4,011
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,200,594
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	3,448
R0100	*Equities*	81
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	81
R0130	*Bonds*	309,895
R0140	*Government Bonds*	272,215
R0150	*Corporate Bonds*	33,639
R0160	*Structured notes*	0
R0170	*Collateralised securities*	4,041
R0180	*Collective Investments Undertakings*	861,902
R0190	*Derivatives*	25,218
R0200	*Deposits other than cash equivalents*	50
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	2,339,645
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	1,523,553
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	984,128
R0320	*Health similar to life*	3,258
R0330	*Life excluding health and index-linked and unit-linked*	980,869
R0340	*Life index-linked and unit-linked*	539,426
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	18,471
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	1,324
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	72,904
R0420	Any other assets, not elsewhere shown	4,037
R0500	**Total assets**	5,174,980

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)	1,927,687
R0610	*Technical provisions - health (similar to life)*	15,963
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	15,536
R0640	*Risk margin*	427
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	1,911,724
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	1,891,326
R0680	*Risk margin*	20,398
R0690	Technical provisions - index-linked and unit-linked	2,897,813
R0700	*TP calculated as a whole*	2,824,447
R0710	*Best Estimate*	50,571
R0720	*Risk margin*	22,795
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	20,246
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	42,433
R0780	Deferred tax liabilities	13,549
R0790	Derivatives	0
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	9,319
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	13,486
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	4,924,533
R1000	**Excess of assets over liabilities**	250,447

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	0	19,859	7,045	98,625			0	0	125,529
R1420	Reinsurers' share	0	17	76	51,606			0	0	51,699
R1500	Net	0	19,842	6,969	47,019			0	0	73,830
	Premiums earned									
R1510	Gross	0	19,859	7,045	98,625			0	0	125,529
R1520	Reinsurers' share	0	17	76	51,606			0	0	51,699
R1600	Net	0	19,842	6,969	47,019			0	0	73,830
	Claims incurred									
R1610	Gross	0	99,358	25,050	50,846			0	0	175,255
R1620	Reinsurers' share	0	49,365	0	31,622			0	0	80,987
R1700	Net	0	49,993	25,050	19,224			0	0	94,268
	Changes in other technical provisions									
R1710	Gross	15,963	146,014	214,632	222,755					599,364
R1720	Reinsurers' share	3,258	27,791		56,290					87,339
R1800	Net	12,705	118,223	214,632	166,465			0	0	512,025
R1900	**Expenses incurred**	0	5,227	1,854	50,184			0	0	57,266
R2500	**Other expenses**									
R2600	**Total expenses**									57,266

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	125,418	111					125,529
R1420	Reinsurers' share	51,688	10					51,699
R1500	Net	73,729	101	0	0	0		73,830
	Premiums earned							
R1510	Gross	125,418	111					125,529
R1520	Reinsurers' share	51,688	10					51,699
R1600	Net	73,729	101	0	0	0		73,830
	Claims incurred							
R1610	Gross	171,257	3,998					175,255
R1620	Reinsurers' share	80,987	0					80,987
R1700	Net	90,269	3,998	0	0	0		94,268
	Changes in other technical provisions							
R1710	Gross	601,470	-797	-330	-976	-3		599,364
R1720	Reinsurers' share	87,339	0	0	0	0		87,339
R1800	Net	514,130	-797	-330	-976	-3		512,025
R1900	**Expenses incurred**	57,266						57,266
R2500	**Other expenses**							
R2600	**Total expenses**							57,266

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**		2,824,447							0	2,824,447						0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		539,426							0	539,426						0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	1,106,788		16,058	34,513		784,538			0	1,941,897		15,536				15,536
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	426,307					554,562			0	980,869		3,258				3,258
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	680,481		16,058	34,513		229,976	0		0	961,028		12,278	0		0	12,278
R0100	**Risk margin**	6,478	22,795			13,920				0	43,193	427					427
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						0
R0120	Best estimate										0						0
R0130	Risk margin										0						0
R0200	**Technical provisions - total**	1,113,266	2,897,813			798,458				0	4,809,537	15,963				0	15,963

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	250,447	250,447			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-81,609	-81,609			
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**	168,838	168,838	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	168,838	168,838	0	0	0
R0510	Total available own funds to meet the MCR	168,838	168,838	0	0	
R0540	Total eligible own funds to meet the SCR	168,838	168,838	0	0	0
R0550	Total eligible own funds to meet the MCR	168,838	168,838	0	0	
R0580	**SCR**	99,853				
R0600	**MCR**	40,629				
R0620	**Ratio of Eligible own funds to SCR**	169.09%				
R0640	**Ratio of Eligible own funds to MCR**	415.56%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	250,447
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	250,447
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	81,609
R0760	**Reconciliation reserve**	-81,609
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	24,191
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	24,191

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	70,490		
R0020	Counterparty default risk	12,554		
R0030	Life underwriting risk	80,618		
R0040	Health underwriting risk	3,812		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-42,007		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	125,468		

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	10,897
R0140	Loss-absorbing capacity of technical provisions	-22,871
R0150	Loss-absorbing capacity of deferred taxes	-13,641
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**	99,853
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	99,853
	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	61,047
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	54,598
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

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

S.28.01.01

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

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

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	40,629

		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	640,116	
R0220	Obligations with profit participation - future discretionary benefits	40,365	
R0230	Index-linked and unit-linked insurance obligations	1,796,167	
R0240	Other life (re)insurance and health (re)insurance obligations	242,254	
R0250	Total capital at risk for all life (re)insurance obligations		1,976,126

	Overall MCR calculation	C0070
R0300	Linear MCR	40,629
R0310	SCR	99,853
R0320	MCR cap	44,934
R0330	MCR floor	24,963
R0340	Combined MCR	40,629
R0350	Absolute floor of the MCR	3,187
R0400	**Minimum Capital Requirement**	40,629

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