Solvency & Financial Condition Report (SFCR)

For the year ended 31 December 2023

Sheffield Mutual Est. 1892

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Summary

This is the Society's Solvency & Financial Condition Report (SFCR) based on the financial position as at 31 December 2023.

Business and Performance

- Overall member satisfaction score of 95%
- 4.94 rating on reviews.co.uk
- 94% of members are likely to recommend us to a friend or relative
- Asset base increased to a record £215m
- Total number of policies increased by 3% to 19,002
- Including the CTF we now have 80,727 policies and accounts
- Rise in operating costs not exceeded cap of 6%

The Society seeks to attract members by demonstrating higher potential investment returns than traditional savings accounts over the life of a policy and aims to retain them through a combination of performance, following high standards of ethics and principles, and delivering consistently high levels of personal service.

The Society's key strategic priorities are as follows:

- Meet its contractual obligations to policyholders
- Deliver higher potential returns than traditional savings accounts over the life of a policy
- Maintain a healthy free asset ratio

As the Society is a mutual, and has no shareholders to satisfy, any surplus profits achieved are redistributed to our members by way of bonuses, ensuring that our members remain our sole focus.

System of Governance

Authorised by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, the Society recognises the importance of strong corporate governance, ensuring that a well-established governance framework, internal controls, and committee structure are maintained at all times. The Society seeks to adopt the highest standards of corporate governance for its size and complexity and has applied the AFM Corporate Governance Code for Mutual Insurers (the "Code").

The Society's governing body is its Board of Director's (the "Board"). The Board is appointed and elected in accordance with the Society's Rules. The Rules also set out the provisions to appoint a Chair of the Governing Body Senior Independent Director, Chief Executive and other Officers, as set out in the Society's Management Responsibilities Map.

Risk Profile

The Society's principal activity is the provision of long-term savings, investment and protection policies to its members, with over 19,000 policies (excluding CTF) in force at the end of 2023. The risk profile of the Society has not materially changed over the past 12 months.

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and the Board seeks to adopt a low-to-medium risk appetite in accordance with the scale and nature of the Society's business. The main risks to the Society are insurance, market, liquidity, operational risk and climate change, which are discussed in greater detail in section C. These risks are quantified and accounted for within the Society's Solvency Capital Requirement (SCR), as detailed in Section E.

Valuation for Solvency Purposes

The Society's valuation as at 31 December 2023 was calculated in line with the Solvency II regime.

For Solvency II purposes, the asset valuation differs to that as shown in the annual report and accounts using UK accounting standard FRS 102 and this can be summarised as follows:

Reconciliation of assets (£000)	**2023**	**2022**
Total value of assets for SII purposes	**214,857**	200,669
Add property acquisition expenses	**13**	36
Add website development costs	**341**	157
Add tangible fixed assets on a cost basis	**69**	75
Add prepayments and recharges	**110**	74
Add software development	**81**	81
Total assets shown in the report & accounts	**215,471**	201,092

Capital Management

The Society's capital management plan extends to having appropriate procedures in place to correctly identify and manage the components of its funds and to maintain sufficient capital to ensure long term solvency and the protection of members' investments. The Society reviews, as part of its regular ORSA process, the current and likely future capital position of the business and whether there is a material risk that its solvency may be threatened. In the event that the Society's projected solvency position is at risk, defined as not having sufficient capital resources to cover the SCR, then the Society will draw up appropriate plans to rectify that position.

The Society's Solvency II capital position can be summarised as follows:

	2023	**2022**
Own funds	**21,438**	17,427
Less: SCR	**(12,808)**	(10,725)
Surplus funds	**8,630**	6,702
Solvency Ratio	**167%**	*162%*

Section E covers the Society's Capital Management Plan in more detail.

Overview of 2023

At the start of 2023 the Prime Minister set out five priorities for the UK, with the top ambition being to halve inflation by the end of the year, due to the effect it was having on our day to day spending habits. As at December 2022 it was 10.5%, and at the end of 2023 it was 4.0%, therefore meeting this particular target. However, the Bank of England's policy of increasing the base rate up to 5.25% in August and maintaining at that level was arguably the largest contributor to driving down inflation. We are unable to exert any control over inflation but we have found that robust expenditure oversight through third party contract management has been essential throughout this period, ensuring every expense is justifiable. This was proven as we achieved our target of capping the rise in operating expenses to 6% for the year.

The steadily rising base rate understandably increased competitive pressure within the sector to raise savings rates. Indeed, we have been monitoring market rates and seen some providers use aggressive strategies to bring in new business. We also raised our product rates during the year, but our ultimate aim is to ensure that our members receive 100% of their fair share of the pooled fund boosted by final bonuses. Through our with-profits fund we aim to offer stable, competitive bonus rates, as demonstrated through our historic performance.

A new piece of regulation, the 'Consumer Duty', was introduced by the FCA during the year, aiming to set 'higher and clearer standards of consumer protection across financial services.' This is by no means a tick box set of requirements and is aligned to our ethos of putting the member first. Data such as that provided above becomes even more essential to demonstrate that providers are doing what they say they are. It is a welcome regulatory ambition that the bar is raised across the sector.

A. Business and Performance

A.1 Business

The address of the registered office is:

3 Maple Park, Maple Court
Wentworth Business Park
Tankersley, Barnsley
South Yorkshire
S75 3DP

Sheffield Mutual Friendly Society Limited is an incorporated registered friendly society, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The PRA can be contacted at:

Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH

The FCA can be contacted at:

Financial Conduct Authority
24 The North Colonnade
London
E14 5HS

The Society's mission statement is: "Prioritising our members' interests, we aim to provide an exceptional and trustworthy service through easy to understand products, with the strongest returns possible."

The Society's vision is: "To be the UK's most trusted and member focussed independent mutual friendly society."

Sheffield Mutual is a member-owned mutual, providing long-term largely with-profits insurance products predominantly to middle market customers residing in the UK. This core activity is supplemented by the provision of unit linked CTF accounts to a mainly HMRC allocated customer base.

The Society strives to be efficient relative to its scale and this is achieved through robust cost management. The pursuit of controlled growth and consistent investment yields are seen as key drivers of sustainability and stability in terms of ongoing financial strength. This financial strength is augmented by a mutual model, which allows the Society to distribute surplus profit to members by way of policy bonuses. The Society has a three-strand distribution model, which can be summarised as follows:

- Intermediaries - Financial Adviser advised and non-advised sales and non-advised referrals
- Direct - Internet applications, local heartland advertising and newspaper editorials
- Social - Member referrals (Tell-a-Friend), advocates, community fund, social media

The Society's business strategy is fully reviewed and re-defined on a three yearly basis. The strategy review is facilitated by an expert third party and is approved by the Board. An interim review and reaffirmation of the strategy takes place on an annual basis.

The external auditors for the Society are Royce Peeling & Green (The Copper Room Deva Centre, Manchester M3 7BG).

A.2 Underwriting Performance

The Society received £13.7 million of premium income in 2023. Premium income levels were lower than the previous year as members were more cautious over rising day to day costs, which led to a higher level of claims. As we've seen historically at the Society, premium income and policy claims levels can fluctuate depending on economic conditions.

Subscriptions and external transfers to the Investment ISA and Junior ISA generated circa £7.5 million (55%) of the total. Our Investment Bond and Income Bond received £3.5 million over the year, making up around 26% of premium income. Contributions to our regular savings products, including the Tax-Exempt Savings Plan, amounted to £2.5 million and, therefore, accounted for around 19% of the total.

The Society's unit-linked Stakeholder Child Trust Fund attracted premium income of £0.66 million during the year, made up of transfers from other providers and additional subscriptions to existing accounts.

The Board declared annual policy bonuses worth in excess of £5.1 million for members in 2023 and all with-profits bond, ISA and endowment policies had their interim bonus rates declared in full. The Board also paid terminal bonuses on qualifying years for the Investment ISA and bonds opened prior to 2017, and maintained final bonus rates on maturing regular premium endowments.

A summary of the transfer to the fund for future appropriations is provided below:

	2023 £	2022 £
Single premium income	**10,247,902**	13,429,581
Regular premium income	**3,491,607**	3,580,439
Investment and other income	**6,539,650**	5,715,982
Realised investment gains	**3,169,120**	133,115
Unrealised investment gains	**8,420,332**	348,409
Total Income	**31,868,611**	23,207,526
Claims incurred	**(14,322,688)**	(11,946,008)
Acquisition, administrative expenditure and taxation	**(3,383,315)**	(1,505,285)
Realised losses on disposal of investment properties	**-**	(50,984)
Unrealised losses on investments	**-**	(15,789,107)
Change in long term business provisions	**(9,959,935)**	(241,442)
Transfer (to) / from Fund for Future Appropriations	**(4,202,673)**	6,325,301

Members and Policies

The following tables show how membership has developed in recent years:-

Year Ending	**Number of Members (Excl. CTF)**	**Number of Policies (Excl. CTF)**
31.12.21	12,627	18,498
31.12.22	12,738	18,978
31.12.23	12,645	19,002

The number of Child Trust Fund accounts fell slightly due to the product no longer being available for new business and maturities commencing from September 2020:

Year Ending	**Number of CTF Accounts**
31.12.21	62,766
31.12.22	62,429
31.12.23	61,725

A.3 Investment Performance

The Society maintains a diversified portfolio, which is well positioned to deal with the market risks and volatility, whilst also benefiting from any future gains. The year end balances of the Society's investment assets are as follows:

	2023 £	2022 £
Land and buildings	**49,441,483**	48,775,424
Listed investments (excluding CTF)	**100,659,556**	86,666,804
Mortgages on land and buildings	**2,001,000**	2,472,250
Bank and money market deposits	**5,662,242**	6,042,941
	157,764,281	143,957,419
Unit linked assets - CTF	**52,976,099**	50,276,988
Unit linked assets - Sustainable ISA	**1,060,003**	-
	211,800,383	194,234,407

Positive investment performance contributed to a 7.2% increase in total assets in 2023. They ended the year at a record of £215.5 million (2022: £201.1 million, 2021: £206.5 million).

Investment and other income received for 2023 was as follows:

	2023 £	2022 £
Rental income receivable	**3,218,475**	3,105,082
Income from listed investments	**2,172,333**	1,650,683
CTF Unit Linked management charges received	**735,556**	697,590
Bank interest receivable	**279,490**	53,255
Mortgage interest receivable	**133,547**	148,773
Other income	**249**	60,599
	6,539,650	5,715,982

The Society's listed investments are managed professionally by Russell Investments, the Outsourced Chief Investment Officer (OCIO). The Society's investment income was £9.7 million and after taking account of the unrealised gains and losses the overall return on the non-CTF assets for the year was +9.0%. The Society paid a total of £753,564 relating to Russell Investments investment management fees in 2023, £209,419 of which related to 2022 and £15,832 to 2021.

Sales and disposals of investments led to a realised gain of £3.1 million for the year, as the table below illustrates:

	2023 £	2022 £
Net unrealised gain / (loss) on listed investments		
- With Profits	**3,086,677**	-
- CTF Unit Linked	**27,792**	-
Gain on the sale of the UK Real Estate Fund	**35,864**	133,115
Gain on the sale of investment properties	**18,787**	-
	3,169,120	133,115

Ongoing investment performance resulted in a net unrealised gain of £8.4 million for the year as illustrated below:

	2023 £	2022 £
Net unrealised gain / (loss) on listed investments		
- With Profits	**4,663,310**	(15,445,284)
- Unit Linked	**3,035,763**	(343,823)
- Sustainable ISA Unit Linked	**60,003**	-
Net unrealised gain / (loss) on investment properties	**611,256**	348,409
Net unrealised gain / (loss) on revaluation of Society's office	**50,000**	
	8,420,332	(15,440,698)

After a disappointing 2022 across most investment asset classes, a rebound was expected. Several tweaks were made to the asset mix early in January, as recommended by Russell Investments, our Outsourced Chief Investment Officers. These changes were mainly to reduce our reliance on UK markets, with performance analysis showing that this decision enhanced the subsequent yield. As recently as October, mainly due to hostilities escalating in the Middle East, equity markets were at their lowest point in the year. However, a shift in the outlook for interest rates in 2024 and improvements in inflation data spurred equities in the final two months of the year.

In the US, despite the first-quarter regional banking crisis, once it became apparent that the end was in sight for the Federal Reserve's interest rate hikes equity stocks rallied by 25%. Technology stocks also jumped significantly during the year mainly due to the emerging boom in artificial technologies. UK markets don't have a similar exposure to tech stock and overall didn't perform as strongly as the US or Europe. Within emerging markets, India performed well due to market friendly government policies whilst China's main equity market fell 9%.

With regards to fixed interest investments performance has correlated with equities rather than acting as a risk diversifier within a portfolio as it has historically done. The US 10-year Treasury was 3.87% for the year, whilst UK gilts yielded 3.6%. Global high yield bonds delivered 3.5%. As inflation falls we should hopefully see a return to gilts and bonds assuming their role as a counter-balance to equities.

Our commercial property portfolio achieved a strong return over the year at 7%. During 2023 the Society started the process of purchasing a new build childcare nursery in Faringdon and a Central England Co-Operative store in Scunthorpe. We also bought a further unit on our existing headquarters site to future proof our growth. Two smaller retail units were sold during the year. The Society owns 42 geographically diversified commercial properties, with a total value of circa £49 million. Taking into account the overall performance of the direct property portfolio, the Society achieved £3.2m income. The Society paid a total of £93,135 relating to property related fees in 2023 (£89,500 in 2022).

In October 2023, we made an investment of £1 million with Fidelity International for our new Sustainable ISA. By 31st December 2023, the fund had made a positive return of 6.44%. The product went live to our members on 1st March 2024.

The Board will continue to manage the potential volatility by focusing on quality, balance and diversity when making investment decisions. The Board makes investment decisions for the long-term and, whilst remaining alert to short-term market fluctuations, we are focussed on maintaining consistent returns and the security of our members' funds.

The next table shows the asset split of the Society's investment fund at the end of 2023, with previous years' figures for comparison purposes. This table excludes Child Trust Fund and Sustainable ISA investments, which are part of separately managed Unit Linked funds.

		2023 %	2022 %	2021 %
Property		31.33	33.88	33.83
Mortgages on land and buildings		1.27	1.72	1.65
Listed investments:	- equities	29.62	32.08	26.09
	- fixed interest	32.47	28.01	26.99
	- alternative assets	1.72	0.84	3.39
Cash (excluding current account funds)		3.59	3.47	8.05
		100.00	100.00	100.00

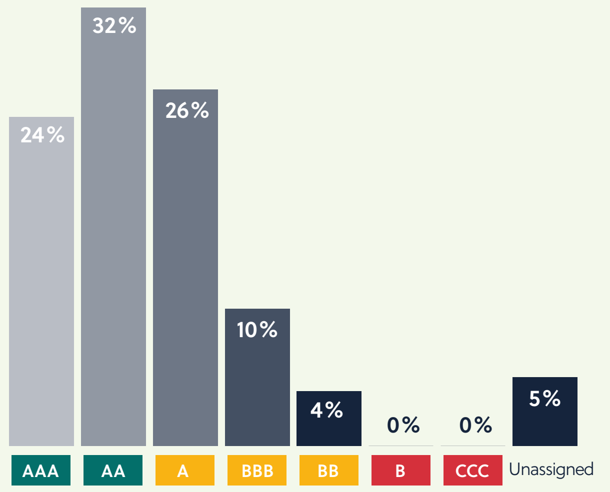
A.4 Performance of Other Activities

The Board sees unmitigated climate change risks posing challenge to Sheffield Mutual's financial, operational, and systemic risks in the short, medium, and long term. Since 2020 climate change risks were integrated into the Society's risk management system and have been carefully monitored and discussed at the Audit and Risk Committee and at full Board since.

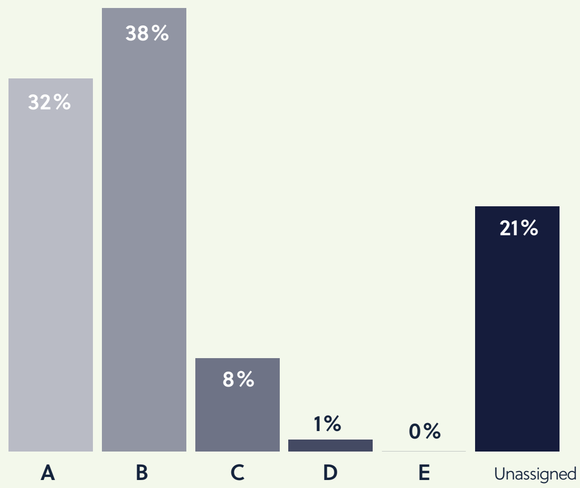
As a Mutual Society, the Board feels that it is our responsibility to go beyond the regulation and ensure that we do the right thing in terms of our impact on climate change, social and governance concerns for the sake of our members, community, and the future of the Society. We have also been working with Russell Investments to ensure that our with-profits fund is transitioning to sustainable investments and to ensure that Environment, Social, and Governance considerations are embedded within investment decisions. The work on our investment portfolio will continue but we are now receiving more useful data to assess the portfolio's ESG risk.

In October 2023 we commenced investment into 15 sustainability focussed funds with Fidelity International ltd outside of the with profits fund. This investment will link to the unit linked 'Sustainable ISA' which was launched on 1st March 2024. The product provides access to best in class sustainable investments and diversifies our product range.

Top-level MSCI ESG rating



Top-level FIL ESG rating



	Carbon Emissions - Scope 1+2 Intensity	Weighted average carbon intensity	Coverage
Fund	81.5	79.0	83.1%

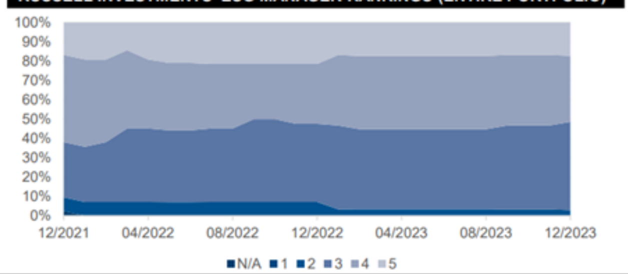
Below we provide key ESG metrics for the portfolio's equity mandate namely the portfolio's ESG risk rating and carbon footprint as at 31 December 2023

ESG KEY METRICS & DEFINITIONS

	Portfolio	Benchmark	Portfolio Coverage[1]
ESG Risk Rating[1]	21.6	21.8	67%
Carbon Footprint[2]	113.9	168.0	68%

- **Manager rank** – considers a fund's ESG commitment, implementation, consideration, and active ownership.
- **ESG score** - refers to the classification of risks and their impacts on the business regarding reputational or economic damage to an organisation or a sector.
- **Weighted Average Carbon Intensity (WACI)**[3] - assesses a company's carbon risk, driven by the transition to a low-carbon economy. The ratings are determined by evaluation of a company's material exposure to and management of carbon issues.

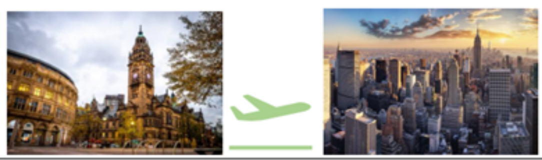
RUSSELL INVESTMENTS' ESG MANAGER RANKINGS (ENTIRE PORTFOLIO)



TOTAL PORTFOLIO ESG SCORE

TOTAL PORTFOLIO WEIGHTED AVERAGE CARBON INTENSITY

- Currently 113.9 tonnes of CO_2 per annum
- What does this look like? – an estimated 63 return flights from Sheffield to New York*
- Since inception we estimate the portfolio's carbon footprint has fallen by the equivalent of 15 return flights from Sheffield to New York.



A.5 Any Other Information

There is no other information to add.

B. System of Governance

B.1 General Governance Structure

The Society is governed by its Rules and the main governing body is the Board, which is constituted and elected in accordance with the procedures as laid down in the Rules. The detailed procedures and policies for the Board are set out in the Society's Board Manual.

The Society seeks to adopt the highest standards of corporate governance for its size and complexity and has adopted the Association of Financial Mutuals (AFM) Corporate Governance Code incorporating the Section 172 Companies Act Statement.

In 2023 the Board comprised of eight non-executives; Chair, Senior Independent Director (SID), six other non-executive members; and three executive members (Chief Executive, Chief Operating Officer and Chief Commercial Officer).

The Board determines the strategic direction of the Society and reviews its operating and financial position. The Board met on six occasions during 2023 and there is a schedule of regular reports and information, which they consider at the meetings and which is agreed annually. Reports are provided to the Board in advance of each meeting. The Chief Executive is responsible for carrying out the agreed strategy and the day to day running of the Society and there is a clear division of responsibilities between the roles of the Chief Executive and Chair.

There are certain decisions that are reserved for the Board and these include:

- declaration of annual bonus rates
- acquisition/disposal of significant assets
- succession planning
- approval of the annual report and accounts
- approval of the Own Risk and Solvency Assessment (ORSA)

The Chair is responsible for ensuring that members of the Board receive accurate, timely and clear information in order to discharge their duties effectively and the Society's Secretary is responsible for ensuring good information flows within the Board and between senior management and the Board. The roles of Chief Executive and Secretary should ideally be split but the Board is confident that it received good information flows and guidance and supports the Chief Executive currently holding the Secretary title, with assistance from the Member Services Team manager preparing the Board and subcommittee minutes. The Board and Sub-Committees can also obtain assistance from the Chief Operating Officer, Chief Commercial Officer and other employees if required.

Senior Managers and Certification Regime (SM&CR)

The Society remained compliant to the Senior Managers & Certification Regime (SM&CR), with the responsibility of allocating the SM&CR prescribed responsibilities in line with the PRA Rulebook falling to the Chief Executive.

The Chief Executive is responsible for allocating each of the SM&CR prescribed responsibilities to one or more approved persons in accordance with the PRA Rulebook (Insurance – Allocation of Responsibilities).

The Society has appointed the following SM&CR functions in accordance with the PRA Rulebook (Solvency II Firms - Insurance - Senior Manager Functions):

SMF No.	Function
1	Chief Executive
2	Chief Finance
3	Executive Director
9	Chair of the Governing Body
10	Chair of Risk Committee
11	Chair of Audit Committee
12	Chair of Remuneration Committee
13	Chair of the Nominations Committee
14	Senior Independent Director
15	Chair of the With-Profits Advisory Arrangement
16	Compliance Officer
17	Money Laundering Reporting Officer
20	Chief Actuary
20a	With-Profits Actuary
24	Chief Operations

The above are the key functions the Board has discussed and agreed as effectively running the Society.

The Society has identified that the following are also key functions, as these are functions whose operation, if not properly managed and overseen, could potentially lead to significant losses being incurred, or to a failure in the ongoing ability of the Society to meet its obligation to policyholders:

- IT Infrastructure Support
- Investment Management

Oversight of the above key functions is carried out by one of the Society's internal SM&CR function holders.

Finance & Investments Sub-Committee – FIC

The sub-committee meet on at least 11 occasions during the year and consists of the FIC Chair, the Society's Chair, SID and one other Non-Executive Board member by rotation, plus the Chief Executive and Chief Operating Officer. The sub-committee's main responsibilities are:

- to review monthly Income & Expenditure and budget performance
- to review the Balance Sheet on a quarterly basis
- to consider and review recommendations from, and performance of, the Society's investment managers and agree sales, purchases and investment mandates as necessary
- to monitor the Society's property portfolio and agree sales and purchases within delegated limits

Audit & Risk Sub-Committee – ARC

This sub-committee monitors and acts as the risk management function and provides oversight of the Society's financial reporting process and internal controls. It comprises of at least four non-executive members and meets on at least four occasions during the year. Executives attend by invitation only. The sub-committee is not chaired by the Society's Chair and the position of sub-committee Chair is held by a non-executive having an accountancy qualification. The sub-committee's main responsibilities are:

- to review the external auditor's qualifications, independence and performance
- to review the integrity of the Society's financial statements
- to monitor the performance of the Society's outsourced internal audit function
- to review the Society's internal accounting and financial controls
- to review the selection and formal tendering process for internal auditor and external auditor, as required
- to manage the Society's risk position

Nominations Sub-Committee - NC

The NC advise the Board on the appointment of new members and the tenure of existing members as well as the perceived skills balance required on the Board, whilst promoting equality and diversity throughout the Society. It comprises of at least three non-executive members and meets on at least two occasions during the year. Executives attend by invitation only. The sub-committee is chaired by the SID. The sub-committee's main responsibilities are:

- Review the structure, size and composition of the Board; to include skills, knowledge, experience, length of tenure, and diversity.
- Be responsible for identifying and nominating, for the approval of the Board, suitable candidates to fill Board vacancies as and when they arise or are expected to arise on retirements.
- Make recommendations to the Board in relation to drafting the Society's Board recruitment policy - covering matters such as recruitment, advertising, composition, tenure, diversity, equality and succession.

Remuneration Sub-Committee - RC

The RC advises the Board on levels of remuneration. It comprises of at least three non-executive members and meets on at least one occasion during the year. Executives attend by invitation only. The sub-committee is chaired by the Society Chair. The sub-committee's main responsibilities are:

- Review Executive remuneration and incentive schemes
- Review NED remuneration
- Review global awards for pay increases to employees

Remuneration Policy

Board remuneration is reviewed in accordance with the Society's remuneration policy. The overriding principle of the policy is to ensure that remuneration is aligned to the long-term objectives of the Society and that there are no arrangements that would adversely affect the financial position of the Society or its risk profile. The Board is sensitive to pay and employment conditions elsewhere, although does not fully assess remuneration levels relative to other organisations, preferring instead to act with an element of independence. It may use remuneration data provided by the AFM or any other such organisation, as a comparable measure, to ensure salaries and fees remain attractive.

During 2021 the Remuneration Committee appointed an independent consultant (Reward Risk Ltd) to review non-executive fee levels. The review was updated for Board remuneration in 2023.

Incentives are provided to employees, the Chief Executive, Chief Operating Officer and Chief Commercial Officer through discretionary bonus schemes. The policy is to ensure that the maximum pay-outs that are available under the scheme are modest in relation to basic salaries and that they are structured with a balanced set of indicators, so as not to encourage risk taking or other behaviours and conflicts of interest that are not in the best interests of the Society and its members. An internal review was carried out on the Society's employee bonus scheme to make the scheme more directed at individual and departmental objectives to encourage ownership and accountability.

The remuneration of the Chief Executive, Chief Operating Officer, Chief Commercial Officer and employees is reviewed on an annual basis, with amendments made to job descriptions as deemed appropriate. The bonus schemes are also reviewed annually against the key indicators set and amended if appropriate. The remuneration of the non-executives is reviewed on a triennial basis.

The Society has no formal redundancy policy, preferring to deal with situations individually as and when they arise. No termination payments would be made in excess of an employee's statutory or contractual rights.

Remuneration arrangements with service providers are simple and transparent, and do not encourage risk taking.

B.2 Fit and Proper Policy

The aim of the fit and proper test is to prevent unsuitable people from serving on the Society's Board, performing a controlled function or performing an outsourced key function (actuarial, compliance, internal audit and risk management). The Society carries out these tests and enquiries as part of the recruitment / appointment process.

The Society uses information from various sources to carry out the checks, including a credit agency search, DBS check and appropriate references from current and previous employers, covering at least the past six years. If any applicant fails to pass the fit and proper test, the Society will not appoint them. An existing appointment will be terminated immediately if information comes to the Society's attention which casts doubt on the person's suitability to carry out the controlled function. The Society's secretary would be responsible for notifying the regulator in these circumstances.

Newly appointed employees / Directors falling under the SM&CR will be required to complete a Fit & Proper Assessment as part of our initial due diligence and therefore prior to their start date.

Existing Board of Directors members, senior management function holders and Certification Function holders are required to complete a 'fit and proper person' declaration in July each year, which ensures that any matters that should be brought to the Society's attention are properly disclosed, in order to assess their continuing fitness and proprietary.

Where the Society replaces a Senior Manager function holder because they are considered no longer to be fit and proper, the Society's Secretary will notify the regulator as soon as reasonably practicable.

B.3 Risk Management System Including the Own Risk and Solvency Assessment (ORSA)

The Society aims to employ proportionate tools and techniques, for a firm of its size, to enable it to deliver its objectives in a controlled manner. The oversight and direction of the Board remains central to risk management and it ensures, through the ARC that appropriate policies, procedures and processes are implemented across the business to control and monitor both the actual and potential risk exposures which arise from the Society's operations. The Board ensures exposed risks are aligned to the Society's risk appetite and that any unacceptable risk exposures are identified and either terminated or where appropriate mitigated.

In addition to the ongoing assessment of known risk exposures, the Chief Operating Officer and Chief Executive monitor external and emerging risks within the Society's forward-looking Risk Register, which is reviewed by the ARC on a quarterly basis. The Board has an open communication culture that promotes the immediate escalation of actual or emerging risks. The Board is ultimately responsible for the Risk Management Framework and defines, through its Risk Appetite Statement, the acceptable levels and types of risk exposure that it considers likely to arise in the delivery of its strategic objectives.

If any significant risks emerge the Register will be submitted more frequently, or in extreme circumstances, a special meeting of the ARC would be convened. Risks which could threaten the Society's business model are assessed, managed and mitigated through a process known as reverse stress testing. The full Board is provided with an Annual Risk Analysis, which summarises the Society's principal risks and how they are managed and mitigated. The Board also receives all the papers and minutes from the ARC, which ensures that issues or emerging risks are communicated and discussed. The ORSA is also central to the risk management framework.

Whilst general risk oversight and direction is delivered through the ARC, which meets quarterly, the day-to-day risks within the business are managed by the Chief Operating Officer, supported by the Chief Executive.

The Society has adopted and is continually developing a 'Three Lines of Defence' approach to its operational implementation of the Risk Management Framework. The Three Lines of Defence approach simplifies and clarifies the varying roles and responsibilities as follows:

First line of defence – Operations Team

Operations are in the best position to assess risk exposures and is fully responsible for the risks our operations create. The Risk team monitor the risks through the risk register as a first line assurance role. Ongoing oversight is provided through the Chief Operating Officer and the Risk team, supported by the Chief Executive and the Chief Commercial Officer.

Second line of defence – Risk & Compliance Team, Chief Operating Officer, Chief Executive and the Chief Actuary

The second line of defence, which is independent of operations, is responsible for monitoring, quantification, analysis and assessment of all risks and internal controls. The second line's role is the four-eyes oversight of the first line of defence, against inappropriate actions or activities and to confirm adherence to policies, internal controls and the Society's risk appetite. The Compliance team, Chief Operating Officer and Chief Executive; executives have some cross over due to the size of the Society.

Third line of defence – Internal Audit

The third line of defence, which is independent of operations, risk and compliance and senior management, is responsible for the testing and assessment of the Society's governance and control frameworks. Internal audit reports directly to the Audit and Risk Committee.

The Risk Policy and Risk Management Framework connects with the business as follows:

- The Risk Register (Ironopolis) is maintained on a day-to-day basis by the Chief Operating Officer
- The Risk Register is updated at least quarterly by the Chief Operating Officer and, following review by the Chief Executive, presented to the Audit and Risk Committee
- Actions arising from the Risk Register are documented and, where appropriate, escalated to the Board
- The Annual Risk Analysis is prepared by the Chief Operating Officer and presented to the Board
- Actions arising from the Analysis are documented and then reflected in the ORSA document
- The Board reviews the ORSA risk appetite and tolerances at least annually, or more frequently if there is a significant change in the Society's business or external environment
- The ORSA and Risk Register is used as a framework for conducting appropriate capital stress testing for the FLAOR
- Stress testing is carried out at least annually or more frequently if required – ad-hoc testing will be carried out to deal with extreme or unusual events

Own Risk and Solvency Assessment (ORSA)

The authors of the ORSA are the Society's executive team, with input from the Society's actuary. The ORSA will be updated at least annually based on the preceding 31 December SCR calculation or more frequently if business conditions require it. The ORSA and FLAOR will consider likely changes to the Society's risk profile and capital needs over a three-year business planning period

The primary purpose of the ORSA report is to document the processes and procedures that are in place to identify, assess, monitor, manage and report on the short and longer term risks the Society faces, to determine the capital necessary to ensure that solvency needs are met at all times, under normal and severe stress scenarios. Crucially section 6 of the ORSA provides an assessment of whether the Society's risks deviate materially from the assumptions underlying the SCR calculation.

The Board owns the ORSA process and the minutes of the relevant Board meetings will record the challenges provided, the decision made and the feedback loops of the ORSA and FLAOR process. The qualitative content of the ORSA is approved annually by the Board, which is the Society's administrative, management and supervisory body. The ORSA is designed to be for both internal use and to act as the ORSA supervisory report.

Capital Management Policy

As a mutual organisation the Society has no easy access to external capital and no shareholders. All capital, therefore, is classified Tier 1.

The Society must ensure, therefore, that after reserving for technical provisions sufficient free capital is retained to meet regulatory requirements and to ensure that the balance sheet can withstand the impact of extreme events. Sufficient capital is also retained to enable the Society to achieve controlled growth and the investment freedom to deliver greater potential returns to members.

The Board sets a range for the management of the Society's free assets and solvency ratio. These ranges are agreed at the triennial strategy review and then re-affirmed or adjusted annually. The Chief Executive will report the free assets and solvency ratio to the Board quarterly, following the PRA quarterly capital reporting exercise. The resulting discussions will be minuted together with any management actions agreed to manage the free capital.

The Board will manage the free capital through various actions, including:

- Adjusting bonus distributions
- Changing the asset mix
- Reviewing the valuation basis within regulatory constraints
- Reducing the Society's operating costs
- Contracting the Society's balance sheet e.g. restricting new business

The Society's free capital is not held separately and is part of the Society's with-profits fund. A proportion of the free capital is derived from the mutual capital and surpluses from non-profit business, and is not attributable to the current generation of policyholders.

The surplus in relation to the Child Trust Fund is currently retained with Legal & General in an equity tracker fund. This surplus is partly used to offset the Society's operating costs, resulting in lower management expenses for with-profits policyholders. It is also the Society's practice to recognise a proportion of the CTF surplus in the with-profits asset share calculation.

Medium Term Capital Management Plan ("MTCMP")

The Society has developed a MTCMP, which considers the impact of actions or events, such as the distribution of surplus, with capital management implications. Such events may also include acquisitions, disposals, transfers of business or other forms of restructuring – none of which are envisaged over the current medium-term planning period. A number of considerations, such as capital issuance, maturity of own-fund items, limits of tiers and dividend distributions, are not relevant to Sheffield Mutual.

B.4 Internal Control System

The Society has an established framework of internal controls for the management of risk within the business and to safeguard the interests of members. The Board reviews the effectiveness of its internal control systems at least annually by receiving reports from the external Compliance Consultant and our Internal Auditors.

Compliance Function

The Society is required to allocate a director or senior manager the function of:

- Having responsibility for oversight of the Society's compliance; and
- Reporting to the Board in respect of that responsibility

The Compliance Officer for the Society is the Chief Operating Officer and is responsible for monitoring adherence to the FCA's COBS (Conduct of Business) rules. Support is provided by the Risk and Compliance Team, and external guidance is provided by Mutual Governance Ltd when required.

The Board and all employees receive annual training in relation to money laundering, data protection and complaints handling.

B.5 Internal Audit Function

The Society has an Internal Audit Function, RSM have held this role since 2019. The Chair of the Audit Committee will be responsible for overseeing the relationship with the Internal Auditor.

The Society has an annual internal audit plan, which is prepared by the Internal Auditors in accordance with industry standards and best practice considering the activities and governance arrangements of the Society. The plan includes a combination of a regular risk-based cycle of key testing priorities combined with a forward-looking audit. The Board has authorised the internal auditors to carry out audits which are not included in the plan, should the need arise during the course of the audit programme. The Chief Operating Officer is responsible for liaising and maintaining day to day communications with the internal auditors throughout the year, with the sponsor (an executive director) of each audit responsible for liaising with the auditors during their sponsored audit to provide the relevant documentation and evidence.

The internal auditor, RSM, perform a number of internal audits throughout the year. Draft reports are provided to the executive team for management comments prior to a presentation of the findings and recommendations to the Board. The observations will identify the person(s) responsible for remedying any shortcomings and the period of time envisaged for achievement.

Following Board approval of the internal audit report the agreed recommendations are logged by the executive team and a report is provided monthly to the ARC showing progress against each observation. The internal auditors provide an assurance report on the completion of the observations as part of the subsequent year's internal audit. The executive team and members of the Board may call upon the internal audit function to give an opinion or assistance on other matters at any time.

B.6 Actuarial Function

The Society is required to have an actuarial function in order to meet the requirements of being Directive and to comply with Solvency II. The actuarial function is currently outsourced to OAC Limited in accordance with a service agreement. The appointment of Cara Spinks of OAC Limited as SMF20 Chief Actuary has been approved by the regulator. Mrs Spinks also holds the role of SMF20a With-Profits Actuary.

The Chief Actuary reports directly to the Board of Directors and provides the following services and statutory duties:

- Carrying out the annual valuation of assets and liabilities in accordance with regulatory requirements, after first agreeing the valuation basis with the Board
- Reporting any material deviations from actual experience when using projected best estimates and proposing changes to the valuation basis / models in order to improve best estimate calculations
- Assessing the reliability and consistency of internal and external data against relevant standards
- Making recommendations on internal procedures to improve data quality to meet current regulatory requirements
- Calculation of the technical/mathematical provisions in accordance with regulatory requirements
- Reporting to the Board on at least an annual basis in relation to the above
- Assistance with the completion of annual and quarterly regulatory returns
- Carrying out the Forward Looking Assessment of Own Risks (FLAOR), including appropriate scenario and stress testing, and reporting to the Board annually
- Taking account of the impact on technical provisions to provide advice to the Board on underwriting and pricing policy
- Assistance with the valuation and capital management sections (D and E) of the Society's Solvency and Financial Condition Report (SFCR)
- Completion of data requests for information providers
- Any other tasks as described in the current "Agreement to the Provision of Actuarial Services" document.

As With-Profits Actuary:

- Advising the With-Profits Advisory Arrangement
- Recommendations in relation to bonuses and distribution of surpluses
- Input into the Society's PPFM
- Annual report to the Board of the With-Profits Actuary
- Making recommendations to assist the Board in ensuring that closed-book customers are treated fairly and proportionately.

There are considered to be no activities that would result in any conflicts of interest.

B.7 Third Party and Outsourcing Policy

The Society outsources the following critical or important operational functions:

The performance of each outsourcing firm is reviewed by the Board at least annually and this review is recorded in the Board minutes.

With the exception of IT and cyber security assurance services, the outsourcing firm will be required to present to the Board (or delegated sub-committee) in person at least annually, thereby providing the opportunity for Directors to assess performance and raise questions / issues.

The Board remain fully responsible for discharging the Society's legal and regulatory obligations when they outsource functions.

Oversight

Outsourced Function	SMF Responsible (day to day operations, performance, and monitoring)	SMF Accountable
Internal Audit	Chief Operating Officer	Chair of Audit and Risk
Investment Management	Chief Executive Officer	Chief Executive Officer
Actuarial Services	Chief Executive Officer	Chief Actuary/Chief Executive Officer
IT Services	Chief Operating Officer	Chief Operating Officer
Cyber Security Assurance Services	Chief Operating Officer	Chief Operating Officer

All of the above are responsible for escalating any issues to the Board.

Documentation and record-keeping

The Chief Executive Officer or Chief Operating Officer will carry out the checks that they feel appropriate to satisfy themselves as to the ongoing competency and financial standing of the outsourcing firm and key employees. This may include requesting copies of third-party governance reports, fit & proper person assessments, insurance policies, credit checks, annual reports & accounts and/or the commissioning of a themed audit.

Business Continuity Planning (BCP)

The Society has in place an established business continuity management plan to ensure the Society's ability to operate on an ongoing basis and to limit losses in the event of severe business disruption. The BCP is tested on an annual basis, when required. All outsourced third parties are covered in the plan.

There are no differences to the approach for material or non-material outsourcing.

Pre-outsourcing and on-boarding

The processes for vendor due diligence and for assessing the materiality and risks of outsourcing arrangements (including notification to the PRA where required).

Due diligence checks are performed for all new third parties. Not all are applicable to each outsourced third party:

- Associate member of the Association of Financial Mutuals
- Review company's report and accounts
- Interview with Executive Directors
- Meet the Board of Directors
- Review of the website
- Credit check

Notification is made, where required, to both the FCA and PRA.

There are no differences to the approach for material or non-material outsourcing.

Outsourcing firms will normally be appointed for a minimum three-year period or on an open ended basis. New appointments will be made following a documented tender process, which will involve a minimum of three firms. The Board will receive presentations from each firm (with the exception of IT Services and Cyber Security third parties) and will make the final decision regarding appointment. This will be documented in the Board minutes.

Outsourcing will not be carried out in the following circumstances:

- If it would materially impair the quality of the Society's system of governance
- If it would unduly increase the Society's operational risk
- If it would impair the ability of the regulatory authorities to monitor the compliance of the Society with its obligations
- If it would undermine or detract from the service provided to members

Responsibility for signing-off new outsourcing arrangements, in particular material outsourcing arrangements

The Chief Executive, Chief Operating Officer or Chief Commercial Officer will prepare a paper for approval to Board for material outsourcing agreements sign off. Following successful approval by the Board the contracts between the outsourcing partner will be signed by the Chief Executive and/or Chief Operating Officer (the Chief Commercial Officer in their absence).

Termination

The outsourced functions are essential to the Society's operations, but only IT would represent an immediate risk to the delivery of services to the Society's members. In the case of any difficulties with the incumbent outsourced provider, the contingency is that services could be switched rapidly to another known infrastructure support provider. The Society owns the physical IT infrastructure, which is located on the Society's premises. The Chief Operating Officer and Risk and IT Lead are able to manage any Microsoft support issues which may occur in a period of no IT third party, however this would be a short term solution and the Sophos Firewall and Navision Dynamics administration system would not be supported, due to a lack of skills and knowledge internally.

The other outsourcing arrangements are important but not critical to the delivery of services. Therefore, these providers can be replaced through a re-tendering process.

B.8 Any Other Information

None.

C. Risk Profile

The Society has a risk-averse culture, which helps to protect members' interests and reduce exposure to the principal risks and uncertainties facing the business. The ARC is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and the Board seeks to adopt a low-to-medium risk appetite in accordance with the scale and nature of the Society's business.

It seeks to undertake a structured approach for the effective management of risk and aims to employ proportionate tools and techniques to enable it to deliver its objectives in a controlled manner. Having regard for the nature and complexity of the Society's business the Board has resolved to avoid unnecessary work on risks which do not have a large impact on the Society.

The Board is satisfied that the Society has robust risk and governance procedures and sufficient capital to deal with a range of risks and adverse scenarios, both now and over the business planning period. The analysis of risks also demonstrates that there are no current, emerging or anticipated risks which could materially alter the Society's risk profile or strategy in the medium term.

The Society has a clearly defined risk appetite for each category of risk (defined in terms of a risk tolerance) and business policies are set accordingly.

- Zero Tolerance – any significant risk is unacceptable/no appetite to take risks
- Low Tolerance – nil to very small risk acceptable/significant controls
- Medium Tolerance – exposure to risk within manageable limits tolerated and
- High Tolerance – prepared to accept high risks in pursuit of business

C.1 Insurance Risk (Low Tolerance)

Insurance Risk is the risk of loss due to uncertainties over timing, amounts and occurrence of events insured by the Society. Insurance related risks include mortality risk, persistency risk, taxation, new business and renewal expense risk - with persistency risk being the main item. The Society has no exposure to longevity risk, nor does it have any reinsurance arrangements.

The Board has adopted a low tolerance to insurance risk by taking a low risk view on product development and applying high standards of life underwriting.

The Society manages insurance risk by:

- a structured approach to product development and pricing, including provision for expenses;
- a formal actuarial analysis of the performance of the insurance portfolio which feeds into the development of products and the calculation of technical provisions;
- robust management and challenge of expenses;
- proactive management of new business flows; and
- monitoring persistency rates, which are reported to the Board at least bi-annually.

The table below shows the concentration of insurance risk for the Society.

	2023 £000	2022 £000
ISA	**82,678**	81,007
Investment bond	**39,332**	36,232
Pure Endowments	**14,605**	13,454
Taxable saving plans	**6,497**	5,617
Endowments	**798**	732
Other	**789**	701
Sickness and death	**772**	787
Pension bond	**120**	139
Total	**145,591**	138,669

Mortality Risk

Mortality risk is the risk of loss arising to the Society, due to differences in the level, trend or volatility of mortality rates compared to the assumptions made when a product is designed and priced.

Although difficult to predict mortality rates when pricing a product, under normal circumstances they are subject to well established trends.

Persistency Risk

This is the risk that the assumptions made on the rate that policyholders surrender or lapse policies differ from the actual rate. This could result in the possibility of the Society incurring a loss due to higher than expected policy surrenders and lapses.

The persistency experience of the Society varies over time, but has been relatively low and stable. Factors affecting persistency include members' perception of the Society and the insurance industry, investment performance and the general economic environment. The recent cost of living issues increased the number of ISA withdrawals in 2023 but surrenders and maturities were within budgeted expectations.

Expense Risk

Expense risk is the risk that actual expenses incurred by the Society vary from the assumed rate over the life of the policies.

A large proportion of the Society's expenses are incurred in staff costs and actuarial work, which are relatively predictable. Recent high inflation has increased this risk but overall expenditure for 2023 was within budgeted expectations. The Society also employs a robust cost control culture in order to minimise cost increases whenever possible.

C.2 Market (Investment) Risk (Medium Tolerance)

Market Risk is the risk of losses arising from changes in the value of assets or in the income from the assets. The Society manages market risk so that the returns generated are in line with members' expectations and support the Society's future strategic and operational objectives.

For assets backing member liabilities, market risk is managed by matching, within broad parameters, the duration and profile of the assets with the underlying liabilities.

The Society's FIC oversees the Investment Policy and strategy, which the Society implements through the use of investment mandates. Each mandate aims to manage the market risk using some or all of the following mechanisms:

- defined performance benchmarks
- limits on asset allocation by asset type, market capitalisation and geographical spread

The table below sets out the concentration of market risk for the Society.

Global Equities	76.48%	35,742,139
UK	18.52%	8,651,862
Emerging Equity	5.00%	2,338,075
Total		**42,861,686**

The Society is exposed to interest rate risk where changes in interest rates result in changes to market values or cash flows and where this is not matched by the change in the value of liabilities. This risk can be greater if the term of fixed interest investments is not well matched to the term of the liabilities.

The Society's strategy is to deliver higher potential returns to members than banks and building societies. This necessitates a relatively high exposure to higher risk assets as a means of improving yields. The Society achieves this by holding a relatively high exposure to property (up to 50% of non-CTF assets), through directly owned commercial property and commercial mortgages, and overseas equities.

The Society's assets are carefully selected, diversified and closely monitored in order to avoid losses. The Society has experience and expertise built up over many years in the commercial property sector.

C.3 Credit Risk (Medium Tolerance)

Credit Risk is the risk of loss due to failure by another party to perform in meeting its financial obligations. The Society adopts a medium tolerance to credit risk in support of the Society's strategic objectives and in matching policyholder liabilities. This means that modest losses would be tolerated in order to secure higher potential returns. The Society seeks to minimise other forms of credit risk, in particular those related to deposit takers. The Society has taken the following steps to mitigate credit risk:

- defined commercial lending policy with strict underwriting guidelines
- counter-party limits are in place for cash deposits

The following table provides details of the Society's bonds by region.

		Total £
Overseas fixed interest	90.56%	46,383,228
UK fixed interest	9.44%	4,835,001
Total		**51,218,229**

C.4 Liquidity Risk (Medium Tolerance)

Liquidity Risk is the risk that the Society, although solvent, is unable to meet payments as they fall due from cash or near cash holdings. The Society's objective on liquidity risk management is to ensure that sufficient funds are available over the short and medium term to meet the needs of the Society. This includes new business costs, planned strategic activities, member withdrawals, claims payments and day to day cash flow requirements. Cash flows are generally predictable with fixed amounts due on fixed dates. Deaths and surrenders are less predictable but (under normal circumstances) are subject to well established trends. The increase in ISA balances in recent years may require the Society to hold additional liquidity in the future to meet withdrawals, but ISAs are regarded as relatively 'sticky' investments.

Any significant mismatch between cash inflows and outflows would be identified by the Finance Manager and / or Chief Executive and this would trigger a Board review of the level of liquid assets (particularly cash holdings) and the impact on the liquidity situation of writing new business.

The Society has a medium tolerance to liquidity risk, which means that cash and near cash holdings are kept at relatively modest levels so that yields are not adversely affected. Liquidity risk is considered relatively low given the predictable nature of most policy claims. The Society is currently and for the foreseeable future cash generative allowing it to meet the expectations of members without recourse to reserves.

In 2023 ISA withdrawals increased, as discussed above, but is monitored by the ARC quarterly and the FIC monthly, with no significant concerns highlighted.

Liquidity risk is managed as follows:

- budgets are prepared to forecast the short term and medium term liquidity requirements;
- monthly analysis is provided to the FIC illustrating levels of liquidity and trend analysis;
- assets of suitable marketability and maturity are held to meet the member liabilities as they fall due; and
- credit risk of deposit takers is managed by having appropriate counterparty and credit limits in place.

All investments other than property are readily realisable at full current market values as they are traded on recognised stock exchanges. Assets are assessed as to how quickly they can be transferred into cash, i.e. primary, secondary and illiquid assets. The Board has RAG tolerances around asset liquidity. If the ratios fall outside of the desirable tolerance levels the FIC will discuss any necessary actions for recommendation to the Board. The Society also calculates the weighted average number of days the investment portfolio would take to fully realise into cash.

C.5 Operational Risks

Operational Losses (Low tolerance)

This is the risk of losses due to inadequate systems and controls, error or management failure. The Society's objective is to analyse, record and monitor the operational risks it faces, seeking to extinguish or minimise risks wherever possible.

The Board has set a low tolerance to operational losses, which equates to up to circa 10% of Operational Risk Capital (£669,000 31 December 2023 SII Valuation) per annum or circa 50% for an exceptional single event. Therefore, up to circa £70,000 operational losses are tolerated per annum, or circa £347,000 for a single exceptional event. The Society has established controls to manage operational risk within these tolerances.

The Board owns the risk policy, whilst the Audit and Risk Committee oversees the policy and reviews the risk register and issues/losses register to ensure the risk policy is effectively deployed and risks are mitigated.

The Chief Operating Officer manages the risks within the business (supported by the Chief Executive), ensuring that controls are in place to mitigate risks. The Chief Operating Officer is also the custodian of the risk policy and register, and the Board reviews these documents on a regular basis.

The Chief Operating Officer holds SMF16, 17 and 24, and is responsible for the financial risks of climate change.

Reputation (Zero tolerance)

The Society's reputation is critical to its success and the Board has set a zero risk tolerance for managing reputational risk. Any adverse publicity is unacceptable and the Society's approach to strategy and managing the business avoids any reputational threat.

Customer Services (Zero tolerance)

This is the risk of complaints, poor TCF and other conduct risks through backlogs, errors and omissions. The Board has set a zero tolerance to complaints, whereby no reportable complaints are acceptable. The Society's policies, systems and staff culture are geared to avoiding issues that would lead to complaints and every case is escalated to the Chief Executive and Chief Operating Officer.

Business Continuity (Low tolerance)

This is the risk of a break in service to customers due to events beyond the Society's control. The main risks are around the ongoing provision of our service to members. The Board has set a low tolerance to business continuity, meaning that a major disruption in services would be accepted for up to 3 working days. The Society has a documented Business Continuity Plan and has invested in outsourced disaster recovery facilities to minimise any impact on customer service. Online back-ups are performed daily and data restoration from the online back-up is subject to annual testing.

Operational Resilience (Low tolerance)

The Society has a Board approved Operational Resilience Self-Assessment report. Tolerance levels have been set for each Important Business Service (IBS). Regular testing and continuous improvement will take place to confirm the validity of the tolerances and ensure we remain within the tolerance limits over the longer term.

Compliance (Zero tolerance)

This is the risk of breaches of compliance in relation to such matters as conduct of business rules, anti-money laundering and data protection. The Board has set a zero tolerance for such breaches, which means any incidence of non-compliance is unacceptable and remedial actions taken promptly. The FCA review of the Society's financial promotions in Q1 2021 led to the Society taking swift action in updating literature and the financial promotions review process. An internal audit carried out in 2022 provided further assurance around the process. The Society works to 100% completion of mandatory employee training and all compliance matters are handled by the Chief Operating Officer with support and guidance as required from Mutual Governance.

Security (Zero tolerance)

This is the risk of fraud, financial crime, information security breaches, cyber crime and incidents of physical security. The Board has set a zero tolerance for security, which means that no breaches or incidents are tolerated. The Chief Operating Officer, IT and Risk Lead and Junior IT Assistant monitor all elements of security regularly..

Regulatory & Legal (Zero tolerance)

Regulatory Risk is the risk of losses due to a breach of current regulation or a failure to react appropriately to changes in regulation. The Board has set a zero tolerance to regulatory risk, meaning that the Society would not seek to push the boundaries of regulation. The Society monitors its operations to ensure compliance and reviews all relevant changes of legislation and FCA/PRA rules to ensure operational procedures are compliant.

Employee, Management & Culture (Low tolerance)

Employee and Management Risk is the risk to the Society's operations to issues such as employee turnover and reliance on the executive team. The Board has set a low tolerance to such risks and tries to manage them by having competitive employment terms and conditions, a pleasant working environment and ensuring that effective contingency arrangements can be put in place at short notice. Employee turnover was high in 2022, which led to action being taken by the Remuneration Committee in carrying out an interim employee salary review in July.

C.6 Climate Change Risk

Climate change risk crosses all elements of the business and covers all risk categories: financial, operational, etc. Many of the risks linked to climate change, such as physical risks, could be completely out of the Society's control. The physical and transition risks of climate change may negatively impact the Society as they could have a detrimental effect on performance, brand and reputation.

The Society, in 2021, fully embedded its approach to the financial risks of climate change across the business, this is an ongoing process with many deliverables over the years. The responsibility for identifying and managing financial risks from climate change was assigned to the Chief Operating Officer in 2019. The delivery of the plan allows the Society to demonstrate that governance, risk management, scenario analysis, and disclosure, have been implemented and embedded throughout the Society as fully as possible. Climate change disclosures was produced for the report and accounts using the TCFD guidance.

The risk register has a separate category for climate change, which is presented to the Audit and Risk Committee at least quarterly and monitors various transitional, physical, and reputational risks.

C.7 Other Material Risks

Asset Liability Management Risk (Low tolerance)

Asset Liability Management risk (ALM risk) is the risk of unexpected economic outcomes resulting from market movements affecting the Society's balance sheet structure. The objectives of the ALM policy are to manage financial risks in order that the Society generates value for policyholders whilst not incurring losses that would jeopardise the safe functioning and solvency of the Society.

ALM Risk management of the Society involves the application of four basic elements in the management of assets and liabilities (the Society has no off balance sheet instruments):

- Appropriate Board and senior management oversight
- Adequate risk management policies and procedures
- Appropriate risk measurement, monitoring, and control functions
- Comprehensive internal controls and independent audits

Solvency (Medium Tolerance)

Solvency risk is the risk of having insufficient available capital to meet the minimum regulatory capital and deliver strategic objectives. The Board is mindful that the preservation of capital is critical, given that the Society has no access to external capital.

The Society's financial strength is important to maintain confidence with key stakeholders such as members, business partners (particularly financial advisers) and regulators. However, the Board also needs the flexibility to invest in assets that are capable of delivering higher potential returns to members and these assets, such as commercial property, have a higher capital requirement due to the range of stresses applied.

The Board has set a medium tolerance to solvency with hard trigger points to maintain at least 125% x SCR after management actions. The soft trigger points at which actions will be discussed by the Board are at below 140% SCR. In practice, the Chief Executive monitors solvency levels on a quarterly basis for any trends and more regularly if events dictate.

Strategy, Change & Adaptability (Low tolerance)

This is the risk of the Society entering new markets and launching new products. The Board has set a low tolerance for such matters, meaning that change is acceptable where it is necessary to maintain or improve the established business model. Investment in change is generally made when the outcome is known, or the cost and implications of failure is low. The Society would not normally deviate from well-established markets or products, where the Society has experience and, therefore, the risk of initiatives being unsuccessful is negligible.

Political & Economic (Medium tolerance)

Political and Economic Risk is the risk of political decisions and/or economic circumstances having an adverse effect on the Society's strategy and business plans. As these risks are essentially out of the Society's control, the Board has set a medium tolerance, meaning that the Society's business model is designed to be resilient in order to withstand such events.

C.8 Any Other Information

As part of the ORSA process, in order to evaluate various plausible and reasonable deviations from the central business planning assumptions, the Society's actuary provides a forward looking assessment of its likely future solvency position on a range of scenarios and to highlight the key risks to which the business is exposed, based on the central business planning assumptions.

In summary the forward assessment demonstrates that the increase in assets generated by new business levels corresponds with a steady increase in the absolute level of surplus generated. The solvency ratio is projected to increase over the projection period as the profits from the business written fall through to the balance sheet and as the cost of guarantees in the regular premium business gradually unwinds.

The Board is satisfied that the Society's solvency ratio remains strong in most scenarios. The above analysis highlights the need for the Society to continue to manage its portfolio of investments carefully. They demonstrate the nature of the Society's investment policy and the need for management to be prepared to take appropriate and timely action in de-risking the asset portfolio and reducing bonuses should the need arise.

The key risks to the solvency ratio falling below the Society's 125% minimum target would be a combination of adverse events happening together, particularly when there is a market shock to equity and/or property values.

The Society's investment return and its impact on the solvency ratio has been closely monitored, given economic activity over the year. The Board agreed to carry out a formal half year valuation, which illustrated that the Society's solvency was within the targeted range.

In recent years the Board has also taken action to reduce the overall equity/property content of the investment portfolio, working with our Outsourced Chief Investment Officer (OCIO), Russell Investments. This relationship has ensured that the Society's investments are diversified in terms of the increased number of investment managers involved in the portfolio, but the OCIO is also in a position to ensure that all investments are pulling towards the same objectives. In 2022 the Society and OCIO carried out a strategic asset allocation review, which led to an amendment of the asset mix in January 2023 and the PPFM.

The monthly reports provided by the OCIO also include a 'Total portfolio ESG summary', to better inform the Board members regarding the Society's ESG impact. Various metrics are used to provide an overall rating and carbon footprint. Reviewing these metrics ensures that the risks associated with climate change are understood and mitigated where possible.

The Board regularly reviews the approach taken to management actions and the uptake of new business to ensure that the cost of guarantees written on new policies is not unduly detrimental to the solvency position.

D. Valuation for Solvency Purposes

D.1 Assets

Assets have been valued in accordance with Article 75 of the Solvency II Directive which requires that the assets are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arms' length transaction.

The value of the assets is shown in the following table:

Value of the assets (£000)	2023	2022
Gilts	**19,975**	17,379
Other fixed interest	**25,873**	25,137
Equity	**51,163**	41,784
Total listed investments	**97,011**	84,300
Global infrastructure fund	**1,203**	0
Property	**49,778**	49,039
Commercial mortgages	**2,002**	2,475
Cash and deposits	**10,215**	13,689
Other assets	**611**	889
Total before Child Trust Fund	**160,821**	150,392
Child Trust Fund	**52,976**	50,277
Sustainable ISA Fund	**1,060**	0
Total assets for SII purposes	**214,857**	200,669
Adjustments for SII	**614**	423
Total value of assets for SII purposes	**215,471**	201,092

The listed investments are all included at market value. There are no listed investments which are not held on an active regulated market.

The global infrastructure fund is held with Russell Investments and is unlisted. The value shown is the value held in the financial statements.

The property portfolio is fully revalued every five years with a desktop valuation in the intervening years so that changes in market value can be taken into account. A reduction of £13,000 has been made to the value reported in the financial statements to allow for the expenses of acquiring property during 2023.

Commercial mortgages are included at the face value of the mortgage, as long as that amount is less than the value of the property backing the mortgage.

Cash and deposits are valued at face value.

Other assets are shown at the value calculated in the accounts.

The Society had inadmissible assets of £601,000 consisting of website development (£341,000), tangible assets on a fixed cost basis (£69,000), software development (£81,000) and prepayments and recharges (£110,000).

There are no leasing arrangements.

There is a deferred tax asset of £156,329 and a corporation tax repayment due of £49,722.

There are no related undertakings.

There has been no significant exercise of judgement in arriving at the values shown.

The following table reconciles the value of assets reported for Solvency II purposes with those shown in the accounts:

Reconciliation of assets (£000)	2023	2022
Total value of assets for SII purposes	**214,857**	200,669
Add property acquisition expenses	**13**	36
Add website development costs	**341**	157
Add tangible fixed assets on a cost basis	**69**	75
Add prepayments and recharges	**110**	74
Add software development	**81**	82
Total assets shown in the report & accounts	**215,471**	201,092

D.2 Technical Provisions

The following table summarises the technical provisions:

Technical provisions (£000)	2023	2022
Asset shares	**143,322**	137,243
Cost of guarantees	**427**	512
Expense reserve	**435**	(1,107)
Non-profit liabilities	**1,099**	1,069
Child Trust Fund liability	**45,713**	43,248
Value of Child Trust Fund margins	**(937)**	(1,323)
Total best estimate liabilities	**190,059**	179,642
Risk margin	**308**	952
Total technical provisions	**190,367**	180,594

Methodology

The components of the best estimate liabilities have been calculated as follows.

The value of with profits business at the valuation date is taken to be total asset shares at the valuation date plus the present value of the cost of future guarantees plus a reserve for expenses in excess of the charges made for expenses to the asset share.

The asset share is the accumulation of premiums paid less claims and expenses rolled up at the rate of investment return earned on the fund from year to year. For ISA business, where the asset share cannot be calculated robustly due to system and data constraints, the fund value of the investment (premiums paid less withdrawals plus annual bonuses) is taken as a proxy for asset share. An allowance is made for accrued final bonus (or market value reduction if appropriate) on those policies that are eligible.

The cost of future guarantees calculation projects both the asset shares and guaranteed benefit amounts on a per policy basis on various assumed rates of investment growth and future annual bonuses. Rates of investment growth are distributed around the risk-free rates prescribed by the regulator. On each rate of assumed growth, the excess of guaranteed benefit over projected asset share is discounted back to the valuation date using the risk-free rates prescribed by the regulator and summed over all policies. A lognormal probability distribution is then applied to the range of investment outcomes to obtain the present value of the cost of guarantees.

Expenses charged to the asset shares are assumed to be those underlying the premium basis and therefore an additional expense reserve is calculated to cover the cost of any actual expenses as projected in the business plan exceeding those in the premium basis. Credit is taken for the excess of expenses charged to the asset share over the actual expenses. The shortfalls and excesses are discounted back to the valuation date using the risk-free rates prescribed by the regulator.

The liabilities in respect of non-profit business are calculated as the value of the future benefits plus the value of future expenses less the value of any future premiums. The values are based on a best estimate of future cashflows. These cashflows are discounted back to the valuation date using the risk-free rates prescribed by the regulator.

The Child Trust Fund ("CTF") liability is the value of all the units allocated to CTF policyholders using the "Society price" which allows for the deduction of the annual management charge.

The value of CTF margins represents the present value of future profits on CTF business which is the discounted value of future loadings arising on the CTF business over future CTF expenses. The latter is available to offset the additional expense reserve on with profits business and contributes to overall surplus funds.

The risk margin is calculated for the business as a whole. It represents the cost of providing the Solvency Capital Requirement ("SCR") excluding diversifiable market risk for the run-off of the business using the required cost of capital rate of 4% and a tapering factor prescribed the Solvency II regulations.

The requirement to split the risk margin by line of business has been achieved by allocating the risk margin to the various lines of business in proportion to the best estimate liabilities. The following table shows the split:

Risk margin (£000)	2023	2022
With-profits	**234**	724
Unit-linked	**73**	222
Other	**1**	6
Total risk margin	**308**	952

The value of the risk margin is calculated using the simplified assumption that the amount of the SCR excluding diversifiable market risk will reduce in line with the run-off of the best estimate liabilities, and the yearly values are discounted using the risk-free yield curve.

Assumptions

The basis used to produce the best estimate liabilities is set out below. These are realistic assumptions that the Society has set based on actual experience.

Asset share growth rate: Asset shares have been rolled forward using the actual investment return achieved on the backing assets during 2023 less the actual investment expenses plus the CTF enhancement.

Discount rate: The risk-free yield curve published by the regulator at the reporting date has been used.

Central future growth rate for asset shares and CTF funds: the risk-free yield curve published by the regulator has been used for the central cost of guarantee calculation. The central growth rate is then varied for the purposes of applying the probability distribution to calculate the cost of guarantees.

Mortality: 40% of the standard mortality table ELT 17(M).

Sickness: The remaining sickness business is very trivial and ignored on these grounds.

Tax: 10% applied where appropriate.

Expenses: Per policy expenses have been calculated based on the budgets and projected new business in the Society's business plan.

Expense inflation: The per policy expenses are increased after 2027 in line with the implied inflation curve published by the Bank of England with an adjustment for salary inflation and to reflect CPI.

Annual bonuses: Set to 0 for regular premium business in line with the assumed risk free rates used to grow and discount the liabilities, and to continue at the 2024 interim rates for all other business.

Lapses: These assumptions are set with reference to the Society's recent experience

Cost of guarantees assumptions:

The distribution of future equity returns is assumed to be lognormal, with the mean set to the log of the risk-free rate corresponding to the average outstanding duration of the liabilities.

The volatility used for the distribution has been assessed by looking at the realised volatility of the assets backing the non-CTF business and making an adjustment for the market's future expectations of volatility.

Management actions are applied in accordance with the agreed management action plan which is determined and agreed by the Board annually.

Other information

With any modelling exercise there will be an underlying level of uncertainty present. Uncertainty arises primarily from the data being used, the choice of assumptions, and from the choice of model.

The data used is checked rigorously to mitigate the risk that errors may materially affect the valuation result. Data is also reviewed over time to check for consistency between different time periods. A reconciliation is carried out between reporting periods to allow for actual movements in the data over the year.

Assumptions may be demographic or economic and are set using historical experience and the current market environment and expectations. Actual and emerging experience is reviewed against expectations at least annually and more frequently if necessary. The results of these analyses are fed into the assumption setting process for the valuation. Results are assessed for their sensitivity to key assumptions.

The model used is tested regularly to mitigate the risk that errors may materially affect the valuation. The choice of model is made so as to comply with the regulations whilst ensuring an efficient projection process and some simplifications may be necessary to achieve this.

There are no material differences between the valuation for solvency purposes and the values that are shown in the financial statements.

No use has been made of:

- a matching adjustment
- a volatility adjustment
- the transitional provisions for risk-free interest rates
- transitional deductions from technical provisions

There are no reinsurance arrangements in force.

D.3 Other liabilities

The only other liabilities the Society has are current liabilities of £3,051,000. These consist of creditors, including taxation and social security, plus accruals and deferred income. The value used for valuation purposes is the same as that shown in the financial statements.

D.4 Alternative methods for valuation

We value our property by asking an external and independent professional property consultant, who offers a property valuation service, to provide us with a value. The valuer looks at other, similar properties and considers their price (where they have recently been sold) and their rental value. No other alternative valuation methods have been employed.

D.5 Any other information

The value of assets and liabilities reported for Solvency II purposes are shown in the attached reporting template S.02.01.02 – "Balance Sheet".

The breakdown of technical provisions is reported in the attached reporting template S.12.01.02 – "Life and Health SLT Technical Provisions".

E. Capital management

E.1 Own Funds

The Society's business strategy is fully reviewed and re-defined on a three-yearly basis. The strategy review, which was last undertaken in 2021, is facilitated by a third party and is approved by the Board. An interim review and reaffirmation of the strategy takes place on an annual basis in October.

The Society is a Friendly Society with a single members' fund and all capital is Tier 1. There have been no significant changes in Own Funds over the reporting period. The Society's Own Funds are shown in the following table:

Own funds (£000)	**2023**	**2022**
Total admissible assets	**214,857**	200,669
Less liabilities:		
Technical provisions	**(190,368)**	(180,594)
Other liabilities	**(3,051)**	(2,648)
Own funds	**21,438**	17,427

There are no restrictions on the use of Own Funds.

There are no material differences between the equity in the Society's financial statements and the free capital for solvency purposes other than the £614,000 shown in the financial statements for assets classified as inadmissible for Solvency II purposes.

There are no items of own funds subject to a transitional arrangement.

There are no items of ancillary own funds.

There are no deductions from own funds and no restrictions on availability and transferability.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Society uses the Standard Formula to calculate its Solvency Capital Requirement ("SCR"). The assumptions and parameterisations underlying the Standard Formula are set by the regulations.

The SCR at 31 December 2023 was £12,808,000 (2022: £10,725,000) after allowing for management actions. This figure is subject to supervisory assessment.

The SCR split by risk module is shown in the following table:

£000	2023	2022
Market risk	**11,690**	9,437
Counterparty default risk	**626**	537
Life underwriting risk	**935**	1,377
Diversification benefit	**(1,113)**	(1,319)
Basic SCR	**12,138**	10,032
Operational risk	**669**	693
Solvency Capital Requirement	**12,807**	10,725

The SCR has decreased from the 2022 year end. The main reason for the decrease is a increase in market risk exposure.

The Society's surplus funds after capital requirements are shown in the following table:

£000	2023	2022
Own funds	**21,438**	17,427
Less: SCR	**(12,808)**	(10,725)
Surplus funds	**8,630**	6,702

The Society has not adopted any of the Standard Formula simplifications set out in the Delegated Act for the SCR calculation and does not use any undertaking-specific parameters.

The Minimum Capital Requirement ("MCR") is the minimum amount of capital that the Society must hold. The MCR is calculated using a linear formula and must lie between 25% and 45% of the SCR after management actions have been allowed for. It has an 'absolute floor' of €4.0m. The Society's MCR is calculated as the absolute floor which equates to £3,495,000 at the reporting date.

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

The Society does not use the duration-based equity risk sub-module in the calculation of the SCR.

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

The Society does not use an internal model.

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

The Society has complied with the SCR and the MCR throughout the reporting period.

E.6 Any other information

The statement of the Society's Own Funds is shown in the attached reporting template S.23.01.01 – "Own Funds".

The breakdown of the Society's SCR is shown in the attached reporting template S.25.01.21 – "Solvency Capital Requirement - for undertakings on the Standard Formula".

The Society's MCR is shown in the attached reporting template S.28.01.01 – "Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity".

F. Approval by the Administrative, Management or Supervisory Body of the SFCR and Reporting Templates

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

(a) throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable; and

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

For and on behalf of the Board of Directors:

Jamie Bellamy
Chief Executive
22 March 2024

G. Glossary

Abbreviations

ALM	Asset Liability Management
ARC	Audit & Risk Committee
CEO	Chief Executive Officer
CFO	Chief Finance Officer
COBS	Conduct of Business
COO	Chief Operating Officer
CTF	Child Trust Fund
EIOPA	European Insurance and Occupational Pensions Authority
FCA	Financial Conduct Authority
FIC	Finance & Investments Committee
FLAOR	Forward Looking Assessment of Own Risks
HMRC	Her Majesty Revenue and Customs
MCR	Minimum Capital Requirement
MLRO	Money Laundering Reporting Officer
MTCMP	Medium Term Capital Management Plan
NC	Nominations Committee
NED	Non-Executive Director
ORSA	Own Risk and Solvency Assessment
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
QRT	Quarterly Reporting Template
RC	Remuneration Committee
RPI	Retail Price Index
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SID	Senior Independent Director
SIMF	Senior Insurance Management Function
TCF	Treating Customers Fairly

Solvency & Financial Condition Report (SFCR) Disclosures

For the year ended 31 December 2023

(Monetary amounts in GBP thousands)

General information

Undertaking name	Sheffield Mutual Friendly Society
Undertaking identification code	2138004A1I62DEXLB278
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2023
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: Life insurance and reinsurance obligations
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	
R0030	Intangible assets	
R0040	Deferred tax assets	206
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	350
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	156,449
R0080	Property (other than for own use)	49,428
R0090	Holdings in related undertakings, including participations	0
R0100	Equities	0
R0110	Equities - listed	0
R0120	Equities - unlisted	
R0130	Bonds	0
R0140	Government Bonds	0
R0150	Corporate Bonds	0
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	100,660
R0190	Derivatives	
R0200	Deposits other than cash equivalents	6,361
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	54,036
R0230	Loans and mortgages	2,002
R0240	Loans on policies	0
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	2,002
R0270	Reinsurance recoverables from:	0
R0280	Non-life and health similar to non-life	0
R0290	Non-life excluding health	
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding index-linked and unit-linked	0
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	0
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	1,806
R0420	Any other assets, not elsewhere shown	8
R0500	**Total assets**	214,857

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)	145,519
R0610	Technical provisions - health (similar to life)	0
R0620	TP calculated as a whole	0
R0630	Best Estimate	0
R0640	Risk margin	0
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	145,519
R0660	TP calculated as a whole	0
R0670	Best Estimate	145,283
R0680	Risk margin	236
R0690	Technical provisions - index-linked and unit-linked	44,849
R0700	TP calculated as a whole	45,713
R0710	Best Estimate	-937
R0720	Risk margin	73
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	1,745
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	763
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	0
R0880	Any other liabilities, not elsewhere shown	543
R0900	**Total liabilities**	193,419
R1000	**Excess of assets over liabilities**	21,438

S.05.01.02 - Premiums, claims and expenses by line of business:

Life insurance and reinsurance obligations

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross		13,722	664	17					14,404
R1420	Reinsurers' share		0	0	0					0
R1500	Net		13,722	664	17					14,404
	Premiums earned									
R1510	Gross		13,722	664	17					14,404
R1520	Reinsurers' share		0	0	0					0
R1600	Net		13,722	664	17					14,404
	Claims incurred									
R1610	Gross		14,304	850	19					15,173
R1620	Reinsurers' share		0	0	0					0
R1700	Net		14,304	850	19					15,173
	Changes in other technical provisions									
R1710	Gross		0	0	0					0
R1720	Reinsurers' share									0
R1800	Net		0	0	0					0
R1900	**Expenses incurred**		2,989	62	60					3,112
R2500	**Other expenses**									
R2600	**Total expenses**									3,112

S.12.01.02 - Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0	45,713			0					45,713						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0			0					0						
	Technical provisions calculated as a sum of BE and RM																
R0030	**Best estimate** **Gross Best Estimate**	144,184		-937	0		1,099	0			144,346						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default										0						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	144,184		-937	0		1,099	0			144,346						
R0100	**Risk margin**	234	73			2					308						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						
R0120	Best estimate										0						
R0130	Risk margin										0						
R0200	**Technical provisions - total**	144,418	44,849			1,101					190,368						

S.23.01.01 - Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	21,438	21,438			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	21,438	21,438	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				

Continued over...

S.23.01.01 - Own Funds *(continued)*

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
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	21,438	21,438	0	0	0
R0510	Total available own funds to meet the MCR	21,438	21,438	0	0	
R0540	Total eligible own funds to meet the SCR	21,438	21,438	0	0	0
R0550	Total eligible own funds to meet the MCR	21,438	21,438	0	0	
R0580	**SCR**	12,808				
R0600	**MCR**	3,495				
R0620	**Ratio of Eligible own funds to SCR**	167.38%				
R0640	**Ratio of Eligible own funds to MCR**	613.45%				
	Reconcilliation reserve	**C0060**				
R0700	Excess of assets over liabilities	21,438				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	0				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	**Reconciliation reserve**	21,438				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business					
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	0				

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	15,300		
R0020	Counterparty default risk	626		
R0030	Life underwriting risk	2,381		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-2,062		
R0070	**Intangible asset risk**	0		
R0100	**Basic Solvency Capital Requirement**	16,246		
	Calculation of Solvency Capital Requirement	**C0100**		
R0130	Operational risk	669		
R0140	Loss-absorbing capacity of technical provisions	-4,107		
R0150	Loss-absorbing capacity of deferred taxes			
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200	**Solvency Capital Requirement excluding capital add-on**	12,808		
R0210	Capital add-ons already set	0		
R0220	**Solvency capital requirement**	12,808		
	Other information on SCR			
R0400	Capital requirement for duration-based equity risk sub-module	0		
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0		
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0		
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0		

Continued over...

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula *(continued)*

		Gross solvency capital requirement	USP	Simplifications
	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		

USP Key

For life underwriting risk:

1 Increase in the amount of annuity benefits

9 None

For health underwriting risk:

1 Increase in the amount of annuity benefits

2 Standard deviation for NSLT health premium risk

3 Standard deviation for NSLT health gross premium risk

4 Adjustment factor for non-proportional reinsurance

5 Standard deviation for NSLT health reserve risk

9 None

For non-life underwriting risk:

4 Adjustment factor for non-proportional reinsurance

6 Standard deviation for non-life premium risk

7 Standard deviation for non-life gross premium risk

8 Standard deviation for non-life reserve risk

9 None

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	**C0010**		
R0010	MCR_{NL} Result	0		
			Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	**Net (of reinsurance) written premiums in the last 12 months**
			C0020	**C0030**
R0020	Medical expense insurance and proportional reinsurance			
R0030	Income protection insurance and proportional reinsurance			
R0040	Workers' compensation insurance and proportional reinsurance			
R0050	Motor vehicle liability insurance and proportional reinsurance			
R0060	Other motor insurance and proportional reinsurance			
R0070	Marine, aviation and transport insurance and proportional reinsurance			
R0080	Fire and other damage to property insurance and proportional reinsurance			
R0090	General liability insurance and proportional reinsurance			
R0100	Credit and suretyship insurance and proportional reinsurance			
R0110	Legal expenses insurance and proportional reinsurance			
R0120	Assistance and proportional reinsurance			
R0130	Miscellaneous financial loss insurance and proportional reinsurance			
R0140	Non-proportional health reinsurance			
R0150	Non-proportional casualty reinsurance			
R0160	Non-proportional marine, aviation and transport reinsurance			
R0170	Non-proportional property reinsurance			

Continued over...

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity *(continued)*

	Linear formula component for life insurance and reinsurance obligations	**C0040**		
R0010	MCR_L Result	-2,104		
			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		56,764	
R0220	Obligations with profit participation - future discretionary benefits		87,420	
R0230	Index-linked and unit-linked insurance obligations		44,777	
R0240	Other life (re)insurance and health (re)insurance obligations		1,099	
R0250	Total capital at risk for all life (re)insurance obligations			7,876
	Overall MCR calculation	**C0070**		
R0300	Linear MCR	-2,104		
R0310	SCR	12,808		
R0320	MCR cap	5,763		
R0330	MCR floor	3,202		
R0340	Combined MCR	3,202		
R0350	Absolute floor of the MCR	3,495		
R0400	**Minimum Capital Requirement**	3,495		

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