Solvency and Financial Condition Report ('SFCR') of Family Assurance Friendly Society Limited As at 31 December 2021

Contents

Executive Summary

About the Society

Family Assurance Friendly Society Limited (here after referred to as ‘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.

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

The Society is a product of over 45 years of development and growth. Now serving over two million customers and with over £7.3 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.

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.

About this report

This Solvency and Financial Condition Report (SFCR) on behalf of the Society is prepared in accordance with the Solvency II directive which came in to force on 1 January 2016.

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

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.

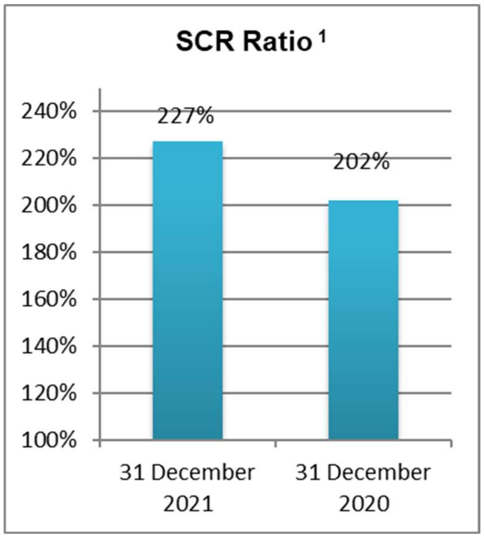
Due to rounded numbers being presented in the various tables and public QRTs within this report, the totals in the tables may differ slightly from the sum of the component parts.

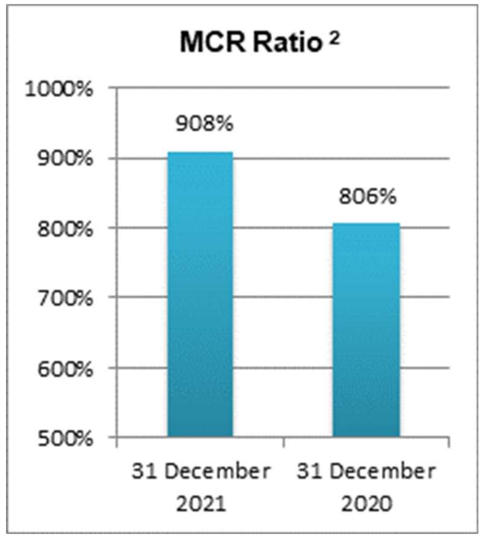
The SFCR has been prepared on a Standard Formula basis and in accordance with the Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009, the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014, the relevant Commission Implementing Regulations (EU), and the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

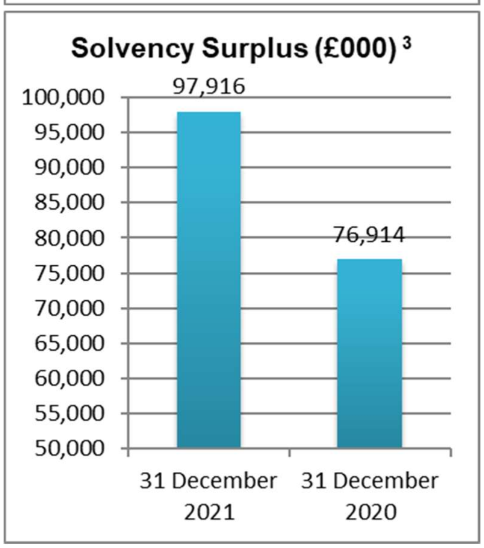
Results at a glance

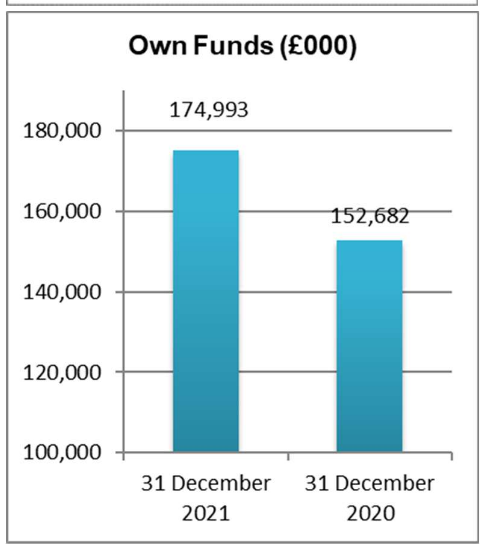
2021 has continued to demonstrate the resilience and long-term nature of OneFamily through the continued strength of our capital position.

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 £97.9m, and a solvency capital ratio of 227% for the Society as a whole. The Non-Profit fund has capital above base level requirement of £97.9m (2020: £76.9m) and a capital ratio of 237% (2020: 209%)

Business and performance

2021 saw highs and lows with the continued impact of COVID-19 and Brexit on our daily lives and the economic markets. Throughout these times, OneFamily remained resilient, both in terms of its operational activities and also its capital position.

UK and global markets recovered well throughout 2021 largely due to the roll-out of vaccination programmes and the easing of lockdown restrictions. However, volatility remained and inevitably some of the impacts of the prolonged period of economic disruption and very significant levels of support funding by governments and central banks began to bite by the end of the year. Rising energy prices and higher consumer price inflation are the two most evident pressures on households. The significant increase in inflation over the year led the Bank of England to increase base rates in December 2021 for the first time in over three years.

2021 saw OneFamily take significant steps in strengthening its foundations and growing for the future. We established a 50-strong telephone team, based across our Brighton office and a new Swindon office to help support our customers in making important financial decisions. We also expanded our lifetime mortgage team to 25 advisers.

Further developments in 2021 included:

- the launch of our climate-friendly stocks and shares ISA to all customers
- the acquisition of a child trust fund and lifetime ISA book
- the generation of cost and capital efficiencies through the rationalisation of investment managers
- making significant progress on our modernisation programme which will transform our operating model and increase efficiencies

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 risk profile, by category of risk (see section C) has remained broadly stable over 2021. A marginal decrease in the proportion of the risk profile due to market risk is driven by the increase in equity exposure as a result of market growth over 2021 plus an increase in the symmetric adjustment, offset by a reduction in the pension risk. A decrease in longevity risk, driven by higher interest rates has offset reductions in lapse rates from the linked business. Counterparty default risk has reduced as a result of the sales of low rated illiquid bonds with high capital charges.

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 (UK GAAP), 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;
- differences in the valuation of Technical Provisions for example under UK GAAP where the Solvency II risk margin is replaced with a prudence margin; 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 £11.0 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 that 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 £97.9 million. This represents a coverage ratio of 227% compared to 202% at the end of 2020. The Non-Profit capital ratio increased to 237% from 209% at the end of 2020.

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.

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:

Jim Islam (Chief Finance Officer)
OneFamily
16-17 West Street
Brighton
BN1 2RL

members@onefamily.com

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

* The external audit relates to the Annual Report and Financial statements produced under UK Generally Accepted Accounting Principles. The Society's SFCR is not required to be audited.

A.1.2 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.1.3 Shareholders

The Society is a mutual society owned by its members.

A.1.4 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.1.5 Significant events over the reporting period

OneFamily continued to demonstrate its operational and capital resilience throughout 2021 as COVID-19 continued to impact our ways of working and markets started to recover following the falls in 2020.

At OneFamily we pushed ahead with our strategy and:

- established a 50-strong telephone team, based across our Brighton office and a new Swindon office. This has allowed us to offer extra support to our young members making decisions about their Child Trust Funds (CTF) at maturity, as well as supporting our other customers making important financial decisions.
- expanded our lifetime mortgage team to 25 advisers.
- launched our climate-friendly stocks and shares ISA to all customers.
- acquired of a CTF book and lifetime ISA book.
- generated cost and capital efficiencies through the rationalisation of our investment managers.
- made significant progress on transforming our operating model through the modernisation programme.

More information on the developments of OneFamily over the reporting period can be found in our 2021 Annual Report and Consolidated Financial Statements which is available on our website at https://www.onefamily.com/company-information/financial-reports/.

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	3,331	14,474	33,744	51,549
Reinsurance payable	(1)	0	(11,995)	(11,996)
Claims	15,395	112,243	24,364	152,002
Reinsurance recoverable	0	0	(16,687)	(16,687)
Expenses *	978	4,423	12,574	17,975

* 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	3,805	16,006	34,417	**54,228**
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.

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

Premiums decreased by £2,679k, down by 5% when compared to 2020 in line with expectations given the run-off of the closed books.

The overall claims increased by 14% in 2021 largely reversing the decrease in 2020. This was largely due to the increase in the value of unit-linked policies resulting from the growth in underlying stock markets.

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

At the start of 2021, global investment markets had started to see a glimmer of hope following the approval of COVID-19 vaccines in late 2020 and commencement of vaccination programmes. The UK Market was also buoyed by the last-minute trade deal with the EU. However, there was still a question over how rapidly markets would recover the significant falls of 2020.

The success of the vaccination programmes, initially in the US and UK but with Europe close behind, and the relaxation of some of the domestic restrictions mid-year saw equity markets continue to improve. However, it was not plain sailing as new variants of the virus emerged and concerns of further lockdowns were raised, but thankfully did not materialise. Following the easing of restrictions in July, there was a surge in demand for goods and services but businesses found a shortage in raw materials which led to an increase in their costs. Also 2021 saw job vacancies in the UK rise to over 1.1 million, unemployment fall to 4.2%, and inflation rise to 5.4% year on year with energy costs being a key contributor. As a result, the Bank of England increased interest rates to 0.25% in December 2021, to 0.5% in February 2022 and again to 0.75% in March 2022 with the aim of curbing the rise in inflation. The Bank of England has signalled there are likely to be further rises during the remainder of 2022.

The UK Market, which had been out of favour since Brexit, also started to gain global investors due to attractive valuations and dividend yields. Overall, it saw an increase of over 14% in the year.

Global markets also saw recovery in 2021, however volatility remained due to geo-political developments, new variants of the virus and similar disruptions to supply chains and shortages of workers as experienced in the UK.

In relation to Government bonds, yields rose during the year as prices fell as a result of inflation, investors moving back to equity markets and the Bank of England base rate increase.

In 2022, as the world emerges from the pandemic, it is now focussed on the devastating conflict in Ukraine. Our sympathies go out to anyone directly impacted by this war. As a result of the geopolitical situation in Russia/Ukraine worldwide markets are experiencing volatility and there are uncertainties to the economic outlook. OneFamily has very limited direct exposure to Russia, Ukraine and Belarus through our investment portfolio. We are closely monitoring the impact on investment markets however, with our strong balance sheet and capital position, we are in a very good position to ride out any volatility.

A.3.2 Investment Performance

The recovery of global investment markets in 2021 was good news for our customers where their policy is linked to underlying assets, as they have seen an increase in the value of their holding. Investing in stocks and shares is typically for the longer term and investment values can fall as well as rise. But over the long-term, stocks and shares have historically grown more than cash accounts.

As part of the transition to a new investment manager, our with-profits funds now have an Environmental, Social and Governance (ESG) focus with all fixed income assets and equities being ESG centric. The transition to ESG focussed assets will continue in 2022 as part of the optimisation of our Non-Profit fund.

In addition to transitioning to ESG focussed assets, we also continue to work closely with our investment managers to understand their approach to stewardship. We regularly engage with them to hear how they are working with companies to drive the adoption of ESG principles. For example, they are encouraging companies through their voting actions and board influence in areas such as board gender diversity and climate-related disclosure.

The investment performance by income, realised and unrealised gains or losses over 2021 and 2020 split across the different asset types was as follows:

	2021			2020		
Asset Category	**Income**	**Realised Gains / (Losses)**	**Unrealised Gains / (Losses)**	**Income**	**Realised Gains / (Losses)**	**Unrealised Gains / (Losses)**
	£'000s	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**
Government bonds	1,056	303	(1,950)	1,175	(118)	2,058
Corporate Bonds	1,699	961	(1,682)	1,691	158	543
Equity	2,805	13,307	(2,605)	2,688	(1,478)	(11,120)
Collectives	8,705	40,144	51,049	10,547	20,956	(38,093)
Cash	332	-	-	631	-	-
Mortgages	12	-	-	39	-	-
Property	1,137	-	304	1,147	100	(375)
Futures	-	350	12	-	205	(64)
Total	**15,746**	**55,065**	**45,128**	**17,918**	**19,823**	**(47,051)**

Investment expenses of £1,835k (2020: £2,616k) were incurred during the year.

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 2021, the Society held £1,998k securitised assets (2020: £1,221k).

A.3.4 Gains/Losses Recognised Directly in Equity

No investment gains or losses were recognised directly in equity. However, within Other Comprehensive Income, £346k was recognised in relation to an unrealised gain in the value of property (2020: £426k loss). No further gains or losses were recognised within Other Comprehensive income in the year (2020: £500k loss on the Family defined benefit pension scheme was recognised).

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 £4,769k (2020: £8,951k) of 'Other Income' in addition to the results outlined above, with £nil (2020: £4,247k) 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 financing arrangement was discontinued in 2020 and totalled £nil (2020: £4,284k) 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.

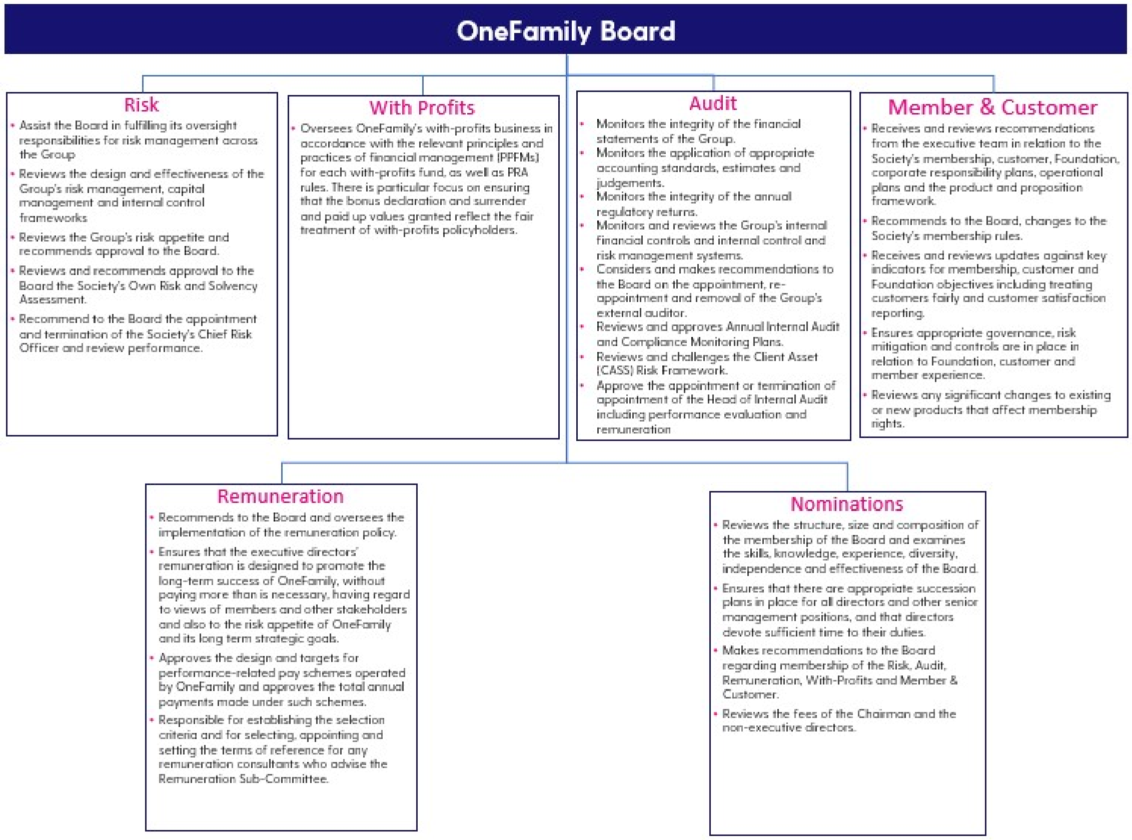
The Board conducts a formal evaluation annually of the performance of the Chair and each director and of the performance of the sub-committees and Board as a whole. In addition, the Chair holds periodic meetings with each executive director and non-executive director to evaluate the performance and development 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 2021 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.



A number of management committees fulfil important roles in supporting the challenge and oversight of risk matters. These include:

- **The Capital Management and Reporting Committee** – covers matters relating to capital management, own risk and solvency assessment (ORSA), financial reporting and the actuarial key function
- **The Conduct Risk and Culture Committee** – covers matters relating to conduct risk, culture, financial crime and data protection
- **The Executive Operational Resilience Group** – covers the oversight of the operational resilience strategy and associated risks relating to third parties, technology, cyber security, people, process and premises
- **The Executive Investment Committee** – covers matters relating to the development of the investment strategy and the management of investments in line with the investment strategy and risk appetite.

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:

Key Function	Main Roles and Responsibilities
Risk	• As part of the independent second line of defence, designs and oversees the Risk Management Framework in compliance with internal requirements and external legal and regulatory requirements. • Provides oversight and challenge to all material risk-based decisions and production of independent reporting on strategic and emerging risks to the Risk Sub-Committee and the Board. • Please see Section B.3.1 for further details
Compliance	• As part of the independent second line of defence, provides oversight and monitoring to support the business in managing its regulatory exposures. • Embeds an appropriate compliance structure and provides regulatory guidance for the UK regulatory environment, financial crime, data protection and conduct risk. • Provides regular reporting to the Audit and Risk Sub-Committees on key compliance matters. • Please see Section B.4 for further details.
Actuarial	• Provides technical expertise in calculating and monitoring OneFamily's capital position and technical provisions. • Informs the Executive and Board of the reliability and adequacy of the calculation of technical provisions, and contributes to the effective implementation of the risk management system. • The Actuarial function is outsourced to Willis Towers Watson. • Please see Section B.6 for further details.
Internal Audit	• Operates as the third line of defence and provides 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. • Please see Section B.5 for further details.

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.

Full details of the principles of OneFamily's remuneration policy and practices, are included in the directors' remuneration report in the Annual Report and Consolidated Financial Statements 2021 which can be found on our website at https://www.onefamily.com/company-information/financial-reports/.

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

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 Culture

Central to operating within this appetite are the risk culture expectations set by the Board. These promote a culture of openness and transparency in decision making and managing risks, and balance performance with principles to do what's right for the business and customers. The Remuneration Sub-Committee measures performance and guides remuneration with reference to cultural factors such as adherence to risk and control requirements, adequacy of governance and conduct risk.

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, Risk Sub-Committee, With-Profits Sub-Committee, Member & Customer Sub-Committee and Remuneration 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 Compliance 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 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 the Risk function, 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 Group Risk Register forms part of the Chief Risk Officer's Risk Report that is presented at Risk Sub-Committee and Board meetings for consideration.

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.

Regular 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, that these controls are proportionate to risk, are monitored, and are reviewed, tested and reported on a regular basis.
- Risk Oversight - the risk oversight process provides challenge to the completeness and adequacy 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

B.5.1 Role and responsibilities

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 evaluate and improve the effectiveness and adequacy of the organisation's risk management, control and governance processes.

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.

B.5.2 Independence and Objectivity

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.

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.5.3 Authority and resources

Internal Audit is authorised to review all areas of the Group and has full, free and unrestricted access to all the activities, records, property, and personnel necessary to complete their tasks.

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 a range of operational functions and activities. The nature of critical or important operational functions outsourced includes: Fund Management, Actuarial services, payment and pricing services, payroll, document services, pensions administration, system development and IT support services (which includes hosting, telephony and networks).

All of the key service providers for these outsourced services are located mainly 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 2021:

- Completion of member's voluntary liquidation and strike off process from Companies House of:
  - Governor Finance Limited
  - Governor Finance Nominees Limited;
  - Family Enterprise Limited;
  - Engage Mutual Administration Limited; and
  - Engage Mutual Services Limited,

  which was started in 2020.

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.

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. After an external review of the effectiveness of the OneFamily Board during 2020 an internal evaluation was carried out in 2021. This confirmed that, as per the findings in 2020, 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. Protection includes the selling of direct non-advised Over 50s insurance through the Society. In this section these risks are described together with how OneFamily identifies, measures, manages and monitors those risks.

The capital requirement calculations are based on the Standard Formula capital requirement for each risk. 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).

The significant risks of the Society's overall risk profile (defined as those where the Solvency II SCR risk component before management actions is more than £500k) is analysed below.

Business category	Market risk	Counterparty risk	Underwriting risk			
			Mortality	Longevity	Lapse	Expenses
With-profit 1 - Life	✔	✔				
With-profit 2 - Life	✔					
Non-profit - Life	✔	✔	✔	✔	✔	✔

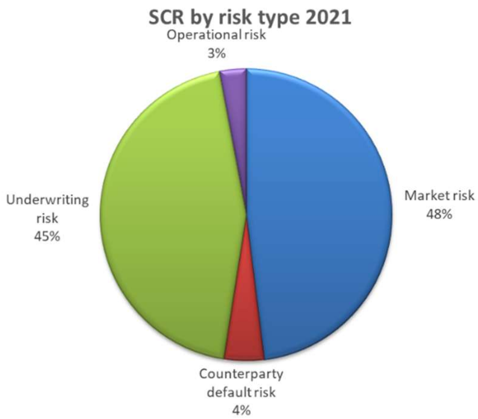
The assessment of risk in the table above takes into account the Society's reinsurance agreements.

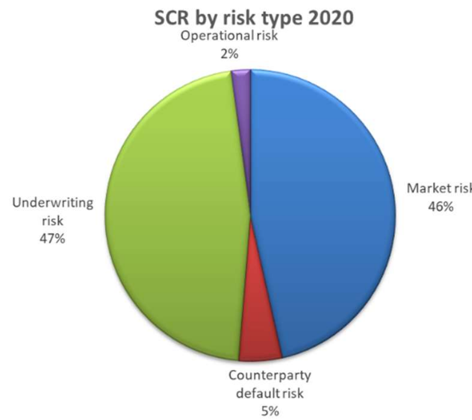
The table below shows the split of the main risks to which the Society is exposed as at the end of 2021 and 2020.

Risk Module	31-Dec-21 £'000s	31-Dec-20 £'000s
Market	47,174	44,270
Underwriting	43,726	44,354
Counterparty default	4,317	4,610
Overall diversification	(21,060)	(20,989)
Basic capital requirement	**74,157**	**72,245**
Operational	2,920	2,023
Total capital requirement	**77,077**	**74,268**

Changes in risk profile over the reporting period

The charts below show the composition of Society's undiversified SCR as at 31 December 2021 and 31 December 2020:





The overall risk profile has remained similar over the reporting period. The main changes over the year are summarised below:

- The increase in the market risk is driven by the increase in equity exposure as a result of market growth over 2021 plus an increase in the symmetric adjustment, offset by a reduction in the pension risk
- Underwriting risk has reduced over 2021 due to increases in interest rates which act to reduce longevity risk by decreasing the sensitivity of long dated cashflows, offset by reductions in lapse rates from the linked business.
- Counterparty default risk has reduced as a result of the sale of low rated illiquid bonds with high capital charges.

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.

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 2021 has confirmed the adequacy of the Group's capital resources to cover all of its risks.

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 2021 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	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.

Risk	Description	Management and Mitigation
	expected. There is also longevity risk in this respect of these pension schemes.	

C.1.2 Material Changes in the Reporting Period

No material changes occurred in the period. Longevity risk has decreased over the year due to an increase in interest rates. Lapse and Mortality risk have reduced due to the run-off in the protection and unit-linked lines of business. Longevity risk increased over the previous period partly due to the development of the Over 50s portfolio and the risk premium-based structure of the reinsurance contract (which creates a risk to low mortality rates).

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 2021 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.

<table>
<tr><th>Risk</th><th>Description</th><th>Management and Mitigation</th></tr>
<tr><td>Equity Risk</td><td>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.</td><td rowspan="2">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.</td></tr>
<tr><td>Currency Risk</td><td>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</td></tr>
<tr><td>Interest Rate Risk</td><td>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.</td><td>Falls in bond yields would boost bond values and unit-linked charge income, largely offsetting these impacts.

OneFamily invests in assets closely matched to the duration of its policyholder liabilities in the Non-Profit fund to minimise the risks associated with changes in rates.

Staff pension schemes use swaps to hedge interest rate risk.</td></tr>
</table>

C.2.2 Material Changes in the Reporting Period

Market risk has increased over the reporting period driven by higher equity markets leading to higher equity risk and the impact of a higher symmetric adjustment level. This is partially offset by a reduction in pension risk.

C.2.3 Market Risk concentration

OneFamily's policy is to diversify investments so as to minimise concentrations of market risk. At 31 December 2021, the Society's undiversified SCR amounted to 2.3% in respect of market risk concentrations.

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. The level of credit risk has increased due to an increase in cash held on the balance sheet.

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 2021, 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 3.9% 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;
- 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 Society 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

Over the reporting period, our cash holdings have increased significantly which have substantially increased the source of liquid funds available (the liquidity buffer) to cover liquidity demands and further reduced our liquidity risk.

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 2021, the expected profit included in future premiums amounted to £392,552k (2020: £417,440k). 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.
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

In the context of the pandemic the technological, societal and business trends evident through 2020 and 2021 have driven increased remote working, automation and the move to the digitisation of business processes. The associated cyber and business resilience risks are heightened, particularly considering the increasing volume and severity of cyber-attacks such as ransomware. In line with the Cyber Strategy a number of enhancements to security controls and capabilities were made which included development and testing of incident response plans and the progression of a number of initiatives to reduce cyber risk and improvements to ongoing third party cyber risk due diligence.

During 2021, the Third Parties and Outsourcing risk framework was updated to reflect the new regulatory requirements for categorising material supplier arrangements, contractual requirements, controls over sub-outsourcing and the development of contingency exit plans.

The impact of failures of our important business services has been mapped and understood in more detail, supported with broad scenario testing to identify potential areas of weakness. In line with regulatory expectations, the scenario testing is part of a multi-year activity, with the initial scenarios covering cyber-attacks, power failures, material supplier failures and prolonged systems outages.

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.

During 2021 the Board approved and tested alignment with a new statement of risk culture behaviour expectations. This promotes a culture of acting with integrity and in line with our values, taking accountability for our risk and control, openness and transparency in decision making and managing risks and balancing performance with principles to do what's right for the business and customers.

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 and makes its views on investment policy and risk known to the trustees.

In March 2019 the trustees purchased a buy-in annuity policy which mitigates investment and longevity risks relating to the members in payment as at the purchase date.

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 to the 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 2021 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	373	0	(373)	0
Deferred acquisition costs	0	0	0	0
Intangible assets	183	0	(183)	0
Deferred tax assets	467	0	0	467
Property, plant and equipment held for own use	9,329	0	0	9,329
Investments (other than assets held for index-linked and unit-linked contracts)	**272,088**	**895**	**(9,650)**	**263,333**
Property (other than for own use)	0	0	0	0
Holdings in related undertakings, including participations	21,897	0	(9,650)	12,247
Equities	**2,494**	**0**	**0**	**2,494**
Equities - listed	2,494	0	0	2,494
Equities - unlisted	0	0	0	0
Bonds	**102,852**	**895**	**0**	**103,747**
Government bonds	41,463	178	0	41,641
Corporate bonds	59,411	697	0	60,108
Structured notes	0	0	0	0
Collateralised securities	1,978	20	0	1,998
Collective investment undertakings	144,845	0	0	144,845
Deposits other than cash equivalents	0	0	0	0
Assets held for index-linked and unit-linked contracts	**1,131,449**	**0**	**0**	**1,131,449**
Loans and mortgages	**231**	**0**	**0**	**231**
Loans on policies	11	0	0	11
Loans and mortgages to individuals	220	0	0	220
Reinsurance recoverables from:	**122,963**	**0**	**0**	**122,963**
Life and health similar to life, excluding health and index-linked and unit-linked	122,963	0	0	122,963
Life excluding health and index-linked and unit-linked	122,963	0	0	122,963
Insurance and intermediaries receivables	2,501	(185)	0	2,316
Reinsurance receivables	2,539	0	0	2,539
Receivables (trade, not insurance)	17,509	(710)	0	16,799
Cash and cash equivalents	65,422	0	0	65,422
Any other assets, not elsewhere shown	2,133	0	0	2,133
Total assets	**1,627,187**	**0**	**(10,206)**	**1,616,981**
Liabilities				
Technical provisions - life (excluding index-linked and unit-linked)	**265,174**	0	**5,386**	**270,560**
Technical provisions - life (excluding health and index-linked and unit-linked)	**265,174**	0	**5,386**	270,560
Best estimate	0	0	250,985	250,985
Risk margin	0	0	19,576	19,576
Technical provisions - index-linked and unit-linked	**1,131,449**	0	**(10,235)**	**1,121,214**
Technical provisions calculated as a whole	0	0	1,131,449	1,131,449
Best estimate	0	0	(17,652)	(17,652)
Risk margin	0	0	7,417	7,417
Contingent liabilities	0	0	0	0
Provisions other than technical provisions	0	0	5,618	5,618
Deposit from reinsurers	0	0	0	0
Deferred tax liabilities	467	0	0	467
Insurance & intermediaries payables	7,706	0	0	7,706
Reinsurance payables	990	0	0	990
Payables (trade, not insurance)	5,156	0	0	5,156
Any other liabilities, not elsewhere shown	15,755	0	0	15,755
Total liabilities	**1,426,697**	**0**	**769**	**1,427,466**
Excess of assets over liabilities	**200,490**	**0**	**(10,975)**	**189,515**

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 £467k 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 £556k (2020: £808k) are deemed to be valued at nil.

D.1.2 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.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 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 £9,650k (2020: £8,912k) lower than in the statutory Financial Statements.

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 £895k (2020: £843k) 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.1.5 Reinsurance recoverables

The value of the Solvency II reinsurance recoverables as at 31 December 2021 is £122,963k (2020: £130,327k). 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. Following a change in accounting policy for the calculation of the long-term business provision and associated reinsurance recoverables within the Financial Statements, there is no longer any difference between the valuation of reinsurance recoverables under Solvency II and the FRS Financial Statements. Full details regarding the valuation of this asset are provided in Section D.2.

D.1.6 Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank as well as short-term deposits with maturity of three months or less. The valuation in the statutory accounts basis is materially consistent with a fair value and therefore the valuation is unadjusted in the solvency II balance sheet.

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 2021 (A)	Risk margin 31 December 2021 (B)	Technical provisions 31 December 2021 (A+B)	Technical provisions 31 December 2020	Percentage of Technical Provisions
Non-profit fund	1,295,397	26,572	1,321,969	1,318,641	95.0%
With-profit fund 1	37,764	229	37,993	41,492	2.7%
With-profit fund 2	31,621	192	31,813	35,139	2.3%
Total Technical Provisions	**1,364,782**	**26,993**	**1,391,775**	**1,395,272**	**100.0%**

Society technical provisions have decreased by £3.5 million since 31 December 2020. An increase in Non-Profit Fund technical provisions of £3.3 million is more than offset by a decrease in combined With-Profit Fund technical provisions of £6.8 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 2021, 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 2021 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 2021. 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 2022 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 2021 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 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 2021. 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 (2021: £122,963k) 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 2021 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 2021.
- The implied inflation rate curve (used to inflate expenses) has been updated to reflect market data as at 31 December 2021 leading to an increase in long-term implied inflation.

D.2.8 Reconciliation to Financial Statements

During the year, the Society's accounting policy for the calculation of technical provisions under UK GAAP was revised. It is now based on a Solvency II best estimate plus prudence methodology. This change reflects the focus that the Board and management place on Solvency II capital reporting and it will simplify communication of results, improve efficiencies and reduce operational risks.

As a result of this closer alignment of the bases of calculation for technical provisions between UK GAAP and Solvency II there are fewer differences than presented in previous years, as noted below.

£000's	*Note*	Non-profit fund	With-profit fund 1	With-profit fund 2	Total
UK GAAP technical Provision		**1,326,893**	**37,985**	**31,745**	**1,396,623**
Risk Margin	1	26,572	229	192	26,993
Prudence Margin	1	(13,549)	(146)	(124)	(13,819)
Value of In-force (VIF) intangibles	2	27,661	0	0	27,661
Present value of future profits on Unit Linked business	3	(40,273)	0	0	(40,273)
Non-modelled	4	(5,335)	(75)	0	(5,410)
SII technical Provision		**1,321,969**	**37,993**	**31,813**	**1,391,775**

Note:
1. A prudence margin, rather than the SII Risk Margin, is included in the UK GAAP balance sheet,
2. UK GAAP treats the VIF intangibles as a separate asset whereas Solvency II does not recognise the VIF intangible as part of the technical provisions.
3. Present value of the future profits on the Unit linked business are not included in the UK GAAP balance sheet
4. UK GAAP includes additional reserves largely related to further expense reserves included in the With-profits fund under Solvency II these are not included with technical provision. Included as part of other provisions other than technical provision.

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 Provisions other than technical provision

These reserves arise from an estimation of future expenses levied against the with-profit funds and any one-off project costs. In the Financial Statements the project costs relate to insurance business only and this reserve is included in the technical provisions but under Solvency II this is restated as provisions other than technical provisions, it includes project costs on all Society business and is valued based on an alternative valuation method (income approach) which is similar to UK GAAP valuation.

D.3.2 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.

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. 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.

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 2021 comprise of investment property, venture capital and certain debt securities.

The property held within the collective fund relates to 46.8% (2020: 46.8%) of the Society's head office building which is held within the unit-linked funds of the Society. The remaining 53.2% (2020: 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 2021 was £7,903k (2020: £7,599k).

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 2021 Tier 1 (unrestricted) £'000s	31-Dec 2020 Tier 1 (unrestricted) £'000s
Surplus Funds	20,776	24,580
Reconciliation reserve	154,217	128,102
Deductions for participations in financial and credit institutions	-	-
Total basic Own Funds after deductions (EOF)	**174,993**	**152,682**

The reconciliation reserve is composed of the following:

	31-Dec 2021 Tier 1 (unrestricted) £'000s	31-Dec 2020 Tier 1 (unrestricted) £'000s
Assets less liabilities	189,515	171,137
Other Basic Own Fund items - Surplus Funds	(20,776)	(24,580)
Adjustment for restricted Own Fund items in respect of Ring-Fenced Funds	(14,522)	(18,455)
Reconciliation reserve	**154,217**	**128,102**

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 2021 are £174,993k, which have increased by £22,311k from £152,682k as at 31 December 2020.

The main reasons for the increase are outlined below:

Increase / (Decrease) Own Funds	**£'000s**
Model developments	(4,655)
Switch to SONIA for risk-free rate of interest	(5,860)
Experience variance and assumption changes	3,177
Investment return on opening Own Funds	4,458
Expected run-off of risk margin	2,889
In-force NP insurance and investment contracts - Market variances	17,707
Profits from subsidiaries	12,606
Develoment expenses and miscellaneous other	(8,337)
Change in with-profits funds restriction on surplus	326
Total increase in Own Funds	**22,311**

The movements shown in the table above are due to:

- The investment returns on opening Own Funds caused an increase of £4,458k.
- The expected run-off of the risk margin due to expected business run-off over the year increased Own Funds by £2,889k.
- The in-force Non-Profit insurance and investment contracts increased Own Funds by net £18,339k mainly due to:
    - An increase of £17,707k due to investment variances over the year, primarily due to the increase in interest rates which acted to decrease 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 £632k.
- The positive contributions from subsidiary businesses increased Own Funds by £13,139k; 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 model developments undertaken over the year have acted to decrease Own Funds by £4,655k.
- Over 2021, the PRA changed the approach to determining the risk-free rate of interest, used in the Solvency II valuation, from using LIBOR to SONIA rates. At 31 December 2021, yields based on SONIA rates were c.20 basis points lower than equivalent LIBOR rates leading to a reduction in Own Funds of £5,860k.
- Over the year, the non-linked asset manager has been changed and has led to a reduction in investment management fees which acts to increase Own Funds by £2,545k.
- The development expenses over the year contributed to decrease Own Funds by £8,337k. This also includes the cost of the acquisition of a book of child trust funds and lifetime ISAs in the year.

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 increase in Own Funds of £326k for both funds.

Composition of Own Funds

The Own Funds of £174,993k is all classified as Tier 1 capital as at 31 December 2021, as was the case at 31 December 2020. The breakdown of Own Funds as at 31 December 2021 is as follows (the total movement may not equal the sum of the component movements due to rounding):

- reconciliation reserve of £154,217k;
- surplus funds relating to the excess of assets over liabilities in the With-Profits Funds, of £20,776k; and
- nil deductions relating to restrictions on Society's funds from participations in financial and credit institutions.

The value of Own Funds of £174,993k as at 31 December 2021 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 2021 is outlined below:

	£'000s
Retained Earnings and Fund for Future Appropriations in the Financial Statements as at 31 December 2021	**200,490**
Differences in the valuation of assets	(10,206)
- Inclusion of risk margin under Solvency II	(26,993)
- Differences in expense assumptions	13,818
- Inclusion of prudence in mortality and longevity assumptions	(206)
- Allowance for present value of future profits on unit-linked business (i.e. negative reserving)	40,273
- Removal of VIF intangible asset	(27,661)
Deduction in respect of restricted with-profits funds	(14,522)
Solvency II Own Funds as at 31 December 2021	**174,993**

Own Funds are £25,497k 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.3.2 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 2021 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	41,907	3,442	1,825	47,174
Life risk	43,159	351	216	43,726
Counterparty default risk	4,030	223	64	4,317
Operational risk	2,608	170	142	2,920
Diversification benefit between risk modules	(20,460)	(404)	(196)	(21,060)
SCR	**71,244**	**3,782**	**2,051**	**77,077**
Excess assets over liabilities	169,160	15,139	5,216	189,515
Excess resources over SCR	97,916	11,357	3,165	112,438
Restricted Own Funds relating to with-profits funds				(14,522)
Deductions for participations in financial and credit institutions				0
Own Funds (EOF)	**169,160**	**15,139**	**5,216**	**174,993**
SCR Coverage ratio (%)	**237%**	**400%**	**254%**	**227%**

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 £19,269k as at 31 December 2021. 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 (£3,126k at 31 December 2021).
- 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 2020 and 31 December 2021 are described below:

Non-Profit Fund

The SCR for the Non-Profit Fund has increased by £984k since 31 December 2020, which is broken down by risk type in the following table:

SCR breakdown	Non-Profit Fund		
£'000s	31-Dec-21	31-Dec-20	Movement in SCR
Market Risk	41,907	39,652	2,255
Underwriting Risk	43,159	44,833	(1,674)
Counterparty Risk	4,030	3,576	454
Overall Diversification	(20,460)	(19,981)	(479)
Basic capital requirement	**68,636**	**68,080**	**556**
Operational Risk	2,608	2,180	428
Total capital requirement	**71,244**	**70,260**	**984**

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

Market Risk

- The market risk capital has increased by £2,255k which is driven by an increase in equity risk and concentration risk which is partially offset by a fall in credit spread risk.
- Equity risk has increased by £4,662k, primarily driven by increased equity exposure as a result of market growth plus an increase in the symmetric adjustment, offset by a reduction in the pension scheme burn-through.
- Credit spread risk has fallen by £2,759k, as a result of sales and maturities of corporate bonds over the year combined with an improvement in the quality of asset data received.
- Concentration risk has increased by £517k as a result of an increase in corporate bond exposures exceeding regulatory limits.

Underwriting Risk

- The underwriting risk capital has decreased by £1,674k which is driven by decreases in longevity risk and expense risk.
- Longevity risk has decreased by £2,083k due to an increase in interest rates over the year which decreases the sensitivity of long-dated cashflows, offset by the growth in Over 50s business (which are exposed to longevity on account of the reinsurance structure).
- Expense risk has reduced by £547k due to cost efficiencies and increases in interest rates over the year decreasing the present value of the expenses.

Counterparty default risk has increased £454k due to increased cash balances due to the run off of the business and the bond maturities and sales.

WP1 Fund

The WP1 SCR has decreased by £117k since 31 December 2020, which is broken down by risk type in the following table.

SCR breakdown	WP1		
£'000s	31-Dec-21	31-Dec-20	Movement in SCR
Market Risk	3,442	3,239	203
Underwriting Risk	351	399	(48)
Counterparty Risk	223	913	(690)
Overall Diversification	(404)	(837)	433
Basic capital requirement	**3,612**	**3,714**	**(102)**
Operational Risk	170	185	(15)
Total capital requirement	**3,782**	**3,899**	**(117)**

The reduction in capital requirement of £117k is driven by the decrease in counterparty default risk capital of £690k, due to the investment of cash in short term liquid assets. This is partially offset by an increase spread risk capital of £166k, due to a change in investments.

WP2 Fund

The WP2 SCR has increased by £443k since 31 December 2020, which is broken down by risk type in the table below:

SCR breakdown	WP2		
£'000s	31-Dec-21	31-Dec-20	Movement in SCR
Market Risk	1,825	1,379	446
Underwriting Risk	216	122	94
Counterparty Risk	64	121	(57)
Overall Diversification	(196)	(171)	(25)
Basic capital requirement	**1,909**	**1,451**	**458**
Operational Risk	142	157	(15)
Total capital requirement	**2,051**	**1,608**	**443**

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

The increase in capital requirement of £443k is mainly driven by an increase in pre-diversified spread risk capital of £453k due to an increase in corporate bond exposure and a £132k increase in pre-diversified equity risk capital due to an increase in the Symmetric adjustment.

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 2021 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:

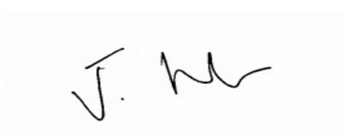
1) The Solvency and Financial Condition Report ('SFCR') has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations.

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 2022

APPENDICES

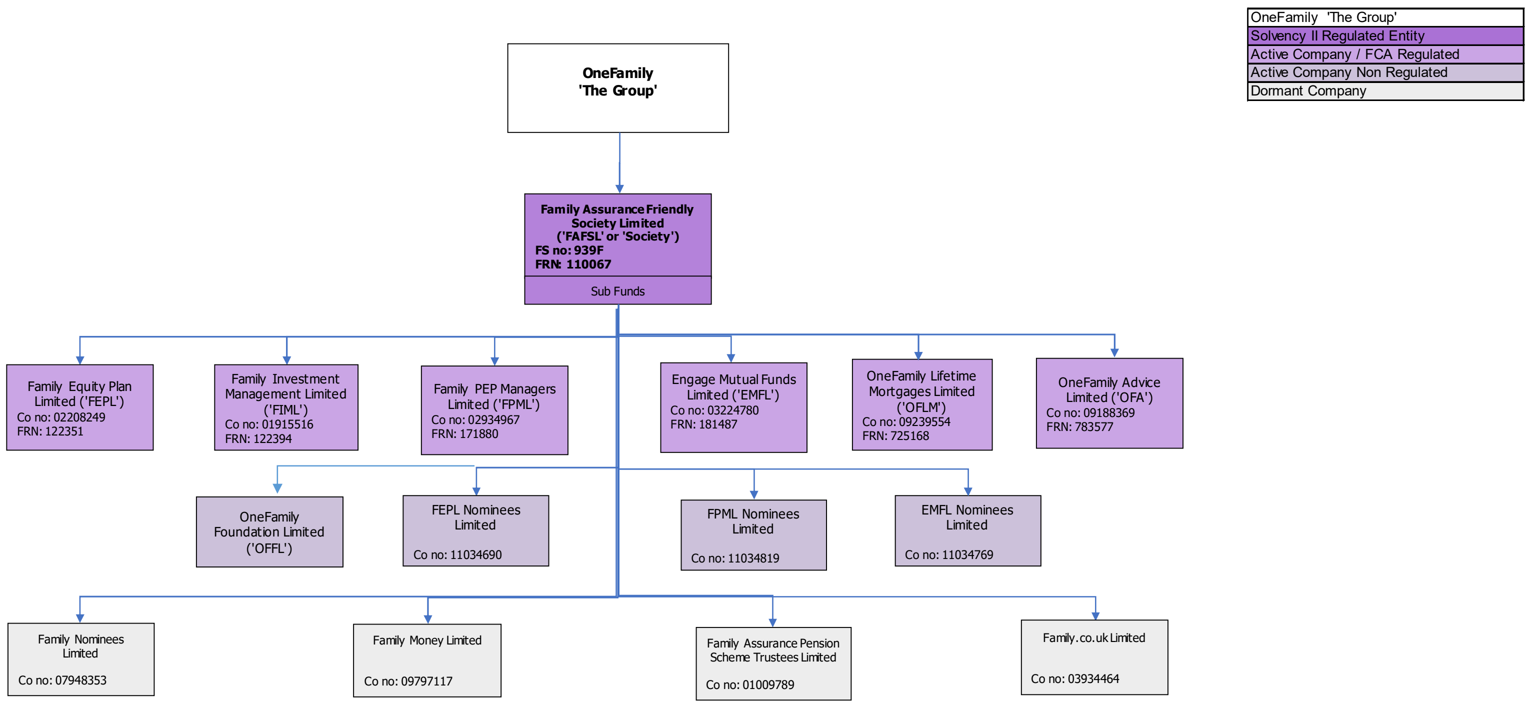
A. OneFamily Group Structure

B. Glossary

C. Methodology and assumptions – Assets and other liabilities

D. Public Quantitative Reporting Templates

A. OneFamily Group Structure



Key:
All subsidiaries are 100% owned by their parent company (FAFSL).
For SII reporting the regulated subsidiaries are treated as participation investments by FAFSL

B. Glossary

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
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 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.			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. 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.

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
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.
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	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.

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
	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.			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.
Reinsurers' share of technical provisions	Consistent with valuation of technical provisions with deductions for expected losses due to default.	Consistent with valuation of technical provisions with deductions for expected losses due to default.	Unrestricted Tier 1	No valuation adjustment required as the UK GAAP and Solvency II valuations are equivalent.
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.

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
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 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, 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).	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
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 using the requirements of the current Solvency II regulatory regime adjusted to remove the Solvency II risk margin and instead include a margin of prudence appropriate under United Kingdom reporting standards.	Best Estimate plus risk margin (discounted at risk-free rate).	Unrestricted Tier 1	Adjustment required to get from Statutory accounts value to Best Estimate Technical Provisions & Risk Margin – factors include: 1) Removal of prudence margin and inclusion of risk margin 2) Value in force intangible recognised in Statutory accounts but not under Solvency II 3) Inclusion of present value of future profits on unit linked business under Solvency II but not in statutory accounts 4) Items included within provisions other than technical provisions under Solvency II
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. This provision under UK GAAP is included in LTBP (UK GAAP technical reserves).	Fair value measurement using the fair value hierarchy. 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.	Unrestricted Tier 1	A future cost estimate is provided. Although the amortised cost valuation model for financial liabilities is not permitted under Solvency II, the Provisions other than Technical Provisions are valued based on alternative valuation methods (income approach), which equates to the UK GAAP 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
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 2021, 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
Financial year end	31 December 2021
Reporting reference date	31 December 2021
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

	Solvency II value
Assets	
Goodwill	
Deferred acquisition costs	
Intangible assets	0
Deferred tax assets	467
Pension benefit surplus	0
Property, plant & equipment held for own use	9,329
Investments (other than assets held for index-linked and unit-linked contracts)	**263,333**
Property (other than for own use)	0
Holdings in related undertakings, including participations	12,247
Equities	**2,494**
Equities - listed	2,494
Equities - unlisted	0
Bonds	**103,747**
Government Bonds	41,641
Corporate Bonds	60,108
Structured notes	0
Collateralised securities	1,998
Collective Investments Undertakings	144,845
Derivatives	0
Deposits other than cash equivalents	0
Other investments	0
Assets held for index-linked and unit-linked contracts	1,131,449
Loans and mortgages	**231**
Loans on policies	11
Loans and mortgages to individuals	220
Other loans and mortgages	0
Reinsurance recoverables from:	**122,963**
Non-life and health similar to non-life	**0**
Non-life excluding health	0
Health similar to non-life	0
Life and health similar to life, excluding index-linked and unit-linked	**122,963**
Health similar to life	0
Life excluding health and index-linked and unit-linked	122,963
Life index-linked and unit-linked	0
Deposits to cedants	0
Insurance and intermediaries receivables	2,316
Reinsurance receivables	2,539
Receivables (trade, not insurance)	16,799
Own shares (held directly)	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	65,422
Any other assets, not elsewhere shown	2,133
Total assets	**1,616,981**

	Solvency II value
Liabilities	
Technical provisions - non-life	**0**
Technical provisions - non-life (excluding health)	**0**
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - health (similar to non-life)	**0**
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - life (excluding index-linked and unit-linked)	**270,561**
Technical provisions - health (similar to life)	**0**
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - life (excluding health and index-linked and unit-linked)	**270,561**
TP calculated as a whole	0
Best Estimate	250,985
Risk margin	19,576
Technical provisions - index-linked and unit-linked	**1,121,214**
TP calculated as a whole	1,131,449
Best Estimate	(17,652)
Risk margin	7,417
Other technical provisions	
Contingent liabilities	0
Provisions other than technical provisions	5,618
Pension benefit obligations	0
Deposits from reinsurers	0
Deferred tax liabilities	467
Derivatives	0
Debts owed to credit institutions	0
Financial liabilities other than debts owed to credit institutions	0
Insurance & intermediaries payables	7,706
Reinsurance payables	990
Payables (trade, not insurance)	5,156
Subordinated liabilities	**0**
Subordinated liabilities not in BOF	0
Subordinated liabilities in BOF	0
Any other liabilities, not elsewhere shown	15,754
Total liabilities	**1,427,466**
Excess of assets over liabilities	**189,515**

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 obligations**	**Health reinsurance**	**Life reinsurance**	
Premiums written									
Gross		3,331	14,474	33,744					**51,549**
Reinsurers' share		1	0	11,995					**11,996**
Net	**0**	**3,330**	**14,474**	**21,749**	**0**	**0**	**0**	**0**	**39,553**
Premiums earned									
Gross		3,331	14,474	33,744					**51,549**
Reinsurers' share		1	0	11,995					**11,996**
Net	**0**	**3,330**	**14,474**	**21,749**	**0**	**0**	**0**	**0**	**39,553**
Claims incurred									
Gross		15,395	112,243	24,364					**152,002**
Reinsurers' share		0	0	16,687					**16,687**
Net	**0**	**15,395**	**112,243**	**7,677**	**0**	**0**	**0**	**0**	**135,315**
Changes in other technical provisions									
Gross		(6,761)	114,241	(4,777)					**102,703**
Reinsurers' share		0	0	0					0
Net	**0**	**(6,761)**	**114,241**	**(4,777)**	**0**	**0**	**0**	**0**	**102,703**
Expenses incurred	**0**	**977**	**4,423**	**12,574**	**0**	**0**	**0**	**0**	**17,974**
Other expenses									**6,043**
Total expenses									**24,017**

S.12.01.01
Life and Health SLT Technical Provisions

	Insurance with profit participation	Index-linked and unit-linked insurance	Index-linked and unit-linked insurance: Contracts without options and guarantees	Index-linked and unit-linked insurance: Contracts with options or guarantees	Other life insurance	Other life insurance: Contracts without options and guarantees	Other life insurance: Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl Unit-linked)
Technical provisions calculated as a whole	0	1,131,449							0	**1,131,449**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	0	0							0	**0**
Technical provisions calculated as a sum of BE and RM										
Best estimate										
Gross Best Estimate	**69,354**			**(17,652)**		**181,630**			**0**	**233,332**
Total recoverables from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	0		0	0		122,737	0	0	0	**122,737**
Recoverables from reinsurance (except SPV and Finite Re) before adjustment for expected losses						122,737				**122,737**
Recoverables from SPV before adjustment for expected losses										**0**
Recoverables from Finite Re before adjustment for expected losses										**0**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						122,963			0	**122,963**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	69,354		0	(17,652)		58,667	0	0	0	**110,369**
Risk margin	422	7,417			19,155				0	**26,994**
Amount of the transitional on Technical Provisions										
Technical Provisions calculated as a whole										**0**
Best estimate										**0**
Risk margin										**0**
Technical provisions - total	**69,776**	**1,121,214**			**200,785**			**0**	**0**	**1,391,775**

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**
Ordinary share capital (gross of own shares)	0	0		0	
Share premium account related to ordinary share capital	0	0		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
Subordinated mutual member accounts	0		0	0	0
Surplus funds	20,776	20,776			
Preference shares	0		0	0	0
Share premium account related to preference shares	0		0	0	0
Reconciliation reserve	154,217	154,217			
Subordinated liabilities	0		0	0	0
An amount equal to the value of net deferred tax assets	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
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					
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				
Deductions					
Deductions for participations in financial and credit institutions	0	0	0	0	
Total basic own funds after deductions	174,993	174,993	0	0	0
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	0				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
Unpaid and uncalled preference shares callable on demand	0				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
Other ancillary own funds	0				
Total ancillary own funds	0			0	0
Available and eligible own funds					
Total available own funds to meet the SCR	174,993	174,993	0	0	0
Total available own funds to meet the MCR	174,993	174,993	0	0	
Total eligible own funds to meet the SCR	174,993	174,993	0	0	0
Total eligible own funds to meet the MCR	174,993	174,993	0	0	
SCR	77,077				
MCR	19,269				
Ratio of Eligible own funds to SCR	227%				
Ratio of Eligible own funds to MCR	908%				

Reconciliation reserve	
Excess of assets over liabilities	189,515
Own shares (held directly and indirectly)	0
Foreseeable dividends, distributions and charges	
Other basic own fund items	20,776
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	14,522
Reconciliation reserve	154,217
Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	392,552
Expected profits included in future premiums (EPIFP) - Non- life business	
Total Expected profits included in future premiums (EPIFP)	392,552

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

	Gross solvency capital requirement	USP	Simplifications
Market risk	47,551		
Counterparty default risk	4,375		
Life underwriting risk	44,174		
Health underwriting risk	0		
Non-life underwriting risk	0		
Diversification	(21,764)		
Intangible asset risk	0		
Basic Solvency Capital Requirement	74,336		

Calculation of Solvency Capital Requirement	
Operational risk	2,741
Loss-absorbing capacity of technical provisions	0
Loss-absorbing capacity of deferred taxes	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
Solvency Capital Requirement excluding capital add-on	77,077
Capital add-ons already set	0
Solvency capital requirement	77,077
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	0
Total amount of Notional Solvency Capital Requirements for remaining part	71,244
Total amount of Notional Solvency Capital Requirements for ring fenced funds	5,833
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
Diversification effects due to RFF nSCR aggregation for article 304	0
Approach to tax rate	
Approach based on average tax rate	Not Applicable
Calculation of loss absorbing capacity of deferred taxes	**LAC DT**
LAC DT	
LAC DT justified by reversion of deferred tax liabilities	0
LAC DT justified by reference to probable future taxable economic profit	0
LAC DT justified by carry back, current year	0
LAC DT justified by carry back, future years	0
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

MCRNL Result	0

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance		
Income protection insurance and proportional reinsurance		
Workers' compensation insurance and proportional reinsurance		
Motor vehicle liability insurance and proportional reinsurance		
Other motor insurance and proportional reinsurance		
Marine, aviation and transport insurance and proportional reinsurance		
Fire and other damage to property insurance and proportional reinsurance		
General liability insurance and proportional reinsurance		
Credit and suretyship insurance and proportional reinsurance		
Legal expenses insurance and proportional reinsurance		
Assistance and proportional reinsurance		
Miscellaneous financial loss insurance and proportional reinsurance		
Non-proportional health reinsurance		
Non-proportional casualty reinsurance		
Non-proportional marine, aviation and transport reinsurance		
Non-proportional property reinsurance		

Linear formula component for life insurance and reinsurance obligations

MCRL Result	10,779

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation - guaranteed benefits	58,578	
Obligations with profit participation - future discretionary benefits	10,776	
Index-linked and unit-linked insurance obligations	1,113,797	
Other life (re)insurance and health (re)insurance obligations	58,667	
Total capital at risk for all life (re)insurance obligations		204,682

Overall MCR calculation

Linear MCR	**10,779**
SCR	77,077
MCR cap	34,684
MCR floor	19,269
Combined MCR	19,269
Absolute floor of the MCR	3,126
Minimum Capital Requirement	**19,269**