Solvency & Financial Condition Report (SFCR)

For the year ended 31 December 2017

Sheffield Mutual Est. 1892

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Summary

This is the Society's Solvency Financial Condition Report (SFCR) based on the financial position as at 31 December 2017.

Business and Performance

We are delighted to report another very strong business performance for Sheffield Mutual in 2017, which saw both our assets and income achieve considerable improvements on the prior year. The highlights of our performance are as follows:

- Total assets increased by 22% to a record £138.4 million
- Traditional premium income increased by 13% to £19.7 million
- New policies increased by 4% to 1,996
- Traditional membership increased by 6% to 11,294
- Including the Child Trust Fund we now have 78,317 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 Governance Map. 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 almost 15,000 policies (excluding CTF) in force at the end of 2017. 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 undertook its first Solvency II valuation under the new regulatory regime as at 1 January 2016 and this submission was known as the "Day 1" valuation. The first year end valuation was also undertaken as at 31 December 2016, the results of which were subject to external audit and formal reporting to the PRA for the first time. We are therefore reporting for the second year under Solvency II.

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)	2017	2016
Total value of assets for SII purposes	137,979	113,212
Add property acquisition expenses	342	602
Add website development costs	13	-
Add tangible fixed assets on a cost basis	44	-
Add prepayments and recharges	28	-
Total assets shown in the report & accounts	**138,406**	**113,814**

As part of the Solvency II valuation calculation, the cost of guarantees issued to members must be taken into consideration. During 2017, the methodology used to calculate the cost of these guarantees has been reviewed and the revised methodology is set out in section D.

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:

	2017	**2016**
Own funds	17,154	15,038
Less: SCR	(10,526)	(11,056)
Surplus funds	**6,628**	**3,982**
Solvency Ratio	*163%*	*136%*

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

Other Information

In line with PRA requirements, sections D (Valuation for Solvency Purposes) and E (Capital Management) of the SFCR have been subject to audit by the external auditor.

Sections A (Business and Performance), B (System of Governance) and C (Risk Profile) are unaudited.

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 is an unincorporated 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: "Being a mutual and having no shareholders to satisfy, our aim is to improve the financial wellbeing of our members by providing transparent products, quality service and greater potential returns."

The Society's vision is: "To continue to be a successful independent mutual friendly society by maintaining market-leading returns for our members and operating in a compliant, ethical and financially sound manner."

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, Chartered Accountants (2 Rutland Park, Sheffield, S10 2PD).

A.2 Underwriting Performance

During 2017 the Society again looked to achieve a sustainable level of controlled growth, whilst also taking advantage of the popularity of our plans. The Society's traditional premium income increased by 13% to £19.7 million, with subscriptions and external transfers to the Investment ISA generating almost £11.5 million of the total. This included ISA top-ups of around £4.3 million from existing members.

Regular premiums, mainly to the Tax Exempt Savings Plan, exceeded £3 million and, therefore, accounted for around 16% of the total Premium Income. We remain one of the top performers in the with-profits regular premium pure endowment league tables over 10, 15, 20 and 25 years.

The Society achieved strong growth in premium income and new policies in 2017, resulting in over 1,000 new members and an increase of around 9% in the total number of traditional policies held. The growth was again driven by the success of our Investment ISA, which provides savers with a potentially higher yielding alternative to Cash ISAs, but with less risk than a conventional Stocks & Shares ISA.

The Committee declared annual policy bonuses worth in excess of £1.5 million for members in 2017 and all with-profits bond, ISA and endowment policies had their interim bonus rates declared in full. The Committee also increased final bonus rates on bonds encashed after five years, maintained the final bonus rates on maturing regular premium endowments and extended the qualifying final bonus years for the Investment ISA.

Claims incurred increased during 2017 compared to 2016, mainly driven higher by increased levels of policy maturities and ISA withdrawals. This, however, is to be expected as the Society continues to grow its member base, with the Society achieving significant growth upon the previous year.

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:

	2017 £	2016 £
Single premium income	**16,551,624**	14,687,089
Regular premium income	**3,110,634**	2,854,146
Investment and other income	**4,594,312**	3,847,289
Total Income	**24,256,570**	21,388,524
Claims incurred	**(5,204,555)**	(3,404,164)
Administrative expenditure and taxation	**(1,616,291)**	(1,406,953)
Net unrealised gains / (losses) on investments	**6,672,562**	6,149,451
Change in long term business provisions	**(22,167,844)**	(20,449,338)
Transfer to Fund for Future Appropriations	**1,940,442**	2,277,520

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)**
31.12.15	9,955	12,416
31.12.16	10,678	13,654
31.12.17	11,294	14,837

Year Ending	**Number of New Members (Excl. CTF)**	**Number of New Policies (Excl. CTF)**
31.12.15	1,218	1,736
31.12.16	1,130	1,915
31.12.17	1,092	1,996

Year Ending	**Number of New CTF Accounts**	**Number of CTF Accounts**
31.12.15	9	63,731
31.12.16	9	63,612
31.12.17	13	63,480

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:

	2017	2016
	£	£
Land and buildings	**38,842,270**	33,204,445
Listed investments (excluding CTF)	**48,447,806**	31,799,859
Mortgages on land and buildings	**971,250**	1,004,583
Bank and money market deposits	**2,451,870**	2,094,570
	90,713,196	68,103,457
Unit linked assets - CTF	**42,387,596**	37,211,590
	133,100,792	105,315,047

The growth in business resulted in a 22% increase in total assets at the end of the year to a record £138.4 million (2016: £113.8 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 £10 million through Investec in 2017 and after adjusting for the new money added during the year the portfolio, now totalling £41 million, produced a total annual return (including income) of 9.2% after charges. The Society paid a total of £124,779 relating to Investec's investment management fees in 2017 (£97,082 in 2016).

An initial £3 million investment was made during 2016 in to the Fidelity Emerging Markets Fund. The Society invested a further £2 million during 2017, and after a very strong year for global emerging economies, the Fund now stands at £6.2 million.

The Society's commercial properties continued to generate consistent rental yields and the Committee expanded the portfolio by investing circa £6.25 million in three properties in 2017. This included a hotel in Huddersfield, tenanted by Travelodge, a drive-through restaurant in Northfield, tenanted by Starbucks, and a multi-tenanted retail outlet located in Chorlton, Manchester. These new properties have the benefit of long-term commercial leases backed by strong covenants. The Society now owns 45 geographically diversified commercial properties with a total value of circa £38.8 million. The Society paid a total of £39,679 relating to property related fees in 2017 (£35,464 in 2016).

Towards the end of 2017, the Society made an initial investment of £2 million in to the Schroders Real Estate Fund in an attempt to add further diversification to the property portfolio. The Fund generated a marginal loss of 0.28% and the Society paid a total of £7,984 relating to Schroders investment management fee.

The positive stock market performance resulted in an unrealised gain of £6.67 million for the year as illustrated below:

	2017	2016
	£	£
Net unrealised losses on investment properties	**(604,856)**	(43,204)
Net unrealised gain on revaluation of fixed assets	**-**	30,000
Net unrealised losses on UK Real Estate Fund	**(16,108)**	-
Net unrealised gains on listed investments		
-With Profits	**2,962,107**	1,556,809
-Unit Linked	**4,331,419**	4,605,846
	6,672,562	6,149,451

The Society's available capital increased from £15.0 million to £17.2 million with a solvency ratio of 163%; thereby maintaining a strong financial base. The Society's investment and other income was £4.594 million and after taking account of the unrealised gains the overall return on the non-CTF assets for the year was 8.01%.

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. Our excellent investment performance, combined with effective cost control, has enabled us to declare attractive annual bonuses on all policy types for 2017. We are also boosting pay-outs to members through the payment of final bonuses where appropriate. Our investment advisers and many other commentators are cautiously optimistic about the prospects for 2018, but are also wary about the potential banana skins. Therefore, the Committee will continue to manage the potential volatility by focusing on quality, balance and diversity when making investment decisions.

The next table shows the asset split of the Society's investment fund at the end of 2017, with previous years' figures for comparison purposes. This table excludes Child Trust Fund investments, which are part of a separately managed Unit Linked fund.

		2017	2016	2015
		%	%	%
Property		**45.01**	48.76	41.07
Mortgages on land and buildings		**1.07**	1.48	4.11
Listed investments:	- equities	**25.86**	25.61	26.59
	- fixed interest	**22.39**	17.75	20.41
	- alternative assets	**2.97**	3.32	4.45
Cash (excluding current account funds)		**2.70**	3.08	3.37
		100.00	100.00	100.00

A.4 Performance of Other Activities

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

A.5 Any Other Information

All relevant and material items are covered in Sections A.1 – A.3.

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 Annotated Version of the UK Corporate Governance Code for Mutual Insurers with its 'comply or explain' regime.

In 2017 the Committee comprised of the non-executive Chairman, two Trustees, three other non-executive members and two executive members (Chief Executive and Finance Director). The Committee determines the strategic direction of the Society and reviews its operating and financial position. The Committee met on ten occasions during 2017 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 Finance Director and other staff members if required.

Senior Insurance Managers Regime (SIMR)

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

The Society has appointed the following SIMR functions in accordance with the PRA Rulebook (Insurance – Senior Insurance Manager Functions):

- Chief Executive function (SIMF1)
- Chief Finance function (SIMF2)
- Chairman function (SIMF9)
- Chairman of Risk Committee function (SIMF10)
- Chief Actuary function (SIMF20)
- With-Profits Actuary function (SIMF21)

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 SIMR function holders.

The Chief Executive is responsible for the following FCA controlled functions:

- Compliance (CF10)
- Money Laundering Reporting Officer (CF11)

It is the Society's policy, in accordance with its Rules to appoint a Vice-Chairman rather than a Senior Independent Director (SID). Notwithstanding this, it is the role of the Vice Chairman to carry out the annual appraisal of the performance of the Chairman.

Finance & Risk Sub-Committee

The Society has a Finance & Risk Sub-Committee which meets on a monthly basis and is comprised of the two Trustees, the Society's Chairman and one other Committee member by rotation, plus the Chief Executive and Finance Director. Occasionally, the matters which are usually dealt with by this Sub-Committee are discussed by the full Committee depending upon the timing of meetings. The Sub-Committee is not chaired by the Society's Chairman and the position of Sub-Committee Chairman is normally rotated between the Trustees on a bi-annual basis. The Sub-Committee's main responsibilities are:

- to review monthly Income & Expenditure
- to review the Balance Sheet on a quarterly basis
- to consider and review recommendations from, and performance of, the Society's Stockbroker and agree sales and purchases as necessary
- to monitor the Society's property portfolio and agree sales and purchases within delegated limits
- to monitor the Society's risks, ensuring that they are managed effectively
- to monitor outstanding audit observations, ensuring that any recommended actions are carried out

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 staff members, the Chief Executive and Finance Director 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 Chief Executive, Finance Director and Staff 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 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 Committee of Management members and key function holders 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 proprietary.

Where the Society replaces a key 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 Finance & Risk Sub-Committee, 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 Chief Executive and Finance Director monitor external and emerging risks within the Society's forward-looking Risk Matrix, which is reviewed by the Finance & Risk Sub-Committee (FRSC) 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 FRSC 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 FRSC, which meets monthly, the day-to-day risks within the business are managed by the Chief Executive, supported by the Finance Director.

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 Chief Executive and supported by the Finance Director.

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. Internal audit reports directly to the Committee of Management.

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 Finance Director
- The Risk Matrix is updated at least quarterly by the Finance Director and, following review by the Chief Executive, presented to the FRSC
- Actions arising from the Risk Matrix are documented and, where appropriate, escalated to the Committee
- The Annual Risk Analysis is prepared by the Chief Executive 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 Chief Executive and Finance Director, 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, since 2014, 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 Anthony Burdin (Chief Executive) and he 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, David Williams of Haven Risk Management.

The Committee of Management receive an annual audit report from the external compliance consultant 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 Committee of Management. The reporting structure ensures independence of the internal audit function. The Society outsources the performance of the internal audit activity to independent accountants KPMG.

The Society has an annual internal audit plan, which is prepared by KPMG 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 presented to the Committee of Management and approved, normally in May each year.

The internal audit is carried out over the summer months and will normally involve around 10 working days on site. Draft reports are provided to the Chief Executive 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 Chief Executive and a report is provided monthly to the Finance & Risk Committee 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 Chief Executive, Finance Director 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 Actuaries and Consultants 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 in to 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 Services and Investment Management, which are designated to the Finance Director, and he/she is responsible for escalating any issues to the Committee of Management.

The Chief Executive or Finance Director will carry out whatever checks he/she feels appropriate to satisfy himself/herself as to the ongoing competency and financial standing of the outsourcing firm and key employees. This may include requesting copies of third party governance reports, fit & proper person assessments, insurance policies, 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

All relevant and material items are covered in previous sections.

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 Finance & Risk Sub-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.

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.

	2017 £000	2016 £000
Sickness and death	**1,410**	1,548
Pure endowments	**14,195**	12,364
Endowments	**715**	572
Taxable saving plans	**6,216**	5,266
Investment bond	**18,396**	13,113
ISA	**40,793**	30,287
Pension bond	**1,076**	1,235
Other	**963**	846
Total	**83,764**	65,231

Mortality Risk

Mortality risk is the risk of loss arising to the Society, due to differences in the trends of 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 Finance & Risk Committee 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 £	Emerging Economies £	Grand Total £
Oil & Gas Producers	2,111,455	-	2,111,455
Basic Materials	1,279,140	-	1,279,140
Industrials	513,190	-	513,190
Consumer Goods	1,610,510	-	1,610,510
Health Care	1,350,395	-	1,350,395
Consumer Services	874,170	-	874,170
Telecommunications	470,000	-	470,000
Utilities	394,530	-	394,530
Financials	4,443,660	-	4,443,660
Technology	199,500	-	199,500
Investment & Unit Trusts	4,006,543	-	4,006,543
Property	1,593,185	-	1,593,185
Infrastructure	1,099,460	-	1,099,460
Open Ended Investment Companies	-	6,203,372	6,203,372
Total	**19,945,738**	**6,203,372**	**26,149,110**

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 (up to 60% of non-CTF assets), 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 Finance Director and / or Chief Executive 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 £50,000 operational losses are tolerated per annum, or circa £250,000 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 Finance and Risk Committee oversees the policy and reviews the risk register and issues/losses register to ensure the risk policy is effectively deployed and risks are mitigated.

The Chief Executive manages the risks within the business (supported by the Finance Director), ensuring that controls are in place to mitigate risks. The Chief Executive is also the custodian of the risk policy and register, and the Committee reviews these documents on a regular basis. The Committee has considered the appointment of a separate risk manager/officer, but after considering the Society's size and complexity, and the fact that the Chief Executive and Finance Director are very close to the day-to-day operations of the Society, this is not considered to be an appropriate use of resources at the present time.

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 Chief Executive.

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 Chief Executive with support and guidance as required from Haven Risk Management.

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 Chief Executive. 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 (or minimum 2% free asset ratio).

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:

- New business volumes at 75% / 125% of plan
- Investment returns +1% / -1%
- Expenses at 75% / 125% of plan
- Combined scenario: A 25% fall in the value of all property assets, a 15% fall in equity assets and expenses 10% higher
- Lapse rates at 75% / 125% 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 threshold are higher expenses than expected, poor investment returns and a sudden deterioration in equity or property values. Overall the Committee is satisfied that the Society's solvency ratio remains reasonably strong in all scenarios and more stable over a three year term.

The combined scenario unsurprisingly takes the solvency ratio under the 125% minimum threshold; however a key driver of this is the 25% fall in property values, which on its own also breaches the minimum threshold. As at 31 December 2017 the commercial property portfolio made up circa 45% of the Society's assets and has been a major factor in the success of the business over recent years.

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.

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)	**2017**	**2016**
Gilts	4,979	3,292
Other fixed interest	15,059	8,896
Equity	26,152	19,310
Total listed investments	46,190	31,498
Property	40,736	33,101
Commercial mortgages	975	1,008
Cash and deposits	7,126	9,531
Other assets	564	862
Total before Child Trust Fund	95,591	76,000
Child Trust Fund	42,388	37,212
Total value of assets for SII purposes	**137,979**	**113,212**

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 £342,000 has been made to the value reported in the report and accounts to allow for the expenses of acquiring property during 2017.

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 £85,000 consisting of website development (£13,000), tangible assets on a fixed cost basis (£44,000) and prepayments and recharges (£28,000).

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)	**2017**	**2016**
Total value of assets for SII purposes	137,979	113,212
Add property acquisition expenses	342	602
Add website development costs	13	-
Add tangible fixed assets on a cost basis	44	-
Add prepayments and recharges	28	-
Total assets shown in the report & accounts	**138,406**	**113,814**

D.2 Technical Provisions

The following table summarises the technical provisions:

Technical provisions (£000)	**2017**	**2016**
Asset shares	76,141	58,738
Cost of guarantees	5,010	3,604
Expense reserve	(227)	187
Non-profit liabilities	1,879	2,013
Child Trust Fund liability	38,843	34,490
Value of Child Trust Fund margins	(2,801)	(2,442)
Total best estimate liabilities	118,845	96,590
Risk margin	961	689
Total technical provisions	**119,806**	**97,279**

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.

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 EIOPA. 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 EIOPA 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 EIOPA.

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 EIOPA.

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)	**2017**	**2016**
With-profits	654	446
Unit-linked	292	229
Other	15	14
Total risk margin	**961**	**689**

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 based on actual experience.

i) Asset share growth rate for 2017: Asset shares have been rolled forward using the actual investment return achieved on the backing assets during 2017 less the actual investment expenses plus the CTF enhancement. The investment return credited to asset shares is 8.01%.

ii) Discount rate: The risk-free yield curve published by EIOPA 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
2017	0.56%	0.68%	0.79%	0.87%	0.94%	1.19%	1.33%	1.38%	1.37%
2016	0.38%	0.44%	0.52%	0.61%	0.69%	1.08%	1.26%	1.32%	1.29%

iii) Central future growth rate for asset shares and CTF funds: the risk-free yield curve published by EIOPA 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: 40% of the standard mortality table ELT 15(M).

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 Business plan.

viii) Expense inflation: The per policy expenses are increased after 2021 in line with the implied inflation curve published by the Bank of England. Example spot inflation rates are shown in the following table:

Projection year	1	2	3	4	5	10	15	20	25
2017	2.89%	2.89%	2.84%	2.84%	2.86%	3.13%	3.40%	3.54%	3.54%
2016	2.99%	2.99%	2.98%	2.98%	3.01%	3.26%	3.48%	3.59%	3.59%

ix) Annual bonuses: Set to 0 for regular premium business and to continue at the proposed 2018 declared interim rates for all other business.

x) Lapses:

Regular premium endowment business	4% in year 1, reducing uniformly to 2% by year 5, and then reducing to 1% year 12 onwards
Investment/Income Bond	3% pa for the first 5 years, 20% in year 6, then 10% pa
Pension Bond	6% pa for 10 years then maturity
ISA	6% pa for 10 years then 10% thereafter
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.

xii) The lapse assumptions are the same as the 2016 assumptions apart from the first-year lapse rate for regular premium endowments was set to 6% at the end of 2016.

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 £1,019,000. 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

No 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".

No other material information is supplied.

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 2015, 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)	**2017**	**2016**
Total admissible assets	137,979	113,212
Less liabilities:		
Technical provisions	(119,806)	(97,279)
Other liabilities	(1,019)	(895)
Own funds	**17,154**	**15,038**

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 £427,000 shown in the financial statements for property purchased during the valuation year and inadmissible assets 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 2017 was £10,526,000 (2016: £11,056,000) 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	2017	2016
Market risk	9,128	9,792
Counterparty default risk	762	1,187
Life underwriting risk	1,194	412
Diversification benefit	(1,352)	(1,118)
Basic SCR	**9,732**	**10,273**
Operational risk	794	783
Solvency Capital Requirement	**10,526**	**11,056**

The SCR has not changed significantly from the 2016-year end despite the growth in business during the year. The main reason for this is a change in the assumed management actions used in the equity and property stresses.

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

Own funds	17,154	15,038
Less: SCR	(10,526)	(11,056)
Surplus funds	**6,628**	**3,982**

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 £3,251,000 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".

No other material information is supplied.

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 Committee of Management:

Jamie Bellamy
Finance Director
21 April 2018

G. Independent Auditor's Opinion

Report of the external independent auditor to the Committee of Management of Sheffield Mutual Friendly Society ("the Society") pursuant to Rule 4.1 (2) of the External Audit Chapter of PRA Rulebook applicable to Solvency II firms.

Report of the Audit of the relevant elements of the Solvency and Financial Condition Report.

Opinion

Except as stated below, we have audited the following documents prepared by Sheffield Mutual Friendly Society as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Sheffield Mutual Friendly Society as at 31 December 2017, ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S12.01.02, S23.01.01, S25.01.21, S28.01.01, ('the Templates subject to audit')

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company template S05.01.02
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report;
- The written acknowledgment by management of their responsibilities, including for the preparation of the solvency and financial condition report ('the Responsibility Statement').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of Sheffield Mutual Friendly Society as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Committee of Management's use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- The Committee of Management has not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Other information
Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Committee of Management for the Solvency and Financial Condition Report
The Committee of Management is responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Committee of Management is also responsible for such internal control as determines is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:
https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance-for-auditors/Auditors-responsibilites-for-audit/Description-of-auditors-responsibilities-for-audit.aspx

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1(3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Sheffield Mutual Friendly Society's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

BHP LLP.

BHP LLP
Statutory Auditors
2 Rutland Park
SHEFFIELD
S10 2PD

21 April 2018

H. Glossary

Abbreviations

ALM	Asset Liability Management
CEO	Chief Executive Officer
CFO	Chief Finance Officer
COBS	Conduct of Business
CTF	Child Trust Fund
EIOPA	European Insurance and Occupational Pensions Authority
FCA	Financial Conduct Authority
FLAOR	Forward Looking Assessment of Own Risks
FRSC	Finance and Risk Sub Committee
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

I. Solvency and Financial Condition Report Templates

(Monetary amounts in GBP thousands)

General information

Undertaking name	Sheffield Mutual Friendly Society
Undertaking identification code	2138004A1I62DEXLB278
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2017
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	275
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	89,555
R0080	*Property (other than for own use)*	38,501
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	14,399
R0110	*Equities - listed*	14,399
R0120	*Equities - unlisted*	
R0130	*Bonds*	20,093
R0140	*Government Bonds*	5,019
R0150	*Corporate Bonds*	15,074
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	14,214
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	2,349
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	42,388
R0230	Loans and mortgages	975
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	975
R0270	Reinsurance recoverables from:	0
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	4,786
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	137,979

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	83,473
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	83,473
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	82,803
R0680	*Risk margin*	670
R0690	Technical provisions - index-linked and unit-linked	36,334
R0700	*TP calculated as a whole*	38,843
R0710	*Best Estimate*	-2,801
R0720	*Risk margin*	291
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	104
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	487
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	427
R0900	**Total liabilities**	120,825
R1000	**Excess of assets over liabilities**	17,154

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross		19,653	476	9					20,138
R1420	Reinsurers' share		0	0	0					0
R1500	Net		19,653	476	9					20,138
	Premiums earned									
R1510	Gross		19,653	476	9					20,138
R1520	Reinsurers' share		0	0	0					0
R1600	Net		19,653	476	9					20,138
	Claims incurred									
R1610	Gross		5,095	116	110					5,321
R1620	Reinsurers' share		0	0	0					0
R1700	Net		5,095	116	110					5,321
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net		0	0	0					0
R1900	**Expenses incurred**		1,463	31	37					1,531
R2500	**Other expenses**									
R2600	**Total expenses**									1,531

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**		38,843								38,843						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole										0						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	80,925		-2,801	0		1,879	0			80,002						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default										0						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	80,925		-2,801	0		1,879	0			80,002						
R0100	**Risk margin**	654	291			15					961						
	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**	81,579	36,334			1,894					119,806						

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	17,154	17,154			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	17,154	17,154	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	17,154	17,154	0	0	0
R0510	Total available own funds to meet the MCR	17,154	17,154	0	0	
R0540	Total eligible own funds to meet the SCR	17,154	17,154	0	0	0
R0550	Total eligible own funds to meet the MCR	17,154	17,154	0	0	
R0580	**SCR**	10,526				
R0600	**MCR**	3,251				
R0620	**Ratio of Eligible own funds to SCR**	162.96%				
R0640	**Ratio of Eligible own funds to MCR**	527.71%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	17,154
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	17,154
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	12,896		0
R0020	Counterparty default risk	762		
R0030	Life underwriting risk	1,904		0
R0040	Health underwriting risk	0		0
R0050	Non-life underwriting risk	0		0
R0060	Diversification	-1,835		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	13,727		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	794
R0140	Loss-absorbing capacity of technical provisions	-3,995
R0150	Loss-absorbing capacity of deferred taxes	0
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**	10,526
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	10,526
	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

S.28.01.01

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

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

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	-222

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	41,468	
R0220	Obligations with profit participation - future discretionary benefits	39,457	
R0230	Index-linked and unit-linked insurance obligations	36,042	
R0240	Other life (re)insurance and health (re)insurance obligations	1,879	
R0250	Total capital at risk for all life (re)insurance obligations		4,726

	Overall MCR calculation	C0070
R0300	Linear MCR	-222
R0310	SCR	10,526
R0320	MCR cap	4,737
R0330	MCR floor	2,632
R0340	Combined MCR	2,632
R0350	Absolute floor of the MCR	3,251
R0400	**Minimum Capital Requirement**	3,251