

Solvency & Financial Condition Report (SFCR)

For the year ended 31 December 2020



Chapter	Contents	Page
	Summary	3-4
A	Business and Performance	
A.1	Business	5
A.2	Underwriting Performance	5-7
A.3	Investment Performance	7-9
A.4	Performance of Other Activities	9
A.5	Any Other Information	9
B	System of Governance	
B.1	General Governance Structure	9-11
B.2	'Fit and Proper' Policy	11
B.3	Risk Management System Including ORSA	12-13
B.4	Internal Control System	14
B.5	Internal Audit Function	14
B.6	Actuarial Function	14-15
B.7	Outsourcing Policy	15
B.8	Any Other Information	15
C	Risk Profile	
C.1	Insurance Risk	16-17
C.2	Market Risk	17-18
C.3	Credit Risk	18-19
C.4	Liquidity Risk	19
C.5	Operational Risk	19-20
C.6	Other Material Risks	20-21
C.7	Any Other Information	21
D	Valuation for Solvency Purposes	
D.1	Assets	22-23
D.2	Technical Provisions	23-26
D.3	Other Liabilities	26
D.4	Alternative Methods for Valuation	26
D.5	Any Other Information	26
E	Capital Management	
E.1	Own Funds	26-27
E.2	SCR and MCR	27-28
E.3	Use of the Duration-Based Equity Risk Sub-Module in the Calculation of the SCR	28
E.4	Differences between the Standard Formula and Any Internal Model Used	28
E.5	Non-Compliance with the MCR and the SCR	28
E.6	Any Other Information	28
F	Approval by the Administrative, Management or Supervisory Body of the SFCR and reporting templates	29
G	Glossary	30
H	SFCR Templates	31-39

Summary

This is the Society's Solvency & Financial Condition Report (SFCR) based on the financial position as at 31 December 2020.

Business and Performance

2020 proved to be a very successful year with the Society seeing total assets increase to a record high, with the highlights of our year as follows:

- Total assets including the Child Trust Fund (CTF) increased by 5% to a record £183 million
- Assets excluding the CTF increased by 10% to £141 million
- Traditional membership increased by 3% to 12,258
- Total number of policies increased by 5% to 17,379
- Including the CTF we now have 80,456 policies and accounts

The Society seeks to attract members by demonstrating higher potential investment returns over the life of a policy and aims to retain them through a combination of performance, following high standards of ethics and principles, and delivering consistently high levels of personal service. The Society has a three-strand distribution model, which can be summarised as follows:

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

The Society's key strategic priorities are as follows:

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

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

System of Governance

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

The Society's governing body is its Committee of Management (the "Committee"). The Committee is appointed and elected in accordance with the Society's Rules. The Rules also set out the provisions to appoint a Chairman, Vice-Chairman, Trustees, Chief Executive and other officers, as set out in the Society's Management Responsibilities Map. From 1 January 2021 the Committee of Management became 'the Board of Directors', in line with the Society's revised rules upon incorporation. As the Annual Report and Accounts and SFCR deal with the year ended 31 December 2020, and therefore prior to incorporation, we will refer to the 'Committee' unless looking to post year end events. The system of governance is discussed in greater detail under section B.

Risk Profile

The Society's principal activity is the provision of long-term savings, investment and protection policies to its members, with over 17,300 policies (excluding CTF) in force at the end of 2020. The risk profile of the Society has not materially changed over the past 12 months.

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

Valuation for Solvency Purposes

The Society's valuation as at the 31 December 2020 was calculated in line with the Solvency II regime.

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

Reconciliation of assets (£000)	2020	2019
Total value of assets for SII purposes	182,599	174,584
Add property acquisition expenses	158	194
Add website development costs	32	1
Add tangible fixed assets on a cost basis	48	52
Add prepayments and recharges	64	28
Add software development	136	95
Total assets shown in the report & accounts	183,036	174,954

Capital Management

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

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

	2020	2019
Own funds	19,158	20,339
Less: SCR	(11,874)	(12,595)
Surplus funds	7,284	7,744
<i>Solvency Ratio</i>	<i>161%</i>	<i>161%</i>

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

Solvency and Financial Condition Report at 31 December 2020 and the impact of Covid-19

The outbreak of Covid-19 during the first few months of 2020 has resulted in a pandemic causing significant disruption to businesses across the globe and to society itself. During the initial months of the pandemic we were able to weather the slump in investment markets by implementing an MVR to protect the interests of our existing members. We also carry out regular scenario and stress testing for circumstances such as the pandemic to ensure the business has sufficient liquidity and solvency. Through regular meetings with our actuary, Committee and Executive Team we were able to phase out the MVR as markets improved and the first lockdown eased. Operationally, the majority of staff were able to work from home, with a skeleton team operating from the office to deal with incoming and outgoing post. We revised our business targets half-way through the year and we did see those targets beaten after receiving strong levels of policy numbers towards the end of the year.

The Solvency and Financial Condition Report ("SFCR") primarily provides an overview of the Society's solvency and financial condition at 31 December 2020, with some parts of it being forward looking. The Committee has considered the possible impact of Covid-19 on the Society's finances and operations and concluded that the Society is able to continue to meet its obligations to policyholders and regulators.

A. Business and Performance

A.1 Business

The address of the registered office is:

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

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

The PRA can be contacted at:

Prudential Regulation Authority

Bank of England
Threadneedle Street
London
EC2R 8AH

The FCA can be contacted at:

Financial Conduct Authority
24 The North Colonnade
London
E14 5HS

The Society's mission statement is: "To provide a friendly alternative to bank and building society savings accounts; by delivering greater potential returns through transparent and high performing products, an excellent and personal member service and by being one of the most trusted and secure friendly societies in the UK."

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

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

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

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

The external auditors for the Society are BHP LLP (2 Rutland Park, Sheffield, S10 2PD).

A.2 Underwriting Performance

During 2020 the Society once again looked to achieve a sustainable level of controlled growth.

Whilst our originally budgeted premium income levels were revised downwards, we still achieved an excellent £17.8 million. Just as the pandemic hit the Society was entering ISA season. Investors became naturally cautious of the investment landscape and held off from investing lump sums, with many providers reducing their bonus / interest rates. The Society's rates remained stable and highly competitive, which continued to attract investment, particularly later in the year.

Subscriptions and external transfers to the Investment ISA and Junior ISA generated circa £9.9 million (56%) of the total. Our Investment Bond and Income Bond also performed strongly, totalling £5.2 million payments received for the year and making up around 29% of premium income for 2020.

Contributions to our regular savings products, including the Tax-Exempt Savings Plan, amounted to £2.6 million and, therefore, accounted for around 14% of the total. We remain one of the top performers in the with-profits regular premium pure endowment league tables over 10, 20 and 25 years.

The Society also saw strong growth in the base membership, with 929 new members joining the Society, increasing the total membership, excluding CTF, to 12,258.

The Committee declared annual policy bonuses worth in excess of £2.20 million for members in 2020.

2020 saw an increase in claims incurred, from £8.0 million to £9.1 million. This increase was expected and within the budgeted claims for 2020, other than the increase in death claims, which is very difficult to forecast. However, the budget for 2021 has been increased accordingly and the value of death claims will be closely monitored. Maturing endowment policies saw a slight fall in claims and ISA withdrawals saw an increase of around 4%, which was expected due to the growth of the ISA book in recent years. Surrendered policies saw a fall of 29%, which was very satisfactory given the uncertainties faced in 2020.

The Solvency II Quantitative Reporting Template (QRT) S.05.01.02 (section H) presents a tabulated version of the Society's underwriting performance, entitled 'Premiums, claims and expenses by line of business'.

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

	2020 £	2019 £
Single premium income	14,329,494	17,363,326
Regular premium income	3,442,022	3,373,662
Investment and other income	4,827,789	5,795,556
Unrealised investment gains	4,609,123	13,262,804
Total Income	<u>27,208,428</u>	<u>39,795,348</u>
Claims incurred	(9,054,397)	(8,031,642)
Acquisition, administrative expenditure and taxation	(2,069,030)	(1,762,278)
Realised losses on Investment properties	(2,020,405)	(-)
Unrealised losses on investments	(6,893,385)	(217,775)
Change in long term business provisions	(8,285,055)	(23,983,229)
Transfer to / (from) Fund for Future Appropriations	<u>(1,113,844)</u>	<u>5,800,424</u>

Members and Policies

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

Year Ending	Number of Members (Excl. CTF)	Number of Policies (Excl. CTF)
31.12.18	11,635	15,604
31.12.19	11,941	16,518
31.12.20	12,258	17,379

Year Ending	Number of New Members (Excl. CTF)	Number of New Policies (Excl. CTF)
31.12.18	833	1,614
31.12.19	907	1,987
31.12.20	929	1,927

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

Year Ending	Number of CTF Accounts
31.12.18	63,349
31.12.19	63,223
31.12.20	63,077

A.3 Investment Performance

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

	2020 £	2019 £
Land and buildings	41,394,959	40,514,094
Listed investments (excluding CTF)	87,105,498	77,752,050
Mortgages on land and buildings	971,250	971,250
Bank and money market deposits	2,055,328	2,556,216
	131,527,035	121,793,610
Unit linked assets - CTF	42,332,476	46,735,896
	173,859,511	168,529,506

Business performance resulted in a 5% increase in total assets at the end of the year to a record £183.0 million (2019: 175.0 million, 2018: £144.3 million).

The Society's listed investments are managed professionally by Investec Wealth & Investment Ltd in accordance with a Committee approved mandate. The Society invested new money of £3.6 million through Investec in 2020 and after adjusting for the new money added during the year the portfolio, now totalling just under £58 million, produced a total annual gain after charges (including income) of 0.66%. The Society paid a total of £189,180 relating to Investec's investment management fees in 2020 (2019: £168,796, 2018: £156,011).

Further investments were made into the Fidelity Emerging Markets, Fidelity Global Special Situations and Strategic Bond funds, totalling £0.6 million, £1.6 million and £1.25 million respectively. After a strong year for these markets, the three Fidelity funds were valued at £10.9 million, £8.3 million, and £5.8 million respectively.

During 2020 the Society purchased one commercial property in Leeds and made several instalments on the development of multi-tenanted units in Spalding. The Society owns 44 geographically diversified commercial properties, generating stable rental yields, with a total value of circa £41.4 million.

The Society held back on further investment into the Schroder UK Real Estate fund, with the fund valuation at £4.6 million as at the year end. As no further investment was made the Society did not pay any commission (2019: £1,996, 2018: £5,899).

Taking into account the overall performance of the direct portfolio and UK Property Fund combined, the Society achieved a 2% return. The Society paid a total of £66,963 relating to property related fees in 2020 (2019: £34,849, 2018: £49,871).

The stock market performance resulted in a net unrealised loss of £2.3 million for the year as illustrated below:

	2020 £	2019 £
Net unrealised gain / (loss) on investment properties	(1,544,798)	(170,000)
Net unrealised gain / (loss) on UK Real Estate Fund	(142,035)	(47,775)
Net unrealised gain / (loss) on listed investments		
- With Profits	4,609,123	6,410,756
- Unit Linked	(5,206,552)	6,852,048
	<u>(2,284,262)</u>	<u>13,045,029</u>

The Society's available capital decreased from £20.3 million to £19.2 million over 2020. However the Society's solvency ratio after assumed management actions remained stable at 161%. Given the economic and demographic turbulence over 2020 caused by the Covid-19 pandemic, this is a good result and demonstrates the Society's continued stable growth and careful management of its expenses, investments and the key risks to which the business is exposed.

The Society's investment and other income (including realised gains and losses) was £4.83 million and after taking account of the unrealised losses the overall return on the non-CTF assets for the year was 3.73%.

During the initial months of the pandemic, global markets suffered significant dips, with the UK stock market being one of the hardest hit. Many commentators initially estimated a 'V shaped' bounce but this optimism soon dwindled after a further lockdown and the tiered approach to tackling Covid-19 was announced. However, in the fourth quarter equity markets rallied, helped by the US election result and positive news on the roll out of vaccines. The close of 2020 saw the FTSE 100 recover somewhat from earlier in the year to 6,460.52, which was still 14.3% lower than 12 months earlier (7,542.44).

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

The next table shows the asset split of the Society's investment fund at the end of 2020, with previous years' figures for comparison purposes. This table excludes Child Trust Fund investments, which are part of a separately managed Unit Linked fund.

	2020 %	2019 %	2018 %
Property	34.94	37.09	41.59
Mortgages on land and buildings	0.74	0.80	0.98
Listed investments: - equities	31.18	29.62	27.15
- fixed interest	28.75	28.15	25.43
- alternative assets	2.83	2.24	2.33
Cash (excluding current account funds)	1.56	2.10	2.52
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

A.4 Performance of Other Activities

All activities are included within Sections A.2 and A.3.

A.5 Any Other Information

There is no other information to add.

B. System of Governance

B.1 General Governance Structure

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

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

On 1 January 2021 the Society became Sheffield Mutual Friendly Society Limited and therefore became incorporated. The Committee of Management became 'the Board of Directors', in line with the Society's revised rules upon incorporation. As the SFCR deals with the year ended 31 December 2020 we will refer to the 'Committee' unless looking to post year end events.

In 2020 the Committee comprised of the non-executive Chairman, two Trustees, six other non-executive members (one joining in September 20) and two executive members (Chief Executive and Chief Operating Officer). The Committee determines the strategic direction of the Society and reviews its operating and financial position. The Committee met on nine occasions during 2020 and there is a schedule of regular reports and information, which they consider at the meetings and which is agreed annually. Reports are provided to the Committee in advance of each meeting. The Chief Executive is responsible for carrying out the agreed strategy and the day to day running of the Society and there is a clear division of responsibilities between the roles of the Chief Executive and Chairman.

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

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

The Chairman is responsible for ensuring that members of the Committee receive accurate, timely and clear information in order to discharge their duties effectively and the Society's Secretary is responsible for ensuring good information flows within the Committee and between senior management and the Committee. The roles of Chief Executive and Secretary should ideally be split, but the Committee is confident that it receives good information flows, guidance and support, and believes that the cost of employing a separate Secretary would not at this stage be an appropriate use of funds. The Committee and Sub-committee can also obtain assistance from the executive team and other staff members if required.

Senior Managers and Certification Regime (SM&CR)

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

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

The Society has appointed the following SM&CR functions in accordance with the PRA Rulebook (Insurance – Senior Manager

- Chief Executive function (SMF1)
- Chief Finance function (SMF2)
- Chairman function (SMF9)
- Chairman of Risk Committee function (SMF10)
- Chairman of Audit Committee function (SMF11)
- Senior Independent Director (SMF14) - From 1 January 2021
- Chairman of With-Profits Advisory Arrangement function (SMF15)
- Compliance oversight function (SMF16)
- Money Laundering Reporting Officer function (SMF17)
- Chief Actuary function (SMF20)
- With-Profits Actuary function (SMF20a)
- Managing internal operations (inc. HR), systems and technology of a firm (SMF24)
- Managing and identifying the financial risks from climate change

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

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

- IT Infrastructure Support
- Investment Management

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

In 2020 the Vice Chairman carried out the annual appraisal of the Chairman, in accordance with the Society's Rules at the time. After incorporating on 1 January 2021, the Society appointed a Senior Independent Director (SID), which attracts SMF14.

Finance & Investments Sub-Committee – FIC

The Sub-Committee meet on at least 11 occasions, and is comprised of the two Trustees, the Society's Chairman and one other Committee member by rotation, plus the Chief Executive and Chief Operating Officer. The Sub-Committee is not chaired by the Society's Chairman, instead it is rotated between the Trustees on a bi-annual basis. The Sub-Committee's main responsibilities are:

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

Audit & Risk Sub-Committee – ARC

This Sub-Committee monitors and acts as the risk management function and provides oversight of the Society's financial reporting process and internal controls. It comprises of at least four non-executive members (three prior to A Stone joining the Committee) and meets on at least four occasions during the year. Executives attend by invite only. The Sub-Committee is not chaired by the Society's Chairman and the position of Sub-Committee Chairman is held by a member having an accountancy qualification. The Sub-Committee's main responsibilities are:

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

Remuneration Policy

The approach to remuneration is designed to ensure that the Society can attract, retain and motivate people with the necessary skills, experience and qualities to run the Society prudently and effectively.

The overriding principle of the policy is to ensure that remuneration arrangements are aligned to the long-term objectives of the Society and that there are no remuneration arrangements that would adversely affect the financial (solvency) position of the Society and / or the Society's risk profile.

The Committee is sensitive to pay and employment conditions elsewhere, although does not fully assess remuneration levels relative to other organisations, preferring instead to act with an element of independence. It may use annual remuneration data provided by the Association of Financial Mutuals, or any other such organisation, as a comparable measure, to ensure salaries and fees remain attractive. It may also seek independent third-party advice periodically.

Incentives are provided to employees including the executive team through discretionary bonus schemes. The policy is to ensure that the maximum pay-outs that are available under the scheme are modest in relation to basic salaries and that they are structured with a balanced set of indicators, so as not to encourage risk taking or other behaviours and conflicts of interest that are not in the best interests of the Society and its members.

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

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

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

Currently the Remuneration Sub-committee is inactive and its duties and responsibilities are discharged by the full Committee of Management. The decision not to have a separate committee is based on the Society's risk profile and lack of complexity in its operations.

B.2 Fit and Proper Policy

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

The Society uses information from various sources to carry out the checks. If any applicant fails to pass the fit and proper test, the Society will not appoint them. An existing appointment will be terminated immediately if information comes to the Society's attention which casts doubt on the person's suitability to carry out the controlled function. The Society's secretary would be responsible for notifying the regulator in these circumstances.

Existing and new Committee of Management members, Senior Manager function holders and Certified employees are required to complete an annual 'fit and proper person' declaration, which ensures that any matters that should be brought to the Society's attention are properly disclosed, in order to assess their continuing fitness and propriety.

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

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

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

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

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

Whilst general risk oversight and direction is delivered through the ARC, which meets quarterly, the day-to-day risks within the business are managed by the executive team.

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

First line of defence – Operational Management

Operational Management is in the best position to assess risk exposures and is fully responsible for the risks our operations create. Ongoing oversight is provided through the executive team.

Second line of defence – Committee of Management, Sub-Committee & Actuarial Function

The second line of defence, which is independent of operations, is responsible for quantification, analysis and assessment of all risks. These governing bodies and functions create and uphold principles, policies and frameworks for risk management and facilitate risk assessment. The second line's role is the four-eyes oversight of the first line of defence, against inappropriate actions or activities and to confirm adherence to Policies and the Committee's appetite.

Third line of defence – Internal Audit

The third line of defence, which is independent of operations and management, is responsible for the testing and assessment of the Society's governance and control frameworks. The Internal auditor reports directly to the Audit and Risk Sub-committee.

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

- The Risk Matrix is maintained on a day-to-day basis by the executive team and presented to the ARC
- Actions arising from the Risk Matrix are documented and, where appropriate, escalated to the Committee
- The Annual Risk Analysis is prepared by the executive team and presented to the Committee
- Actions arising from the Analysis are documented and then reflected in the ORSA document
- The Committee of Management reviews the ORSA risk appetite and tolerances at least annually, or more frequently if there is a significant change in the Society's business or external environment
- The ORSA and Risk Matrix is used as a framework for conducting appropriate capital stress testing for the FLAOR
- Stress testing is carried out at least annually or more frequently if required – ad-hoc testing will be carried out to deal with extreme or unusual events

ORSA

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

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

The Committee of Management owns the ORSA process and the minutes of the relevant Committee meetings will record the challenges provided, the decision made and the feedback loops of the ORSA and FLAOR process.

The qualitative content of the ORSA will be approved by the Committee of Management, which is the Society's administrative, management and supervisory body, in August each year. The ORSA is designed to be for both internal use and to act as the ORSA supervisory report.

Capital Management Policy

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

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

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

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

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

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

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

Medium Term Capital Management Plan ("MTCMP")

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

B.4 Internal Control System

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

Compliance Function

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

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

The Compliance Officer for the Society is the Chief Operating Officer and is responsible for monitoring adherence to the FCA's COBS (Conduct of Business) rules. Support and guidance is provided by the Society's external compliance consultant, Geoff Spencer of Mutual Governance.

The Committee of Management and all staff receive annual training in relation to money laundering, data protection and complaints handling.

B.5 Internal Audit Function

The Society has an Internal Audit Function which is overseen by the Chairman of the Audit and Risk Committee. The reporting structure ensures independence of the internal audit function. The Society outsources the performance of the internal audit activity to independent accountants RSM.

The Society has an annual internal audit plan, which is prepared by RSM in accordance with industry standards and guidance, and taking account of the activities and governance arrangements of the Society. The plan includes a combination of a regular risk-based cycle of key testing priorities combined with a forward looking audit. The Committee has authorised the internal auditors to carry out audits which are not included in the plan, should the need arise during the course of the audit programme. The annual internal audit plan is approved by the Committee of Management.

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

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

B.6 Actuarial Function

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

The Chief Actuary reports directly to the Committee of Management and provides the following services and statutory duties:

- Carrying out the annual valuation of assets and liabilities in accordance with regulatory requirements, after first agreeing the valuation basis with the Committee
- Reporting any material deviations from actual experience when using projected best estimates and proposing changes to the valuation basis / models in order to improve best estimate calculations
- Assessing the reliability and consistency of internal and external data against relevant standards
- Making recommendations on internal procedures to improve data quality to meet current regulatory requirements
- Calculation of the technical/mathematical provisions in accordance with regulatory requirements
- Reporting to the Committee of Management on at least an annual basis in relation to the above
- Assistance with the completion of annual and quarterly regulatory returns
- Carrying out the Forward Looking Assessment of Own Risks (FLAOR), including appropriate scenario and stress testing, and reporting to the Committee annually

- Taking account of the impact on technical provision to provide advice to the Committee on underwriting and pricing policy
- Completion of data requests for information providers
- Any other tasks as described in the current service agreement

As With-Profits Actuary:

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

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

B.7 Outsourcing Policy

The Society outsources the following critical or important operational functions:

- Internal Audit (a key function)
- Investment Management
- Actuarial Services (a key function)
- IT Services

The performance of each outsourcing firm is reviewed by the Committee of Management at least annually and this review is recorded in the Committee minutes. With the exception of IT, the outsourcing firm is required to present to the Committee in person at least annually providing the opportunity for Committee members to assess performance and raise questions / issues.

The Chief Executive is the designated person responsible for the day-to-day performance and monitoring of outsourcing firms, apart from IT, which is designated to the Chief Operating Officer, and is responsible for escalating any issues to the Committee of Management.

The executive team will carry out whatever checks they feel appropriate to provide assurance for the ongoing competency and financial standing of the outsourcing firm and key employees. This may include requesting copies of third party governance reports, fit & proper person assessments, insurance policies, annual reports & accounts and/or the commissioning of a themed audit. Outsourcing firms are normally appointed for a minimum three year period or on an open ended basis. Appointments are made following a documented tender process, which involves a minimum of three firms. The Committee will receive presentations from each firm and will make the final decision regarding appointment. This is documented in the Committee minutes.

Outsourcing will not be carried out in the following circumstances:

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

The outsourced functions are essential to the Society's operations, but only IT would represent an immediate risk to the delivery of services to the Society's members. In the case of any difficulties with the incumbent outsourced provider, the contingency is that services could be switched rapidly to another known infrastructure support provider. The Society owns the physical IT infrastructure, which is located on the Society's premises.

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

B.8 Any Other Information

Owing to the Covid-19 lockdown measures the Society is able to operate remotely available but still required to have a small team within the office to receive and scan the post and mail out documentation to members who have no access to email or the internet. Claims and member services enquiries can be managed by employees working from home, with volumes of both calls and emails under active monitoring. This has been achieved smoothly but introduced new operational risks, which have been carefully managed.

C. Risk Profile

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

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

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

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

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

C.1 Insurance Risk (Low Tolerance)

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

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

The Society manages insurance risk by:

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

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

	2020 £000	2019 £000
Sickness and death	1,102	991
Pure endowments	16,208	14,958
Endowments	865	783
Taxable saving plans	7,123	6,890
Investment bond	31,301	25,999
ISA	67,598	62,032
Pension bond	509	883
Other	853	686
Total	125,560	113,222

Mortality Risk

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

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

Persistency Risk

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

The persistency experience of the Society varies over time, but has been relatively low and stable. Factors affecting persistency include members' perception of the Society and the insurance industry, investment performance and the general economic environment.

Expense Risk

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

A large proportion of the Society's expenses are incurred in staff costs and actuarial work, which are relatively predictable. The Society also employs a robust cost control culture in order to minimise cost increases whenever possible.

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

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

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

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

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

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

	United Kingdom £	Asia & Africa £	North & South America £	Europe Excluding UK £	Grand Total £
Investment & Unit Trusts	7,920,011	-	-	-	7,920,011
Consumer Goods	3,915,952	-	-	-	3,915,952
Financials	2,806,365	-	-	-	2,806,365
Health Care	2,312,498	-	-	-	2,312,498
Infrastructure	1,926,720	-	-	-	1,926,720
Basic Materials	1,604,820	-	-	-	1,604,820
Industrials	1,345,926	-	-	-	1,345,926
Consumer Services	1,239,661	-	-	-	1,239,661
Utilities	709,455	-	-	-	709,455
Miscellaneous	587,813	-	-	-	587,813
Open Ended Investment Companies	556,178	10,845,542	5,017,020	2,777,783	19,196,523
Property	442,705	-	-	-	442,705
Technology	291,450	-	-	-	291,450
Telecommunications	241,900	-	-	-	241,900
Oil & Gas Producers	178,378	-	-	-	178,378
Total	26,079,832	10,845,542	5,017,020	2,777,783	44,720,177

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

The Society's strategy is to deliver higher potential returns to members and to preserve the Society's position as a market leading with-profits regular premium product provider. This necessitates a relatively high exposure to higher risk assets as a means of improving yields. The Society achieves this by holding a relatively high exposure to property, through directly owned commercial property and commercial mortgages.

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

C.3 Credit Risk (Medium Tolerance)

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

- bond holdings adhere to minimum credit rating criteria i.e. must be mainly '-A' rated or above
- diversified portfolio of commercial mortgages to reduce the potential impact of default
- defined commercial lending policy with strict underwriting guidelines
- counter-party limits are in place for cash deposits
- The Society's debt securities are mainly investment grade and the Society does not expose itself to sub-prime debt securities.

C.4 Liquidity Risk (Medium Tolerance)

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

Any significant mismatch between cash inflows and outflows would be identified by the executive team and this would trigger a Committee review of the level of liquid assets (particularly cash holdings) and the impact on the liquidity situation of writing new business.

The Society has a medium tolerance to liquidity risk, which means that cash and near cash holdings are kept at relatively modest levels so that yields are not adversely affected. This approach is considered appropriate given the predictable nature of most policy claims and the fact that the Society is a positive cash generator.

Liquidity risk is managed as follows:

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

C.5 Operational Risks

Operational Losses (Low tolerance)

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

The Committee has set a low tolerance to operational losses, which equates to up to circa 10% of Operational Risk Capital per annum or circa 50% for an exceptional single event. Therefore, up to circa £73,000 operational losses are tolerated per annum, or circa £360,000 for a single exceptional event. The Society has established controls to manage operational risk within these tolerances. The Committee owns the risk policy, whilst the ARC oversees the policy and reviews the risk register and issues/ losses register to ensure the risk policy is effectively deployed and risks are mitigated.

The executive team manages the risks within the business, ensuring that controls are in place to mitigate risks. The executive team are also the custodian of the risk policy and register, and the Committee reviews these documents on a regular basis.

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

Reputation (Zero tolerance)

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

Customer Services (Zero tolerance)

This is the risk of complaints and poor TCF through backlogs, errors and omissions. The Committee has set a zero tolerance to complaints, whereby no reportable complaints are acceptable. The Society's policies, systems and staff culture are geared to avoiding issues that would lead to complaints and every case is escalated to the executive team.

Business Continuity (Low tolerance)

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

Compliance (Zero tolerance)

This is the risk of breaches of compliance in relation to such matters as conduct of business rules, anti-money laundering and data protection. The Committee has set a zero tolerance for such breaches, which means any incidence of non-compliance is unacceptable and remedial actions taken promptly. The Society works to 100% completion of mandatory staff training and all compliance matters are handled by the executive team with support and guidance as required from Mutual Governance.

Security (Zero tolerance)

This is the risk of fraud, financial crime, information security breaches and incidents of physical security. The Committee has set a zero tolerance for security, which means that no breaches or incidents are tolerated.

Regulatory & Legal (Zero tolerance)

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

Employee & Management (Low tolerance)

Employee and Management Risk is the risk to the Society's operations to issues such as staff turnover and reliance on the executive team. The Committee has set a low tolerance to such risks and tries to manage them by having competitive employment terms and conditions, a pleasant working environment and ensuring that effective contingency arrangements can be put in place at short notice.

C.6 Other Material Risks

Asset Liability Management Risk (Low tolerance)

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

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

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

Solvency (Medium Tolerance)

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

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

The Committee has set a medium tolerance to solvency and looks to maintain at least 125% x SCR after management actions. The Committee has also set a 'hard trigger' point to take management actions at a free asset ratio of below 2% and a 'soft trigger' point of below 3% to consider management actions available to increase solvency.

Strategy, Change & Adaptability (Low tolerance)

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

Political & Economic (Medium tolerance)

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

C.7 Any Other Information

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

- "Market risk" scenario: 15% fall in equities, 5% year on year in property asset values and 0.5% reduction in the risk-free rate
- "Life risk" scenario: New business volumes at 50% of plan, expenses at 150% of budget and lapse rate at 75% of plan
- Risks from "guaranteed return products" scenario: 25% fall in equities, 10% fall in property values, 0.5% reduction in risk free rate and lapse rate at 75% of plan
- "Liquidity risk" scenario: 25% increase in lapses on ISA/JISA/Bond business, a 25% decrease in lapses on the regular premium business, 2% reduction in investment return and failure of the largest counterparty
- "Climate change risk" scenario: 5% year on year reduction in property and equity values, 2% flat increase in corporate bond yields and 15% increase in mortality rates
- "Reverse stress": 15% fall in equity values and 25% reduction in property values

The following sensitivities were also tested:

- "Economic Risk" sensitivities: 15% fall in equity values, 5% fall year on year reduction in property value, reduction in risk free rates of 0.5% and corresponding reduction in investment returns
- Asset share investment returns +2% / -2%
- New business volumes at 50% / 150% of plan
- Expenses at 75% / 125% of plan
- Lapse rates at 50% / 150% of plan

The Society's actuary is satisfied that the Society's solvency ratio remains fairly strong during these stress tests, with additional opportunities available to make improvements through on-going consideration of the management actions applied.

The key risks to the solvency ratio falling below the Society's 125% minimum target would be a combination of adverse events happening together, the most onerous being a sudden deterioration in equity or property values combined with a reduction in risk free rates and investment return and a reduction in lapses on the regular premium business.

The Committee is satisfied that the Society's solvency ratio remains strong in most scenarios. The fall in markets at the start of 2020 adversely affected the Society's solvency ratio, however the Society has taken a measured approach in mitigating the impact on its members by reducing bonus rates, removing terminal bonuses and implementing an MVR to protect retained funds. These actions were taken in stages, through ongoing discussions with the Chief Actuary, Committee and Executive team. As business levels remained healthy and investment markets picked up to a certain extent, the MVR was removed and a terminal bonus reinstated on regular endowment products.

The Committee has taken steps in recent years to reduce the overall equity/property content of the investment portfolio and has also diversified the equity portfolio further by investing in overseas equities and throughout 2020 we also increased our exposure to overseas fixed interest to further reduce reliance on UK markets. The Society's combined proportion of investments in property and equities was just 64% at the 2020 year-end excluding CTF. The Society has taken steps to reduce this ratio over the last few years; 67% in 2019, 69% in 2018, 75% in 2017 and 79% in 2016, therefore helping to reduce the risks faced from a sudden market shock.

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

The main risks that emerged from Covid-19 were:

- reductions in asset values,
- lower future investment income and growth,
- an increase in withdrawals,
- an increase in operational risk,
- reductions in new business, and
- an increasing incidence of death claims in the short term.

The Society continue to monitor these risks closely, with management regularly reporting to the Committee. Management have assessed the impact of Covid-19 on cashflow and liquidity and have no concerns at present.

D. Valuation for Solvency Purposes

D.1 Assets

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

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

Value of the assets (£000)	2020	2019
Gilts	8,921	8,517
Other fixed interest	29,337	26,430
Equity	<u>44,301</u>	<u>38,122</u>
Total listed investments	82,559	73,069
Property	45,718	44,938
Commercial mortgages	975	975
Cash and deposits	10,514	8,379
Other assets	<u>501</u>	<u>488</u>
Total before Child Trust Fund	140,267	127,849
Child Trust Fund	42,332	46,735
Total assets	183,036	174,955
Adjustments for SII	(437)	(370)
Total value of assets for SII purposes	<u>182,599</u>	<u>174,584</u>

The listed investments are all included at market value.

The property portfolio is fully revalued every five years with a desktop valuation in the intervening years so that changes in market value can be taken into account. A reduction of £158,000 has been made to the value reported in the financial statements to allow for the expenses of acquiring property during 2020.

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

Cash and deposits are valued at face value.

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

There are no listed investments which are not held on an active regulated market.

The Society had inadmissible assets of £279,000 consisting of website development (£32,000), tangible assets on a fixed cost basis (£48,000), software development (£136,000) and prepayments and recharges (£63,000).

There are no leasing arrangements or material deferred tax assets.

There are no related undertakings.

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

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

Reconciliation of assets (£000)	2020	2019
Total value of assets for SII purposes	182,599	174,584
Add property acquisition expenses	158	194
Add website development costs	32	1
Add tangible fixed assets on a cost basis	48	52
Add software development costs	63	95
Add prepayments and recharges	136	28
Total assets shown in the report & accounts	183,036	174,954

D.2 Technical Provisions

The following table summarises the technical provisions:

Technical provisions (£000)	2020	2019
Asset shares	119,108	108,417
Cost of guarantees	5,967	5,283
Expense reserve	(2,479)	(2,830)
Non-profit liabilities	1,598	1,350
Child Trust Fund liability	37,420	41,746
Value of Child Trust Fund margins	(1,650)	(2,232)
Total best estimate liabilities	159,964	151,734
Risk margin	1,366	1,002
Total technical provisions	161,330	152,736

Methodology

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

- i) The value of with profits business at the valuation date is taken to be total asset shares at the valuation date plus the present value of the cost of future guarantees plus a reserve for expenses in excess of the charges made for expenses to the asset share.
- ii) The asset share is the accumulation of premiums paid less claims and expenses rolled up at the rate of investment return earned on the fund from year to year. For ISA business, where the asset share cannot be calculated robustly due to system and data constraints, the fund value of the investment (premiums paid less withdrawals plus annual bonuses) is taken as a proxy for asset share. An allowance is made for accrued final bonus (or market value reduction if appropriate) on those policies that are eligible.

- iii) The cost of future guarantees calculation projects both the asset shares and guaranteed benefit amounts on a per policy basis on various assumed rates of investment growth and future annual bonuses. Rates of investment growth are distributed around the risk-free rates prescribed by the regulator. On each rate of assumed growth, the excess of guaranteed benefit over projected asset share is discounted back to the valuation date using the risk-free rates prescribed by the regulator and summed over all policies. A lognormal probability distribution is then applied to the range of investment outcomes to obtain the present value of the cost of guarantees.
- iv) Expenses charged to the asset shares are assumed to be those underlying the premium basis and therefore an additional expense reserve is calculated to cover the cost of any actual expenses as projected in the business plan exceeding those in the premium basis. Credit is taken for the excess of expenses charged to the asset share over the actual expenses. The shortfalls and excesses are discounted back to the valuation date using the risk-free rates prescribed by the regulator.
- v) The liabilities in respect of non-profit business are calculated as the value of the future benefits plus the value of future expenses less the value of any future premiums. The values are based on a best estimate of future cashflows. These cashflows are discounted back to the valuation date using the risk-free rates prescribed by the regulator.
- vi) The Child Trust Fund ("CTF") liability is the value of all the units allocated to CTF policyholders using the "Society price" which allows for the deduction of the annual management charge.
- vii) The value of CTF margins represents the present value of future profits on CTF business which is the discounted value of future loadings arising on the CTF business over future CTF expenses. The latter is available to offset the additional expense reserve on with profits business and contributes to overall surplus funds.

The risk margin is calculated for the business as a whole. It represents the cost of providing the Solvency Capital Requirement ("SCR") excluding diversifiable market risk for the run-off of the business using the required cost of capital rate of 6%.

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

Risk margin (£000)	2020	2019
With-profits	1,047	732
Unit-linked	305	261
Other	14	9
Total risk margin	1,336	1,002

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

Assumptions

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

- i) Asset share growth rate for 2020: Asset shares have been rolled forward using the actual investment return achieved on the backing assets during 2020 less the actual investment expenses plus the CTF enhancement. The investment return credited to asset shares is 3.7%.
- ii) Discount rate: The risk-free yield curve published by the regulator at the reporting date has been used. Example spot rates are shown in the following table:

Projection year	1	2	3	4	5	10	15	20	25
2020	-0.11%	-0.08%	-0.02%	0.04%	0.08%	0.29%	0.42%	0.47%	0.48%
2019	0.72%	0.69%	0.72%	0.75%	0.78%	0.91%	1.00%	1.02%	1.02%

- iii) Central future growth rate for asset shares and CTF funds: the risk-free yield curve published by the regulator has been used for the central cost of guarantee calculation. The central growth rate is then varied for the purposes of applying the probability distribution to calculate the cost of guarantees.
- iv) Mortality: 30% of the standard mortality table ELT 15(M). The assumption for 2019 was 25%.
- v) Sickness: The remaining sickness business is very trivial and ignored on these grounds.
- vi) Tax: 10% applied where appropriate.
- vii) Expenses: Per policy expenses have been calculated based on the budgets and projected new business in the Society's business plan.
- viii) Expense inflation: The per policy expenses are increased after 2024 in line with the implied inflation curve published by the bank of England. For the 2020 valuation a deduction of 0.25% has been made for illiquidity and the inflation risk premium. Example spot inflation rates are shown in the following table:

Projection year	1	2	3	4	5	10	15	20	25
2020	2.82%	2.82%	2.74%	2.74%	2.76%	2.97%	3.07%	3.05%	2.96%
2019	2.72%	2.72%	2.73%	2.76%	2.79%	2.96%	3.10%	3.11%	3.02%

- ix) Annual bonuses: Set to 0 for regular premium business in line with the assumed risk free rates used to grow and discount the liabilities, and to continue at the proposed 2021 interim rates for all other business.
- x) Lapses:

Regular Premium endowments	3.5% in year 1, 2.5% in years 2 to 6, reducing to 2% years 7 to 12, and then 1% years 13 onwards
Investment/Income Bond	2% pa for the first 5 years, 20% in year 6, then 10% pa
Pension Bond	4% pa for 10 years then maturity
ISA	4% pa for 10 years then 8% thereafter, with a 2% partial withdrawal rate throughout all years
Staff Pension	3% pa until age 65 then retire
CTF	1% pa
All other business	0% pa
- xi) It is also assumed that all ISA and bond business matures at age 75 subject to a minimum term of 10 years from the valuation date.
- xii) The lapse assumptions are the same as the 2019 assumptions except a reduction in the lapse rates for regular premium endowments.

Cost of guarantees assumptions:

- i) The distribution of future equity returns is assumed to be lognormal, with the mean set to the log of the risk-free rate corresponding to the average outstanding duration of the liabilities.
- ii) The volatility used for the distribution has been assessed by looking at the realised volatility of the assets backing the non-CTF business and making an adjustment for the market's future expectations of volatility.

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

Other information

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

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

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

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

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

No use has been made of a matching adjustment.

No use has been made of a volatility adjustment.

No use has been made of the transitional provisions for risk-free interest rates.

No use has been made of transitional deductions from technical provisions.

There are no reinsurance arrangements in force.

D.3 Other liabilities

The only other liabilities the Society has are current liabilities of £2,112,000. These consist of creditors, including taxation and social security, plus accruals and deferred income. The value used for valuation purposes is the same as that shown in the financial statements.

D.4 Alternative methods for valuation

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

D.5 Any other information

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

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

The notional value of the Society’s investments has reduced due to economic volatility during 2020 and the uncertainty caused by the pandemic. In addition, the reduction in gilt yields over 2020 increased the Society’s exposure to the cost of guarantees in the best estimate liabilities at 31 December 2020.

The pandemic has also increased uncertainty regarding the development of withdrawals and mortality experience, and the impact this may have on the best estimate liabilities. So far there have been no indications that withdrawals will increase. The Society has only limited exposure to the cost of death claims and this is expected to be a short term feature in any case.

E. Capital management

E.1 Own Funds

The Society’s business strategy is fully reviewed and re-defined on a three-yearly basis. The strategy review, which was last undertaken in 2018, is facilitated by a third party and is approved by the Committee of Management. An interim review and reaffirmation of the strategy takes place on an annual basis in October.

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

Own funds (£000)	2020	2019
Total admissible assets	182,599	174,584
Less liabilities:		
Technical provisions	(161,330)	(152,736)
Other liabilities	(2,112)	(1,510)
Own funds	19,158	20,339

- i) There are no restrictions on the use of own funds.
- ii) There are no material differences between the equity in the Society's financial statements and the free capital for solvency purposes other than the £437,000 shown in the financial statements for assets classified as inadmissible for Solvency II purposes.
- iii) There are no items of own funds subject to a transitional arrangement.
- iv) There are no items of ancillary own funds.
- v) There are no deductions from own funds and no restrictions on availability and transferability.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

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

The SCR at 31 December 2020 was £11,874,000 (2019: £12,595,000) after allowing for management actions. This figure is subject to supervisory assessment.

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

£000	2020	2019
Market risk	10,253	11,257
Counterparty default risk	598	455
Life underwriting risk	2,092	1,165
Diversification benefit	(1,795)	(1,144)
Basic SCR	11,148	11,733
Operational risk	727	862
Solvency Capital Requirement	11,874	12,595

The SCR has increased from the 2019 year end. The main reason for the decrease is due to the increase in the value of the management actions assumed in the calculation of the SCR.

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

Own funds	19,158	20,339
Less: SCR	(11,874)	(12,595)
Surplus funds	7,284	7,744

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

The Minimum Capital Requirement ("MCR") is the minimum amount of capital that the Society must hold. The MCR is calculated using a linear formula and must lie between 25% and 45% of the SCR after management actions have been allowed for. It has an 'absolute floor' of €3.7m. The Society's MCR is calculated on the absolute floor basis which equates to £3,338,000 at the reporting date.

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

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

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

The Society does not use an internal model.

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

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

E.6 Any other information

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

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

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

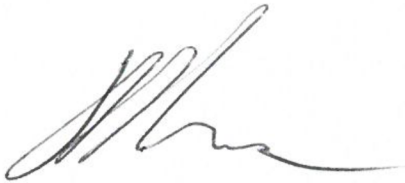
F. Approval by the Administrative, Management or Supervisory Body of the SFCR and Reporting Templates

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

We are satisfied that:

- (a) throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable; and
- (b) it is reasonable to believe that, at the date of the publication of the SFCR, the Society has continued so to comply, and will continue so to comply in future.

For and on behalf of the Board of Directors:



Jamie Bellamy
Chief Executive
19 March 2021

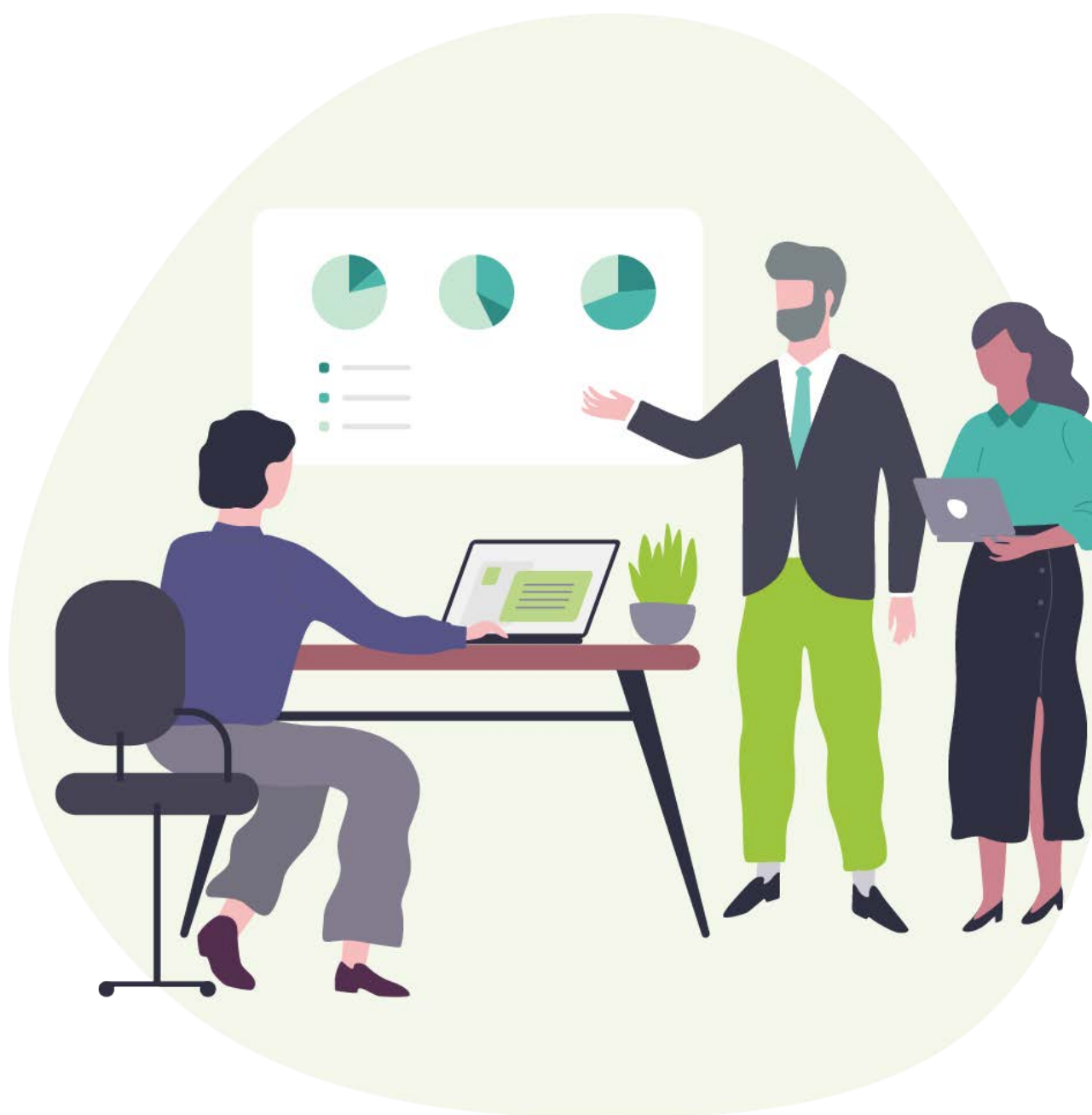
G. Glossary

Abbreviations

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

Solvency & Financial Condition Report (SFCR) Disclosures

For the year ended 31 December 2020



H. Solvency and Financial Condition Report Templates

General information

Undertaking name	Sheffield Mutual Friendly Society
Undertaking identification code	2138004A1162DEXLB278
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2020
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet

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

S.12.01.02 - Life and Health SLT Technical Provisions

S.23.01.01 - Own Funds

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

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

S.02.01.02

Balance sheet

Solvency II value	
C0010	
	300
	131,182
	41,237
	0
	18,374
	18,374
	32,293
	6,630
	25,264
	0
	400
	36,780
	2,498
	0
	42,332
	975
	0
	975
	0
	0
	0
	0
	0
	0
	0
	0
	0
	0
	0
	7,810
	0
	182,599

Assets

R0030	Intangible assets
R0040	Deferred tax assets
R0050	Pension benefit surplus
R0060	Property, plant & equipment held for own use
R0070	Investments (other than assets held for index-linked and unit-linked contracts)
R0080	<i>Property (other than for own use)</i>
R0090	<i>Holdings in related undertakings, including participations</i>
R0100	<i>Equities</i>
R0110	<i>Equities - listed</i>
R0120	<i>Equities - unlisted</i>
R0130	<i>Bonds</i>
R0140	<i>Government Bonds</i>
R0150	<i>Corporate Bonds</i>
R0160	<i>Structured notes</i>
R0170	<i>Collateralised securities</i>
R0180	<i>Collective Investments Undertakings</i>
R0190	<i>Derivatives</i>
R0200	<i>Deposits other than cash equivalents</i>
R0210	<i>Other investments</i>
R0220	Assets held for index-linked and unit-linked contracts
R0230	Loans and mortgages
R0240	<i>Loans on policies</i>
R0250	<i>Loans and mortgages to individuals</i>
R0260	<i>Other loans and mortgages</i>
R0270	Reinsurance recoverables from:
R0280	<i>Non-life and health similar to non-life</i>
R0290	<i>Non-life excluding health</i>
R0300	<i>Health similar to non-life</i>
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>
R0320	<i>Health similar to life</i>
R0330	<i>Life excluding health and index-linked and unit-linked</i>
R0340	<i>Life index-linked and unit-linked</i>
R0350	Deposits to cedants
R0360	Insurance and intermediaries receivables
R0370	Reinsurance receivables
R0380	Receivables (trade, not insurance)
R0390	Own shares (held directly)
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in
R0410	Cash and cash equivalents
R0420	Any other assets, not elsewhere shown
R0500	Total assets

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	0
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	
R0550	<i>Risk margin</i>	
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	125,255
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	125,255
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	124,194
R0680	<i>Risk margin</i>	1,061
R0690	<i>Technical provisions - index-linked and unit-linked</i>	36,075
R0700	<i>TP calculated as a whole</i>	37,420
R0710	<i>Best Estimate</i>	-1,650
R0720	<i>Risk margin</i>	305
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	1,162
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	598
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	351
R0900	Total liabilities	163,441
R1000	Excess of assets over liabilities	19,158

S.12.01.02

Life and Health SLT Technical Provisions

	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)	
	Insurance with profit participation	Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees				Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees				
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010 Technical provisions calculated as a whole		37,420								37,420						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default										0						
R0020 associated to TP calculated as a whole																
Technical provisions calculated as a sum of BE and RM																
Best estimate																
R0030 Gross Best Estimate	122,596		-1,650			1,598				122,544						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default										0						
R0090 Best estimate minus recoverables from reinsurance/SPV and Finite Re	122,596		-1,650	0		1,598	0			122,544						
R0100 Risk margin	1,047	305			14					1,366						
Amount of the transitional on Technical Provisions																
R0110 Technical Provisions calculated as a whole										0						
R0120 Best estimate										0						
R0130 Risk margin										0						
R0200 Technical provisions - total	123,643	36,075			1,611					161,330						

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

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds
R0230	Deductions for participations in financial and credit institutions
R0290	Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0	0		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
19,158	19,158			
0		0	0	0
0				0
0	0	0	0	0
0				
0				
0				
0			0	0
0				
0				
19,158	19,158	0	0	0

0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0

19,158	19,158	0	0	0
19,158	19,158	0	0	
19,158	19,158	0	0	0
19,158	19,158	0	0	

11,874
3,338
161.35%
573.99%

C0060
19,158
0
0
19,158

0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	16,584		
R0020 Counterparty default risk	598		
R0030 Life underwriting risk	2,920		
R0040 Health underwriting risk	0		
R0050 Non-life underwriting risk	0		
R0060 Diversification	-2,383		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	17,919		
Calculation of Solvency Capital Requirement			
R0130 Operational risk	726		
R0140 Loss-absorbing capacity of technical provisions	-6,571		
R0150 Loss-absorbing capacity of deferred taxes			
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200 Solvency Capital Requirement excluding capital add-on	11,874		
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement	11,874		
Other information on SCR			
R0400 Capital requirement for duration-based equity risk sub-module	0		
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	0		
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds	0		
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440 Diversification effects due to RFF nSCR aggregation for article 304	0		
Approach to tax rate			
R0590 Approach based on average tax rate	0		
Calculation of loss absorbing capacity of deferred taxes			
R0640 LAC DT			
R0650 LAC DT justified by reversion of deferred tax liabilities			
R0660 LAC DT justified by reference to probable future taxable economic profit			
R0670 LAC DT justified by carry back, current year			
R0680 LAC DT justified by carry back, future year			
R0690 Maximum LAC DT			

USP Key

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

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

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

C0100

726
-6,571
0
11,874
0
11,874

C0109

0

LAC DT

LAC DT

C0130

0
0
0
0
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

R0010	MCR _{NL} Result	C0010	0
-------	--------------------------	-------	---

- R0020 Medical expense insurance and proportional reinsurance
- R0030 Income protection insurance and proportional reinsurance
- R0040 Workers' compensation insurance and proportional reinsurance
- R0050 Motor vehicle liability insurance and proportional reinsurance
- R0060 Other motor insurance and proportional reinsurance
- R0070 Marine, aviation and transport insurance and proportional reinsurance
- R0080 Fire and other damage to property insurance and proportional reinsurance
- R0090 General liability insurance and proportional reinsurance
- R0100 Credit and suretyship insurance and proportional reinsurance
- R0110 Legal expenses insurance and proportional reinsurance
- R0120 Assistance and proportional reinsurance
- R0130 Miscellaneous financial loss insurance and proportional reinsurance
- R0140 Non-proportional health reinsurance
- R0150 Non-proportional casualty reinsurance
- R0160 Non-proportional marine, aviation and transport reinsurance
- R0170 Non-proportional property reinsurance

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
C0020	C0030

Linear formula component for life insurance and reinsurance obligations

R0200	MCR _L Result	C0040	-641
-------	-------------------------	-------	------

- R0210 Obligations with profit participation - guaranteed benefits
- R0220 Obligations with profit participation - future discretionary benefits
- R0230 Index-linked and unit-linked insurance obligations
- R0240 Other life (re)insurance and health (re)insurance obligations
- R0250 Total capital at risk for all life (re)insurance obligations

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
C0050	C0060
61,169	
61,428	
35,769	
1,598	
	8,405

Overall MCR calculation

R0300	Linear MCR	C0070	-641
R0310	SCR		11,874
R0320	MCR cap		5,343
R0330	MCR floor		2,968
R0340	Combined MCR		2,968
R0350	Absolute floor of the MCR		3,338
R0400	Minimum Capital Requirement		3,338



www.sheffieldmutual.com



enquiries@sheffieldmutual.com



Call our team on **01226 741 000**

Calls may be monitored and recorded for your protection