Solvency and Financial Condition Report ('SFCR') of Family Assurance Friendly Society Limited As at 31 December 2020

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Executive Summary

This Solvency and Financial Condition Report (SFCR) on behalf of Family Assurance Friendly Society Limited (here after referred to as 'the Society') is prepared in accordance with the Solvency II directive which came in to force on the 1 January 2016.

The Society is authorised by the Prudential Regulation Authority (PRA) and jointly regulated by the Financial Conduction Authority (FCA) and the PRA.

The Society together with its subsidiaries forms the consolidated Group (hereafter referred to as 'OneFamily or 'the Group'). OneFamily is the trading name of the Group and is a mutual organisation.

Our purpose continues to be to create and protect value for members whilst ensuring that the business is sustainable over the long term. There are two key elements underpinning our strategy of long-term sustainability. Firstly, we want to retain and deepen our relationships with our existing customers by offering more products and services that meet the needs of modern families. Secondly, we are looking to attract new customers primarily by working with intermediaries and partners.

COVID-19 emerged in December 2019 and was classified as a global pandemic in March 2020. OneFamily has reacted swiftly and decisively during the year; prioritising the needs of our members and customers and the wellbeing of our colleagues.

Publishing the SFCR each year is a regulatory requirement under the Solvency II regime. The Society's financial year runs to 31 December each year and it reports its results in GBP-Pound Sterling.

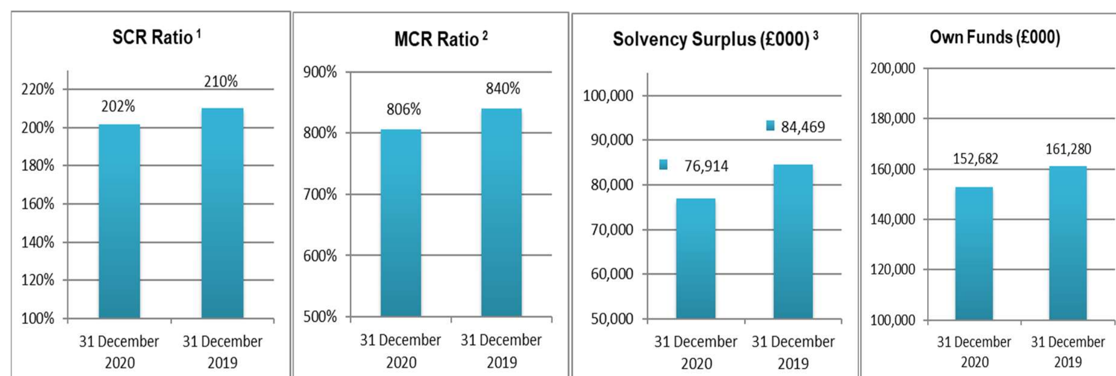
The SFCR has been prepared on a Standard Formula basis and in accordance with the Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009, the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014, the relevant Commission Implementing Regulations (EU), and the PRA rule book.

Publishing our SFCR is an opportunity for us to provide more information on our capital strength, the governance process we have in place to mitigate risks and our effective capital management strategies.

Results at a glance

2020 has demonstrated the resilience and long-term nature of OneFamily through the continued strength of our capital position despite the turbulent investment markets.

The key solvency results are set out below alongside a comparison to the previous year. These results are further analysed in Section D and Section E of this report.



1. Calculated as Eligible Own Funds ('EOF') / Solvency Capital Requirement ('SCR'). An SCR ratio of less than 100% will trigger a first regulatory intervention to ensure that the firm takes appropriate action to restore the SCR ratio above 100%.
2. Calculated as EOF / Minimum Capital Requirement ('MCR'). An MCR ratio of less than 100% will trigger a more severe regulatory intervention, which may lead to the closure of the firm.
3. Calculated as EOF less SCR. A positive Solvency Surplus means that the firm has an SCR ratio of above 100% and therefore no first regulatory intervention is required.

The Society's entire EOF is deemed to be Unrestricted Tier 1 which is the highest quality capital.

Our business is run with a long-term view to building value for our members and we have capital above the base level requirement of £76.9m, and a solvency capital ratio of 202% for the Society as a whole.

Material changes in the year

Business and performance

Any impact on the UK economy of the UK's exit from the EU at the end of January 2020 was very quickly overshadowed by the COVID-19 pandemic. 2020 saw significant falls in the global investment markets and UK gilt-yields. Whilst the markets recovered to some extent in the second half of the year, they remain volatile. OneFamily remained financially strong, despite the turbulent economy during the year and into 2021. Key focus in 2020 was on maturing child trust fund policies; development of climate-friendly funds to back our Lifetime ISA and a new Stocks and Shares ISA; and continuing our modernisation programme.

For further details see Section A.1.2.

System of Governance

The Board of Directors is responsible for the governance of OneFamily and they have established a robust corporate governance framework as an effective means of meeting that responsibility.

There were no material changes in the system of governance during the year. Section B sets out further detail on the system of governance in place for the Society and OneFamily.

Risk Profile

The most material strategic risks that OneFamily are exposed to are the uncertainty of the economic outlook and the resulting impact on our product market, the risk of failing to manage the in-force book in line with expense assumptions and of failing to increase the diversity of income streams. These are being mitigated through a series of strategic initiatives which include targeted long-term expense reduction initiatives, leveraging and developing our distribution channels and partnerships to drive growth from the existing product range and the OneFamily modernisation programme.

The events of 2020 caused an unprecedented shift in people, process and technology towards remote working and new ways of doing business. Our response involved assessing our business processes and making adaptations to reduce customer effort and accommodate more digital ways of working. Provision of new technology, networking and physical infrastructure enabled over 90% of the workforce to operate from home, at levels of service equivalent to the pre-pandemic position.

The risk profile, by category of risk (see section C) has remained broadly stable over 2020. A marginal decrease in the proportion of the risk profile due to market risk is driven by the reduction in interest rates over 2020. An increase in longevity risk, driven by lower interest rates and the development of the life insurance portfolio has been largely offset by reductions in lapse risk and mortality risk driven by the run-off of the annuity and pension portfolios.

Valuation for solvency purposes

The Society's Solvency II balance sheet is prepared under Solvency II rules and guidance, which is the same as UK generally accepted accounting principles, FRS 102 & 103, with the exception of:

- the inclusion of intangible assets and goodwill within the FRS Financial Statements which are disallowed under Solvency II;
- difference in the valuation of Technical Provisions and associated reinsurance recoverable; and
- difference in valuation of investment in participations which under Solvency II is valued at fair value using the adjusted equity method. Any contingent liabilities within subsidiaries will be recognised under Solvency II.

As a result, the excess of assets over liabilities under Solvency II is £9.2 million lower than FRS. Refer to Section D and Appendix C for further details relating to valuation for solvency purposes.

Capital Management

Maintaining a strong capital base well in excess of the regulatory minimum helps us to withstand turbulent years such as we have experienced in 2020. Our capital position (measured under the principles of Solvency II) also remains strong. The Society's excess capital held above the regulatory requirements is £76.9 million. This represents a coverage ratio of 202% compared to 210% at the end of 2019.

Under the Solvency II reporting regime there are two capital requirements to meet the solvency capital requirement and the minimum capital requirement. The regime applies to the Society only as an insurance company rather than the Group as a whole.

Reporting basis of the Solvency and Financial Condition Report ('SFCR')

The requirement for the production of this SFCR relates to the insurance company which is the Society. However, much of the governance of the Society relates to OneFamily as a whole. Any amounts quoted in relation to either the Financial Statements or Solvency II Pillar 1 relate to the Society only.

The public quantitative reporting templates (QRTs) are presented in thousands of pounds sterling and can be found in Appendix D. Template S.05.02 'Premiums, claims and expenses by country' is not required to be produced as more than 90% of the Society's business is in the UK.

Due to rounded numbers being presented in the various tables and public QRTs within this report, the totals in the tables may differ slightly from the sum of the component parts.

Audit Scope

In November 2018 the PRA removed the requirement (as specified by the PRA in the Supervisor Statement SS11/16) for all Insurers reporting under the Solvency II regime to have the SFCR audited if they were below a prescribed size. The Society falls below the limit set and therefore this SFCR is no longer required to be audited.

Further information

If there are any questions or clarifications required on the content of this report, please feel free to direct these to:

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A. Business and Performance

In this section we describe the business of OneFamily including our legal structure, how we are regulated and the types of business that we undertake. We also describe how the business has performed during the year alongside any significant factors that have contributed to this performance.

A.1 Business

A.1.1 Summary Information

Name	Family Assurance Friendly Society Limited ('the Society')
Legal Form	Friendly Society incorporated under the Friendly Societies Act 1992
Supervisory Authority	Prudential Regulation Authority Bank of England 20 Moorgate London EC2R 8AH
External Auditor	KPMG LLP Chartered Accountants 15 Canada Square Canary Wharf London E14 5GL

A.1.2 Background information and significant events in 2020

The Society is a product of over 45 years of development and growth. Now serving over two million customers and with over £7.8 billion in funds under management, OneFamily has the strength and expertise to bring to the market high quality, value-for-money financial services underpinned by the principles of the modern mutual.

Any impact on the UK economy of the UK's exit from the EU at the end of January 2020 was very quickly overshadowed by the COVID-19 global pandemic. 2020 saw huge stock market falls in the early part of the year. Markets remain volatile, but the release of positive news on vaccine trials gave a well needed boost towards the end of the year. OneFamily remained financially strong in respect of its Solvency II Pillar I capital coverage ratio, despite the turbulent economy during the year and into 2021. Maintaining a strong capital base well in excess of the regulatory minimum ensures that we can withstand turbulent year such as we have experienced in 2020.

The resilience of the business both financially and operationally should provide comfort to our customers and members of the long-term nature and focus of OneFamily. We appreciate that COVID-19 has had a significant financial impact on many of our members. As a mutual we see our role to be more than just that of a product provider, we want to

support members where we can and be part of a community that can be relied upon in difficult times.

Our focus in 2020 has been on maturing child trust fund policies; development of climate-friendly funds to back our Lifetime ISA and a new Stocks and Shares ISA; our wider Environmental, Social and Governance (ESG) strategy and continuing our modernisation programme.

Child Trust Fund Maturities

As the UK's biggest child trust fund (CTF) provider, we had carefully planned for the coming of age of the first of our CTF policyholders in 2020. We've worked hard to ensure that these young adults have a smooth journey through the maturation process with us; whether they choose to withdraw their money or reinvest it in one of our Stocks & Shares ISAs or a Lifetime ISA.

For those young people continuing to invest with us, there is the choice of two Climate Change funds to back their accounts; Global Mixed and Global Equity. Our research has shown that 72% of teenagers believe their generation has a duty to ensure their investments are not used to support companies that damage the environment. So, we have worked closely with our fund manager to ensure these funds will have a positive impact on our planet. This is a first step in putting pressure on other businesses to start working towards greener ways of operating.

Modernisation

OneFamily continued to invest further in its infrastructure as part of a wider modernisation programme. We are making excellent progress in line with our plan, with delivery in stages through to 2023. This is a significant investment for us, but it will mean substantial efficiencies from an operational perspective and will provide an IT platform on which we can grow our business. It will also enhance our customers' experiences in dealing with us, allowing online access to their accounts at a time that works for them.

Product developments in 2020 and 2021

2020 saw the launch of a new Stocks & Shares ISA which was initially available to those with maturing child trust fund (CTF) policies and has now been extended to all customers. This Stocks and Shares ISA allows customers to invest in climate friendly companies through one of two investment options, a Global Mixed fund and a Global Equity fund.

We are seeing increased investment into our Lifetime ISA from maturing child trust fund policyholders. This product is also backed by the Climate Change funds and is intended for those that are looking to save to buy their first home or for use in later life. It is tax efficient and earns an annual bonus from the government.

We have enhanced our Over 50s life insurance to provide a new premium flexibility feature where policyholders have the ability to reduce premiums (and associated benefits) once they have held their policy for at least four years. This product has been rated 5* by Defaqto

for 2021, achieving this highest rating for the eighth consecutive year. It is the only Over 50s life insurance product on the market to offer terminal illness cover as standard. As well as selling through advisers and directly to customers, it can also be found on price comparison sites.

We appreciate that our customers sometimes forget about the benefits of the policies that they have with us. Therefore, we have set up a new team to contact policyholders to remind them about the features of their product and other ways OneFamily can support them and their families. It's early days, but the team has received very positive Trustpilot reviews and satisfaction feedback, indicating that customers welcome this approach.

One positive outcome from the pandemic has been the increased likelihood that some people will save. We've seen increased payments into both our own savings products and those that we administered during the course of the year.

A.1.3 2020 Financial Highlights at a Glance

- The SCR coverage ratio of the Society has decreased to 202% in the year, but remains well in excess of the regulatory requirement with an extremely healthy surplus capital.
- Income received through insurance premiums, investment deposits, lifetime mortgage fees and annual management charges are down by 6% in 2020 at £105 million (2019: £112 million) mainly as a result of a reduction in lifetime mortgage income where originations of lifetime mortgages were significantly impacted when the pandemic first hit in early 2020.
- Funds under management stands at £7.8bn, a 3% increase year on year despite the challenging market conditions during the year.

As a mutual we are not driven by short-term dividend decisions and instead our focus continues to be on the current and long-term needs of both our existing and future customers and members. In 2020 we continued to invest in modernising our systems which will ultimately result in reduced running costs, reduced operating risks and deliver efficiencies across the business. In addition, the new infrastructure will lead to a better customer experience and allow online access and self-service at a time that suits them. This is a medium-term initiative and we expect the whole programme to run across the next three years with delivery in stages.

Income levels in 2020 have seen a slight decline compared to 2019 driven largely by a reduction in lifetime mortgage income. The origination of lifetime mortgages was significantly impacted by the pandemic. New ways of working had to be implemented across the industry covering aspects such as valuations and legal advice. This was achieved in the second half of 2020 but affected the level of completions in the year. A reduction in investment business deposits was a further factor, however this was partially offset by increased sales of funeral plan provision on our Over 50s policies.

A.1.4 One Family Group Structure

See Appendix A for details of the Group structure. All Group companies are wholly owned UK registered subsidiaries of the Society. OneFamily is the trading name of the Group as a whole.

The active subsidiaries of the Society are listed below:

Name of Subsidiary Undertaking	Nature of Business
Family Equity Plan Limited	Child trust fund, ISA and junior ISA management
Engage Mutual Funds Limited	Child trust fund management
Family PEP Managers Limited	ISA management
Family Investment Management Limited	Fund management
One Family Advice Limited	Financial advice services
OneFamily Lifetime Mortgages Limited	Provider of mortgage products
OneFamily Foundation Limited	Providing benefits to customers of the Group by way of individual and community grant funding.

A.1.5 Shareholders

The Society is a mutual society owned by its members.

A.1.6 Material Lines of Business

The Society comprises a non-profit fund and two with-profits funds (WP1 and WP2). Both with-profits funds are closed to new business. The Society underwrites life insurance contracts which fall under three different lines of business for the purposes of the Solvency II insurance regulations as set out below:

- Insurance with-profit participation;
- Index-linked and Unit-linked Insurance; and
- Other life Insurance.

See Appendix D Template S.05.01.02 Premiums, claims and expenses for additional detail.

The vast majority of the Society's in force business has been written in the UK, either by the Society directly or by other UK life insurance companies acquired by the Society. The Society has a very small amount of in force overseas business in the Republic of Ireland but does not currently write new business outside of the UK.

A.2 Underwriting Performance

A.2.1 Underwriting Performance Background

The Society underwrites life insurance contracts which fall under three different lines of business for the purposes of the Solvency II insurance regulations. All or most of which is written in the UK. The underwriting performance of the Society considers premiums received after the costs of honouring the insurance claims.

A.2.2 Underwriting Performance Highlights

The tables below show the underwriting performance reported split by its Solvency II lines of business.

For the current year the underwriting results were as follows:

	Insurance with profit participation	Index-linked and unit-linked insurance	Other Life insurance	Total
	£'000s	£'000s	£'000s	£'000s
Premiums	3,805	16,006	34,417	**54,227**
Reinsurance payable	(1)	-	(11,791)	**(11,792)**
Claims	15,806	95,163	22,471	**133,440**
Reinsurance recoverable	-	-	(14,746)	**(14,746)**
Expenses *	947	4,083	12,226	**17,256**

* The expenses figure only include items allocated to these lines of business.

For the prior year the underwriting results were as follows:

	Insurance with profit participation	Index-linked and unit-linked insurance	Other Life insurance	Total
	£'000s	£'000s	£'000s	£'000s
Premiums	5,049	18,194	34,244	**57,487**
Reinsurance payable	(1)	-	(11,504)	**(11,505)**
Claims	19,712	124,235	21,249	**165,196**
Reinsurance recoverable	-	-	(12,197)	**(12,197)**
Expenses *	829	4,594	12,090	**17,513**

* The expenses figure only include items allocated to these lines of business.

Please refer to Appendix D QRT S.05.01.02 for further details.

Premiums decreased by £3,259k, down by 6% when compared to 2019 in line with expectations given the runoff of the closed books.

The overall claims have decreased significantly by 19% in 2020 when compared to 2019 mainly due to the fall in unit prices of our withdrawals and the reduced withdrawals from our savings products during the year.

OneFamily has reinsurance agreements in place for its Over 50s life cover in the Non-Profit Fund in order to limit its underwriting risk exposure to levels acceptable to the Society and OneFamily. The With-Profits 1 Fund has a small amount of reinsurance for its decreasing term assurance product.

A.3 Investment Performance

A.3.1 Market Background

Global investment markets in 2020 were dominated by the COVID-19 pandemic and the effect of resultant social distancing, lockdowns, quarantines and mobility restrictions. The

speed of the decline in the early part of 2020 was unprecedented even taking the Great Depression into account. Policies, such as furlough schemes and other support measures, were implemented by governments globally to try to limit the financial impact on individuals and businesses. In May/June 2020 as COVID-19 cases in many countries began to reduce and restrictions were relaxed, economic growth rebounded strongly. However, the level of growth differed across the globe, with Asia and the US outperforming Europe and the UK.

A second wave of the pandemic along with growing concerns that there would be a no-deal Brexit, led to the UK's recovery lagging others. The emergence of a new strain towards the end of 2020 and a sharp increase in infections in several countries led to the reintroduction of restrictions in many areas. But the end of the year brought hope through the approval of two vaccines - resulting in November becoming one of the strongest months for global equities in decades. The last-minute Brexit deal also gave a well needed boost to the UK market, with domestically focussed areas of the market outperforming.

In addition to equity markets falling, Government-bond yields dropped to historic lows as bond prices rose and investors have scrambled for safe assets in the midst of the COVID-19 pandemic.

As a financial services organisation, we are impacted by the macro-economic uncertainties that remain and which will be heavily influenced by the extent of the economic damage from successive lockdowns, the scale and structure of government policies designed to 'cushion the blow' from the pandemic and the success of the roll out of vaccines in the UK and globally.

We have demonstrated the resilience of our business during the pandemic. As the post-pandemic economy gradually recovers, we will continue to deliver our strategy of a long-term financial services organisation with a strong capital position and improving efficiencies.

A.3.2 Investment Performance

In 2020, global investment markets saw significant falls and continued volatility as the impact of COVID-19 spread. For our customers where their policy is linked to underlying assets, this has meant a fall in the value of their holding.

We have continued to offer our customers a diverse range of investment options in a range of assets. In 2020 the objectives of two of our funds were amended to make them more focussed on climate change. These funds now invest 100% or up to 35% respectively in climate-friendly company shares.

We are working closely with all our investment managers to understand how they are promoting ESG (Environment, Social, Governance) and climate change initiatives and how they can help us increase the ESG focus in our investment funds.

Investment performance for the year ended 31 December 2020 was as follows:

Asset category	Dividends	Interest	Rent	Realised gains / (losses)	Unrealised gains / (losses)
	£'000s	£'000s	£'000s	£'000s	£'000s
Government bonds	-	1,175	-	(118)	2,058
Corporate bonds	-	1,691	-	158	543
Equity	2,688	-	-	(1,478)	(11,120)
Collectives	10,547	-	-	20,956	(38,093)
Cash	-	631	-	-	-
Mortgages	-	39	-	-	-
Property	-	-	1,147	100	(375)
Futures	-	-	-	205	(64)
Total	**13,235**	**3,536**	**1,147**	**19,823**	**(47,050)**

Investment expenses of £2,616k were incurred during the year.

For the prior year the investment performance was as follows:

Asset category	Dividends	Interest	Rent	Realised gains / (losses)	Unrealised gains / (losses)
	£'000s	£'000s	£'000s	£'000s	£'000s
Government bonds	-	1,730	-	1,299	(124)
Corporate bonds	-	1,867	-	418	(299)
Equity	4,679	-	-	2,866	10,251
Collectives	14,790	-	-	64,170	76,242
Cash	-	1,044	-	5	156
Mortgages	-	36	-	-	-
Property	-	-	1,151	-	2,650
Futures	-	-	-	1,088	(356)
Total	**19,469**	**4,677**	**1,151**	**69,846**	**88,520**

Investment expenses of £3,068k were incurred during 2019.

A.3.3 Securitisation

The Society currently has a small allocation of directly held securitised assets, which are sterling denominated and A rated, which in aggregate are less than 0.1 % of the Society's total investment assets. As at 31 December 2020, the Society held £1,221k securitised assets (2019: £1,274k).

A.3.4 Gains/Losses recognised directly in Equity

No investment gains or losses were recognised directly in equity. However, within Other Comprehensive Income, £426k was recognised in relation to an unrealised loss in the value of property. In addition, a £500k loss (2019: £400k loss) on the Family defined benefit pension scheme was made which is reflected within Other Comprehensive Income.

A.4 Performance of Other Activities

The Society does not carry out any other material activities outside of the core activities outlined above. It did receive £8,951k (2019: £6,916k) of 'Other Income' in addition to the results outlined above, with £4,247k (2019: £2,813k) relating to reinsurance financing advances. Until 2020 the Society received reinsurance financing on sales of its Over 50s life cover from reinsurers. The financing repayment was contingent upon margins emerging on the business in future years. The advances were receivable at the inception of a policy and included as income within Other Technical Income in the Financial Statements Technical Account Long-Term Business. The financing advance was repayable as the margins emerged and was included in 'Other Technical Charges' within the Financial Statements of the Society. This totalled £4,284k (2019: £2,594k) during the year.

A.5 Any other Information

There is no other material information regarding business and performance.

B. System of Governance

In this section we describe our system of governance, which is the system through which OneFamily is directed and controlled. We describe the structure of the Board and its sub-committees and how this structure enables effective management of the key functions of the Society. We also describe how we ensure that the key functions of the Society are managed by personnel who are fit and proper. The remuneration policies are detailed alongside discussion on how these policies align with the strategic principles of OneFamily.

B.1 General Information on the System of Governance

B.1.1 Board and Committee Structure

The Board

The Board is primarily responsible for the strategic direction and governance of OneFamily. It delegates responsibility for the day-to-day running of the business to the Chief Executive who then apportions selected responsibilities to the members of the Executive and senior management.

Progress on operational matters, governance and key initiatives is reported through Board and sub-committee meetings. All initiatives involving significant expenditure, strategic change, governance policies, significant perceived risk or material departure from agreed budget or strategy require formal Board consideration and approval.

The division of responsibilities between the Chair and the Chief Executive has been agreed by the Board and documented. The Vice-Chair has the role of senior independent Director.

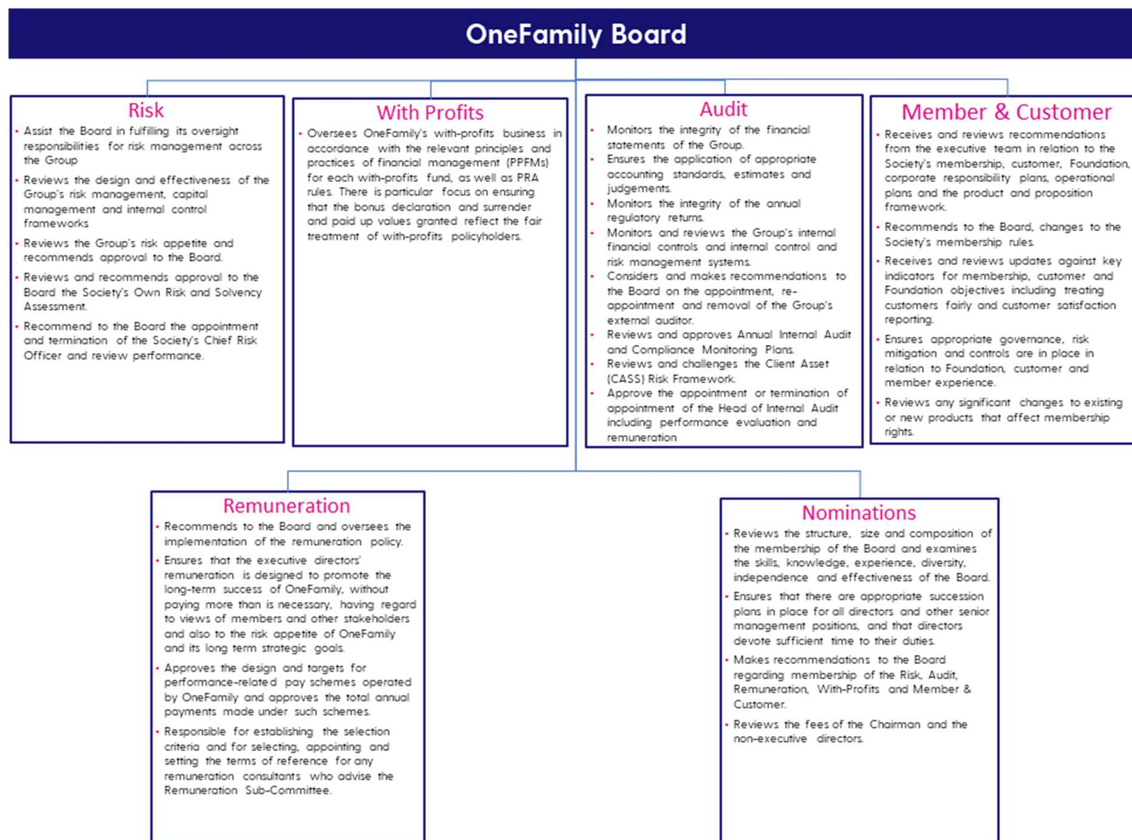
The Board conducts a formal evaluation annually of the performance of the Chair and each director and of the performance of the sub-committees and Board as a whole. In addition, the Chair holds periodic meetings with each executive director and non-executive director to evaluate the performance and development needs of the individual directors.

In line with the UK Corporate Governance Code 2018, the review of the Board's effectiveness is normally conducted by an external party at least every three years.

The Board generally meets eight times per annum or more frequently if business needs require.

Sub-Committees

In setting its governance arrangements, the Board has delegated some responsibilities to Board approved sub-committees. A full description of these accountabilities can be found in the Corporate Governance section of the 2020 Annual Report and Consolidated Financial Statements. The diagram below shows the segregation of responsibilities between the various committees, in addition to a brief description of the main roles and responsibilities of each.



Key Functions

As part of the System of Governance there are four key functions in place and each key function has the necessary authority, resources and operational independence to carry out its tasks. The following table summarises the key roles and responsibilities for each function:

Risk Management Function	Reporting to the Chief Risk Officer, the Risk Management Function provides oversight as the independent second line of defence (see Section B.3.1 for further details). The Risk Management function is responsible for establishing and overseeing the Risk Management Framework which complies with internal and external legal and regulatory requirements. The function provides oversight and challenge to all material risk-based decisions and also produces independent reporting on strategic and emerging risks to the Risk Sub-Committee and the Board.
Compliance Function	The Compliance function is led by the Head of Compliance who reports into the Chief Risk Officer. The Group Head of Compliance and Conduct Risk is supported by a team with a range of expertise including the UK regulatory environment, compliance, monitoring, financial crime, data protection and conduct risk. The Compliance function forms part of the independent second line of defence which enables the function to provide robust challenge and oversight to the business. The role of the Compliance function is to embed an appropriate compliance structure, maintain adequate systems and controls, and provide regulatory guidance and support. It provides regular reporting and advice on these elements to the Audit and Risk Sub-Committees, ensuring that these bodies are kept abreast of key compliance matters. Please see Section B.4 for further details.
Actuarial Function	The Actuarial function is led by the Chief Actuary who reports to the Chief Finance Officer. The Actuarial function is outsourced to Willis Towers Watson. The role of the Actuarial

	function is to provide technical expertise in calculating and monitoring OneFamily's capital position. This includes co-ordinating the calculation of technical provisions, ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions, informing the Executive and Board of the reliability and adequacy of the calculation of technical provisions, and contributing to the effective implementation of the risk management system. Please see Section B.6 for further details.
Internal Audit Function	The Internal Audit function is led by the Head of Internal Audit who remains independent of both the first and second line of defence. The role of Internal Audit is to serve as the third line of defence and to provide an independent, objective assurance and consulting service designed to add value and improve the effectiveness and adequacy of the risk management, control and governance processes implemented by management. The function has unhindered access to all areas of the organisation including the Executive and Board and reports its findings to the Audit Sub-Committee and the Board.

Material Changes in the System of Governance

There have been no significant changes to the system of governance during the year.

B.1.2 Material Transactions with Shareholders and Persons Exercising Significant Influence During the Period

No member of key management personnel, being any person having authority and responsibility for planning, directing or controlling the activities of the company, directly or indirectly, including any director (whether executive or otherwise) of the Group, nor their close family, had a material transaction with the Society or its subsidiaries, other than through remuneration or as a customer.

B.1.3 Remuneration Policy

Remuneration policy

OneFamily's purpose is to create and protect value for its members. The remuneration policy reflects the OneFamily purpose, culture and strategy and is formally set by the Board, overseen by the Remuneration Sub-Committee, and aligned to the requirements of the Remuneration Code (the latter governed by the Financial Conduct Authority). The policy is designed to attract, motivate and retain executives and colleagues with the relevant skills to help achieve the Group's objectives, and to ensure that colleagues are appropriately rewarded for enhancing the level of service that we provide to our customers and members. It is also designed to achieve a direct correlation between reward and performance whilst not encouraging undue risk taking or inappropriate behaviours. The Remuneration Sub-Committee has full overview of the remuneration policies and practice and can apply appropriate discretion where any risk, performance or behaviour are contrary to OneFamily's policies.

OneFamily believes it is important that its mutual status is reflected in its remuneration policy. Variable remuneration schemes (both short and long-term incentives) are designed to be clear, measurable and aligned to our members' interests by rewarding performance against key criteria that are important to our members.

No director is involved in the determining of, or votes on, any matter relating to their own remuneration.

Service contracts

It is OneFamily's policy that the notice period of executive directors' service contracts should not exceed one year and any compensation for loss of office should not exceed twelve months' remuneration. None of the non-executive directors has a service contract, they have letters of appointment. Fees for non-executive directors are reviewed each year.

External Advisors

Throughout the year the Sub-Committee drew upon the advice of EY as an independent external remuneration advisor. As members of the Remuneration Consultants Group, EY operates under the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK. The Sub-Committee is satisfied that the advice received is both objective and independent. EY does not have any connection with any of the executive or non-executive directors at OneFamily.

Remuneration components for executive directors

The main elements of remuneration currently in place for executive directors are set out below:

Element	Purpose	Operation	Potential value
Base salary	To provide a competitive level of base salary, reflecting the skills and experiences required and reward ongoing contribution to the role.	Base salaries reflect individuals' skills and experience and are reviewed annually in the context of annual performance assessment. They are determined by the scope and responsibilities of each role, individual performance and by reference to appropriate market rates obtained from external sources. This is the only element of remuneration which is pensionable.	Base salary increases are assessed annually, along with other colleagues, with reference to market rates and consideration of affordability. Higher increases may be awarded, for example, for an increase in scope or responsibilities.
Benefits	To provide a range of market competitive benefits that are valued.	Includes private medical insurance and life cover.	Benefits are provided in line with the market.
Pensions	To encourage planning for retirement and long-term savings.	Eligible to participate in the defined contribution pension plan. Where contributions exceed the annual or lifetime allowance, executive directors may be permitted to take a cash alternative in place of contributions.	Pension contributions in line with pension scheme rules or cash supplement for executive directors.
Short-term incentive scheme	To drive and reward performance against annual financial, non-financial and individual objectives which are consistent with the business	Short-term incentive awards are linked to annual individual performance against agreed objectives and business. Performance is assessed against key criteria including customer service, financial and operational performance, cost control,	The potential maximum award for current executive directors is: Chief Executive and executive directors – 100%

Element	Purpose	Operation	Potential value
	strategy and align to members interests. The short-term incentive scheme is designed to drive the right behaviours aligned to OneFamily's purpose, values and strategy.	employee engagement and risk control. Awards are paid over three years, with 40% of any short-term incentive earned being deferred and payable in two equal parts on the first and second anniversary of the initial payment. Short-term incentive is subject to malus and clawback provisions. Malus provisions will apply to an unvested award and clawback provisions will apply to the vested amount for three years following the vesting of such awards.	potential maximum opportunity of base salary. 50% of the maximum potential award is paid for achievement of budgeted targets and up to 100% of the maximum potential award is paid for achievement of stretch targets. Ultimately, any payment under the scheme is at the discretion of the Remuneration Sub-Committee and is subject to malus and claw back conditions. Individuals will not be rewarded for poor performance.
Long-term incentive scheme	To incentivise sustainable long-term alignment with member interests. The long-term incentive scheme is designed to drive the right behaviours aligned to OneFamily's purpose, values and strategy.	Performance will be assessed (over three years) considering factors including capital growth, cost efficiency, new sales, customer, colleagues and risk. 50% of the long-term incentive award shall be made only upon the third anniversary of the completion of the financial year in which the award is made. The remaining 50% of any long-term incentive earned will be deferred and is payable in two equal parts on the first and second anniversary of the initial payment. Long-term incentive awards are subject to malus and clawback provisions. Malus provisions will apply to an unvested award and clawback provisions will apply to the vested amount for three years following the vesting of such awards.	The potential maximum award for current executive directors is: Chief Executive and executive Directors – 100% of base salary. 50% of the maximum potential award is paid for achievement of budgeted targets and up to 100% of the maximum potential award is paid for achievement of stretch targets. Ultimately, any payment under the scheme is at the discretion of the Remuneration Sub-Committee and is subject to malus and claw back conditions. Individuals will not be rewarded for poor performance.

Other Policy Elements

Element	Potential value
Policy for new appointments	The policy adopted for the recruitment of new executive directors aims to be competitive and to structure remuneration in line with the framework applicable to current executive directors, based on the remuneration elements detailed in the policy table.
Notice periods	It is the Group's policy that the notice period of executive directors' service contracts should not exceed one year and any compensation for loss of office should not exceed 12 months' remuneration. None of the non-executive directors has a service contract, they have letters of appointment.
Leavers	The Remuneration Sub-Committee has the discretion to determine an appropriate short or long-term incentive award taking into consideration the circumstances in which an executive director leaves. No award will be made unless the executive director is determined to be a 'good leaver'. For a 'good leaver' the Remuneration Sub-Committee has the discretion to make awards on such basis as it deems appropriate (this could include pro-rating for time and performance). Awards will vest at the usual date subject to the usual deferral periods.
Good leaver	A good leaver for the purposes of the variable pay will be any executive director who leaves employment for reasons of: Death, redundancy, disability or ill-health, retirement or any other reason the Remuneration Sub-Committee so decides.
Legacy arrangements	The Society may continue to honour any previous commitments or arrangements entered into with current or former executive directors that may have different terms, including terms agreed prior to appointment as an executive director.

Remuneration for the Chair and non-executive directors

Element	Purpose	Operation	Potential value
Fees	To reflect the required skills, experience and time commitment.	Fees are paid monthly. No variable pay is provided so that the Chair and non-executive directors can maintain appropriate independence.	The rates for the year are set out in the annual report on remuneration.
Expenses	To provide a level of expenses in line with market practice.	Reimbursement of reasonable out-of-pocket expenses.	The terms and reimbursement of travel and other expenses is aligned with the Society's expense policy.

Non-executive directors' fees

Non-executive directors receive a base fee and an additional fee for chairship of a sub-committee and/or holding the position of Senior Independent Director. They are reimbursed for reasonable expenses, paid in accordance with OneFamily's expenses policy.

These fees are set at a level that reflects the market and is sufficient to attract individuals with appropriate knowledge and experience to support the Group in progressing its strategy. The non-executive directors do not participate in any OneFamily pension or variable remuneration arrangements.

Single total figure remuneration for each director

The remuneration of the directors of OneFamily for the year-ended 31 December 2020 and the previous year is set out in the tables below.

	Salary/Fees		Short-Term Incentives Scheme		Long-Term Incentives Scheme		Other Benefits[3]		Total Remuneration	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Executives										
Teddy Nyanhasha	353	300	237	168	118	120	51	38	759	626
Jim Islam[2]	266	-	114	-	-	-	32	-	412	-
Nici Audhhlam- Gardiner[2]	222	-	95	-	-	-	40	-	357	-
Simon Markey[1]	-	460	-	313	-	347	-	86	-	1,206
Non-Executives										
Christina McComb	111	115	-	-	-	-	-	-	111	115
Peter Box[4]	-	25	-	-	-	-	-	-	-	25
Ian Buckley[5]	12	62	-	-	-	-	-	-	12	62
Steve Colsell	58	61	-	-	-	-	-	-	58	61
Graham Lindsay	73	63	-	-	-	-	-	-	73	63
Jackie Noakes	34	-	-	-	-	-	-	-	34	-
Sally Williams	56	54	-	-	-	-	-	-	56	54
	1,185	**1,140**	**446**	**481**	**118**	**467**	**123**	**124**	**1,872**	**2,212**

1. Simon Markey was CEO until 31 January 2019
2. Jim Islam and Nici Audhlam-Gardiner were employed by the Group in 2019 but were not appointed as Directors until 1 January 2020
3. Other benefits include pension costs, private medical insurance, taxable expenses, and a grossed-up payment of the associated tax due on these taxable expenses claimed (taxable expenses include for example travel between offices)
4. Resigned 5June 2019
5. Resigned 1 March 2020

In 2020, directors agreed to a contractual reduction in their salaries and fees. This saving was used by OneFamily to fund additional hardship grants to help members and their families during the COVID-19 pandemic.

B.2 Fit and Proper Requirements

When assessing the current and future composition of the Board, the Nominations Sub-Committee considers the balance of skills, experience, independence, knowledge, diversity and effectiveness of the directors. In line with the Diversity Policy, the Nominations Sub-Committee recognises the benefits of having a diverse Senior Management Team, and views this as an essential element in maintaining an effective Board.

The Board will have regard to all aspects that contribute to demonstrating an individual is fit and proper to perform their role, aligned to the core principles of honesty & integrity, competence & capability and financial soundness. These are embedded within our Fit & Proper Policy.

The Nominations Sub-Committee also satisfies itself that there are appropriate succession plans in place for all directors and other senior management positions, and that all directors devote sufficient time to their duties. It makes recommendations to the Board regarding membership of the Risk, Audit, Remuneration, With-Profits and Members and Customer Sub-Committees. The Group maintains a formal succession plan for the Board and Approved Persons that is reviewed and updated at least once a year.

B.2.1 Fit and Proper Assessment

OneFamily has policies and procedures in place to ensure that individuals employed by or acting on behalf of OneFamily are both 'fit and proper'. These procedures are guided by the requirements of the PRA and FCA Senior Managers and Certification Regime (SM&CR) which was implemented for insurers on 10 December 2018.

The 'fit and proper' requirements mean:

- Fit – An individual's professional and formal qualifications, knowledge, relevant experience (including the insurance, financial, risk, accounting, actuarial risk and management skills of the individual) are assessed at point of recruitment and on an ongoing basis to validate their appropriateness to their role; and
- Proper – Assessments are undertaken at point of recruitment and on an ongoing basis on evidence regarding their character, personal behaviour and business conduct (including any criminal, financial and supervisory aspects) to ensure that an individual is honest, of good reputation, has integrity and is financially sound.

Regulator notifications

OneFamily notifies the regulators of changes to the identity of the persons who are members of the Board, the Chief Executive of OneFamily and other Key Function Holders and associated 'fit and proper' information as required including those who have been replaced because they no longer fulfil the 'fit and proper' requirements.

Outsourced functions

OneFamily's outsourcing policy requirements have special requirements for key functions which may be outsourced. The 'key functions' in this context are Risk, Internal Audit, Actuarial and Compliance. Employees of such outsourced 'key functions' are subject to OneFamily's fit and proper procedures which include regulatory notification.

These procedures include the designation of a person within OneFamily with overall responsibility for the outsourced key function that is fit and proper and possesses sufficient knowledge and experience regarding the outsourced key function to be able to challenge the performance and results of the service provider. Where such responsibilities exist, they are recorded on the Management Responsibilities Map, and also on the designated person's Statement of Responsibilities document. This designated person is the person responsible for the key function and is notified to the supervisory authority according to the relevant insurance regulations, in this case Article 42 (2) of Solvency II.

OneFamily ensures the service provider has checked the fitness and propriety of all persons working on the relevant key function.

The fitness of the person with overall responsibility for the outsourced key function at OneFamily is assessed taking into account that while the oversight role carries ultimate responsibility for the key function, the level of knowledge required would not need to be as in depth as that of the relevant person(s) at the service provider.

OneFamily currently outsources the Actuarial Function; see Section B.6 for further details.

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

B.3.1 Risk Management Framework

Risk management is key to OneFamily's ability to create and protect value for its members. In its normal business activities, OneFamily is exposed to a variety of risks inherent in its business lines of lifetime mortgages, savings, investments and protection. The Board approved Risk Appetite and Risk Management Framework embody the strategies for managing current and emerging risks to objectives. The culture and values, as set by the Board, underpin a prudent approach to risk in line with the Board's Risk Appetite.

Looking forward, these risks may be magnified or dampened by current and emerging external trends which may impact upon current and long-term profitability and viability. This includes the risk of failing to adapt OneFamily's business model to take advantage of these trends.

The Risk Sub-Committee reports to the Board and is responsible for the review and oversight of the Risk Management Framework covering all areas of risk. Specifically, it provides oversight on behalf of and guidance to the Board on risk strategy and appetite, including advising on current and emerging risk exposures as well as the promotion of a risk awareness culture across OneFamily.

Risks are grouped by risk categories such as: credit, market, liquidity, insurance and operational risk, see Section C for further details. To promote a consistent and rigorous approach to risk management the Group has defined a set of risk policies and standards aligned to these categories which set out the risk strategy, appetite, framework and minimum control requirements. For each key activity and function, risks are identified and assessed, the effectiveness of controls is assessed and tested, and reported to the Executive and the Risk Sub-Committee.

The Risk Management Framework includes the following key elements:

- risk culture;
- risk appetite;
- risk governance;
- risk management process;
- policy framework; and
- own risk and solvency assessment.

Risk Culture

The Board established culture and values shape how we prioritise risk management behaviours and practices. OneFamily promotes awareness of actual and potential risk exposures and an understanding of impact should they crystallise. Through regular management information, the Board overseas the achievement of the strategic plan and a balanced set of corporate objectives; this information is used by the Remuneration Sub-Committee to measure performance and guide remuneration. Adherence to culture and values is overseen by the Board and informs the deliberation of the Remuneration Sub-Committee in measuring performance and guiding remunerations. Cultural factors include considerations such as adherence to risk and control requirements, adequacy of governance and conduct risk.

Risk Appetite

Risk Appetite defines the extent to which OneFamily is prepared to take risk in pursuit of its business strategy. The appetite is defined by a number of metrics, limits and indicators informed by the OneFamily risk strategy.

OneFamily uses its Risk Appetite Statement to:

- Align key stakeholders in delivering the right customer outcomes, while ensuring that financial and brand strength is upheld.
- Guide directors (and others charged with governance) in leading the business and setting its direction and strategy.

Risk Governance

OneFamily's Chief Risk Officer leads the OneFamily Risk and Governance function (2nd line of defence – see below), is accountable for reporting on risk and any findings of concern to the Board for their attention and action and reports to the Chief Executive Officer on a day to day basis. The Chief Risk Officer attends the Board, Audit Sub-Committee and Risk Sub-Committee meetings and has unhindered access to the Board Chair and the Chairs of the Audit and Risk Sub-Committees. The Risk Sub-Committee has responsibility for recommending the appointment and removal of the Chief Risk Officer to the Board.

The Risk function is centralised and covers all Society and subsidiary activities.

OneFamily operates a three lines of defence model for the management of risk. The roles and responsibilities of each line of defence are:

- 1st Line – Operational Business Areas / Functions e.g. Customer Services, Finance, IT and Change, Marketing;
  - Role: Identifying, owning and managing risks, which includes the performance of controls.
- 2nd Line – Risk and Governance functions; and
  - Role: Setting the Risk Management Framework and supporting its implementation including a suite of risk policies. The function provides oversight and challenge to the 1st line and reports to the Executive, the Risk Sub-Committee, the Audit Sub-Committee and the Board on the OneFamily's risk exposures. The 2nd line includes the Compliance function, which provides guidance and monitoring to the business on matters of regulatory compliance.
- 3rd Line – Internal Audit (Independent Oversight).
  - Role: Providing independent and objective assurance and consulting activities to evaluate and enhance the governance, risk management and internal control frameworks. Independently reviews the 1st and 2nd lines of defence. Provides independent assurance to the Executive, the Audit Sub-Committee and the Board.

Risk Management Process

Risks are managed by taking a Top Down and Bottom Up approach:

Top down risk management

Involves the identification, assessment, management, monitoring and reporting of strategic risks that might arise from significant external events (e.g. regulatory change), management actions (e.g. changes to strategy) or new undertakings (e.g. projects and new products). The risks are usually identified by management or by a technical specialist and are discussed and assessed at Executive level, including the calculation of appropriate risk capital. The risks, including emerging risks, are reported to the Chief Risk Officer for further assessment and onward reporting, inclusion on the Group Risk Register, ongoing risk monitoring and will usually be considered for Internal Audit or Compliance Monitoring review.

Bottom up risk management

Involves the identification, assessment, management, monitoring and reporting of risks at department or functional level by means of the corporate system of Risk & Control Self-Assessment (RCSA). RCSA requires each department or functional area to be responsible for managing its own risks and controls by conducting appropriate risk meetings and assessments, maintaining risk registers, setting risk tolerance levels and escalating risks that are deemed to be beyond its risk appetite to management and the Chief Risk Officer for further consideration. Department risk registers are reviewed and challenged at least quarterly by Risk, and prior to any Internal Audit or Compliance review so that relevant risks and mitigation plans are understood, considered and reported appropriately. Risks are also identified from management

information produced by the business areas, for example in relation to complaints, breaches, staff attrition & absence analyses and business dashboards. Portfolio and project risks are managed in a similar manner with every project having a risk register and risk escalation processes.

The Group Risk Register is maintained by the Chief Risk Officer, reviewed regularly by the Executive and updated with mitigating actions and progress by the relevant Accountable Executive. The Risk Register forms part of the Chief Risk Officer's Risk Report that is presented at Risk Sub-Committee and Board meetings for consideration.

Operational Risk incidents arise as a result of inadequate or failed internal processes, people, systems or external events. OneFamily's Business Incident Management process ensures that significant incidents or near misses are thoroughly investigated, reported and satisfactorily resolved.

Policy Framework

The Board ensures that the appropriate set of Risk policies are in place and embedded within OneFamily. The suite of Board-approved policies is supplemented by working standards which are owned and approved by Accountable Executives. Together these policies and working standards establish OneFamily's principles for taking and managing risks across key risk categories.

B.3.2 Conducting the Own Risk and Solvency Assessment (ORSA)

The ORSA covers a series of inter-related activities by which OneFamily establishes:

- The quantity and quality of the risks which OneFamily seeks to assume or to which OneFamily are exposed.
- The level of capital required to support those risks.
- The actions required to achieve and maintain the desired levels of risk and capital.

The assessment considers both the current position and the positions that may arise during the planning period (typically the next five years) under both normal and stressed conditions where plan assumptions may not materialise as expected. It covers the whole of the business written in the Society, including the risks arising from its non-insurance subsidiaries.

Management Review and Approval of the ORSA

The output from the ORSA process is reported to the Risk Sub-Committee regularly during the year. This includes agreement and approval of scenarios and assumptions, risk appetite and key risk mitigation strategies. The ORSA and business planning processes are aligned to enable ORSA outcomes to have a direct bearing on planning and development of strategy.

Quarterly risk and capital updates are produced. These include an update of the actual and forecast position, any strategic change impacts, any updates to the risk and capital frameworks and any risk issues.

In addition to the annual ORSA, ad-hoc assessments may be carried out as required by the Board or Risk Sub-Committee.

Own Assessment of Capital Requirements

OneFamily assesses its solvency needs on both a Solvency II regulatory capital basis ('Pillar 1') and OneFamily's own assessment of the economic capital required to cover risks ('Pillar 2'). Pillar 1 is based on the Standard Formula of the Solvency II insurance regulations and Pillar 2 also uses Standard Formula stresses as its starting point. The key differences between these are the inclusion in Pillar 2 of the risks and capital resources of non-insurance subsidiaries on a 'look through' basis; the treatment of pension schemes and the Group's own assessment of operational risk for Pillar 2. An assessment of the appropriateness of the Standard Formula basis to OneFamily's business and risk profile is conducted as part of the ORSA process.

Interaction Between Risk and Capital Management

A key element of the ORSA is the projection of regulatory and economic capital under base and stressed conditions (including reverse stress testing). This allows OneFamily to judge the robustness of its strategy and plans to adverse conditions, the evolution of risk profile as measured by economic capital, the need for capital management actions if any and to understand inherent weaknesses in its business model.

A key part of capital management is the regular monitoring of economic and regulatory capital against 'buffers' based on the impact of a 1-in-20 year stress. The ranges for guiding prudent economic and regulatory capital management are defined to balance the objectives of protecting and creating member value.

Breach of buffers will trigger a review which may lead to management action to improve the capital position and reduce risks. In this way risk and capital management processes contribute to each other in terms of highlighting exposures and triggering management actions.

The Pillar 2 assessment of risk provides a quantified risk profile of OneFamily. This allows for risk to be ranked by capital consumption and provides an understanding of the key drivers for each risk category. This provides insight to how the Risk Management Framework activities are focussed and prioritised.

B.4 Internal Control Systems

B.4.1 Overview of the Internal Control Environment

Internal controls facilitate effective and efficient business operations, the development of robust and reliable internal reporting and compliance with laws and regulations. OneFamily's controls to deliver these objectives are covered by:

- Organisational Structure – OneFamily maintains an organisational structure that supports the systems of internal control, this includes an adequately resourced three

lines of defence model, appropriate segregation of duties, a system of delegated authorities, clearly defined roles and responsibilities for all employees and the consideration of risk and control responsibilities in employee performance.
- Risk Management Framework– this includes risk policies and standards, implementation of the risk and control assessment process with established action plans for risks out of tolerance.
- Effective controls and monitoring - OneFamily ensures that there are effective controls in place for core business processes, these controls are proportionate to risk, monitored, and are reviewed, tested and reported on a regular basis.
- Risk Oversight - a risk oversight process is in place that provides challenge to the completeness and openness of internal control and risk assessment. Committees which support risk oversight have defined terms of reference and appropriate membership, with proceedings adequately recorded and actions followed up.

B.4.2 Compliance

OneFamily has a separate Compliance function staffed by an appropriate number of suitably qualified and experienced personnel. The Head of Compliance:

- holds responsibility for the Compliance Oversight, Data Protection and Money Laundering Reporting functions and reports to the Chief Risk Officer;
- has direct access to the most senior managers and directors of OneFamily and independent access, if required, to the Chairs of the Audit and Risk Sub-Committees and reports to both sub-committees;
- sits on a number of internal committees to ensure that they are aware of strategic and business developments and can provide suitable regulatory guidance as appropriate; and
- attends meetings of the Executive as required.

The role of the Compliance function is to embed an appropriate compliance structure; maintain adequate systems and controls and provide regulatory guidance and support.

Within the Compliance Function the core areas are Compliance Advice and Compliance Monitoring. These teams provide support to business areas to ensure that OneFamily continues to meet its regulatory obligations.

An annual Compliance Plan, approved by the Audit Sub-Committee, documents the key objectives for the department during the year. The progress of this plan is regularly monitored and reported on.

Reports of findings and recommendations are produced for each compliance monitoring review and summaries of regulatory changes are provided to management. Changes in regulation are monitored within the Compliance Advice team and summaries distributed to business areas. Where necessary, corporate projects are incepted to ensure OneFamily continues to meet its regulatory obligations.

Regulatory engagement with the Prudential Regulation Authority & Financial Conduct Authority is coordinated through the Chief Risk Officer and Head of Compliance respectively. A record is kept of all communication with both regulators and the Board are kept up to date on the status of communications with the regulators.

B.5 Internal Audit Function

OneFamily has a Group Internal Audit function that is led by the Head of Internal Audit (HoIA). The role of Internal Audit is to provide an independent, objective assurance and consulting service designed to add value and improve the effectiveness and adequacy of the organisation's risk management, control and governance processes. To ensure the function's objectivity and independence, the HoIA has a functional reporting line to the Chair of the Audit Sub-Committee and, for administrative purposes only, a reporting line to the Chief Risk Officer. The HoIA has unhindered access to the Chief Executive and Chair of the Board. The HoIA does not assume responsibility for any other function. Appointment or removal of the HoIA is a decision considered by the Audit Sub-Committee.

The HoIA presents to the Audit Sub-Committee for its consideration and approval an annual Internal Audit Plan setting out the scope of its work planned for the following year. The HoIA also attends all Audit Sub-Committee meetings to present the Internal Audit report summarising progress against the Internal Audit plan; material audit findings; and management's agreed actions to address the audit findings. Members of the Internal Audit function who have transferred to the department from other areas of OneFamily (or its subsidiaries) are not asked to review any aspects of their previous department's work until a suitable interval of time (12 months) has passed since they left that area.

B.6 Actuarial Function

OneFamily's Actuarial function is outsourced to Willis Towers Watson (WTW), an independent firm of professionally qualified actuaries. The Chief Actuary is Paul Simmons of WTW. Under the terms of a formal Statement of Work agreed with OneFamily, the relationship between WTW and OneFamily is overseen by OneFamily's Chief Finance Officer, who is designated with overall responsibility for the outsourced Actuarial Function. There is an Actuarial function standard in place to ensure there is a clear understanding of the responsibilities of the Actuarial function and its relationship with OneFamily's Finance team and the other key functions and areas of the business.

As well as producing Actuarial function reports and figures for statutory and regulatory reporting, the Actuarial function produces management information that helps OneFamily to monitor and manage its business. It also assists in the quantification of economic capital for Pillar 2 purposes.

The Actuarial function provides regular input to the Chief Risk Officer and Risk function on risks which may have a material impact on OneFamily's ability to meet its liabilities to policyholders and on the capital needed to support the business.

B.7 Outsourcing

OneFamily remains fully responsible for discharging all of its obligations when it outsources any functions or activities. The Board of OneFamily remains ultimately responsible for OneFamily discharging its obligations. Outsourcing is used as a means of reducing costs, achieving strategic aims and improving efficiency and effectiveness within the business.

When choosing an outsource service provider for functions or activities, OneFamily undertakes a due diligence process, determines the main risks that might arise from the outsourcing, and identifies suitable strategies to mitigate/manage these risks. Outsourced activities are referenced in OneFamily's Risk Management Framework and in the Internal Control Framework.

Outsourcing agreements with external suppliers are set out in writing and contain a standard set of OneFamily agreement clauses. OneFamily outsourcing agreement owners monitor and review the quality of the service provided and assess whether the service provider delivers according to contract.

OneFamily outsources the following critical or important operational functions and activities: Fund Management and Actuarial services.

All of the key service providers for these outsourced services are located in the UK or EU.

B.8 Any other Information

B.8.1 Changes to System of Governance in the Reporting Period

The following are the main changes of the Group's System of Governance over 2020:

- De-authorisation and commencement of member's voluntary liquidation of Governor Finance Limited.

B.8.2 Adequacy of System of Governance

OneFamily has developed and implemented a system of governance appropriate for the nature, scale and complexity of the organisation that provides for adequate risk management, internal control, risks and controls ownership, monitoring and Board oversight. The system of governance is subject to regular internal review.

Internal Audit have undertaken reviews including the CTF maturity programme, Lifetime Mortgage redemptions, firewall management, risk and control self-assessment processes, whistleblowing, the defined benefit pension schemes, IT security and product tax. There

have been no systems of governance issues identified during the year that are considered high risk in relation to the overall governance framework and opportunities for improvement in governance, risk management and controls identified as part of the assurance process have been addressed or included in action plans. The OneFamily Board has undertaken an external review of the effectiveness of the Board during 2020. This confirmed that the Board was operating effectively with no material deficiencies identified.

C Risk profile

OneFamily's normal business activities expose it to a variety of risks inherent in its business lines of lifetime mortgages, savings, investments and protection. In this section these risks are described together with how OneFamily identifies, measures, manages and monitors those risks.

Risk Identification

Risk identification is carried out on a regular basis, embedded in the business planning process and any major business initiatives as well as part of a regular risk and controls assessment cycle.

Risk Measurement

OneFamily quantifies risks arising on its existing insurance business for the purposes of assessing the Solvency Capital Requirement (SCR), which is a regulatory (Pillar 1) capital requirement under Solvency II insurance regulations. In calculating the SCR, the Society uses the standard formula under the regulations, which is designed to give 99.5% confidence that the company can meet its financial obligations over a one year period.

The primary risk categories measured in the Solvency II SCR calculation are:

- underwriting risk – For Life insurance risk (see Section C.1 for further details);
- market risk (see C.2 Market Risk for further details);
- credit (including counterparty default) risk (see Section C.3 for further details);and
- operational risk (see Section C.5 for further details).

Some categories of risk are not measured by the Solvency II SCR, principally liquidity risk. This risk is managed through holding sufficiently liquid assets to cover anticipated net cash outflows over varying durations in stressed conditions.

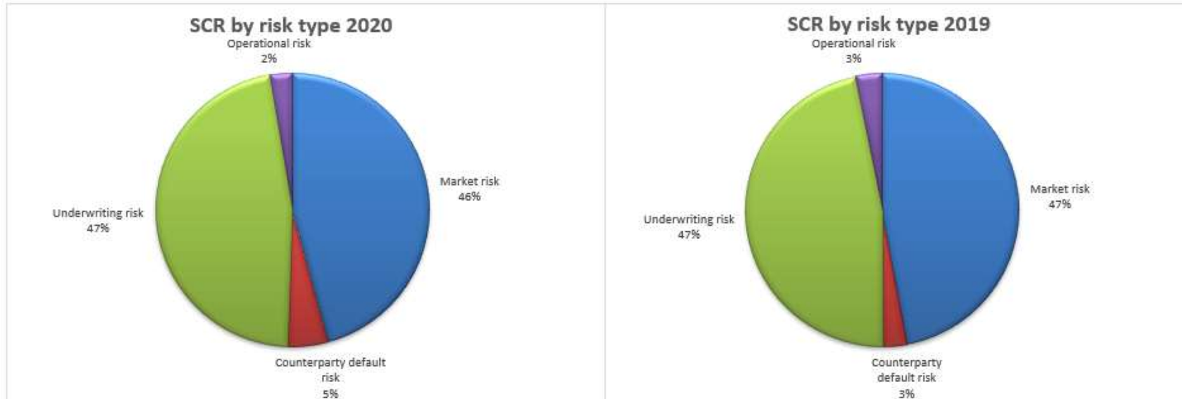
The SCR includes a stress to the net equity value of non-insurance subsidiaries, but for the purposes of the ORSA, OneFamily also carries out an economic capital (Pillar 2) assessment which includes the value of future income from this business and reflects risks to this income.

For operational risk, the Standard Formula (Pillar I) capital charge is based on premiums and technical provisions. This approach is not readily applicable for non-insurance business. Pillar 2 operational risk capital is instead based on a bespoke assessment of operational risk stresses based on scenarios.

The impact of individual stresses is aggregated using the same approach as Pillar 1 to allow for diversification between risks giving an assessment quantifying the risks associated with non-insurance subsidiaries as well as the Society in aggregate. The Pillar 2 assessment as at 31 December 2020 has confirmed the adequacy of the Group's capital resources to cover all of its risks.

Changes in risk profile over the reporting period

The chart below shows the 31 December 2020 split of the overall undiversified Standard Formula SCR by risk category excluding diversification to give an indication of the risk profile. The results for 31 December 2019 are provided for comparison.



The overall risk profile has remained similar over the reporting period.

The marginal decrease in the proportion of the risk profile due to market risk has been primarily due to a reduction in interest rate risk driven by the fall in the interest rates over 2020.

Insurance risk has maintained a stable proportion of the risk profile, with increases in longevity risk largely offset by reductions in lapse and mortality risk.

Counterparty default risk has increased as a result of refinements to the modelling processes.

Operational risk has reduced primarily due to the changes in the level of expenses within the technical provisions associated with unit linked business.

Concentration Risk

Within Market Risk, the mix of assets between gilts, equities and corporate bonds reduces concentration risk. OneFamily's diverse range of product lines helps mitigate concentration risk (lifetime mortgages, investments and protection). Areas of non-material concentration e.g. Insurance, Counterparty Credit and Market risk together with relevant mitigation techniques is covered in more detail in Section C.2 to Section C.6.

Prudent Person Principle

Under the Prudent Person Principle (PPP) firms are expected to understand fully the risks involved with their investments, make proper provision for them via the SCR and ensure that investment decisions are made in the best interests of policyholders. All investment risks must be properly identified, measured, monitored, managed, controlled and reported.

OneFamily's investments are overseen by the Executive Investment Committee (EIC). The EIC makes recommendations to the Board on investment strategy and investment managers, takes asset allocation decisions, sets investment guidelines and benchmarks, and monitors investment performance against these benchmarks. It also oversees investment manager compliance with Investment Management Agreements and reviews whether counterparty, credit, liquidity and market risks are within the risk appetite established by the Board.

Board approved policies are in place which govern market, credit and liquidity risks associated with investments. In addition, the Executive Investment Committee approves the Investment Strategy and the Investment Management Procedure and Oversight document (IMPO) in line with the delegation from the Board, which sets out detailed requirements for investment management and embeds the PPP. Use of non-standard investment transactions and instruments are defined in the IMPO for each fund. Non-standard investment transactions need to be approved by the Board. For the With-Profits Funds, this would also be subject to advice given by the With-Profit Actuary.

The With-Profits Sub-Committee advise the Board on the achievement of the fair treatment of with-profit policyholders. This includes advising on the way in which the With-Profits Funds are managed, the identification of surplus and excess surplus, the merits of distribution or retention and the proposed distribution policy.

Exposure to Insurance Special Purpose Vehicles

As at 31 December 2020 the Society has no special purpose vehicles as defined by the Solvency II regulatory framework.

C.1 Underwriting Risk

C.1.1 Underwriting Risk

Underwriting risk (which is also defined as Insurance Risk) is the risk of a loss due to an adverse deviation of the actual claims payments from those expected when pricing the product and setting the technical provisions.

As illustrated in Section C above, underwriting risk makes up a significant proportion of OneFamily's risk exposure.

The table below describes each sub-category of Underwriting risk and the techniques used to manage and mitigate each one.

Risk	Description	Management and Mitigation
Lapse Risk	The risk that higher than expected lapses will reduce the value of business in-force. This is a key risk for OneFamily, and persistency is a key focus for management.	Lapse experience is closely monitored, with regular investigations to ensure lapse assumptions are appropriate. Stress testing includes the impact of economic downturns on lapses.
Expense Risk	This relates to higher than expected expenses, not just in period but going forward in terms of reduced future profits emerging.	Expenses are managed against budgets, with regular expense analyses performed to ensure long-term expense assumptions are appropriate.
Mortality and Morbidity Risks	This principally relates to higher than expected death and critical illness claims on Over-50s business.	Mortality and morbidity risks are substantially reinsured with 80% of mortality and morbidity risk associated with the Over 50s whole of life cover product reinsured under treaties with Swiss Re, Hannover Life Re UK, SCOR and Munich Re; residual mortality risk acts as a natural hedge against longevity risk.
Longevity Risk	This risk arises from whole life contracts, due to the structure of the risk premium reinsurance contracts. OneFamily also has a small annuity portfolio which is vulnerable to the effect of annuitants living longer than expected. There is also longevity risk in this respect of these pension schemes.	This risk is expected to grow as further new business is written. This is monitored with potential options to reduce through reinsurance and changes to product terms and conditions for new business.

C.1.2 Material Changes in the Reporting Period

No material changes occurred in the period. Lapse and Mortality risk have reduced due to the runoff in the protection and unit-linked lines of business. Expense risk has marginally increased as a result of updated assumptions from detailed expense analysis. Longevity risk increased over the previous period partly due to the maturing of the Over 50s portfolio and the risk premium-based structure of the reinsurance contract (which creates a risk to low mortality rates) combined with a fall in interest rates which act to increase the materiality of long duration cashflows.

C.1.3 Underwriting Risk concentrations

For OneFamily contracts with mortality exposure (Tax Exempt Savings Policies (TESPs) and Over 50s plans), there are a significant number of policies and the sum assured per policy is small, so there are no concentrations of exposure to individual lives.

Potential concentrations of mortality risk could arise from exposure to mass casualty accidents and to flu and other pandemics. However, OneFamily does not have any accident risk concentrations, while its exposure to pandemics and mortality risk in general is substantially reinsured. As a result, the SCR in respect of mortality catastrophes at 31 December 2020 was trivial.

C.2 Market Risk

C.2.1 Exposure and Risk Mitigation

Market risk is defined as the risk of adverse fluctuations in values of, or income from, assets, or in interest or exchange rates. This could cause a divergence in the value of the Group's assets and liabilities. Where policy benefits are linked to the value of investments, most of this risk rests with the customer.

As illustrated in Section C above, Market risk makes up a significant proportion of OneFamily's risk exposure.

The table below describes each sub-category of Market risk and the techniques used to manage and mitigate each one.

Risk	Description	Management and Mitigation
Equity Risk	This principally relates to falls in fund values reducing the value of income from annual management and other fund related charges. With-profits funds also invest in equities and are thus exposed to market falls.	Investment policies are in place to manage equity, currency and other market risks, supplemented by our investment management principles of operation. Asset mix and performance are overseen by the Board. Stress testing includes the impact of equity and other market falls. Currency hedging is in place to reduce the volatility of returns for policyholders.
Currency Risk	A rise in the value of sterling will reduce the value of overseas assets and hence fund values and the value of future charges. With-profits funds will also be exposed to falls in overseas assets they hold	
Interest Rate Risk	In general, there is exposure to falling bond yields which amongst other things, increases the present value of: (i)expenses; (ii)future claims less premiums on protection business; and (iii) pension liabilities.	Falls in bond yields would boost bond values and unit-linked charge income, largely offsetting these impacts. Staff pension schemes use swaps to hedge interest rate risk.

C.2.2 Material Changes in the Reporting Period

Market risk reduced over the reporting period driven by a reduction in interest rate risk as a result of lowering of interest rates over 2020.

C.2.3 Market Risk concentration

OneFamily's policy is to diversify investments so as to minimise concentrations of market risk. At 31 December 2020, the Society's undiversified SCR amounted to 2.2% in respect of market risk concentrations.

C.2.4 Hedge Funds

The Society holds no hedge funds assets. These were divested during 2019.

C.3 Credit Risk

C.3.1 Exposure and Risk Mitigation

Credit risk means the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors, in the form of counterparty default risk, or spread risk, or market risk concentrations.

As illustrated in Section C above, Credit risk is a minor proportion of OneFamily's risk exposure.

The table below describes each sub-category of Credit risk and the techniques used to manage and mitigate each one.

Risk	Description	Management and Mitigation
Bond Credit Risk	Rising bond spreads, downgrades and defaults will reduce fund values and asset management fees and will also have an adverse effect on OneFamily's small annuity book.	Management of credit risk exposure is in line with credit risk limits. OneFamily generally holds investment grade bonds, where credit risks are lower.
Counterparty Default Risk	There is also modest counterparty exposure to reinsurers, to whom most mortality and morbidity risk is transferred, and to banks where we deposit money; and to insurance intermediaries in respect of unearned commission payment.	Counterparty credit risk including bank and investment related counterparties are managed through a system of limits with exposure monitoring. The Society monitors the financial strength of its reinsurance counterparties by reviewing credit ratings provided by rating agencies and other publicly available financial information. Exposures to insurance intermediaries is monitored to help maintain intermediary advances to within risk appetite.

C.3.2 Material Changes in the Reporting Period

No material changes occurred during the reporting period.

C.3.3 Credit Risk Concentrations

OneFamily has a limit structure in place to minimise exposure to individual counterparty default. Reflecting this, at 31 December 2020, the SCR for counterparty default risk, covering exposure to reinsurers, banks and other counterparties not covered under market risk concentrations in Section C.2.1 above, amounted to 5% of the undiversified SCR. This reflects both limited exposure to counterparties and their credit quality.

C.4 Liquidity Risk

C.4.1 Exposure and Risk Mitigation

Liquidity risk is defined as the risk that OneFamily, though solvent, either would not have sufficient financial resources available to enable it to meet its obligations as they fall due or could secure them only at excessive cost.

As described in Section C above, Liquidity risk is not measured using the Solvency II SCR, but is rather measured using a series of stress scenarios and the level of liquidity buffer required to meet funding obligations over short-term and medium-term horizons.

Liquidity risk is managed using a control framework which covers:

- daily liquidity monitoring;
- monitoring by the Risk Sub-Committee via liquidity reports including liquid assets by funds, the liquidity buffer and the liquidity coverage ratio;
- investing in deposits with fixed maturity dates. A cash buffer is held to manage outflows and these funds are able to draw on surplus cash assets in the Non-Profit Fund;
- imposing restrictions on investing in illiquid assets. This applies to exposures such as property and hedge funds;
- management actions in extreme market stress conditions which include the potential to sell bond ETF holdings and other readily realisable assets in surplus funds;
- borrowing to cover shortfalls: there is a cost to this, but it is offset by interest earned on the bank deposits;
- possible suspension (in extreme market conditions) of dealing on specific contracts or to invoke fair value pricing, a mechanism which allows the company to estimate fund prices when more reliable market data is not available. Such approaches are controlled through specific processes and governance, including trustee oversight; and
- stress and scenario testing which explores the impact of adverse liquidity scenarios on the Group and its subsidiaries, which include cessation of inward cashflows, service interruptions from investment managers, mass lapse events and loss of individual counterparties.

C.4.2 Material Changes in the Reporting Period

The onset of CTF customers policies maturing from Q3 2020 has increased the level of monthly outflows.

No other material changes occurred during the reporting period.

C.4.3 Liquidity Risk concentrations

OneFamily's main liquidity risk concentration exposure relates to the deposits held with banking counterparties and the reliance on investment fund managers to support cashflows to customers in relation to their investments.

To the extent that transfers out exceed contributions in, the fund currently retains a cash buffer to meet shortfalls. If this is insufficient however, OneFamily would need to enact controls (as described in the above section) to support transfers out as they fall due.

C.4.4 Expected Profit included in Future Premiums

At 31 December 2020, the expected profit included in future premiums amounted to £417,440k (2019: £397,071k). This is based on the difference in discounted best estimate liabilities ('BEL') between the actual base BEL and the BEL with future premiums set to zero and no reduction to policyholder benefits.

C.5 Operational Risk

C.5.1 Exposure and Risk Mitigation

Operational risk is defined as the risk of loss or the adverse consequence on business outcomes arising from inadequate or failed internal processes, people or systems or from external events.

The table below describes the most material Operational risks that OneFamily are exposed to together with the approaches used to manage and mitigate each one.

Risk	Description	Management and Mitigation
Information	Risk of theft or loss of customer, staff, company and other data; cyber-crime; and/or breach of data protection legislation	Policies, standards, technical measures (e.g. information security controls), data protection compliance framework, staff awareness. Internal and external review of cyber security capability.
Business Continuity	Risk of loss from business disruption and damage to physical assets from natural and other causes; or from failure of computer and/or telecommunication systems.	Policies, standards, regular updating and testing of disaster recovery plans and incident management procedures.
Processing	Risk of processing errors made by staff and/or systems, as well as failure to process.	Policies, standards, systems monitoring reviews of incidents and losses, continuous risk assessment and controls monitoring.

Risk	Description	Management and Mitigation
Product	The risk of flaws in the design, pricing and marketing of products causing either direct loss; or losses for customers which need to be redressed	Product development and review processes. Actuarial reviews of underwriting risk to assess potential for unfair outcomes.
Conduct	Risk of not conducting business fairly and properly in relation to customers and other stakeholders. This overlaps with (and is considered in conjunction with) risks of failure to comply with regulations.	Conduct risks are actively monitored with regular conduct risk reports produced for the Risk Sub-Committee. The risk assessment of new products and initiatives will have regard to conduct risks.

Other operational risks considered by OneFamily include fraud and financial crime, mis-selling, employment practices, financial reporting, outsourcing, regulatory and legal risk.

OneFamily has insurance policies covering buildings, financial crime and business interruption to mitigate damage to physical assets and other business disruption, and professional indemnity insurance is held against errors.

C.5.2 Material Changes in the Reporting Period

The events of 2020 caused an unprecedented shift in people, process and technology towards remote working and new ways of doing business. Our response involved assessing our business processes and making adaptations to reduce customer effort and accommodate more digital ways of working. We also provided new technology, networking and physical infrastructure to move over 90% of our workforce to operate from home, at levels of service equivalent to the pre-pandemic position. In line with our plans to improve operational resilience a new policy to address Operational Resilience was developed and then approved by the Risk Sub-Committee. A pilot exercise to assess resilience against a key process was completed in 2020. It concluded that the risk to resilience was low and identified further compensating controls to continue service should certain systems outages occur. The approach is planned to be rolled out across all critical business services during 2021.

Many industry commentators (e.g. NCSC and Interpol) have cited significant increases in malicious cyber acts taking advantage of the COVID-19 news flow in 2020. These included scams, data harvesting, malicious links and misinformation. This is expected to increase as cyber criminals and rogue states become ever more sophisticated and digital automation in business strategy grows. We reviewed our IT security controls and capabilities to ensure they remained appropriate as part of our response to the pandemic and we continue to prioritise our investment in our IT and Cyber security. This has included the replacement of soon to be end of life technology and the progress of the IT Modernisation programme and cyber capabilities since 2017. During Q4 2020 we undertook a review of our Cyber strategy aligning to the National Institute of Standards and Technology (NIST), FCA and PRA guidance and have defined actions to further enhance our controls in 2021.

C.5.3 Operational Risk concentrations

OneFamily is dependent on key third parties for business operations and delivery of service and product to customers. The risks arising from these dependencies are managed through careful selection of these service providers and ongoing monitoring of their performance.

OneFamily has business continuity and disaster recovery plans in place to ensure that critical business functions will continue to operate in the event that an office or system capability is no longer useable.

C.6 Other Material Risks

C.6.1 Strategic Risk

Strategic risk requires a forward-looking view of risk management and covers the risk that strategic goals are not met due to the actions of competitors, commercial partners, or other marketplace developments such as changes to government or regulatory policy. It includes the failure to devise and deliver initiatives to retain assets and develop sustainable businesses.

A key part of the OneFamily approach to risk management is the Board led strategy and five-year planning process. This considers performance, competitor positioning, strategic opportunities and current and emerging risks. Following completion of the annual Board strategy review management prepare a business plan and a summary of the related strategic initiatives. These are stress tested to assess their impact on the business plan, capital and risks and then reviewed and approved by the Board.

The most material strategic risks that OneFamily is exposed to are the risk of failing to manage the in-force book in line with expense assumptions and the risk of failing to increase the diversity and scale of income streams. These are being mitigated through a series of strategic initiatives which include targeted long term expense initiatives, leveraging and developing our distribution channels and partnerships to drive growth from existing product range, and the OneFamily modernisation programme. These risks and mitigating actions increase the profile of certain other risks as a consequence, for example, risks associated with effective execution of business change and the ability to maintain strong regulatory relationships.

C.6.2 Pension Scheme Risk

Pension Scheme Risk is defined as the risk of balance sheet strains, and/or higher contributions from adverse movements in the assets and liabilities of the OneFamily defined benefit pension schemes. This encompasses equity, currency, interest rate and credit risks, as well as longevity risk in respect of scheme members living longer than expected. For OneFamily there are two relevant schemes, which are the Family Assurance Staff Pension Scheme and the Homeowners Friendly Society Pension Scheme, together referred to as “the Schemes”.

While investment policy is a matter for the trustees of the Schemes, OneFamily monitors pension scheme funding, obtains advice on the investment policy of schemes, and makes its views on investment policy and risk known to the trustees.

C.7 Other Information

C.7.1 Off Balance Sheet Exposures

Whilst the Society does not have any material off balance sheet exposures, it may be exposed to warranties given in connection with the origination of lifetime mortgages.

C.7.2 Climate Related Financial Risk

OneFamily is likely to be impacted over the long-term by the effects of climate change. Please refer Annual Report and Consolidated Financial Statements which describes the approach being taken by OneFamily in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

D Valuation for Solvency Purposes

In this section we provide an explanation of any major differences in the bases and methods used the valuation of our Solvency II balance sheet focussing on assets, technical provisions and other liabilities, compared to the Financial Reporting Standard 102 (FRS 102) basis used for the Group and Society's Financial Statements.

The basis of the Solvency II valuation is such that assets are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. Liabilities are valued at the amount they could be transferred or settled between knowledgeable willing parties in an arm's length transaction. The Solvency II valuation basis largely follows the requirements of International Financial Reporting Standards (IFRS). In many instances this is consistent with treatment under FRS 102. For example, investments are valued on a fair value basis. However, there are some differences between FRS 102 and IFRS and also Solvency II and IFRS. The key valuation differences between Solvency II and the Financial Statements for the Society are set out in the remainder of this section.

There are various items recognised under FRS 102 which are revalued at fair value under Solvency II. However, based upon materiality and in some cases the short-term nature of the asset, the valuation under FRS 102 is considered to be reasonably approximate to Solvency II fair value. These balances are tangible assets (excluding property), debtors, accrued interest and rent, prepayments, accrued income, creditors, accruals and deferred income. For further details on how these items are valued under FRS 102 and Solvency II see Appendix C.

There are various reclassifications from UK GAAP to complete the prescribed reporting templates such as the split of investments between equities, government bonds and corporate bonds. Fixed interest securities are shown on a 'dirty market price' basis which requires the reclassification of accrued interest from receivables to the relevant investment line under Solvency II.

Whilst underlying assumptions behind technical provisions have changed in the year (see Section D.2.7 below) there have been no changes in the valuation basis of Assets and Other Liabilities in the year.

The resulting differences between the valuation as per the Financial Statements and that for Solvency II as at 31 December 2020 is set out below (further details and explanations can be found in Section D.1, Section D.2 and Section D.3):

	Statutory	Reclassification Adjustments	Solvency II Valuation Adjustments	Solvency II
	£'000s	£'000s	£'000s	£'000s
Assets				
Goodwill	487	0	(487)	0
Deferred acquisition costs	0	0	0	0
Intangible assets	321	0	(321)	0
Deferred tax assets	137	0	0	137
Property, plant and equipment held for own use	9,163	0	0	9,163
Investments (other than assets held for index-linked and unit-linked contracts)	**294,712**	**843**	**(8,912)**	**286,644**
Property (other than for own use)	0	0	0	0
Holdings in related undertakings, including participations	24,238	0	(8,912)	15,327
Equities	**15,454**	**0**	**0**	**15,454**
Equities - listed	15,454	0	0	15,454
Equities - unlisted	0	0	0	0
Bonds	**92,396**	**843**	**0**	**93,239**
Government bonds	53,860	202	0	54,063
Corporate bonds	37,315	641	0	37,956
Structured notes	0	0	0	0
Collateralised securities	1,221	0	0	1,221
Collective investment undertakings	162,624	0	0	162,624
Deposits other than cash equivalents	0	0	0	0
Assets held for index-linked and unit-linked contracts	**1,114,214**	**0**	**0**	**1,114,214**
Loans and mortgages	**384**	**0**	**0**	**384**
Loans on policies	11	0	0	11
Loans and mortgages to individuals	373	0	0	373
Reinsurance recoverables from:	**118,766**	**0**	**11,561**	**130,327**
Life and health similar to life, excluding health and index-linked and unit-linked	118,766	0	11,561	130,327
Life excluding health and index-linked and unit-linked	118,766	0	11,561	130,327
Insurance and intermediaries receivables	2,970	0	0	2,970
Reinsurance receivables	3,039	0	0	3,039
Receivables (trade, not insurance)	12,402	(843)	0	11,558
Cash and cash equivalents	42,648	0	0	42,648
Any other assets, not elsewhere shown	2,051	0	0	2,051
Total assets	**1,601,295**	**0**	**1,842**	**1,603,136**
Liabilities				
Technical provisions - life (excluding index-linked and unit-linked)	**275,888**	0	**12,010**	**287,898**
Technical provisions - life (excluding health and index-linked and unit-linked)	**275,888**	0	**12,010**	287,898
Best estimate	0	0	265,344	265,344
Risk margin	0	0	22,554	22,554
Technical provisions - index-linked and unit-linked	**1,114,214**	0	**(6,841)**	**1,107,374**
Technical provisions calculated as a whole	0	0	1,114,214	1,114,214
Best estimate	0	0	(14,585)	(14,585)
Risk margin	0	0	7,744	7,744
Contingent liabilities	0	0	0	0
Provisions other than technical provisions	0	0	5,864	5,864
Deposit from reinsurers	0	0	0	0
Deferred tax liabilities	137	0	0	137
Insurance & intermediaries payables	6,522	0	0	6,522
Reinsurance payables	991	0	0	991
Payables (trade, not insurance)	8,494	0	0	8,494
Any other liabilities, not elsewhere shown	14,719	0	0	14,719
Total liabilities	**1,420,965**	**0**	**11,032**	**1,432,000**
Excess of assets over liabilities	**180,329**	**0**	**(9,191)**	**171,137**

Note:

- Excess assets over liabilities on a statutory basis represent Retained Earnings and the Fund for Future Appropriations.
- The Statutory column above shows the gross position of £137k deferred tax in both assets and liabilities, this is presentational only.

D.1 Assets

Further details on the valuation basis under Solvency II and how they differ to those used within the Financial Statements are set out below. Also see Appendix C.

D.1.1 Goodwill and Intangible Assets

Under Solvency II the Society's goodwill and intangible assets of £808k (2019: £1,060k) are deemed to be valued at nil.

D.1.2 Investment Assets

Under Solvency II the financial investments are to be recognised in the Solvency II balance sheet using fair value principles and the following valuation hierarchies:

- quoted market prices in the active markets for the same assets;
- quoted market prices in active markets for similar assets; and
- alternative valuation methods using variety of valuation techniques that are prescribed by in the Commission Delegated Regulation (EU) 2015/35 as acceptable to be considered to establish fair values.

There are no differences between the bases, methods or assumptions used for the Solvency II valuation of the Society's main investment asset classes and those used in the valuation for financial reporting with the exception of the investments in participations.

The Society's investments in participations are held at fair value for statutory reporting purposes. Under Solvency II investments in participations are valued at fair value using the adjusted equity method, which means that any intangibles and goodwill within the subsidiary companies must be written down to £nil. Investments in participations for statutory reporting are not required to be fair valued under this method and therefore an adjustment is needed if the method of determining fair value under UK GAAP is not the adjusted equity method. The resulting Solvency II valuation is £8,912k (2019: £10,024k) lower than in the statutory Financial Statements.

Any investments in participations with negative net asset values (NAV) are shown as contingent liabilities under Solvency II (see Section D.3.4 for further information).

Whilst not a difference in valuation basis under Solvency II, any accrued interest on an investment asset is included within its valuation rather than presented separately. This therefore constitutes a difference to the treatment in the Financial Statements. A total of £843k (2019: £909k) has been reclassified from prepayments and accrued income in the Financial Statements to instead fall within the constituent investment category for Solvency II reporting.

D.1.3 Property

Property included within property, plant and equipment is valued under FRS 102 at fair value through profit and loss which is consistent with IFRS. This valuation basis is considered to be a good representation of the Solvency II economic value. See Appendix C for further details.

D.1.4 Reinsurance recoverables

The value of the Solvency II reinsurance recoverables as at 31 December 2020 is £130,327k (2019: £126,335k). This relates to the value to OneFamily of the reinsurance contracts in place to reduce the level of underwriting risk in the Non-Profit Fund and has been calculated using assumptions consistent with the corresponding technical provisions. The value of this asset (and the corresponding long-term business liabilities), in the Financial Statements is calculated on the modified statutory solvency basis, contributing to a lower reinsurance asset in the Financial Statements. Full details regarding the valuation of this asset are provided in Section D.2.

D.1.5 Deferred tax

Deferred tax assets are not currently recognised within the Society as it is not considered likely that they will be utilised.

Deferred tax assets are however recognised within the With-Profits Funds due to the reflection of notional tax and deferred tax as if they were on a stand-alone basis. An offsetting liability or asset is recognised within the Non-Profit Fund to reflect the fact that no deferred tax is recognised currently at the Society level. Deferred tax assets within the subsidiaries are reflected within the Society's balance sheet through the participations line. In both these instances, the deferred tax assets recognised meet the recognition requirements for Solvency II purposes.

D.2 Technical Provisions

D.2.1 Valuation results

The technical provisions for each material line of business, including the amount of the best estimate and the risk margin (which together form the technical provisions), is shown in the table below for the Non-Profit Fund, With-Profits Fund 1 and With-Profits Fund 2.

£ 000's	Best estimate liability 31 December 2020 (A)	Risk margin 31 December 2020 (B)	Technical provisions 31 December 2020 (A+B)	Technical provisions 31 December 2019	Percentage of Technical Provisions
Non-profit fund					
Unit linked – linked liabilities	1,114,214	-	1,114,214	1,211,259	79.9%
Unit linked – non-linked liabilities	(39,455)	5,075	(34,380)	(34,592)	(2.5%)
Annuities	68,022	6,718	74,740	74,485	5.4%
Protection	146,180	17,887	164,067	134,986	11.8%
Total	**1,288,961**	**29,680**	**1,318,641**	**1,386,138**	**94.6%**
With-profit fund 1					
Tax-exempt endowment	2,505	25	2,531	3,050	0.2%
Other conventional with profits	5,143	52	5,195	5,658	0.4%
Unitised with-profits bond (UWP)	3,243	33	3,276	3,672	0.2%
Other UWP	29,524	298	29,822	34,588	2.1%
Other	661	7	668	33	0.0%
Total	**41,076**	**415**	**41,492**	**47,001**	**2.9%**
With-profit fund 2					
Conventional with-profits	14,407	84	14,491	15,274	1.0%
UWP bond	15,257	89	15,346	16,290	1.1%
Endowments	2,412	14	2,426	2,677	0.2%
Retirement Annuity	1,488	9	1,497	2,098	0.1%
Deferred annuities/buyouts	478	3	481	743	0.0%
Deposit Administration	893	5	898	741	0.1%
Total	**34,935**	**204**	**35,139**	**37,823**	**2.5%**

Society technical provisions have decreased by £75.7 million since 31 December 2019, primarily due to a reduction in Non-Profit Fund technical provisions of £67.5 million combined with a decrease in combined With-Profit Fund technical provisions of £8.2 million.

D.2.2 Valuation Methodology and Assumptions – Non-Profit Fund

Best estimate liabilities ('BEL')

The BEL represents the present value of expected future cashflows relating to benefits, expenses and premiums associated with the in-force insurance obligations as at 31 December 2020, discounted using the risk-free interest rate term structure supplied by the Prudential Regulation Authority (PRA). It does not take into account cashflows in relation to reinsurance, which are separately allowed for as an asset on the balance sheet. No allowance for future new business is included.

The BEL is determined by projecting the future cashflows described above for each policy in-force at 31 December 2020 and then aggregating the results. For unit linked business the BEL includes the value of funds under management at the valuation date plus the present value of expected future policy charges less expenses.

Contract boundaries

Under certain contracts, a contract boundary is assumed, after which point no future premiums are taken into account in the cashflow projection. These contracts are as follows:

- **unit linked pensions contracts**: no value is attributed to premiums received after the valuation date; and
- **Tax Exempt Savings Policies (TESPs)**: no future premiums are assumed beyond the end of the initial premium paying period or, where relevant, the current premium continuation period.

The key assumptions used in determining the BEL are:

Discount rate

The discount rates used are those provided by PRA as at 31 December 2020. No adjustment has been made for any of the matching adjustment, volatility adjustment or the transitional measure on risk-free interest rates.

Expenses

The maintenance expense assumptions used in the calculation of the technical provisions are based on the results of an expense investigation, based on 2021 budgeted expenses, to determine the realistic level of long-term maintenance expenses. Maintenance expenses are inflated using an implied inflation rate curve based on 31 December 2020 market data.

The investment expense assumptions reflect the investment expenses charged by fund managers and vary by fund.

Tax

Income and expenses are projected gross of tax, reflecting the overall tax position of OneFamily, which includes unrelieved carried forward expenses and a significant amount of non-taxable business.

Mortality

For each line of business with a material exposure to mortality risk, the number of policyholder deaths were compared to the number of deaths expected from a standard mortality table based on industry data for similar products. In light of COVID-19 pandemic, we have increased the frequency of such analyses. Where the observed experience was different to expected, an adjustment was made to the standard table (after allowing for the statistical credibility of the observed experience) to reflect the observed experience.

Persistency

For each line of business, the number of policies that lapse or surrender are analysed each year and the lapse and surrender assumptions are based on the results of this persistency analysis. The probability of a policy lapsing or surrendering typically differs depending on how long the policy has been in force. The persistency analysis and the resulting assumptions reflect this feature.

Management actions

No management actions are assumed.

Transitional measures

The transitional deduction from technical provisions has not been applied.

Risk margin

The risk margin is intended to represent the amount, over and above the best estimate liabilities, that another insurer would be expected to require to take over OneFamily's insurance obligations. The risk margin is calculated by projecting forward the non-hedgeable risk capital that the acquirer would be required to hold during the run-off of the business (assuming the acquirer took steps to minimise its capital requirements), applying a prescribed cost-of-capital rate and then discounting using the prevailing risk-free rates as provided by the PRA (otherwise known as the simplified method). The cost-of-capital rate prescribed is currently 6%.

Risk drivers were identified for each type of non-hedgeable risk capital by product in order to project the risk capital over the projection period. The resulting capital requirements were then aggregated after allowing for risks being connected. The risk drivers that have been used are as follows:

- **Best estimate liabilities, net of reinsurance**: used to project capital for risks where the size of the liability being held at a particular point in time is considered to determine the level of risk being faced.
- **Sum assured**: used for risks where the level of the death benefits payable to policyholders is considered to reflect the level of the risk being faced.

- **Number of policies**: used when the number of policies in force is considered to reflect the level of risk being faced.

D.2.3 Valuation Methodology and Assumptions – With-Profits Funds

Best estimate liabilities (BEL)

The BEL consists of:

- policy Asset Shares;
- cost of guaranteed benefits; and
- other liabilities (for example, non-profit liabilities and expense reserves).

The BEL takes into account all payments to policyholders that OneFamily expects to make, whether or not those payments are contractually guaranteed, unless those payments represent a distribution of surplus funds. No allowance is made for future enhancements made to pay-outs to distribute surplus funds since the enhancement is discretionary and applied to asset shares only at the point of claim.

Asset shares

The policy asset shares are calculated as the accumulated value of premiums paid after allowing for the expenses of administering the policy, tax and mortality costs where relevant. The methodology and assumptions used to calculate policy asset shares are consistent with the Principles and Practices of Financial Management (PPFM) for each of with-profits fund (With-Profits Fund 1 (WP1) and With-Profits Fund 2 (WP2)).

Cost of guaranteed benefits

With-profits policies have guaranteed benefits which will have a different value depending on the future level of policy asset shares, which in turn will depend on future investment returns. As part of the realistic valuation of liabilities, the market consistent cost of these guaranteed benefits is calculated taking into account the unknown variability of future investment returns.

With the exception of Deposit Administration business, both with-profits funds use a Closed Form approach to estimate the cost of guarantees, using an application of the Black-Scholes formula.

The asset shares at the valuation date are projected forward allowing for future cashflows using best estimate assumptions.

The guaranteed benefits at the valuation date are projected forward allowing for future reversionary bonuses but exclude terminal bonuses as these are not guaranteed. For policies which have no set maturity date but do have the option to exercise their guarantee on a set date, it is assumed that the policy will surrender on the next such date.

For the Deposit Administration policies, the cost of guarantees is calculated as the difference between the current asset share and guaranteed benefits (which is a nominal fund value).

Volatility

The Closed Form formula requires an overall implied volatility for the assets backing each product / cohort as at the valuation date. This is derived by allocating assets into one of the following asset categories, and deriving the implied volatility for each asset class:

- UK equities;
- overseas equities;
- property;
- cash;
- short duration gilts;
- medium duration gilts;
- long duration gilts; and
- corporate bonds.

The implied volatility for UK equities is available from financial data. Fixed interest volatilities are derived from interest rate swaps and swaption volatilities. Volatilities for other asset types are not readily available from market data and are set with reference to those for equities and fixed interest.

A correlation matrix is then used to derive the overall implied volatility for each product / cohort, taking into account the proportion invested in each asset class. This correlation matrix is consistent with the correlation matrix supporting the standard formula.

Once derived, the implied volatility is assumed to remain constant over time.

Discount rates

The discount rates used are those provided by PRA as at 31 December 2020. No adjustment has been made for any of the matching adjustment, volatility adjustment or the transitional measure on risk-free interest rates.

Tax

Taxation is assumed to apply to life liabilities at the current rate for each product/cohort. In projecting asset shares, the risk-free rate is netted down for tax based on the individual tax status of each policy. When discounting the cost of guarantees, the risk-free rate is netted down for tax based on the average tax rate applying to the cohort or product group.

Management actions

No management actions are assumed.
No assumptions are made on changes to future policyholder behaviour.

Risk margin

The calculation of the risk margin is carried out in a similar manner to the Non-Profit Fund.

D.2.4 Reinsurance recoverables and SPVs

There are no Special Purpose Vehicles (SPVs).

There are a number of reinsurance contracts in place which reduce the level of underwriting risk faced by the Non-Profit Fund. Under the Solvency II balance sheet, the best estimate liabilities are reported gross of reinsurance with the value of the reinsurance recoveries (2020: £130,327k) being included as a separate item on the asset side of the balance sheet. The reinsurance recoveries are valued using the same principles and assumptions which apply for the calculation of the BEL. An adjustment is applied to the value of the reinsurance asset to allow for the expected losses in the event of the default of the counterparty and a recovery rate of 50% is assumed.

The WP1 Fund has a small amount of reinsurance in relation to decreasing term assurance policies, for which the excess of the sum assured over £50k is reinsured. No credit is taken for this due to proportionality.

D.2.5 Material uncertainties

The calculation of technical provisions relies upon assumptions about future economic conditions, demographic experience and expense levels. The technical provisions represent a best-estimate view of OneFamily's future obligations, which may not be borne out in practice. The main uncertainties associated with the value of the technical provisions relate to the following:

- future equity market performance and future policyholder surrender rates, since both of these factors would impact on the future unit-linked funds under management and the charges on these funds; and
- future mortality rates which impacts the expected amount payable to annuitants and the timing of payments on the protection portfolio.

D.2.6 Simplified methods

There are no material approximations used in the calculation of the BEL, risk margin or in the reinsurance recoverable. A simplified method is used to calculate the risk margin, as described in Section D.2.2 and as allowed for under the Solvency II regulations. The cost of guarantees is also calculated using a simplified method (a Closed Form solution) as described above, proportional to the size and complexity of the WP1 and WP2 funds.

D.2.7 Material changes in assumptions in the calculation of technical provisions.

A number of assumptions were updated as at 31 December 2020 to reflect both changes in market conditions and changes in demographic and expense experience. The main changes to the assumptions were as follows:

- The best estimate maintenance expense assumptions have been updated to reflect the latest budget.

- Investment management expense assumptions have been updated to reflect current charges levied.
- Future mortality improvement assumptions used in the valuation of pension annuity business were updated to reflect most recent population data.
- The best estimate mortality assumptions for whole of life policies have been updated to reflect recent experiences.
- The best estimate persistency assumptions have been updated to reflect recent experience.
- The risk-free yield curve has been updated to that provided by PRA, which has resulted in a fall across the spot curve compared to 31 December 2020.
- The implied inflation rate curve (used to inflate expenses) has been updated to reflect market data as at 31 December 2020 leading to an increase in long-term implied inflation.

D.2.8 Reconciliation to Financial Statements

The technical provisions in OneFamily's Financial Statements are calculated using methodologies and assumptions which follow those established for the calculation of the mathematical reserves, under the Solvency I regime excluding reserves held for specific contingencies. The differences between the technical provisions in the Financial Statements and those under Solvency II are summarised below:

Non- Profit Fund

For the Non-Profit Fund, Solvency II technical provisions are £498k lower compared to those in the financial statements as at 31 December 2020. The key components of this difference are:

- The expense assumptions used to value the liabilities under Solvency II are best estimate. This places a lower value on the liabilities compared to the more prudent assumptions used in the Financial Statements. This decreased the Solvency II technical provisions by £2,417k.

- The mortality assumptions used to value the liabilities under Solvency II are best estimate. This places a lower value on the liabilities compared to the more prudent assumptions used in the Financial Statements. This decreased the Solvency II technical provisions by £4,546k.

- The lapse assumptions used to value the liabilities under Solvency II are best estimates. This places a lower value on the liabilities compared to the more prudent assumptions used in the Financial Statements. This decreased the Solvency II technical provision by £8,684k.

- The inflation assumption used to value the liabilities under SII is best estimate. This places a lower value on the liabilities compared to the more prudent assumptions in

the Financial Statements. This decreased the Solvency II technical provision by £1,340k.

- Under Solvency II, OneFamily holds a risk margin, which does not feature in the Financial Statements. This increases Solvency II technical provisions by £29,680k compared to those in the Financial Statements.

- The present value of future profits on unit-linked business is included within the Solvency II technical provisions, but not within those in the Financial Statements. This decreases the Solvency II technical provisions by £39,473k.

- The technical provisions in the Financial Statements are reduced by the value of the intangible Value-In-Force (VIF) asset of £35,228k, relating to the merger of Engage Mutual and Family Investments. The intangible VIF asset does not exist under Solvency II and hence this increases the Solvency II technical provisions relative to those in the Financial Statements.

- In the Financial Statements, additional reserves (largely relating to further expense reserves, including the With-Profits 2 expense overrun) are incorporated into the value of the technical provisions. However, under Solvency II, these are not classified as technical provisions. This leads to a reduction in Solvency II technical provisions relative to those in the Financial Statements of £6,042k.

- The other differences in assumptions and methodology between Solvency II and the Financial Statements lead to a £2,904k decrease in technical provisions compared to liabilities in the Financial Statements. This includes the impact of different interest rate assumptions on the two calculation approaches and the removal of any liabilities on the Over 50s life insurance business.

With-Profits Fund 1

For With-Profits Fund 1, Solvency II technical provisions are £1,983k lower than those in the financial statements. The key components of this difference are:

- The inclusion of the risk margin of £415k under Solvency II which does not feature in the Financial Statements.

- A decrease in policy related liabilities (calculated as the sum of asset shares and cost of guarantees) of £1,441k compared to the Financial Statements, due to:

    - differences in lapse assumptions decreasing Solvency II technical provisions by £1,007k;
    - differences in expense assumptions decreasing Solvency II technical provisions by £154k;
    - differences in mortality assumptions decreasing Solvency II technical provisions by £87k; and

  - differences in methodology and other assumptions, particularly the requirement for liabilities under Solvency II to include the amount of final bonus expected to be distributed to policyholders, decreasing Solvency II technical provisions by £193k.

- A reduction of £957k relative to the technical provisions in the Financial Statements due to additional reserves held in the Financial Statements which are released under Solvency II.

With-Profits Fund 2

For With-Profits Fund 2, Solvency II technical provisions are £7,650k higher than those in the financial statements. The key components of this difference are:

- The inclusion of the risk margin of £203k under Solvency II, which does not feature in the Financial Statements.

- An increase in policy related liabilities (calculated as the sum of asset shares and cost of guarantees) of £7,763k compared to the Financial Statements due to:

  - differences in lapse assumptions decreasing Solvency II technical provisions by £733k;
  - differences in mortality assumptions decreasing Solvency II technical provisions by £86k; and
  - differences in methodology and other assumptions, particularly the requirement for liabilities under Solvency II to include the amount of final bonus to the distributed to policyholders, increasing Solvency II technical provisions by £8,582k.

- A reduction of £316k relative to the technical provisions in the Financial Statements due to additional reserves held in the Financial Statements which are released under Solvency II.

D.2.9 Data Processes

A validation of the various data sources used in the valuation of technical provisions was undertaken and no significant data deficiencies were identified.

D.3 Other Liabilities

See the table in Section D above for the reconciliation of other liabilities as presented and valued in the Financial Statements under FRS 102 to the Solvency II valuation. We do not adjust our financial liabilities for own credit risk due to immateriality, demonstrated by our high credit standing as evidenced by the Society's strong capital position. Further details

on the valuation basis under Solvency II and how they differ to those used within the Financial Statements for both assets and other liabilities can be found in Appendix C.

D.3.1 Operating and Finance leases

The Society has some operating leases in respect of office equipment and office space. These are immaterial with the total expense in the year being £423k (2019: £597k).

D.3.2 WP2 Expense overrun

These reserves arise where the charges levied against the WP2 fund do not cover the expenses of administering the policies in the fund. At 31 December 2020 this liability is £4,663k (2019: £3,758k).

D.3.3 Pension Schemes Surplus

The Group has two defined benefit pension schemes both of which are closed to future accrual. These are the Family Assurance Staff Pension Scheme (Family Scheme) and the Homeowners Friendly Group Pension Scheme (Engage Scheme).

The Family Scheme was closed to future benefit accrual with effect from 31 December 2009 and the Engage Scheme closed to future accrual from 31 December 2012.

The Society's net surplus in respect of its defined benefit scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. This benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Society determines the net interest expense/income on the net defined benefit liability/asset for the period by applying the discount rate as determined at the beginning of the annual period, to the net defined benefit liability/asset taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the same currency and having maturity dates approximating to the terms of the Society's obligations. Valuations for both schemes are performed annually by a qualified actuary using the projected unit credit method. The Society recognises net defined benefit plan assets to the extent that it is able to recover the surplus, either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee services rendered during the period, net interest on net defined benefit liability, plus the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised as income and expenditure in the Financial Statements.

Remeasurement of the net defined benefit liability/asset is recognised in Other Comprehensive Income in the period in which it occurs.

On the basis of the UK reporting standard FRS 102 used in the Financial Statements balance sheet, the Society's defined benefit pension schemes have a surplus of £10,013k (2019: £13,342k) as at 31 December 2020. Under FRS 102, a pension asset can only be recognised on the balance sheet to the extent that it is recoverable by the employer through reduced contributions for future pensionable service or refunds (either over the course of the Scheme's life, or when it is ultimately wound up), and where that is within the control of the employer. The Trustees of the Scheme have full control over all investment and benefit decisions of the Scheme and therefore the Society does not have the necessary control to support recognition of the net surplus on the balance sheet.

Solvency II reporting requires the pension funds to be recognised in line with IFRS which is equivalent to the treatment under UK GAAP, therefore the Solvency II balance sheet also has a nil value for the pension scheme surpluses.

The table below sets out the value of the assets backing the liabilities of the schemes.

Asset Class	Family Defined Benefit Pension Scheme Valuation		Engage Defined Benefit Pension Scheme Valuation	
Asset Class	**Value @ 31/12/2020 (£'000s)**	**% of non-linked assets**	**Value @ 31/12/2020 (£'000s)**	**% of non-linked assets**
Equities	13,973	23%	4,541	13%
Gilts	0	0%	6,773	20%
Index linked gilts	0	0%	12,615	37%
Diversified Growth/ Absolute Return Funds	4,838	8%	0	0%
Liability Driven Investment ('LDI') portfolio	23,770	39%	0	0%
Asset-backed securities	5,751	9%	0	0%
Buy-in policy	12,905	21%	11,624	34%
Cash	82	0%	(1,979)	-6%
Other net assets	(357)	-1%	151	0%
Total Scheme assets	**60,962**	**100%**	**33,725**	**100%**
Scheme Liability	**56,942**		**27,732**	
Scheme Surplus	**4,020**		**5,993**	
Adjustment	**(4,020)**		**(5,993)**	
Scheme Surplus recognised	**0**		**0**	

D.3.4 Contingent liabilities

Contingent liabilities represented the Society's investments in participations that had a negative net asset value (NAV). As at 31 December 2020 the total value of such participations was £nil (2019: £7,207k). Under Solvency II, investments in participations are valued at fair value using the adjusted equity method. Under FRS 102, participations with negative NAVs are netted off against total participations, whereas under Solvency II these are disclosed separately as a contingent liability.

D.3.5 Other

Due to the short-term nature of other liabilities (accruals and deferred income), it is considered that any difference between the valuation under FRS 102 and the Solvency II valuation would be immaterial. Therefore, the FRS 102 carrying amount has been considered to be reasonably approximate to the Solvency II fair value.

There are no off-balance sheet assets or liabilities.

D.4 Alternative Methods for Valuation

Some investment assets are valued using alternative methods. These assets are identified within the Financial Statements of the Society as being 'Level 3' in the fair value hierarchy. These Level 3 assets as at 31 December 2020 comprise investment property, UK corporate bonds with no active Over The Counter (OTC) market and venture capital.

The property held within the collective fund relates to 46.8% (2019: 46.8%) of the Society's head office building which is held within the unit-linked funds of the Society. The remaining 53.2% (2019: 53.2%) of the property is held directly by the Society and included within property, plant and equipment held for own use. The property is valued on an annual basis by a chartered surveyor based on their expertise, experience and knowledge of the local area and following RICS guidelines. As the valuation is not based on active quoted prices it is classed as an alternative method of valuation. The value of this asset held within the unit-linked funds at 31 December 2020 was £7,599k (2018: £7,973k).

Receivables and payables are valued using the income approach alternative valuation technique. This approach converts future cash flows to a single current amount. These amounts are not discounted due to the short-term nature of the asset / liability and therefore any differences between the FRS 102 and Solvency II would be immaterial. Therefore, the FRS 102 carrying amount has been considered to be reasonably approximate to the Solvency II fair value.

D.5 Any other Information

There is no other material information regarding the valuation of assets and liabilities.

D.5.1 Changes in Valuation for Solvency Purposes

There have been no changes in the valuation for solvency purposes in the year.

E Capital Management

This section describes the capital position of OneFamily alongside how we manage this capital to ensure that we are able to pay our liabilities now and in the future. Capital (which is broadly assets minus liabilities), absorbs a firm's losses in periods of stress and provides a buffer to increase resilience against unexpected losses. We also provide details of our Solvency Capital Requirement (SCR) and our Minimum Capital Requirement (MCR), which are the amounts of capital that OneFamily need to hold to meet our regulatory obligations.

E.1 Own Funds

A summary of the Own Funds of the Society are set out below:

	31-Dec 2020 Tier 1 (unrestricted) £'000s	31-Dec 2019 Tier 1 (unrestricted) £'000s
Surplus Funds	24,580	27,417
Reconciliation reserve	128,101	134,747
Deductions for participations in financial and credit institutions	-	(884)
Total basic Own Funds after deductions (EOF)	**152,682**	**161,280**

The reconciliation reserve is composed of the following:

	31-Dec 2020 Tier 1 (unrestricted) £'000s	31-Dec 2019 Tier 1 (unrestricted) £'000s
Assets less liabilities	171,137	182,787
Other Basic Own Fund items - Surplus Funds	(24,580)	(27,417)
Adjustment for restricted Own Fund items in respect of Ring-Fenced Funds	(18,455)	(20,623)
Reconciliation reserve	**128,101**	**134,747**

E.1.1 Management of Own Funds

The Society's objectives in managing capital are that:

- Obligations to customers across the Group are met in full when they fall due.
- The risks are subject to structured analysis in accordance with the risk appetite agreed by the Board.
- There are sufficient capital resources available to fund the growth of the Group.
- The aggregate risk exposure of the Group is to manage that the capital resources available will always meet the minimum capital requirements set out by the PRA.

The Society's Own Funds (capital as measured under Solvency II rules) are allocated to the following tiers set out in the Solvency II regulations:

- surplus funds (unrestricted Tier 1); and
- reconciliation reserve (unrestricted Tier 1).

Unrestricted Tier 1 capital includes high quality instruments with features such as permanence, subordination, undated, absence of redemption incentives, mandatory costs and encumbrances.

Own Funds are reduced by any required deduction in respect of participations in financial and credit institutions.

The Society currently has no Ancillary Own Funds items.

As part of its Own Funds management, the Group and Society prepare ongoing solvency projections under both Pillar 1 and Pillar 2 (see Section B.3.2). The business plan contains a 10-year projection of both capital and solvency requirements.

Surplus Funds

Surplus Funds identify amounts that should not be treated as insurance liabilities and hence should not be included within the Best Estimate Liability component of a firm's Technical Provisions.

The PRA has set out a mandatory calculation of Surplus Funds for UK Solvency II firms to ensure consistency across the industry. For a mutual, such as the Society, Surplus Funds should be calculated as the difference between the assets in a with-profits fund (except those meeting liabilities in respect of non-profit insurance) and the value of with-profits liabilities (including the value of any other liabilities properly attributable to that with-profits fund).

The PRA has specified that the default basis for the calculation of the value of with-profits liabilities (for the purposes of Surplus Funds) is a retrospective (i.e.: Asset share) approach. However, where a retrospective approach is impractical or would not lead to a fair value of the liabilities, a prospective approach (which takes into account the payment of future bonuses) can be used.

For both WP1 and WP2, asset share has been used in the calculation of Surplus Funds in line with the PRA calculation and guidance (see Section D.2.3).

Reconciliation Reserve

The reconciliation reserve is a balancing item which equals the excess of assets over liabilities less any deductions to reflect restrictions arising from ring-fencing.

Restrictions

The Society's With-Profits Funds (WP1 and WP2) are treated as ring-fenced for Pillar 1 valuation purposes. This means that Own Funds are restricted by the amount of any surplus assets in excess of the notional SCR that exists within each of these ring-fenced funds.

The Society's wholly owned investment subsidiaries are classified as participations in financial and credit institutions for the purposes of the Solvency II valuation. Therefore, the maximum value permitted for these participations is 10% of the Society Own Funds. A restriction to the participation value is applied if it exceeds the allowable threshold.

E.1.2 Breakdown of Own Funds

The Own Funds as at 31 December 2020 are £152,682k, which have decreased by £8,598k from £161,280k as at 31 December 2019.

The main reasons for the decrease are outlined below:

Increase / (Decrease) Own Funds	**£'000s**
Model developments	(2,634)
Investment return on opening Own Funds	(282)
Expected run-off of risk margin	2,913
In-force NP insurance and investment contracts - Market variances	(17,011)
In-force NP insurance and investment contracts - Experience variances and assumption changes	7,123
New business	446
Profits from subsidiaries	5,118
Develoment expenses and miscellaneous other	(4,360)
Change in with-profits funds restriction on surplus	(795)
Change in subsidiary value restriction on surplus	884
Total decrease in Own Funds	**(8,598)**

The movements shown in the table above are due to:

- The model developments undertaken over the year have acted to decrease Own Funds by £2,634k.
- The investment returns on opening Own Funds caused a decrease of £282k.
- The expected run-off of the risk margin due to expected business run-off over the year increased Own Funds by £2,913k.
- The in-force Non-Profit insurance and investment contracts decreased Own Funds by net £9,888k mainly due to:
  - a decrease of £17,011k due to investment variances over the year, primarily due to the fall in interest rates which acted to increase the value of insurance liabilities to a greater extent than backing insurance assets; and
  - higher than expected policies in-force at the end of the year, combined with changes in long-term assumptions which acted to increase Own Funds by £7,123k.
- New business written acted to increase Own Funds by £446k.
- The positive contributions from subsidiary businesses increased Own Funds by £5,118k; the Solvency II valuation places no value on the expected future profits from business in the subsidiaries, so any profits each year fall to Own Funds once they emerge.
- The develoment expenses over the year contributed to decrease Own Funds by £4,360k.
- The contribution to Own Funds from the With-Profits Funds is restricted to the SCR for each fund. The run-off of the With-Profits Funds and the reduction in investment risk has led to a combined reduction in SCR of £795k for both funds.
- The value of participations in financial and credit institutions is restricted on the Solvency II balance sheet. The value of participations exceeding the threshold has decreased by £884k over the year to nil at 31 December 2020.

Breakdown of Own Funds

The Own Funds of £152,682k is all classified as Tier 1 capital as at 31 December 2020, as was the case at 31 December 2019. The breakdown of Own Funds as at 31 December 2020 is as follows (the total movement may not equal the sum of the component movements due to rounding):

- reconciliation reserve of £128,101k;
- surplus funds relating to the excess of assets over liabilities in the With-Profits Funds, of £24,580k; and
- nil deductions relating to restrictions on Society's funds from participations in financial and credit institutions.

The value of Own Funds of £152,682k as at 31 December 2020 is all eligible to back the SCR and MCR.

There are no transitional arrangements.

Please refer to Appendix D QRT S.23.01.01 and S.28.01.01 for further detail.

E.1.3 Reconciliation to Financial Statements

The reconciliation of Own Funds under Solvency II with the Retained Earnings and Fund for Future Appropriations (FFA) in the Financial Statements as at 31 December 2020 is outlined below:

	£'000s
Retained Earnings and Fund for Future Appropriations in the Financial Statements as at 31 December 2020	**180,327**
Differences in the valuation of assets	1,841
Differences in the valuation of liabilities	0
- Inclusion of risk margin under Solvency II	(30,298)
- Differences in expense assumptions	(2,571)
- Inclusion of prudence in mortality and longevity assumptions	(993)
- Inclusion of prudence in lapse assumptions	(10,424)
- Allowance for present value of future profits on unit-linked business (i.e. negative reserving)	39,475
- Remaining differences in methodology and assumptions used to value best estimate liabilities	26,102
- Release of prudent with-profit reserves held in financial statements	2,906
- Removal of VIF intangible asset	(35,228)
- Difference in valuation of current liabilities	0
Deduction in respect of restrictions on Society funds	0
Deduction in respect of restricted with-profits funds	(18,455)
Solvency II Own Funds as at 31 December 2020	**152,682**

Own Funds are £27,645k lower than the Retained Earnings and FFA in the Financial Statements. The key reasons for this are described in the above table and further detail is in Section D.1, Section D.2.8 and Section D.3.3 in this report.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement (SCR)

The SCR has been calculated in accordance with the methodology specified under the Standard Formula, which involves applying a series of prescribed stress tests. OneFamily does not use any simplified calculations for the SCR. The SCR is subject to supervisory assessment.

The notional SCR for stresses that are most onerous at the Society level as at 31 December 2020 is shown in the following table, on a net basis by risk module and by fund:

SCR risk module £'000s	Non-Profit Fund	With-Profits Fund 1	With-Profits Fund 2	Society
Market risk	39,651	3,239	1,379	44,269
Life risk	44,833	399	122	45,354
Counterparty default risk	3,576	913	121	4,610
Operational risk	2,180	185	157	2,522
Diversification benefit between risk modules	(19,980)	(837)	(171)	(20,988)
SCR	**70,260**	**3,899**	**1,609**	**75,768**
Excess assets over liabilities	147,174	18,782	5,181	171,137
Excess resources over SCR	76,913	14,884	3,572	95,369
Restricted Own Funds relating to with-profits funds				(18,455)
Deductions for participations in financial and credit institutions				0
Own Funds (EOF)	**147,173**	**18,782**	**5,181**	**152,682**
SCR Coverage ratio (%)	**209%**	**482%**	**322%**	**202%**

No undertaking-specific parameters are used and there are no regulatory capital add-ons applied.

The risk profile of each of the funds is explained in Section C of this report.

E.2.2 Minimum Capital Requirement ('MCR')

The MCR is £18,942k as at 31 December 2020. The calculation of the MCR is purely formula based as dictated by the Solvency II regulations and is defined as follows:

- The higher of the absolute floor of the MCR (£3,338k at 31 December 2020).
- Lower of linear MCR and 45% of SCR.
- Higher of the linear MCR (as defined in the Solvency II regulations) and 25% of the SCR.

For OneFamily the biting requirement of the Combined MCR is 25% of the SCR. This is expected to remain the case for the foreseeable future.

E.2.3 Changes in SCR and MCR over the period

The changes in the SCR for the different funds between 31 December 2019 and 31 December 2020 are described below:

Non-Profit Fund

The SCR for the Non-Profit Fund has decreased by £249k since 31 December 2019, which is broken down by risk type in the following table:

SCR breakdown	Non-Profit Fund		
£'000s	31-Dec-20	31-Dec-19	Movement in SCR
Market	**39,652**	**39,988**	**(336)**
Interest rate	2,198	3,191	(993)
Equity	30,311	30,021	290
Property	2,487	2,543	(56)
Spread	6,867	7,030	(163)
Concentration	455	428	27
Currency	2,767	2,367	400
Market diversification	(5,433)	(5,592)	159
Insurance	**44,833**	**44,786**	**47**
Mortality	3,989	4,190	(201)
Longevity	26,926	20,821	6,105
Disability	-	-	-
Lapse	21,944	27,757	(5,813)
Expense	11,127	10,441	686
Catastrophe	310	438	(128)
Insurance diversification	(19,463)	(18,861)	(602)
Counterparty default	3,576	2,149	1,427
Overall diversification	(19,981)	(19,129)	(852)
Basic capital requirement	**68,080**	**67,793**	**287**
Operational	2,180	2,716	(536)
Total capital requirement	**70,260**	**70,509**	**(249)**

The main movements in material pre-diversified risk capital requirements are explained below.

- **Equity risk**
  The equity risk capital has increased by £290k, due to an increase in equity exposure from 31 December 2019.

- **Longevity risk**
  The longevity risk capital has increased by £6,105k, due to the fall in interest rates which acts to increase the materiality of the long duration cashflows, combined with an increase in exposure from Over 50s new business (the structure of the reinsurance contract creates a risk to low rather than high mortality rates).

- **Lapse risk (mass lapse)**
  The lapse risk capital has reduced by £5,813k, largely due to a change in structure of new business financing combined with improvements to modelling the commission OneFamily can reclaim from financial advisors in the event of policy exits.

- **Expense risk**
  The expense risk capital has increased by £686k in line with the increase in per policy expense assumptions incorporated in the technical provisions.

WP1 Fund

The WP1 SCR has decreased by £1,022k since 31 December 2019, which is broken down by risk type in the following table.

SCR breakdown	WP1		
£'000s	**31-Dec-20**	**31-Dec-19**	**Movement in SCR**
Market	**3,239**	**4,468**	**(1,230)**
Interest rate	-	-	-
Equity	2,561	3,182	(621)
Property	-	673	(673)
Spread	816	941	(125)
Currency	69	-	69
Concentration	111	397	(286)
Market diversification	(318)	(724)	406
Insurance *	**399**	**321**	**78**
Mortality	10	-	10
Longevity	-	6	(6)
Disability	-	-	-
Lapse	-	-	-
Expense	394	318	76
Catastrophe	7	7	-
Insurance diversification	(12)	(10)	(2)
Counterparty default	913	487	426
Overall diversification	(838)	(566)	(272)
Basic capital requirement	**3,713**	**4,710**	**(997)**
Operational	185	210	(25)
Total capital requirement	**3,898**	**4,920**	**(1,022)**

*The insurance risk capital is almost entirely due to expense risk capital of £394k.

The reduction in capital requirement of £1,022k is mainly driven by the decrease in pre-diversified equity risk capital of £621k, due to run-off of the fund, combined with a reduction in pre-diversified property risk capital of £673k, reflecting the disinvestment of the fund from property assets.

WP2 Fund

The WP2 SCR has increased by £227k since 31 December 2019, which is broken down by risk type in the table below:

SCR breakdown	WP2		
£'000s	**31-Dec-20**	**31-Dec-19**	**Movement in SCR**
Market	**1,379**	**1,113**	**266**
Interest rate	1	-	1
Equity	971	780	191
Property	-	-	-
Spread	386	294	92
Currency	-	3	(3)
Concentration	497	444	53
Market diversification	(476)	(408)	(68)
Insurance *	**122**	**212**	**(90)**
Mortality	-	-	-
Longevity	67	206	(139)
Disability	-	-	-
Lapse	-	-	-
Expense	87	22	65
Catastrophe	-	-	-
Insurance diversification	(32)	(16)	(16)
Counterparty default	121	93	28
Overall diversification	(170)	(205)	35
Basic capital requirement	**1,452**	**1,213**	**239**
Operational	157	169	(12)
Total capital requirement	**1,609**	**1,382**	**227**

* The insurance risk capital is due to a small amount of expense risk capital and longevity risk capital.

The increase in capital requirement of £227k is mainly driven by an increase in pre-diversified equity risk capital of £191k, which is due to an increased risk arising from the guarantees offered to policyholders following market falls over the year.

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

OneFamily does not use the duration-based equity sub-module.

E.4 Differences between the Standard formula and any Internal Model used

OneFamily does not use an internal model.

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

OneFamily monitors the compliance with the MCR and SCR on a quarterly basis. There have been no periods of non-compliance with either the MCR or SCR and there is no reasonably foreseeable risk of non-compliance with the MCR or SCR in the near future.

E.6 Any other Information

There is no other material information regarding the capital management of OneFamily.

E.6.1 Changes in capital management over the period

There have been no material changes in the management of the Society's capital requirements for 31 December 2020 in comparison to the previous year.

F Statement of Directors' Responsibilities

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

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

In relation to the SFCR and accompanying reporting templates we certify that:

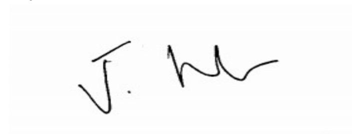
1) The Solvency and Financial Condition Report ('SFCR') has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations.

2) 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 to the Society; and

   (b) it is reasonable to believe that the Society has continued so to comply subsequently and will continue so to comply in future.

By order of the Board



Jim Islam
Chief Finance Officer
25 March 2021

APPENDICES

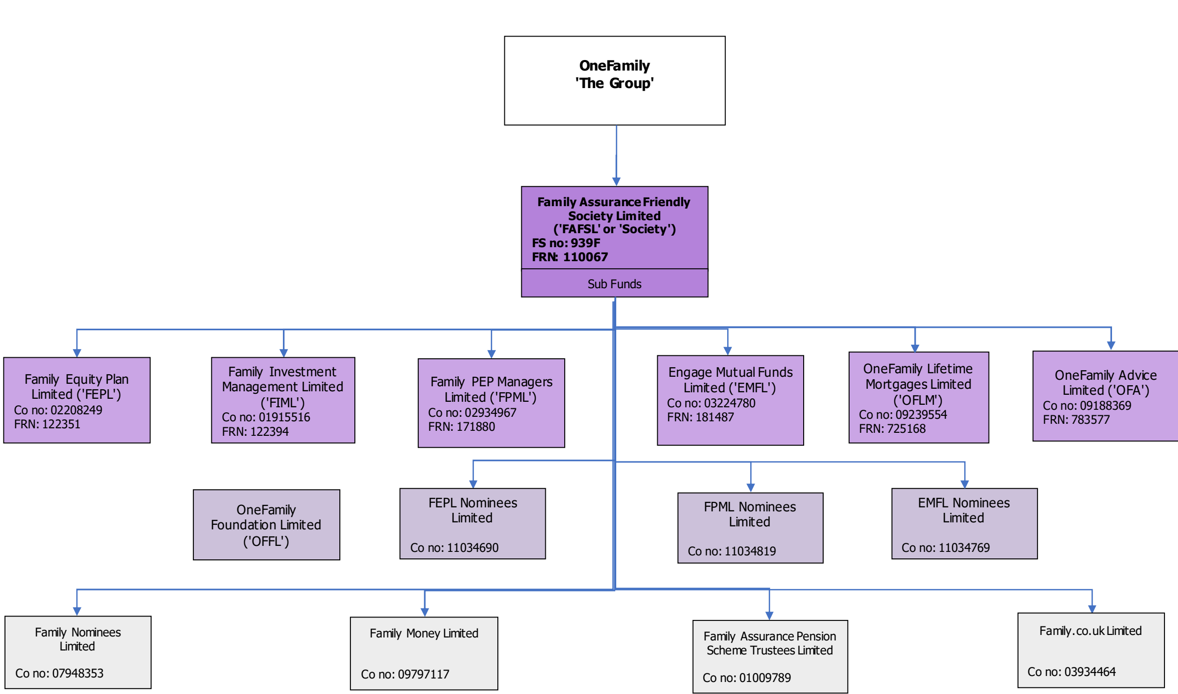
A. OneFamily Group Structure

B. Glossary

C. Methodology and assumptions – Assets and other liabilities

D. Public Quantitative Reporting Templates

A. OneFamily Group Structure



Note: The following companies are in liquidation: Governor Finance Limited; Governor Finance Nominees Limited; Engage Mutual Services Limited; Engage Mutual Administration Limited; and Family Enterprise Limited

B. Glossary

Term	Definition
Annuity	An insurance contract, often bought with a pension fund, that converts a lump sum into an income. The income is usually paid for the remainder of the individual's life
Asset shares	The equity, or accumulated financial value, which has been built up in an insurance book of business
BEL	Best Estimate Liabilities - The present value of expected future cashflows relating to the business in force as at the valuation date. This figure is discounted using the risk-free yield curve. It does not take into account cashflows in relation to reinsurance, which are separately allowed for as an asset on the balance sheet. No expected future new business is allowed for
Black Scholes	A mathematical formula used to calculate the fair price of derivative financial instruments such as options
Correlation matrix	A table displaying how closely different assets and investments fluctuate together
Counterparty default risk	The risk that a provider, such as a bank holding cash on deposit or a reinsurer taking on insurance risks, is unable to meet its financial commitments
Deferred tax asset	Usually occurs as a result of net losses which can be carried forward and used in future years to reduce taxable income
Dirty market price	A price for bonds or other fixed interest-bearing securities that takes into account their entitlement to accrued interest payments
EIOPA	European Insurance and Occupational Pensions Authority – The European regulator which sets Solvency II insurance regulations
Embedded value	An estimated value to shareholders of a book of insurance business at a given date which takes into account capital set aside and the value to shareholders of future cash flows related to that business
Exchange traded fund (ETF)	A security which trades on a stock exchange and tracks an index or a basket of shares or other securities
FCA	Financial Conduct Authority
Fund for Future Appropriation	This balance represents all with-profits surpluses, the allocation of which to individual policies has not yet been determined by the end of the financial year

Key functions	Key functions are those considered critical or important in the governance of a business and include at least the risk management, compliance, internal audit and actuarial functions. Other functions may be considered key functions according to the nature, scale and complexity of a business or the way it is organised
Lapse risk	The risk that an insurance policy is cancelled before the end of the policy term, often because a policyholder ceases to pay premiums
LTV – Loan to Value	The ratio of the amount borrowed compared to the value of the property as a whole
MCR	Minimum Capital Requirement - The base capital levels for a business that, in the event they are breached, trigger ultimate supervisory measures from the regulator
Morbidity risk	The risk associated with the likelihood that a policyholder will fall ill during the period of insurance cover
Mortality risk	The risk associated with the likelihood that a policyholder will die during the period of insurance cover
Net equity value	The fair value of a business's assets less its liabilities
Non-profit fund	A fund where the investing policyholders do not share in the surplus in the fund
ORSA	Own Risk and Solvency Assessment. An internal assessment of risk and capital requirements
Own Funds	Surplus of assets over liabilities under Solvency II regulations
Persistency	A measurement of how long an insurance contract is held before it is cancelled as a result of the policyholder failing to comply with certain conditions, for example, if premiums are no longer paid
PRA	Prudential Regulation Authority – Created as part of the Bank of England and is responsible for prudential regulation within the UK of Banks, Insurers, Building Societies, Credit Unions and major investment firms
Reinsurance recoverable	The amount paid by reinsurers to cover losses for insurance
Retained earnings	The retained profits in the non-profit fund
Reversionary bonus	An annual bonus paid to with profits policyholders
Risk Appetite Statement	A statement setting out the Society and Group attitude to risk
RCSA	The Risk Control Self-Assessment outlines a set of procedures for reviewing, assessing and responding to business risks

Risk Management Framework	The Risk Management Framework sets out principles, policies, minimum standards and requirements which are designed to manage risks within the Board's risk appetite.
Risk Margin	Part of technical provisions (see below) under Solvency II. Ensures the technical provisions are sufficient in the event that another insurer takes over and meets these obligations. Takes account of insurance risks and operational risks
SII	Solvency II, the capital adequacy regime for the European Insurance industry that establishes a comprehensive framework for insurance supervision and regulation
SCR	Solvency Capital Requirement - The amount of capital to be held by an insurer to meet the Pillar I requirements under the Solvency II regime
Spread risk	The risk of a change in value of a fixed interest security, such as a corporate bond, as a result of a change in outlook of that security's creditworthiness
Standard Formula	Method of calculating the Solvency Capital Requirement (SCR). Generally suited to smaller and medium sized insurers and less complex companies
System of Governance	The governance framework under which the Society is operated to enable the Board and the Executive team to discharge its responsibilities
Technical Provisions	Solvency II insurance contract liabilities which estimate the total financial obligations of an insurance company to its policyholders. It is the sum of best estimate liability (BEL), risk margin and transitional items (if applicable)
Terminal bonus	A discretionary maturity bonus paid to with-profits policyholders
TESPs	Tax Exempt Savings Policies
Type 1 equities	Equities listed in regulated markets in the countries that are members of the EEA or for Economic Co-operation and Development (OECD)
Type 2 equities	Equities listed only in emerging markets, non-listed equity, hedge funds and any other investments not included elsewhere in the market risk module
Value-in-force (VIF)	The expected future profits expected from an existing book of insurance business
With-profits fund	A ring-fenced fund where the policyholders participate in the surplus of the fund
Yield curve	A curve on a graph which tracks the interest rates paid until maturity on fixed interest securities, such as government bonds, over different periods of time

C. Methodology and assumptions – Assets and other liabilities

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
ASSETS				
Goodwill on acquisition	Initially measure goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net amount of the identifiable assets, liabilities and contingent liabilities. Goodwill is amortised over its expected useful life. Where the Society is unable to make a reliable estimate, goodwill is amortised over a period not exceeding 10 years. Goodwill is assessed for impairment when there are indicators of impairment.	Economic value of goodwill is NIL (Article 12 of Solvency II Delegated Act).	N/A	Write down in full to £nil.
Intangible assets	Intangible assets are initially recognised at cost (or fair value in the case of intangibles acquired in a business combination) and are amortised over their estimated useful economic lives.	Intangibles can be recognised if they can be sold separately and there is evidence of exchange transactions for the same or similar assets, indicating it is a saleable in an active market. If fair value is not possible, such assets will be valued at NIL. (Article 12 of Solvency II Delegated Act).	N/A	Write down in full to £nil.

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
Investments in land and buildings	Owner-occupied properties are initially recognised at cost. Subsequent to initial recognition, properties held by the Society for its own use are measured at their revalued amount, which is the fair value at the date of revaluation less subsequent depreciation and impairment losses. External valuations of investments in land and buildings are conducted annually as at the balance sheet date	When valuing investment property and other properties, undertakings should select the method in accordance with Article 10(7) of the Delegated Acts (Alternative valuation methods) that provides the most representative estimate of the amount for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction. If the balance sheet valuation is based on a formal appraisal, or other information, prior to the balance sheet date, undertakings should be able to demonstrate to their supervisory authority that all necessary adjustments have been made to reflect changes in the value between the date of a formal appraisal or other information and the balance sheet date.	Unrestricted Tier 1	Alternative valuation methods (market approach) by way of an annual external valuation at the balance sheet date. No valuation adjustment required as the UK GAAP and Solvency II valuations are equivalent.
Participations (Investment in subsidiaries)	The Society's subsidiaries are held at fair value with movements in fair value taken through profit and loss.	Unlisted participations shall be based on a net asset method whereby the participations assets and liabilities shall be valued in the same way as the insurer's own assets.	Participations in financial or credit institutions within limits included in Unrestricted Tier 1	Goodwill and intangibles element of the net asset value of the participation written down to NIL. Participations with negative net assets are reclassified as contingent liabilities under Solvency II.

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
		The element of net asset value related to goodwill and intangibles is not permissible. (Article 13(6) of the Delegated Acts). Contingent liabilities on the balance sheet of the participation will be recognised as liability in the valuation of the participation (see also Article 11 of the delegated Acts).	Participations in other undertakings included in full within Unrestricted Tier 1	
Financial assets: Investments	The Society measures investments at fair value, using the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss. The Society's' methodology for determining the fair value of financial assets is as follows: - listed and other quoted investments are carried at stock exchange bid values at the balance sheet date; - linked investments, including redeemable debt and other fixed income securities, and listed and other quoted investments, are stated at bid prices; and	Measured at fair value using the fair value hierarchy. (Article 10 of Solvency II Delegated Act)	Unrestricted Tier 1	Subsidiaries are excluded as these are valued through the Participations line on the balance sheet. This item covers the following instruments within the Society's portfolio: • equity; • government bonds; • structured notes; • collateralised securities; • OEICs and unit trusts; • derivatives; and • deposits. Note that financial investments are held at dirty value in the Balance Sheet QRT S.02.01. This means that any investment income receivable is reclassified from accruals to financial investments.

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
	- unlisted investments are carried at fair value as determined by the Directors.			Also note that hedge funds are priced on an estimated basis with confirmed prices being received up to 5 weeks after the reporting period. The Society carries out variance checks between the estimated prices and the end of month confirmed prices and will query larger variances, based on what was the normal variance for hedge fund manager. No valuation adjustment required as the UK GAAP and Solvency II valuations are equivalent.
Financial Assets: Debtors	Loans and receivables are measured at amortised cost using the effective interest method.	Fair value measurement using the fair value hierarchy.	Unrestricted Tier 1	This item covers the following: • Insurance and intermediaries' receivables: (QRT Reference: S.02.01 R0360). • Reinsurance receivables: (QRT Reference: S.02.01 R0370). • Receivables (trade, not insurance): (QRT Reference: S.02.01 R0380). Any amounts receivable from policyholders or reinsurers that are not overdue are reclassified from financial assets to technical provisions. Valued using Alternative Valuation Techniques: Income approach. This approach converts future cash flows to a single current amount. These amounts are not discounted due to the short-term nature of the asset.

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
				Although the amortised cost valuation model for financial assets is not permitted under Solvency II, receivables are valued based on alternative valuation methods (income approach), which equates to the UK GAAP valuation.
Deferred tax asset	Except as set out in FRS 102, deferred tax is provided on timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantially enacted at the balance sheet date.	Deferred tax assets are only recognised to the extent it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised. When an entity has a history of recent losses, it is only able to recognise deferred tax asset arising from unused tax losses or credit to the extent that the entity has sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against the unused tax losses/credits. Deferred tax assets shall **not** be discounted and measured at the tax rates expected to apply when the asset is realised or the liability settled and measured at the tax rates expected to apply when the asset is realised or the liability settled.	Any net deferred tax asset included within Tier 3	The Society is exempt from shareholders tax and some tax-exempt policies which along with brought forward losses put the Society in a non-tax paying position and therefore does not currently expect to have deferred tax assets or liabilities. With-profits funds are considered on a stand-alone basis for notional tax and deferred tax purposes with an equal and opposite entry in the non-profit fund. Overall, there is no impact on the Society however, in the individual funds deferred tax assets are recognised in line with SII regulations. Deferred tax asset in subsidiaries will come through in the Participations line, as the recognition criteria under FRS102 is materially consistent with that of IFRS and Solvency II no adjustment to the value of the participation will be required. No valuation adjustment required as the UK GAAP and Solvency II valuations are equivalent.

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
Pension fund surplus	Net obligations in respect of defined benefit schemes are calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. Pension plan surpluses are recognised as an asset only to the extent the surplus can be recovered either through reduced contributions in the future or through refunds from the plan.	In accordance with IFRS. (Guidelines on recognition and valuation of assets and liabilities other than technical provisions). Treatment of pensions is equivalent to UK GAAP FRS 102.	N/A	As the surplus on the Society's pension schemes are limited to nil on the Society's FRS 102 balance sheet, this would be deemed to be the most appropriate valuation of the scheme under Solvency II. No valuation adjustment required as the UK GAAP and Solvency II valuations are Nil.
Property, plant & equipment	Property, plant and equipment is recognised at cost less accumulated depreciation, and any accumulated impairment losses. Depreciation is provided on the cost of assets over their estimated useful economic lives.	Fair value measurement using the fair value hierarchy.	Unrestricted Tier 1	Although the cost less depreciation model (less any impairment losses), is not equivalent to the SII valuation basis, it is reasonably approximate to fair value and any adjustment would be immaterial in value. No valuation adjustment required as the UK GAAP and Solvency II valuations are equivalent.

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
Reinsurers' share of technical provisions	Amounts recoverable from reinsurers are based on the related gross insurance provisions, having due regard for collectability.	Consistent with valuation of technical provisions with deductions for expected losses due to default.	Unrestricted Tier 1	Adjustment required to get from Statutory accounts value to Best Estimate. Reinsurance recoverable is calculated as part of the technical provisions process.
Cash at bank	Cash and bank balances are recognised at the transaction price.	Fair value measurement using the fair value hierarchy.	Unrestricted Tier 1	No valuation adjustment required as the UK GAAP and Solvency II valuations are equivalent.
Accrued interest and rent	Accrued interest and rent are recognised initially at the transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.	Fair value measurement using the fair value hierarchy. Note that amortised cost valuations for financial assets are explicitly not permitted under Article 16(1) of the Delegated Acts. However, note that accrued interest and rent valuations make use of alternative asset valuation techniques.	Unrestricted Tier 1	No valuation adjustment required as the UK GAAP and Solvency II valuations are equivalent. Note that accrued investment income is included within the 'Accrued interest and rent' category under UK GAAP, while it is disclosed within the valuation of the investment under SII. This is a re-classification only and has no overall asset valuation impact.
Other prepayments and accrued income	Other prepayments and accrued income are recognised initially at the transaction price. Subsequent to initial recognition they are measured at amortised cost using	Fair value measurement using the fair value hierarchy. Note that amortised cost valuations for financial assets are explicitly not permitted under Article 16(1) of the Delegated Acts.	Unrestricted Tier 1	Although the cost less depreciation model (less any impairment losses), is not equivalent to the SII valuation basis, it is reasonably approximate to fair value and any adjustment would be immaterial in value.

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
	the effective interest method, less any impairment losses.	However, also note the materiality principle under Solvency II (i.e. an amount is material where it could influence the decision-making or the judgement of the users of that information, including the supervisory authorities).		No valuation adjustment required as the UK GAAP and Solvency II valuations are equivalent.
LIABILITIES				
Technical Provisions	The Long-Term Business Provision is determined by the Society's Actuarial Function Holder following their annual investigation of the long-term business, which is based on methods and assumptions that have been approved by the Board of Directors. It is calculated initially to comply with the reporting requirements under the Prudential Sourcebook for Insurers ('INSPRU'). This statutory solvency basis of valuation is then adjusted by eliminating certain reserves required under Friendly Society Regulations.	Best Estimate plus risk margin (discounted at risk-free rate).	Unrestricted Tier 1	Adjustment required to get from Statutory accounts value to Best Estimate TPs & Risk Margin.
Provisions other than Technical Provisions	This is an estimate for future expenses such as the expense overrun from the WP funds and any one-off project costs relating to insurance business.	Fair value measurement using the fair value hierarchy.	Unrestricted Tier 1	A future cost estimate is provided. This balance will not include 10% uplift. Although the amortised cost valuation model for financial liabilities is not permitted under Solvency

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
	This includes a 10% mark up on the estimation. This provision under UK GAAP is included in LTBP (UK GAAP technical reserves).	Liabilities of uncertain timing or amount, excluding the ones reported under "Pension benefit obligations". The provisions are recognised as liabilities (assuming that a reliable estimate can be made) when they represent obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.		II, the Provisions other than Technical Provisions are valued based on alternative valuation methods (income approach), which equates to the UK GAAP valuation.
Deposits from reinsurers	Until December 2020 the Group receives reinsurance financing on sales of its Over 50s life cover from reinsurers. The financing repayment was contingent upon margins emerging on the business in future years. The advances were receivable at the inception of a policy and are included as income within Other Technical Income in the Technical Account - Long-Term Business. The repayment of the financing advance were repayable as the margins emerge and is included in Other Technical Charges. The amount of refinancing repayable at the balance sheet date is included on the balance sheet as Deposits from reinsurers.	Measured at Fair value. (Article 10 of Solvency II Delegated Act	Tier 1	The amount due to the cedants is based on amounts advanced and is repayable as margins emerge. The fair value of this liability is the discounted amount repayable. Therefore, an adjustment is made to the face value recognised on the UK GAAP balance sheet.

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
Contingent Liabilities	Contingent liabilities are not recognised on the balance sheet, but disclosure is provided at the reporting date, containing a brief description of the nature of the contingent liability and, when practicable: (a) an estimate of its financial effect; (b) an indication of the uncertainties relating to the amount or timing of any outflow; and (c) the possibility of any reimbursement.	Contingent liabilities are required to be recognised on the Solvency II balance sheet. The valuation is determined as the probability-weighted average of future cash flows required to settle the contingent liability, discounted at the relevant risk-free rate. (Articles 11 and 14 of the Solvency II Delegated Act)	Any contingent liabilities included within Unrestricted Tier 1	Any contingent liabilities within the Society will be recognised on the Solvency II balance sheet. Where any contingent liabilities exist within subsidiaries their net asset value will be adjusted accordingly. Any negative NAV values of participations will be disclosed as a contingent liability. No valuation adjustment required.
Creditors arising out of insurance operations	Creditors arising out of insurance operations are recognised initially at the transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.	Fair value measurement using the fair value hierarchy. Note that no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made.	Unrestricted Tier 1	Although the amortised cost valuation model for financial liabilities is not permitted under Solvency II, the creditors arising out of insurance operations are valued based on alternative valuation methods (income approach), which equates to the UK GAAP valuation. The balances involved are short-term and the impact of discounting would not be material.
Other creditors including	Other creditors including taxation and social security are recognised initially at the transaction price.	Fair value measurement using the fair value hierarchy Note that no adjustment to take account of the own credit standing of the	Unrestricted Tier 1	Although the amortised cost valuation model for financial liabilities is not permitted under Solvency II, the other creditors including taxation and social security are valued based on alternative valuation

Category of Asset and "Other Liabilities"	Society accounting policy for Financial Statements	Solvency II Balance Sheet Requirement	Own Funds Treatment	Society SII Adjustment/ Valuation Basis
taxation and social security	Subsequent to initial recognition they are measured at amortised cost using the effective interest method.	insurance or reinsurance undertaking shall be made.		methods (income approach), which equates to the UK GAAP valuation. The balances involved are short-term and the impact of discounting would not be material.
Accruals and deferred income	Accruals and deferred income are recognised initially at the transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.	Fair value measurement using the fair value hierarchy. Note that no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made.	Unrestricted Tier 1	Although the amortised cost valuation model for financial liabilities is not permitted under Solvency II, the accruals and deferred income are valued based on alternative valuation methods (cost approach), which equates to the UK GAAP valuation. The balances involved are short term and the impact of discounting would not be material.

D. Public Quantitative Reporting Templates

This appendix contains the following QRT applicable to Society at 31 December 2020, as required under Solvency II regulations. All figures are presented in thousands with the exception of ratios that are in decimals.

General Information

Undertaking name	FAMILY ASSURANCE FRIENDLY SOCIETY LIMITED
Undertaking identification code	213800366ZI9A8YYAF47
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2020
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of Reported Templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.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

	Assets	Solvency II value
		C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	137
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	9,163
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	286,644
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	15,327
R0100	*Equities*	15,454
R0110	*Equities - listed*	15,454
R0120	*Equities - unlisted*	0
R0130	*Bonds*	93,239
R0140	*Government Bonds*	54,063
R0150	*Corporate Bonds*	37,956
R0160	*Structured notes*	0
R0170	*Collateralised securities*	1,221
R0180	*Collective Investments Undertakings*	162,624
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	1,114,214
R0230	Loans and mortgages	384
R0240	*Loans on policies*	11
R0250	*Loans and mortgages to individuals*	373
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	130,327
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*	130,327
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	130,327
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	2,970
R0370	Reinsurance receivables	3,039
R0380	Receivables (trade, not insurance)	11,558
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	42,648
R0420	Any other assets, not elsewhere shown	2,051
R0500	**Total assets**	1,603,136

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)	287,898
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)*	287,898
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	265,344
R0680	*Risk margin*	22,554
R0690	Technical provisions - index-linked and unit-linked	1,107,374
R0700	*TP calculated as a whole*	1,114,214
R0710	*Best Estimate*	-14,585
R0720	*Risk margin*	7,744
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	5,864
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	137
R0790	Derivatives	0
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	6,522
R0830	Reinsurance payables	991
R0840	Payables (trade, not insurance)	8,494
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	14,719
R0900	**Total liabilities**	1,431,999
R1000	**Excess of assets over liabilities**	171,137

S.05.01.02

Premiums, claims and expenses by line of business

Life

		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	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross		3,805	16,006	34,417					54,227
R1420	Reinsurers' share		1	0	11,791					11,792
R1500	Net		3,804	16,006	22,625					42,435
	Premiums earned									
R1510	Gross		3,805	16,006	34,417					54,227
R1520	Reinsurers' share		1	0	11,791					11,792
R1600	Net		3,804	16,006	22,625					42,435
	Claims incurred									
R1610	Gross		15,806	95,163	22,471					133,440
R1620	Reinsurers' share		0	0	14,746					14,746
R1700	Net		15,806	95,163	7,725					118,694
	Changes in other technical provisions									
R1710	Gross		-5,027	-18,489	28,812					5,296
R1720	Reinsurers' share		0	0	0					0
R1800	Net		-5,027	-18,489	28,812					5,296
R1900	**Expenses incurred**		947	4,083	12,226					17,256
R2500	**Other expenses**									6,497
R2600	**Total expenses**									23,754

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked			Other life insurance			Annuities stemming from non-life insurance contracts and relating	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)
				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
R0010	**Technical provisions calculated as a whole**		1,114,214								1,114,214
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
	Technical provisions calculated as a sum of BE and RM										
	Best estimate										
R0030	**Gross Best Estimate**	75,980			-14,585		189,364				250,759
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						130,327				130,327
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	75,980		0	-14,585		59,037	0			120,432
R0100	**Risk margin**	618	7,744			21,936					30,298
	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**	76,598	1,107,374			211,300					1,395,272

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	24,580	24,580			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	128,101	128,101			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	152,682	152,682	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	152,682	152,682	0	0	0
R0510	Total available own funds to meet the MCR	152,682	152,682	0	0	
R0540	Total eligible own funds to meet the SCR	152,682	152,682	0	0	0
R0550	Total eligible own funds to meet the MCR	152,682	152,682	0	0	
R0580	**SCR**	75,768				
R0600	**MCR**	18,942				
R0620	**Ratio of Eligible own funds to SCR**	201.51%				
R0640	**Ratio of Eligible own funds to MCR**	806.05%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	171,137
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	24,580
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	18,455
R0760	**Reconciliation reserve**	128,101
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	417,440
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	417,440

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	49,248		
R0020	Counterparty default risk	4,687		
R0030	Life underwriting risk	46,064		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-23,013		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	76,986		

USP Key

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

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

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	2,333
R0140	Loss-absorbing capacity of technical provisions	-3,550
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**	75,768
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	75,768
	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	70,261
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	5,507
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Not applicable

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

S.28.01.01

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

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

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	11,123

		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	66,718	
R0220	Obligations with profit participation - future discretionary benefits	9,262	
R0230	Index-linked and unit-linked insurance obligations	1,099,630	
R0240	Other life (re)insurance and health (re)insurance obligations	59,037	
R0250	Total capital at risk for all life (re)insurance obligations		284,581

	Overall MCR calculation	C0070
R0300	Linear MCR	11,123
R0310	SCR	75,768
R0320	MCR cap	34,096
R0330	MCR floor	18,942
R0340	Combined MCR	18,942
R0350	Absolute floor of the MCR	3,338
R0400	**Minimum Capital Requirement**	18,942