Solvency and Financial Condition Report 2017 – Metfriendly

Abbreviations used in this Report

AWP	Accumulating With-Profits
BEL	Best Estimate Liabilities
CA	Chief Actuary
CEO	Chief Executive Officer [of Metfriendly]
CFO	Chief Finance Officer
CMI	Continuous Mortality Investigation
CWP	Conventional With-Profits
DTA	Deferred Tax Assets
FCA	Financial Conduct Authority
FLAOR	Forward Looking Assessment of Own Risks
ICOP	In Course of Payment
MCR	Minimum Capital Requirement
Metfriendly	Metropolitan Police Friendly Society Ltd
NED	Non-Executive Director
ORSA	Own Risk and Solvency Assessment
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
PV	Present Value
RM	Risk Margin
RSR	Regulatory Supervisory Report
RST	Reverse Stress Test
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SIMF	Senior Insurance Management Function
TAS	Technical Actuarial Standard
TP	Technical Provisions
WPA	With-Profits Actuary
WPNED	With-Profits NED (the Advisory Arrangement adopted by Metfriendly)

SUMMARY

1. Background

Metropolitan Police Friendly Society Limited (also referred to as 'Metfriendly', 'the Society', "we" or "our" in this document) is a mutual organisation, owned by its members, and established as a friendly society.

We are regulated by the Prudential Regulation Authority and the Financial Conduct Authority and are not part of a group of companies and have no subsidiaries.

Whilst all serving and former members of the police services are eligible to join the Society, sales and marketing activities are focused on those in the London area - reflecting our close links with police services in the capital.

As at 31 December 2017, Metfriendly had 13,192 members and assets of approximately £166m.

2. Business Review

Business Strategy

Our vision is to be the trusted provider of choice for financial products relevant to the needs of the police family in the London area. We are established to serve a defined affinity market – police officers and staff in London including their family members and encompassing retired members. Trust is key to serving an affinity market where word of mouth recommendation plays an important role, and we have a close working relationship with the police service in London where we provide help, support and sponsorship.

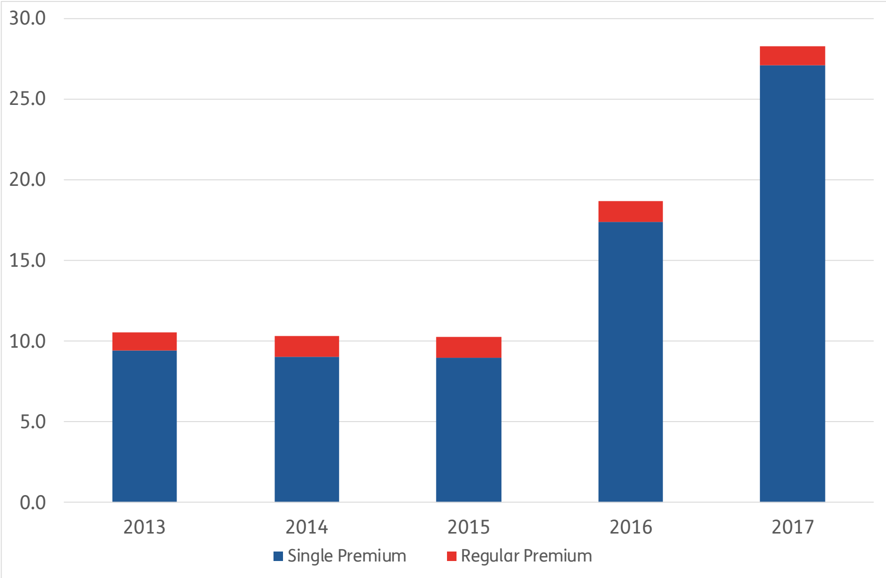
Our long-term strategy is to grow the core business, which will both deliver value to members and ensure our costs are covered. There is a focus both on attracting new members and on writing sufficient levels of new business. In particular, we recognise the importance of attracting new entrants to the police force as members of the Society. New generations of members bring long term benefits to the member and to the Society but have a lesser impact on short term performance.

Our core products are savings and investment products for the medium to long term based on the with-profits business model. These include stocks and shares ISAs, which can be used for regular savings or lump sum investments. Our guaranteed five-year savings plan continues to be popular and provides a fixed return at the end of the term. Protection products, which include life and health insurance, complement our savings products. Health products, comprising Income Protection and Critical Illness, are tailored to the benefits provided to police officers through their employment. Our distribution model is to provide information, not advice, about our products, and we do not sell through intermediaries or pay commission to our field officers. We provide this information by running seminars to educate and support members' financial needs.

Review of 2017

During 2017, new business has continued to grow, driven by focused marketing activity and the launch of our new Lifetime ISA (LISA). Overall membership grew by 4% to 13,192 members at the end of the year and new business grew as shown in Chart 1. Single premiums increased by 56% to £27.1m, whilst new regular premiums fell 6% to £1.2m. This excellent result was supported by our decision to continue to invest in our Sales and Marketing function, which has enabled us to increase our field activities and membership engagement. We were able to hold more of our popular pre-retirement options seminars, and these in turn created more leads for one to one meetings to provide information about our products and services. We have continued to support new recruits by making presentations during their induction days at Hendon, as well as attending passing out parades and other key events in the Metropolitan Police calendar. During 2018, we will continue to grow our core business by attracting new members and improving member retention.

Chart 1: New Business £m



In April 2017 we launched a Lifetime ISA, which is available to members aged between 18 and 39, a key group in our customer base. The LISA is designed to help save for a deposit on a first home or to supplement pension savings. It is subject to both the ISA and specific LISA rules. Contributions are supplemented by a 25% government bonus. It is proving popular with members and is reflected in the strong growth in ISA premiums in 2017. During 2018 we will review our product range to ensure that we continue to offer products that are tailored to the needs of our members.

During 2017 we reviewed our Investment Management arrangements, which followed a formal process with professional assistance. As a result of this review, we appointed new investment managers and are transferring our investments to these managers in the early months of 2018.

Business Environment

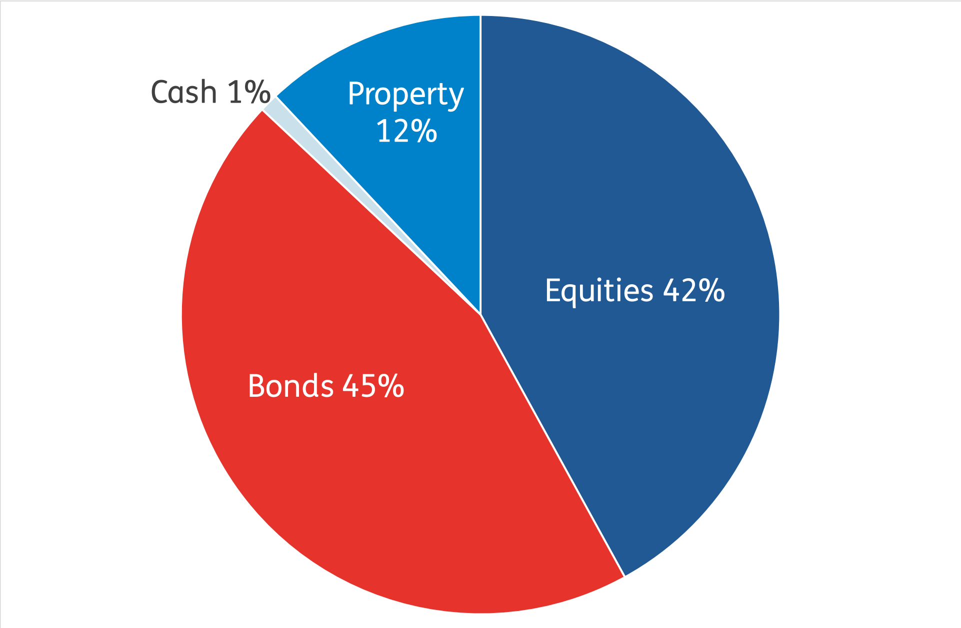
The combined effect of low interest rates and market volatility arising from uncertain political and economic outcomes are the most important issues affecting Metfriendly and its position in the market. Low interest rates have been a benefit to us in attracting new business as we can offer better returns than cash whilst managing investment risk for members. In the longer term, technology is likely to drive change which can be both an opportunity, in creating a better member experience, but also a threat from cyber risks.

Regulatory change showed little signs of slowing down during the year. Detailed rules for Key Information Documents (KIDs) for Packaged Retail and Insurance-based Investment Products (PRIIPs) were published and our new KID documents were available on our website for the 1st January 2018 start date. We continued to work on projects to implement the General Data Protection Regulation (GDPR) and Insurance Distribution Directive (IDD), which will both go live in 2018. In addition, the extension of the Senior Managers and Certification Regime to insurers has been announced to take effect from December 2018. This aims to ensure there is an effective governance system within firms and individual accountability of senior managers and directors.

Business Performance and Key Performance Indicators

In 2017, the Society benefited from an investment return on with-profits assets of 8.7%, helped by our equity funds returning 13%. The Society's assets have grown due to a combination of strong investment returns and new business inflows and this helps us to spread our costs. Chart 2 below shows where the with profit assets were invested as at 31st December 2017.

Chart 2: With Profits Investments at 31st December 2017



In line with our budgeted plans for growth, management expenses continued to rise in 2017 (up 29%) as we continued our strategy of investing in our sales and marketing capability in order to grow membership numbers and increase new business volumes. Staff costs also increased as expected, reflecting continued strengthening of our senior management team to help build resilience and reduce key person risk. Expenses charged to with-profits contracts have remained stable with this development activity met from the Society's reserves. The Society has a business plan and revenue projection covering the next 3 years, and the Board considers that it can operate successfully over that period, and beyond.

3. System of Governance

The Society's Board of Management ('the Board') is responsible for oversight of the organisation and setting its strategy. The Board is supported by 5 Board committees.

The Society has a clear reporting structure and requires all personnel responsible for the organisation's oversight and key functions to have the requisite skills and experience to fulfil their roles and responsibilities. Robust procedures are in place for ensuring fitness and propriety on appointment and whilst in office.

The governance structure supports the Society's approach to risk management by ensuring that risks are managed in line with our conservative risk appetite. This is based on ensuring that capital strength should not be compromised, but that this should be balanced against the requirement to achieve good investment returns for members and to avoid holding excessive levels of capital.

Risk management is overseen by the Board, with detailed review carried out on its behalf by the Risk and Investment Committee, which regularly reviews the Society's risk register. This Committee also oversees the annual Own Risk and Solvency Assessment (ORSA) process that takes place throughout the year, ensuring that it is fully integrated with the decision-making process.

The Society's actuarial function is outsourced to Milliman LLP, with oversight of this arrangement provided by the Society's Chief Executive Officer who is a qualified actuary.

4. Risk Profile

The Society uses the Standard Formula to calculate its Solvency Capital Requirement (SCR) under the Solvency II regime, as this represents appropriate capital for an organisation with the Society's risks. The most material financial risk faced by the Society is market risk. We do not avoid market risk, recognising that we need to generate acceptable returns for members. However, we seek to mitigate it by holding a well-diversified investment portfolio.

We also consider reputational risk to be significant and therefore adopt a highly risk averse approach to safeguarding member's data.

5. Valuation for Solvency Purposes Summary

The Society has aligned its report and accounts with technical provisions required for reporting the results under Solvency II. The Society's principal assets as determined for solvency purposes grew during 2017 to £165.5m as at 31 December 2017, from £138.4m as at 31 December 2016.

The liabilities comprise primarily technical reserves for benefits and guarantees accrued to members, being the sum of the best estimate of liabilities and the risk margin. The total liabilities have increased in line with the new business written during the year and amounted to £135.7m as at 31 December 2017, increased from £111.2m (restated) as at 31 December 2016.

The Society does not use any adjustments (volatility, matching or transitional) in calculating its solvency ratio.

6. Capital Management Summary

The Society's Own Funds arise entirely from historical surpluses which have not been distributed to members and so Own Funds are all Tier 1 capital.

The Society's Solvency Capital Ratio as at 31 December 2017 was 342% with own funds of £29.8m and a Solvency Capital Requirement ('SCR') of £8.7m. This level of coverage is higher than the upper limit of the Board's risk appetite, which is to maintain coverage within a target range, currently set at 150% - 300% of SCR. Given the strategic intent to continue to grow the business, the Board considers the Society's strong capital position provides flexibility and is helpful in supporting business growth. In comparison, the Society's Solvency Capital Ratio as at 31 December 2016 was 327%, with Own Funds of £27.2m and an SCR of £8.3m.

During 2017 the Board revised the target range for solvency coverage from 200% - 400% to 150% - 300%, to reflect its appetite for growth and new investment management arrangements.

The amount of the Minimum Capital Requirement (MCR) is at the absolute minimum level of €3.7m, currently £3.3m at 31 December 2017. The eligible amount of basic own funds to cover the MCR is £29.8m, which gives an MCR coverage ratio of 918%.

The Society continues to be financially strong and has complied with the both the Minimum Capital Requirement and the Solvency Capital Requirement throughout 2017 by a large margin.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulation Authority ('PRA') rules and SII regulation.

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

Each of the Directors, whose names and functions are listed in the Board of Directors section of the Report and Accounts, confirm that, to the best of their knowledge:

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

By Order of the Board

Name

Title

Date

REPORT OF THE EXTERNAL INDEPENDENT AUDITOR to the Directors of Metropolitan Police Friendly Society Limited ('the Society') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Society as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Society as at 31 December 2017 ('**the Narrative Disclosures subject to audit**'); and

- Society templates S02.01.02, S12.01.01, S23.01.01, S25.01.21 and 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;

- Society templates S05.01.02 and S05.02.01; and

- the written acknowledgement 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 the 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.

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 *Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company 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.

Use of the audit report

This report, including the opinion, has been prepared for the Directors of the Company to enable them to comply with their obligations under External Audit rule 2.1 of the Solvency II Firms Sector of the PRA Rulebook and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors for our audit work, for this report, or for the opinions we have formed.

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 directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or

- the directors have 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.

Emphasis of Matter - Basis of Accounting

We draw attention to the Valuation for Solvency Purposes and Capital Management sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the PRA. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the 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 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 Directors for the Solvency and Financial Condition Report

The Directors are 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.

The Directors are also responsible for such internal control as they determine 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 www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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 Metropolitan Police Friendly Society Limited’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.

Mazars LLP

27 April 2018

A BUSINESS AND PERFORMANCE

A1 DESCRIPTION OF THE BUSINESS, INCLUDING MATERIAL LINES OF BUSINESS, CAPITAL STRUCTURE, AUDITORS

A1.1 Legal Structure

Metropolitan Police Friendly Society Limited ('Metfriendly' or 'the Society') is a friendly society, incorporated under the Friendly Societies Act 1992 and registered in the United Kingdom (registered number 496F). The Society's registered office is at Central Court, 1B Knoll Rise, Orpington BR6 0JA.

The Society is dual regulated under registered number 110026 by both the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'). As an FCA designated flexible portfolio firm and a PRA designated P5 firm, the Society does not have individually named supervisors. Contact details for each regulator are as follows:

> FCA: 5 The North Colonnade, London E14 5HS firm.queries@fca.org.uk Freephone 0800 111 6768
>
> PRA: Bank of England, Threadneedle Street, London EC2R 8AH firmenquiries@bankofengland.co.uk Phone 020 7601 4444

The Society's auditor is Mazars LLP, Tower Bridge House, St Katharine's Way, London E1W 1DD.

The Society is a mutual organisation, owned by its members (i.e. its policyholders) and has no shareholders. At General Meetings, each member over the age of 18 has one vote, irrespective of the number of policies they hold, and all votes count equally.

The Society is not part of a group and has no subsidiaries.

A1.2 Description of the Business

Metfriendly operates solely in the UK and individuals living outside the UK are not eligible to take out policies with the Society. Members with policies who move abroad may not normally take out additional policies.

The Society's mission statement is as follows:

> "**Metfriendly is here to give members of the police family the opportunity to provide for their future financial security through education, information and fair value products.**"

Membership of the Society is restricted to current and former police personnel and their family members, with Metfriendly focussing its sales and marketing activities in the London area in order to achieve the most cost-effective results - providing a well-defined affinity group. Employees of the police service in London are able to make payments to the Society by regular deduction from salary.

As at 31 December 2017 the Society had assets of approximately £165.5m, membership of 13,192 and 29 employees (plus 7 non-executive directors).

The Society provides medium to long-term savings and investment products as well as protection policies, each of which is outlined in turn below. It does not provide cash savings accounts in any format. All savings and investment products are with-profits with the exception of the guaranteed 5 year savings plan (see below).

Savings products include 'stocks and shares' ISAs for adults and Junior ISAs for children to facilitate monthly savings. Both are subject to minimum and maximum monthly amounts, and the annual limits imposed by statute. Returns earned depend on the performance of the With-Profits Fund (see below).

Metfriendly also offers 5 year regular savings plans with guaranteed returns, depending on the regular fixed monthly savings amount (at least £20 per month) that is chosen at the start of the five year period.

Longer-term savings plans are also available. A ten year savings plan allows monthly payments between £25 per month and £300 per month, with the first £25 per month being tax exempt (subject to a maximum of one such tax exempt policy per person – whether with the Society or another organisation). Longer terms of 11 to 25 years can no longer be taken out, but some older plans of this duration are still active.

Investment products are provided in the form of lump sum stocks and shares ISAs (minimum amount £2,000) for adults. These are also available as Junior ISAs for children, with a minimum amount of £1,500. Both are subject to the annual maximum limits allowed by statute. The Society also offers With Profit Bonds, subject to a minimum amount of £2,000. These lump sum products have no fixed-term, but are intended for the longer-term, with annual bonuses and eligibility for a final bonus after at least three years.

In April 2017 the Society launched a Lifetime ISA (minimum amount £100pm / £1,200 lumpsum), available to members aged between 18 and 39. The LISA is designed to help save for a deposit on a first home or to supplement pension savings. Contributions are supplemented by a 25% government bonus. The LISA is subject to both the ISA and specific Lifetime ISA rules.

Protection plans are designed to provide income protection for police officers and police staff in the event of sickness, critical illness or injury. Life insurance protection is also available, either as a fixed sum or a reducing amount (for instance to cover the diminishing balance on a repayment mortgage).

The Society's **With Profits Fund** is invested in a range of assets spread across several investment funds, with diversified allocations in equities, corporate bonds and property. The investment strategy aims to provide returns that are significantly better than those available on government bonds. Surplus funds in excess of asset shares are backed by cash deposits, liquidity funds and bond funds; as are policies which are not with-profits (guaranteed savings and protection plans).

A1.3 Significant External Events in 2017

The introduction of the Lifetime ISA by the government from 6th April 2017 was a significant event for the Society as Metfriendly was one of a small number of providers to offer the product. The Society has worked closely with HMRC on the implementation of new rules, systems and reporting for the Lifetime ISA. The Treasury has continued to support the Lifetime ISA but the number of providers remains small.

Metfriendly's Lifetime ISA is proving popular with customers, is attracting national enquiries and is reflected in the strong growth in ISA premiums in 2017.

A2 UNDERWRITING PERFORMANCE

The underwriting result encompasses premiums plus allocated investment returns; less claims, expenses, taxation and the increase in technical provisions, as reported in the accounts. This year the technical provisions in the accounts have been reported on a Solvency II basis for the first time and so the 2016 underwriting result has been restated to allow comparison. The main change compared with the previous basis is that Technical Provisions previously included a margin for prudence. Under Solvency II the Risk Margin has been allocated to capital and the Best Estimate Liabilities are allocated to each line of business.

For 2017, the result was an underwriting profit of £2.6m (2016 restated: a profit of £0.8m). Table A1 below shows how the 2017 result arises by line of business, including items attributed to capital which are covered in the following sections. All business was written in the UK. Accumulating with profits business is written as single premium business with no fixed term. Single premiums include recurrent premiums initiated by the member in prior years. The member retains the right to vary or suspend such premiums without penalty. Conventional with profits business is written as regular premium business with a fixed payment term.

Table A.1 2017 Results by Line of Business

	Accumulating With Profits	Conventional With Profits	Other Savings	Protection	Attributed to capital	Total 2017	Total 2016 (Restated)
	£m	£m	£m	£m	£m	£m	£m
Premiums	27.1	2.3	3.6	0.5	-	33.5	23.9
Investment Return	7.6	1.6	0.3	0.1	0.7	10.3	12.0
Claims	(6.3)	(7.0)	(0.4)	(0.3)	-	(14.0)	(12.8)
Expenses	(2.2)	(0.3)	(0.2)	(0.2)	(0.2)	(3.1)	(2.4)
Taxation	(0.3)	-	0.1	-	-	(0.2)	(0.6)
Decrease (Increase) in Technical Provisions	(25.2)	4.2	(3.1)	(0.1)	0.3	(23.9)	(19.3)
Total	0.7	0.8	0.3	0.0	0.8	2.6	0.8

As a result of the planned marketing strategy to grow the business, there has been an increase in the levels of AWP business written accompanied by a planned increase in expenses. The 2017 underwriting profit is largely attributable to good investment conditions.

A3 INVESTMENT PERFORMANCE

The Society invests through pooled funds, with expenses charged to those funds. Where the Society receives a rebate of fees from the investment manager, this is recorded as investment income. A breakdown of the 2017 investment return is given in the Table A.2 below.

The Society identifies investments to meet the asset shares under with profits business. These assets returned £9.2m (i.e. investment income and gains) in 2017, equivalent to a gross investment return of 8.7% (2016: £10.1m, 11.7%).

The residual assets, bonds and cash, returned £1.1m in 2017 equivalent to a gross investment return of 2.8% (2016: £1.9m, 5.7%). Of this, £0.4m was allocated to lines of business and the remaining £0.7m represented a return on capital (2016: £0.3m and £1.6m respectively).

Table A.2 Breakdown of 2017 Investment Return

	Investment Income	**Realised and Unrealised Gains**	**Total (2017)**	**Total (2016)**
	£m	**£m**	**£m**	**£m**
Liquidity and Bond Funds	2.0	1.6	**3.6**	**4.7**
Equity Funds	1.2	4.5	**5.7**	**7.2**
Insurance Linked Security Funds	-	(0.3)	**(0.3)**	**0.1**
Property Funds	0.6	0.7	**1.3**	**(0.1)**
Deposits and Cash	0.0	-	**0.0**	**0.1**
Total	**3.8**	**6.5**	**10.3**	**12.0**

Investments are selected for long term performance and returns are expected to fluctuate from year to year.

The society has no investments in securitisation.

A4 OTHER FACTORS AFFECTING PERFORMANCE

Expense allowances in the contracts did not cover actual expenses in 2017 and required a call on capital of £0.2m (2016: no call on capital).

There was no charge for Taxation allocated to capital (2016 restated: a charge of £0.1m).

Capital of £0.3m was released from the Risk Margin thus reducing Technical Provisions in 2017. In 2016 the Society allocated capital of £1.0m to the with-profits contracts in order to increase the asset shares, there was no such allocation in 2017.

These factors, along with the investment return on capital, are attributed to capital in the underwriting performance shown above. Overall performance led to reported capital, increasing by £0.8m in 2017 (2016 restated: an increase of £0.5m). The Fund for Future Appropriations stood at £29.8m as at 31 December 2017 (2016 restated: £27.2m).

A5 ANY OTHER INFORMATION

No further information.

B SYSTEM OF GOVERNANCE

B1 SYSTEM OF GOVERNANCE

B1.1 Description of the Board and Committees

The Society's Board of Management ('the Board') is responsible for oversight of the organisation and setting its strategy. As at 31 December 2017 the Board comprised 7 part-time Non-Executive Directors (including the Chair) and 3 full-time Executive Directors (including the Chief Executive Officer). The Chair, supported by the Society Secretary, is responsible for leading the Board; whereas the Chief Executive Officer is responsible for leading the Society's operational activity and implementing strategy. 2 of the Non-Executive Directors are former police officers, with the remainder having backgrounds in financial services.

The Chair is responsible for the performance of the Board as a whole. This includes appraising the performance of individual Non-Executive Directors and the Chief Executive Officer. The Senior Independent Director ('SID') (a Non-Executive Director) is responsible for leading an annual review of the Chair's performance, taking into account feedback from other directors. The SID also provided a point of contact for members if they have concerns that they consider not to have been addressed satisfactorily through the normal conduit of the Chief Executive Officer or Chairman. One Non-Executive Director also fulfils the role of With-Profits Non-Executive Director ('WPNED'), leading oversight of the Society's management of its with-profits business and providing independent judgement as required by the FCA.

The governance structure is shown in the Table B.1 below, comprising five Board committees whose membership, terms of reference and authority are set by the Board. The Chairs of each committee report to the Board at the Board meeting following each committee meeting.

Table B.1 Governance Structure

<table>
<tr><td colspan="5">BOARD OF MANAGEMENT</td></tr>
<tr><td colspan="5">Stuart Bell
Janet Cassettari
Ben Grainger [2]
Mike McAndrew
Don Ratcliffe [3]
Ben Terrett [4]

Tim Birse
Peter Clarke [1]
Fiona Gregory
Graeme McAusland
Lee Schöpp
Joanna Young</td></tr>
<tr><td>Audit and Compliance Committee</td><td>Member Relations Committee</td><td>Nomination and Governance Committee</td><td>Remuneration Committee</td><td>Risk and Investment Committee</td></tr>
<tr><td>Graeme McAusland (Chair)
Tim Birse
Fiona Gregory (Until 21/07/17)
Lee Schöpp</td><td>Janet Cassettari (Chair)
Simon Allford [5]
Stuart Bell
Peter Clarke[1]
Paul Deller (co-opted)
Ben Grainger[6]
Fiona Gregory
Mike McAndrew
Ben Terrett[6] (joined 21/07/2017, left 22/09/2017)
Joanna Young (joined 21/07/2017)</td><td>Mike McAndrew (Chair)
Stuart Bell (joined 21/07/2017)
Janet Cassettari
Fiona Gregory
Joanna Young
Lee Schöpp</td><td>Fiona Gregory (Chair)
Mike McAndrew
Graeme McAusland (joined 21/07/2017)
Joanna Young</td><td>Tim Birse (Chair)
Graeme McAusland
Mike McAndrew
Joanna Young
Stuart Bell
Ben Grainger[6]
Ben Terrett[6] (joined 11/07/2017)</td></tr>
</table>

Notes to Table B.1:

[1] Peter Clarke Retired from Board 06/06/2017 - AGM
[2] Ben Grainger Appointed to the Board 13/10/2017
[3] Don Ratcliffe Retired from Board 06/06/2017 - AGM
[4] Ben Terrett Joined the Society 11/07/2017, appointed to the Board 24/10/2017

[5] Simon Allford Member of Leadership Team, not a Board Director, resigned from the Society 31/03/2017
[6] Member of Leadership Team, appointed as Board Director during 2017

The role of each Committee is summarised in the following paragraphs.

The **Audit and Compliance Committee** provides independent oversight of the Society's statutory reporting and systems of internal control, as well as ensuring its compliance with the Financial Services and Markets Act 2000 and other relevant legislation. The Committee's role includes supervising and monitoring the independence, quality and effectiveness of the Society's external audit auditor and its internal audit function.

The **Risk and Investment Committee** provides independent oversight of the Society's systems of risk management, internal control, financial reporting and investment strategy. This includes reviewing risk appetite, capital management, investment strategy, product pricing, expense analysis and regulatory returns including the Society's SFCR and RSR. The Committee also reviews the Society's ORSA documentation, prior to Board approval.

The **Nomination and Governance Committee** oversees the Society's senior management arrangements and makes recommendations to the Board on matters relating to the appointment of Executive and Non-Executive Directors and individuals performing Senior Insurance Management Functions (SIMF) roles. It also keeps the Board's governance arrangements under review and makes appropriate recommendations to ensure that these are consistent with appropriate and proportionate governance practices.

The **Remuneration Committee** oversees and recommends to the Board matters relating to the remuneration of Executive and Non-Executive Directors.

The **Member Relations Committee** ensures that there are arrangements in place to facilitate dialogue between members of the Society and the Board and to ensure the fair and appropriate treatment of members. It also has responsibility for reviewing key communications with members and proposals for any additional services or membership benefits.

The Chief Executive oversees the Society's operations through a Leadership Team comprising himself, the Company Secretary, Finance Director, Sales and Marketing Director, Risk Officer and Secretary Designate. This provides a focused forum for the development and implementation of the strategy set by the Board.

B1.2 Changes to the System of Governance During 2017

There have been no changes to Board Committees during 2017. The key purposes and duties & responsibilities assigned to each Board Committee have not been the subject of significant revision during the year. The Terms of Reference for all five Committees were last reviewed by the Board in December 2017 and there were no material changes made.

B1.3 Remuneration Practices and Policy

The Society's policy for remuneration is to attract and reward senior managers (including Executive Directors) and staff with annually reviewed fixed salaries that recognise their skill set and responsibilities, with changes to senior managers' salaries subject to review by the Remuneration Committee. In common with many smaller mutual societies, there is no variable element (i.e. bonus scheme, shares or share option schemes) to the remuneration paid to senior managers. This is on the basis that given the diverse nature of responsibilities in a smaller organisation the inevitable focus on narrower incentive targets would be a distraction from competing priorities for senior managers when carrying out their roles.

There are no incentive schemes for staff, other than a modest reward scheme for field staff based on numbers of member events and interactions achieved each quarter. Commission and incentives are not paid according to individual sales results. A new sales incentive scheme based on team performance is being trialled in 2018.

Share options and share incentives cannot be offered because of the organisation's mutual status.

All employees and senior managers are entitled to join a defined contribution group personal pension provided by the Society with employer's contributions of 5% of salary. This contribution increases to 9% of adjusted salary if employees choose to opt into a salary sacrifice arrangement of 2.5%. No early retirement schemes are available for employees or senior managers.

Non-Executive Directors' remuneration comprises a fixed annual amount which recognises the responsibilities held (for instance an extra amount for chairing a Board committee) and an attendance fee for Board and committee meetings which is set to reflect typical consultancy fees in the financial services sector. No contributions are made to any pension arrangements on behalf of Non-Executive Directors.

There were no material transactions between the members of Metfriendly's Board (and its employees) and the Society in 2017. Whilst members of the Board who meet the eligibility criteria for membership are permitted to subscribe to Metfriendly policies and plans on normal terms (on their own behalf and that of close family members), these holdings are monitored with annual confirmation at Board level that none are considered material.

B2 FITNESS AND PROPRIETY

B2.1 Fitness and Propriety Requirements

The Society requires all personnel responsible for the organisation's oversight and key functions to have the requisite skills, qualifications, knowledge and experience to fulfil their roles and responsibilities effectively, through their professional qualifications depending on the role (for instance accountancy, actuarial, legal, HR, managerial); or through their knowledge and experience (for instance holding similar positions elsewhere, or thorough senior experience of working with a police service or other membership based entity). Requirements include ensuring that Non-Executive Directors have sufficient time to fulfil their responsibilities, are independent (and are seen to be independent), have no material conflicts of interest, and demonstrate the character, integrity and behaviours conducive to being regarded as a 'fit and proper' person.

B2.2 Fitness and Propriety Assessment

Table B.2 below sets out the Society's Senior Insurance Management Functions, followed by the Key Function Holders, as at 31st December 2017.

Table B.2 SIMF and Key Functions

SIMF	**HOLDER**
SIMF1 Chief Executive function	Stuart Bell
SIMF2 Chief Finance function	Stuart Bell and Ben Terrett
SIMF4 Chief Risk function	Stuart Bell
SIMF9 Chairman	Mike McAndrew
SIMF10 Chair of the Risk Committee	Tim Birse
SIMF11 Chair of the Audit Committee	Graeme McAusland
SIMF12 Chair of the Remuneration Committee	Fiona Gregory
SIMF14 Senior Independent Director	Fiona Gregory
SIMF20 Chief Actuary function (outsourced)	Lindsay Unwin*
SIMF21 With-Profits Actuary function (outsourced)	Lindsay Unwin*
Whistleblowing oversight function	Graeme McAusland
CF2a Chair of the Nomination Committee	Mike McAndrew
KEY FUNCTIONS	**HOLDER**
(1) Risk Management function	Stuart Bell
(2) Actuarial function (outsourced)	Lindsay Unwin*
(3) Internal Audit function	John Midlane
(4) Compliance function	Stuart Bell (Solvency II) John Midlane (FCA COBS)
(5) Investment function	Stuart Bell
(6) IT function	David Hurcomb
(7) any other function which is of specific importance to the sound and prudent management of the firm	Tim Birse (WPNED)
(8) the function of effectively running the firm	Mike McAndrew (Chair) Tim Birse (WPNED) Janet Cassettari (NED) Fiona Gregory (NED & SID) Graeme McAusland (NED) Lee Schopp (NED) Joanna Young (NED) Stuart Bell (ED, CEO) Ben Grainger Ben Terrett

* Lindsay Unwin is an employee of Milliman LLP, with whom the Society has entered an outsourced services agreement.

The Society assesses fitness and propriety on the appointment of a Non-Executive Director and any other key function holders on appointment (whether they are an existing member of staff or externally appointed) to ensure their honesty and financial soundness. This is done through carrying out background screening, comprising a credit reference and Disclosure and Barring Service (DBS) checks carried out through an umbrella organisation. Unless the nature of the position allows Metfriendly to ask questions about applicants' entire criminal record, it only asks about 'unspent' convictions as defined in the Rehabilitation of Offenders Act 1974. The Board ensures that all those in Metfriendly who are involved in the recruitment process have been suitably trained to identify and assess the relevance and circumstances of offences, and that they have received appropriate guidance and training in the relevant legislation. The Society maintains a Policy Statement on the recruitment of ex-offenders which includes guidance in the relevant legislation relating to the employment of ex-offenders, e.g. the Rehabilitation of Offenders Act 1974. The recruitment policy provides a further safeguard that these matters are fully addressed. At interview, or in a separate discussion, the Society ensures that an open and measured discussion takes place on the subject of any offences or other matter that might be relevant to the position. Failure to reveal information that is directly relevant to the position sought could lead to withdrawal of an offer of employment. Having a criminal record will not necessarily bar applicants from working with the Society. This will depend on the nature of the position and the circumstances and background of the offences.

For external appointees references are also sought, including information about any outstanding liabilities for commission payments, any relevant outstanding or upheld complaint against the candidate from an eligible complainant, and any information concerning their fitness and propriety to act in the relevant position.

On appointment, all SIMF holders and directors are required to complete the Fitness and Propriety declaration which forms section 5 of the Form A Application that is submitted for regulatory approval. An annual re-declaration is also required, with affirmations required in respect of the same questions asked on the Form A Application; together with confirmation that, taking into account the Society's Conflicts of Interests Policy, the individual is not aware of any personal interests, obligations, or other situations that could conflict with the performance of the controlled functions they perform.

At the start of each Board meeting, those present are also asked to declare whether they are aware of any personal conflicts of interest in relation to the agenda items.

Assessment of fitness and propriety of Board members and those holding regulated positions is also supported by:

- Staff and director appraisal processes
- Annual Board self-evaluation
- Triennial externally facilitated Board evaluation exercise

An externally facilitated and independent review of Board effectiveness was undertaken by the Society's internal auditors, RSM - Risk Assurance Services LLP ("RSM") in November/December 2016. Their recommendations were reviewed and underpinned the operation of the Board and its Committees during 2017. The Board and its Committees have also subsequently undertaken an evaluation of their performance and effectiveness through its own appraisal process with the results discussed by the Board in February 2018.

The Society's Conduct Risk Policy, which is owned by the Board, applies to all employees and directors, requiring them to observe all relevant FCA principles for business relating to conduct including: acting with integrity, due skill, care and diligence, treating customers fairly; and managing any conflicts of interest fairly.

B3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

B3.1 Risk Management Overview

The Society's Risk Policy sets out how risk is managed by the organisation to ensure that risks are appropriately managed. This is supported by the Society's 'Values and Standards' which set out values and expected behaviours that underpin culture, including risk culture, within the organisation, and are set by the Board. These include the exercise of prudence and judgement in financial management, including the requirement to manage members' funds safely and soundly, but avoiding excessive caution which could unduly reduce returns to members. The Society's Risk Policy recognises that there are natural tensions to consider in relation to risk tolerance, including:

- achieving good levels of new business, including new members; whilst being mindful that new business can deplete capital, and inappropriate sales would cause reputational risk;
- achieving good investment returns through exposure to assets such as equities and property that can fluctuate in value, and inevitably are a source of risk:
- management of operational risk, whilst recognising that there are points beyond which the cost of further control improvements to reduce risks will be disproportionate as the incremental value of control benefits diminish.

Risk appetite is set at a conservative level to ensure capital strength is not compromised, and at the same time, does not compromise the ability to achieve good investment returns for members. This is reflected in the overarching aim of ensuring the Solvency Capital Requirement (SCR) under the Solvency II regime is covered within a range which is currently set at 150% to 300%. During 2017 the Board revised the target range for solvency coverage from the previous range of 200% - 400% to reflect its appetite for growth and new investment management arrangements.

A wide target range of coverage is adopted to recognise that the Society's SCR and capital are both sensitive to economic conditions. An additional test is used to assess whether there may be excessive levels of capital, regarded as being a level in excess of 30% of asset shares plus 20% of residual liabilities (with the latter currently comprising only a minor element). Residual liabilities comprise the best estimate liabilities, net of reinsurance, for the non-profit business, the risk margin and net cost of providing for with-profits guarantees.

The Society uses the Standard Formula basis to assess its solvency capital requirements and does not use an internal model for any aspect of the capital assessment. It does not use a volatility or matching adjustment and does not use any transitional arrangements. An annual exercise is carried out to verify the continued appropriateness of the Standard Formula approach for the Society.

B3.2 Implementation of Risk Management System

Risk governance is overseen by the Board, with detailed review carried out by the Risk and Investment Committee on its behalf, including regular review of the Society's risk register, normally at least quarterly. The Committee reports the results of its review to the Board; and additionally, the strategic and material risks are also further considered by the Board itself. These include risks such as failing to maintain membership levels, the ability to ensure expense costs can be covered from income, and the risk of a mismatch between the Society's assets and liabilities. At operational level, the Society's Leadership Team oversees operational risks, as well as reviewing new and emerging risks, and any changes to risk assessment factors or significant controls.

Key risk management information is highlighted within the Society's quarterly management information pack received by all Board members and attendees. This includes a dashboard summary of key performance indicators measured against targets and ranges of tolerance. These are focused on key areas of risk: membership numbers, new business levels, investment returns, expense levels, the matching of assets against liabilities and solvency coverage. The quarterly management information pack also includes details of the latest assessment of the most strategic and material risks for Board consideration, both before and after the application of controls.

Risks are detailed in the Society's risk register by showing inherent risk scores for individual risks by reference to the likelihood of them occurring and the impact should they crystallise. Risk statements provide an explanation of each risk, what high level documentation and controls are in place, and rationale for the risk scores for each. Risk triggers have also been identified to show the point at which management actions would be considered (for example if expenses differed materially from budget).

Residual risk is assessed by considering the effectiveness of controls in place to mitigate the likelihood and impact of each risk occurring; and those risks with the largest residual scores are reviewed by the Board.

For all risks, Metfriendly seeks to ensure that, after allowing for controls, the likely impact is well within Own Funds (less than 10% of Own funds).

Section B4 below provides an overview of how the Society's risk management is implemented and integrated into the organisational structure, and decision making process, as reflected in its ORSA.

As part of the ORSA detailed in sections B3.3 and B3.4 below, when carrying out required stress and adverse scenario testing, an assessment is made of the most significant risks faced by the Society so that these are used as the basis for testing the resilience of the Society's capital coverage in adverse circumstances. This helps further inform the Society's approach to capital management, including risk appetite assessments and identification of trigger points when management actions would be considered to protect capital coverage should extreme circumstances (for example a severe market crash) occur.

As a small organisation, the Society's management work closely alongside other staff, enabling risk issues to be raised and recognised as they occur. During 2017 a Risk Working Group was set up with the purpose of identifying and assessing new and emerging risks to the Society. The group initially met weekly and now meets every 2 to 4 weeks. It carries out regular horizon scanning to identify new and emerging risks arising from both external and operational factors. This enables in depth assessments of new risks to be carried out with input from across the business.

Risk is a standing agenda item at executive Leadership Team meetings, which are normally held fortnightly or more frequently if required. This enables regular consideration of any changes to risk profiles and key controls for existing risks as well as consideration of any new and emerging risks identified by the Risk Working Group, ensuring that risk management is fully integrated into the decision-making process. It also enables follow-up actions including any changes to the risk register to be identified and implemented swiftly. The impact of any potential strategic plans on the Society's risk profile is taken into account, including forward capital projection estimates if appropriate. The Society's Chief Risk Officer and Chief Actuary attend all Board meetings (including strategy discussions), as well as meetings of the Risk and Investment Committee, ensuring that risk management is integrated into the organisational structure.

B3.3 Description of ORSA Process

The Society's ORSA process is conducted throughout the year to ensure integration with decision-making. An in depth Strategic Review was carried out during 2017, drawing on the ORSA documents and process to test strategic options. The ORSA process comprises a number of key iterative activities that take part during the business planning, finance and risk management annual reporting cycles as summarised in Table B.3 below, culminating in the ORSA report itself.

Table B.3 ORSA Process and Timetable

ORSA Process	Detail	Review and Approval Process	Timing
Business Plan	Overview document of the Society's annual business plans, including revenue projections supported by a Business Development Plan and expense budget.	First Board review 2018 plan	December 2017
		Second Board review and approval 2018 plan	February 2018
		First Board review 2019 plan	October 2018
		Board Approval 2019 plan	December 2018
Investment Strategy	Annual review of investment strategy including setting target ranges and limits for the allocation of funds to different types of investment asset (broadly cash and cash equivalents, bonds, equities and property). These are set by reference to liability guarantees, as well as needing to provide returns to meet members' reasonable expectations for investment and savings products.	Review by Risk & Investment Committee	January
		Board review and approval	February
Investment Management	During 2017 a selection process to outsource investment management was carried out in order to improve governance and risk management. As a result, the Society has appointed two investment managers to hold most of its assets, continuing to use pooled funds. The transition to the new arrangements is taking place during 2018. As a result of this, reporting arrangements are changing but the underlying principles remain in place.	Selection process	July to October 2017
		Review by Risk & Investment Committee	July & October 2017
		Board review and approval	October 2017
Expense Review	This is an annually refreshed review of expenses over the previous 5 years, and is used to allocate costs to different product types according to the amount of work involved in selling and administering them.	Review by Risk & Investment Committee	January
		Board review and approval	February
Solvency	Interim report from the Chief Actuary setting out an analysis of the Society's assets, long-term liabilities and capital requirements as at the end of Q4.	Review by Audit & Compliance Committee	March
	Detailed report from the Chief Actuary, setting out an analysis of the Society's assets, long-term liabilities and capital requirements as at the year end.	High level results reviewed by Audit & Compliance Committee	March
		Detailed report reviewed by Audit & Compliance Committee	April
		Board review and approval	April

ORSA Process	Detail	Review and Approval Process	Timing
	Interim report from the Chief Actuary setting out an analysis of the Society's assets, long-term liabilities and capital requirements as at mid-year.	Board review and approval	October
	Quantified review of the Society's Operational Risk Capital requirement by CRO	Review by subcommittee of Risk & Investment Committee	August
ORSA Policy	This sets out the policy for the Society's Own Risk Solvency Assessment (ORSA) process.	Review by Risk & Investment Committee	May
		Board review and approval	July
Risk Policy	Document setting out how the organisation manages and measures risks - this is reviewed and updated annually or more frequently as required.	Review by Risk & Investment Committee	July
		Board review and approval	July
Strategic Plan	Update strategy document to review progress on achieving strategic goals and update business objectives for the next three years.	First Board Review	July
		Board Approval	October
Product Reviews	Review of products open to new business, to ensure that it remains appropriate to continue to offer them under current terms.	Board review and approval	July
		Review by Risk & Investment Committee	July
Forward Looking Assessment of Own Risks (FLAOR)	This report analyses the most material risks the Society faces according to its own assessments – e.g. an extreme investment market crash - and its ability to withstand it from a capital perspective. This is done using a series of stress and scenario tests.	Board discussion of stress tests to be performed	May
		Board review and approval of FLAOR results.	July
Reverse Stress Test (RST)	This report fulfils a regulatory requirement to consider what future events could cause the Society's business model to be unviable; and hence to help the firm's Board and Executive better understand risks facing the organisation and how they may be mitigated.	Review by Risk & Investment Committee	October
		Review and approval by Board	October
ORSA Report	This is a summary report which cross-references and includes all the documents noted above. Following Board approval, it is submitted to the PRA.	Review by Risk & Investment Committee	July
		Review and approval by Board	October
Review Process	Consider any further enhancements to the ORSA report and process in light of specific of general feedback from the PRA.	Risk & Investment Committee	December / January

B3.4 Review and approval of ORSA

The ORSA process is owned by the Board, with each element of the report being reviewed and approved by it, following review by the executive Leadership Team. The Board's own review of each element will normally follow in-depth review by a relevant Board committee. The final ORSA report is also reviewed and approved by the Board prior to annual submission to the PRA. In the event of a significant change to the Society's risk profile or business model, individual elements of the ORSA would be updated.

The ORSA report considers the appropriateness of the standard formula under Solvency II to the capital needs of the Society. The Society has determined that the standard formula results in capital resource requirements which are appropriate to the Society's risk profile, such assessments are reviewed annually.

As summarised in Table B.3 above, the ORSA process is carried out throughout the year, ensuring that it is fully integrated with decision-making processes, culminating in the ORSA report which is owned by the Board. The Chief Risk Officer coordinates the relevant processes, with input from the Society's relevant subject matters experts; and ensures that review and challenge is sought and reflected from the Leadership Team, Risk & Investment Committee, Audit & Compliance Committee and the Board at the appropriate time.

The results of the Forward Looking Assessment of Own Risks and Reverse Stress Test, together with review of the ongoing appropriateness of the Standard Formula ensure that the organisation's solvency needs are appropriately monitored; and integrated with the risk management system. The FLAOR is carried out annually but may be carried out on an ad-hoc basis should there be material changes in the business model or market conditions.

B4 INTERNAL CONTROL FUNCTION

B4.1 Internal Control System

The Society has a financial control framework which underpins its financial reporting and regulatory reporting. This includes controls over data and data security to ensure that confidentiality is maintained, whilst also ensuring that policyholder data is accurate and complete so that valuation data used to compute the Society's assets is robust; as well as controls to address the risk of fraud and errors, including material misstatements in its statutory reports. They comprise manual and automated controls, reconciliations, segregation of duties, clearly delegated authority levels, and evidencing that controls have been carried out.

The internal control system is subject to internal audit review, overseen by the Audit & Compliance Committee. The external auditor also carries out controls testing as part of statutory audit work, and reports any recommendations for improvements to the Audit & Compliance Committee which follows up the implementation of any actions agreed in response. Key procedures include policy data reconciliations for the six months to 30 June and 12 months to 31 December to check the integrity of data (e.g. opening and closing policy counts, sums assured and asset shares); premiums and controls reconciliations between the policyholder system and the accounting system; bank reconciliations; investment accounting reconciliations; cash flow monitoring against projections; reassurance account reconciliations; payroll reconciliations; outstanding debtor and creditor analysis; and variance analysis to inform understanding of any differences between budgeted and actual expenditure. Valuation results are supported by analysis of movements between opening and closing actuarial liabilities and reserves; whilst components of change for key elements of capital such as surplus are also analysed to provide further assurance.

The Society's financial statements are subject to further controls in their production and review; and actuarial liabilities are assessed using actuarial best practices and are subject to review by the Risk & Investment Committee. Following internal and external audit review of the financial statements, they are presented to the Audit & Compliance Committee for detailed review, prior to final review and approval by the Board.

B4.2 Compliance Function

The compliance function is carried out by an experienced in-house Compliance Officer who does not have any other operational role within the organisation, avoiding the possibility of any conflict of interest. The Compliance Officer reports to the Deputy Chief Executive Officer for operational matters, but the compliance function reports to the Audit & Compliance Committee at least quarterly. The Audit & Compliance Committee's remit includes ensuring that the Compliance Officer has sufficient resource to carry out his duties and has full access to the information he requires to do so. The Committee approves the annual Compliance Plan for assurance activities and monitors progress against the plan.

B5 INTERNAL AUDIT FUNCTION

B5.1 Internal Audit Function

Performance of internal audit activity is outsourced, principally to RSM Risk Assurance Services LLP, with a three year rolling plan of testing. The plan is updated and reprioritised as required, and at least annually, in line with business requirements and risk assessments. The Society's internal audit function was managed by the Society's Compliance Officer, as Head of Internal Audit, until 6th December 2017. After this date, oversight of internal audit was transferred to the Chair of the Audit & Compliance Committee as part of his SIMF11 responsibilities. Additional internal audit work on the underwriting of protection business and claim decisions is carried out annually by an external expert.

The Audit and Compliance Committee is responsible for ensuring that the internal audit function is independent and objective. This Committee considers the appointment and remuneration of the internal auditor and meets at least annually with the internal auditors without management present. The Committee is responsible for reviewing and agreeing the internal audit test plan, and for ensuring that the internal audit function is adequately resourced and has access to the information it needs to carry out its role effectively. All internal audit reports are reviewed by the Audit and Compliance Committee which reviews the appropriateness, timing and implementation of management's responses to any recommendations that are made.

B6 ACTUARIAL FUNCTION

The Society's Actuarial Function is outsourced to Milliman LLP and is overseen by the Chief Executive Officer who is the Society's Chief Risk Officer and a Fellow of the Institute and Faculty of Actuaries. The roles of Chief Actuary (SIMF20 under the Senior Insurance Management 'SIMF' regime) and With-Profits Actuary (SIMF21) are outsourced and held by an experienced senior actuarial consultant at Milliman LLP. The holder of these roles is a Fellow of the Institute and Faculty of Actuaries and holds the required Practising Certificates. In carrying out her work she is supported by other qualified actuaries within Milliman.

B7 OUTSOURCING

The Society's outsourcing policy requires due diligence to be carried out and appropriately evidenced on all potential outsourced service providers. For new contracts for material outsourcing arrangements (recurring annual fee over £50,000), pre-approval is required and the Risk and Investment Committee will review any proposal and recommend whether or not it should be approved by the Board. This must be supported by an assessment of the impact on the Society's risk profile arising from the proposed arrangement, or from any proposed change in outsource service provider. All outsourced arrangements must also be reviewed annually to ensure they remain fit for purpose.

The outsourcing contract with the service provider must include documented service level agreements, details of management information to be provided, and arrangements for service monitoring, relationship management and escalation procedures in the event of poor performance including arrangements for early termination if necessary.

An appropriate manager is appointed as the individual responsible for overseeing the services provided by the outsourced services provider on behalf of Metfriendy.

The following services that are outsourced by the Society are considered to be important or critical to the organisation:

- Actuarial services
- Internal audit services
- Outbound printing and distribution
- Elements of IT support (including some desktop support, telephony and storage)
- Payroll processing
- SII data reporting fulfilment
- Investment Management

All the Society's outsourced services providers operate under UK jurisdiction.

As a small organisation, the Society's senior managers work closely with outsourced service providers. They are therefore well aware of ongoing service levels and quality of service, enabling any issues of concern to be raised and resolved promptly, without needing to invoke contractual escalation procedures which are available should they be needed.

Following a selection process in 2017, the Society has outsourced the majority of its investment management to two investment managers. The bond funds (including the cash fund) are managed by Royal London Asset Management ("RLAM") whilst equity-like "real returns" are derived from a multi-asset fund managed by Columbia Threadneedle Investments ("CTI").

B8 ADEQUACY OF THE SYSTEM OF GOVERNANCE

The Society's system of governance is considered to be appropriate, taking into account the nature, scale and complexity of the risks inherent in the business. Its organisational structure and reporting lines reflect good practice as set out in the Annotated Corporate Governance Code for Mutual Insurers, against which the Society achieves a very high level of compliance on an annual basis. Further evidence of the appropriateness of the governance system is provided by relevant reports received from internal audit, compliance and external audit in the course of their work.

C RISK PROFILE

C1 UNDERWRITING RISK

The underwriting risks faced by the Society largely relate to its ability to recover its expenses from product margins. The Society is willing to meet limited excess expenditure from its own funds (capital). That expenditure is undertaken with a view to covering costs in the medium term. Currently such excess expenditure has 3 elements:

- Resources directed at increasing new members, where a large part of the resulting product margins emerge over the long term (e.g. through repeat business). Planned costs in this area have increased since the Society's previous business plan.
- Transitional costs relating to succession and expansion plans for senior management, through to 2019.
- Costs of development of a Customer Relationship Management (CRM) system, to include a customer portal, until 2019

Whilst a balance was achieved in 2017, the Society expects expense overruns of up to £0.3m p.a. in the period 2018-20, reducing thereafter, primarily due to the Society's business development plans.

Lapse rates are reviewed annually with modest and infrequent variations for all significant Society products.

For most of the Society's products, mortality and morbidity risk is minimal. Reinsurance protection is effected for the larger risks arising under protection policies –

- For life insurance policies (including mortgage protection), there are quota share treaties – for new business 70% is currently reinsured with Gen Re.
- For income protection policies, a quota share of 20% is reinsured with Gen Re. The Society can, and does, review the premium rates charged for this business – including for existing business.

Whilst protection policies provide significant margins from their premiums (covering around 10% of total expenses), fluctuations from claims experience are modest.

With the exception of increased planned expenditure, there have been no material changes during 2017. Underwriting Risks account for a minor part of the Society's overall capital requirement. The Society considers such risks as part of its ORSA processes, including an annual review of the products on offer and their terms. The Society believes that the Standard Formula is an appropriate way to quantify underwriting risks. The aggregate net (after allowance for the loss-absorbing capacity of technical provisions) solvency capital requirement for such risks as at the end of 2017 (before any allowance for diversification benefit between risk modules) is £1.3m (2016 - £1.1m).

C2 MARKET RISK

Market risk is the major risk faced by the Society. The Society considers that its members would expect it to seek the rewards associated with investing in real assets, and it does not seek to mitigate the exposure to market fluctuations. The Society does not hedge currency risk on equities.

Market risk derives from the Society's holdings in corporate bonds, equities and UK real property, which are currently all held through pooled funds, thereby avoiding any significant concentration risk. Equity and property assets are allocated entirely to the asset shares backing the Society's with-profits contracts; they currently account for about 43% and 12% of those asset shares respectively – with bond (and liquidity) holdings accounting for the balance.

Fluctuations in asset prices are matched by corresponding movements in the asset shares; in the case of corporate bonds the Society's capital is also exposed.

When asset shares fall in value, the cost of future guarantees will rise. Most of this guarantee cost is now associated with the accumulating with-profits products. For such business written since 2013, the only guarantee is that applying on death; however, the Society would expect to enhance asset shares modestly on surrender claims rather than applying a Market Value Reduction (MVR). The cost of subsidising MVRs in this planned manner is treated as a guarantee cost.

The Society has well diversified holdings in corporate bonds, equities and property, and it considers that these assets will perform broadly in line with general market movements. It recognises that the allowance for equity price stress to accommodate recent market movements (the symmetric adjustment) only provides limited protection in a falling market – accordingly, it expects its capital coverage to fluctuate with market conditions.

There have been no material changes in market risks during 2017, but the amount of risk assumed has increased due to high new business levels. The Society considers such risks as part of its ORSA processes, including an annual review of the products on offer and their terms. The Society believes that the Standard Formula is an appropriate way to quantify market risks. The aggregate net (after allowance for the loss-absorbing capacity of technical provisions) solvency capital requirement for such risks as at the end of 2017 (before any allowance for diversification benefit between risk modules) is £6.7m (2016 - £6.7m).

In the Society's wider consideration of its capital requirements, it would –

- Test the effect of price stresses significantly greater than those underlying the Standard Formula, and/or
- Test stresses in combination, effectively taking no credit for diversification.

C3 CREDIT RISK

Credit risk derives mainly from the Society's holdings in Corporate Bond and Liquidity funds; using pooled funds avoids any significant concentration risk. These assets are partly allocated to asset shares with the balance held to meet other liabilities (including the residue constituting own funds). The funds held are mainly invested in investment grade stocks with only a small proportion below investment grade or unrated, mitigating the potential default risk. The Society limits its holdings in cash which normally comprise less than 5% of total assets in aggregate, all investment grade. Credit risk also derives from the Society's reinsurance assets which form only a small proportion of its total assets. The Society monitors the credit ratings of the 2 reinsurers, currently both AA.

The funds allocated to asset shares have an average duration of about 7 years. To the extent to that they fluctuate in value, whether due to market or credit movement, this impacts the liabilities in a similar manner although guarantee costs will rise when prices fall. The remaining funds have an average duration of about 3 years and are less sensitive to market movements. This is considered appropriate for the funds standing behind the Society's capital requirement.

Through the pooled funds, the Society holds a diverse mix of sterling-denominated bonds that are suited to matching its liabilities.

There have been no material changes in credit risks during 2017, but the amount of risk assumed has increased due to high new business levels. The Society considers such risks as part of its ORSA processes, including an annual review of the products on offer and their terms. The Society believes that the Standard Formula is an appropriate way to quantify market risks. The aggregate net (after allowance for the loss-absorbing capacity of technical provisions) solvency capital requirement for such risks as at the end of 2017 (before any allowance for diversification benefit between risk modules) is £0.4m (2016 – 0.4m).

C4 LIQUIDITY RISK

The amount of credit taken for profit inherent in future premiums is immaterial and is not considered to represent any liquidity risk for the Society.

Liquidity risk is considered minimal as the Society limits its illiquid assets to less than 20% of total assets. Given the size of its own funds this provides ample assurance that assets could be realised to cover any conceivable run on its funds.

There have been no material changes in liquidity risk during 2017.

C5 OPERATIONAL RISK

The Society considers reputational risk to be significant. In particular, it therefore adopts a highly risk averse approach to safeguarding policyholder data. Transmission of such data is always encrypted, and the Society conducts annual penetration tests on its firewall and website.

The Society assesses the likely maximum quantitative impact of various risks allowing for the effect of the risk controls which are in place – underwriting (error), human resources, compliance, data security, systems and controls, customer care, outsourcing, IT systems, and business continuity. No account is taken of the potential loss of future business from damage to reputation in the quantitative assessment of operational risk. However, the Risk Register does include consideration of potential reputational damage.

During 2017 the Society has grown both in terms of staff numbers and business. Therefore, capital requirements for operational risk have been increased to reflect the increased likelihood of more than one failure at the same time. The Society holds capital as specified under the Solvency II Standard Formula for operational risks and capital required to cover quantifiable operational risks is in the region of £1.5m, an increase from £1.2m in 2016. The Society has carried out a separate quantification exercise to confirm that the standard formula continues to be appropriate for assessing its operational risk capital requirement.

C6 STRESS TESTING & SCENARIO ANALYSIS

The Society gives due consideration to the main risk drivers when conducting stress testing. It seeks to have sufficient capital to cover market stresses going significantly beyond the amounts specified in the Standard Formula and quantifies combined adverse price movements in equities and property (and bonds when appropriate).

In its FLAOR, the Society also tests the effect of high business volumes. In 2017, the lump sum business written considerably exceeded initial expectations, but such business is considered to be relatively low risk, and the FLAOR had confirmed that the increased risk from higher business volumes was relatively modest.

C7 INVESTMENT STRATEGY

The Society's investment strategy provides for an appropriate mix of assets to cover the asset shares backing with-profits contracts and for a risk averse asset mix to cover the residual assets. The Society additionally seeks to avoid concentration by adopting pooled funds operated by a number of investment managers, and reputation is a significant factor in choosing such managers. During 2017, limits were placed on the maximum proportion of assets in the various pooled funds (none exceeding 10%). Following the implementation of new investment management arrangements in 2018, these limits have been removed as they are no longer appropriate.

The Society monitors the performance of all its funds, and reports this in regular management information. Such reporting includes monitoring adherence to investment ranges and proportions held in illiquid assets, and in unrated or sub-prime bonds. The Society also regularly reports quantitatively the matching of its assets to its liabilities.

Following a selection process in 2017, the Society has appointed two investment managers to hold most of its assets in order to improve governance and risk management. Pooled funds continue to be held with bond funds (including the cash fund) being managed by Royal London Asset Management and equity-like "real returns" being derived from a multi-asset fund managed by Columbia Threadneedle Investments. The Society continues to hold property assets via property fund holdings. The transition to the new arrangements is taking place during 2018. As a result of this, reporting arrangements are changing but the underlying principles remain in place.

C8 MANAGEMENT ACTIONS

To manage the product risk associated with with-profits contracts, the Society adopts various management actions, all of which are modelled in the technical provisions.

- Annual Bonuses are determined taking into account current long term interest rates, and the extent to which an equity risk premium has been achieved; an allowance is then made for expenses and a final bonus.
- Asset mix is assumed to revert towards target levels over the medium term.
- Charges to asset shares for guarantee costs reflect the recent performance of the equity market and will rise when equity prices are depressed.
- Final bonuses are allowed for by assuming asset share would be the normal payout both for maturity claims, and for surrender and death claims under accumulating with-profits products.
- Market Value Reductions (MVRs) are normally only applied to reduce surrender values below the accumulated sum assured after the Society has met the initial impact of a market fall.
- Other management actions modelled include changes in expense charges in stress scenarios and dynamic policyholder behaviour.

D VALUATION FOR SOLVENCY PURPOSES

D1 ASSETS

The valuation of the Society's assets as at 31 December 2017 is shown in Table D.1 below, calculated on a Solvency II basis which is used for both solvency purposes and the report and accounts. The comparative figures for the previous year, restated to be calculated in line with the Solvency II insurance regime, are also shown in Table D.1.

Table D.1 Asset Valuation

Asset Description	Solvency II / UK GAAP as at 31 December 2017 £m	Solvency II value as at 31 December 2016 £m
Liquidity and Bond Funds	92.1	72.1
Equity Funds	49.4	41.5
Insurance Linked Security Funds	2.4	2.0
Property Funds	14.2	15.5
Deposits	1.0	1.0
Cash	3.7	4.0
Reinsurers' Share of Technical Provisions	1.2	1.1
Tangible and Intangible Assets	0.2	0.3
Insurance Receivables	0.7	0.4
Reinsurance Receivables	0.1	0.0
Other Debtors	0.4	0.4
Prepayments and Accrued Income	0.1	0.1
Total	**165.5**	**138.4**

The main bases for determining the value of assets are as follows.

D1.1 Investments

Units in unit trusts or other pooled fund vehicles are included at published bid prices or single price for single priced funds.

D1.2 Deferred Taxation

Deferred taxation is provided, in respect of timing differences where there is a reasonable probability that such taxation will become payable. At the balance sheet date there was a net liability for deferred tax of £0.5m (2016 £0.6m).

D1.3 Tangible and Intangible Assets

Depreciation or amortisation is provided on fixed and intangible assets in order to write off the cost of such assets over their estimated useful lives.

The principal component, £0.2m, relates to the Society's leasehold premises and is depreciated linearly over the outstanding lease term to April 2025.

No credit is taken for intangible assets under Solvency II and these have been written down to nil in 2017.

D2 TECHNICAL PROVISIONS

The Technical Provisions are determined in line with the regulations set out in Article 77 of the Solvency II Directive[1] and are equal to the sum of the best estimate liabilities ('BEL') and the risk margin ('RM').

D.2.1 Technical provisions as at 31.12.17

Table D.2 below sets out the segmentation of Metfriendly's business into lines of business for Solvency II purposes. All lines of business are written within a single with-profits fund and no products span more than one line of business.

Table D.2 Lines of Business

Metfriendly – Solvency II Lines of Business	
Category	**Description**
Life With-Profits Participation	This includes conventional with-profits savings products and accumulating with-profits products (both tax-exempt and taxable), both legacy business and current product lines.
Other Life Insurance	This includes the 5 year non-profit savings plan and level term, decreasing term and mortgage protection business and accelerated critical illness business.
Health Insurance	This comprises a small amount of income protection business, which is not considered material, and a small but growing amount of stand-alone critical illness business.

The technical provisions as at 31 December 2017 for each material line of business are given in table D.3 below, along with the comparatives as at 31 December 2016, restated.

Table D.3 Technical Provisions

Component (£m)	Line of Business	Solvency II and UK GAAP Technical Provisions as at 31.12.17[1] (£ m)	Solvency II Technical Provisions as at 31.12.16[1] (£ m)
BEL	Life With-Profits Participation	120.8	99.9
	Other Life Insurance	10.0	6.8
	Health Insurance	1.7	1.6
Risk Margin		0.9	1.2
Total Technical Provisions		133.4	109.5

1. Technical Provisions are gross of reinsurance.
2. The reinsurance recoverables under Solvency II amount to £1.2m as at 31 December 2017 (£1.1m as at 31 December 2016).

[1] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0138&from=EN

On proportionality grounds, Metfriendly has no plans to calculate the risk margin by line of business, only at the fund level. The Society uses the simplification permitted under Guideline 63[2] to apportion the risk margin to its three lines of business, this methodology is unchanged from that used as at 31 December 2016.

D.2.2 Best Estimate Liabilities

The best estimate liabilities are determined as the sum of the mathematical liabilities for the with-profits business and the non-profits protection and savings business and are determined using a cash flow projection model for all lines of business (with the exception of the income protection business which is calculated outside the model and is not considered a material component of the Society's business, comprising less than 1.2% of the total BEL).

With-profits best estimate liabilities as at 31 December 2017 are taken as the sum of:

- the asset shares as at 31 December 2017; less
- the present value ('PV') of future charges for the cost of guarantees; plus
- the present value of the cost of those guarantees; less
- the present value of any surrender penalties; less
- the present value of mortality charges, where applicable.

The PV of charges for, and costs of, guarantees are determined from the projected monthly cash flows associated with the with-profits insurance contracts, based on the average of 5,000 investment return simulations with due allowance for expected management actions, as described in section C8.

The non-profit best estimate liabilities (with the exception of a small amount of income protection business) are based on a projection of future monthly cashflows, at a policy by policy level, using best estimate experience assumptions for future demographic assumptions.

The model discounts monthly cashflows using the risk-free interest rate term structure as specified by EIOPA at the valuation date to calculate the BEL in accordance with Article 77 of the Solvency II Directive.

Projection basis

Appendix D.1 sets out the basis and assumptions used to determine Metfriendly's Solvency II Technical Provisions as at 31 December 2017, with comparative details of the basis and assumptions used to determine Metfriendly's Solvency II Technical Provisions as at 31 December 2016.

Mortality Assumptions

Metfriendly's mortality experience is reviewed annually. Both experience over the current valuation year and experience over a rolling four year average is considered for each line of protection business. Mortality assumptions are set with reference to standard mortality tables, generated by the Continuous Mortality Investigation ('CMI'). These tables are based on industry wide experience for assured lives.

Morbidity Assumptions

Metfriendly has limited morbidity experience, and any analysis of its own experience would not be statistically credible. Morbidity assumptions are set with reference to industry wide practice and are based on standard morbidity tables.

Expense Assumptions

In accordance with Article 78 of the Solvency II Directive, Metfriendly takes into account all expenses that will be incurred in servicing its insurance obligations in setting the best estimate assumptions, namely:

- The cost of maintenance expenses associated with existing insurance obligations
- The cost of overhead expenses incurred in managing the Society
- The cost of investment management expenses associated with existing insurance obligations

Metfriendly analyses its expenses annually, and apportions the non-acquisition expenses between the with-profits, non-profits savings and protection business.

The best estimate allowances for maintenance expenses and contributions to overhead expenses are derived from this analysis and take the form of a percentage of office premium deduction for the regular

[2] https://eiopa.europa.eu/Publications/Guidelines/TP_Final_document_EN.pdf

premium savings products (both with-profits and the non-profit guaranteed 5 year savings plan) and a per policy expense charge for all the non-profit protection lines of business except the income protection, for which an expense allowance of 15% of the ICOP reserve is used.

An allowance for maintenance expenses (of 1.0% p.a.) and an explicit allowance for investment management expenses (of 0.5% p.a.) are charged monthly to projected with-profits asset shares.

These allowances are netted for tax where appropriate.

Future acquisition expenses are not included in the cash flow projections, as only the expenses relating to the future management of the existing insurance obligations needs to be considered.

<u>Lapse Assumptions</u>

Metfriendly carries out an annual review of its persistency experience, at a product level. Best estimate lapse assumptions for use in the model to calculate the Solvency II reporting figures are derived from this review having regard to the previous 3 years' experience and allowing for any emerging trends within the data.

<u>Reinsurance</u>

As the reinsurance recoverables are treated as an asset under Solvency II, the best estimate liabilities are determined and reported gross of reinsurance in accordance with Article 77 of the Solvency II Directive. The value of reinsurance recoverables are determined in a manner consistent with that used to calculate the gross best estimate liabilities, using the same model, in line with Article 41 of the Delegated Acts[3] and are included as a separate asset on the Solvency II balance sheet. This figure includes an adjustment for reinsurer counterparty default in accordance with Article 81 of the Solvency II Directive.

D.2.3 Risk Margin

The formula by which the risk margin is to be calculated is set out in Article 37 of the Delegated Acts. It is based on the capital that a party taking over the business would need to establish to support the unavoidable risks that are being taken on, known as non-hedgeable risks.

Metfriendly assumes that all market risks are hedgeable, and therefore excludes them from the projected SCR used in the Risk Margin calculation. The non-hedgeable risks for Metfriendly are considered to be the following:-

- Insurance Risks:
    - Mortality Risk
    - Expense Risk
    - Lapse Risk
    - Morbidity Risk
    - Catastrophe Risk
- Counterparty Default Risk
- Operational Risk

The Risk Margin is determined by projecting the Solvency Capital Requirement ('SCR') in respect of the non-hedgeable risks set out above. The SCRs for each non-hedgeable risk are projected assuming the initial value of SCR runs off in line with appropriate risk drivers, making use of the simplified method permitted under Article 58 of the Commission Delegated Acts. This approach is consistent with Method 1 of the Hierarchy of Simplifications outlined in the Solvency II Guidelines[4].

There has been a change to the methodology underlying the calculation of the risk margin as at 31 December 2017, compared to that used as at 31 December 2016. Firstly, Metfriendly in determining its risk margin now assumes that all market risks are hedgeable and the Equity Type 2 SCR has been removed from the calculation. Secondly, there have been a number of refinements to the risk drivers used to project the respective SCRs for the non-hedgeable risks detailed above, with a minor impact on the result. Lastly, the

[3] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2015:012:FULL&from=EN
[4] https://eiopa.europa.eu/Publications/Guidelines/TP_Final_document_EN.pdf

most material change in methodology relates to the projection of the Operational Risk SCR. An explicit calculation has been used for the projected Operational Risk SCR component of the risk margin calculation as at 31 December 2017. This is based on the projected BEL, premiums and the reference undertaking Basic SCR as prescribed in Article 37 of the Delegated Acts, as opposed to the calculation as at 31 December 2016 where the run-off of the asset shares was used as a risk driver to project future levels of the Operational Risk SCR. In particular, in line with Article 38 of the Delegated Acts, the opening Operational Risk SCR has been derived for the reference undertaking at the valuation date as opposed to using Metfriendly's actual Operational Risk SCR. The main reason for moving to an explicit calculation of the projected Operational Risk SCR is to correctly allow for the fact that it is assumed that the reference undertaking does not write any new business after the liabilities are transferred.

Table D.4 overleaf sets out the risk drivers that are used to project the future SCR based on the initial values by risk module.

Table D.4 Risk Drivers

Risk	Risk Module	Capital Requirement (£m) for the reference undertaking	Projection risk driver
Mortality	Life Underwriting	0.35	Non-profit: Capital at risk in-force on term assurance business (net of reinsurance) With-profits: Asset share in-force
Disability-Morbidity	Life Underwriting	0.01	Capital at risk in-force on term assurance business (net of reinsurance)
Expenses	Life Underwriting	0.36	Non-profit: Capital at risk in-force for term assurance business (net of reinsurance) With-profits: Asset share in-force
Lapses	Life Underwriting	0.51	Non-profit: Capital at risk in-force on term assurance business (net of reinsurance) With-Profits: Asset share in-force
Life Catastrophe	Life Underwriting	0.11	Capital at risk in-force on term assurance business (net of reinsurance)
Disability-Morbidity	Health (SLT) Underwriting	0.31	Critical Illness: Capital at risk in-force on stand-alone critical illness Income Protection: Proportion of policy holders in-force
Expenses	Health (SLT) Underwriting	0.07	Capital at risk in-force on stand-alone critical illness
Lapses	Health (SLT) Underwriting	<0.01	Capital at risk in-force on stand-alone critical illness
Health Catastrophe	Health Underwriting	0.03	Proportion of income protection policy holders in-force
Counterparty Default	N/A	0.39	Asset share in-force
Operational Risk	n/a	0.37	Explicit calculation

D.2.4 Uncertainty in the technical provisions

Asset shares

The asset shares as at 31 December 2017, as determined by the Society, comprise 91% of the technical provisions. Metfriendly carried out an analysis of the movement in asset shares from 31 December 2016 to 31 December 2017 and compared the results with the relevant entries in the accounts. This movement analysis is reviewed for reasonableness by the Chief Actuary and the asset shares are subject to external audit. The asset shares are not subject to any material uncertainty in their determination.

Assumptions

A number of scenarios have been considered to illustrate the impact on technical provisions of certain changes in the underlying demographic and economic assumptions as at the valuation date, to highlight that there is a level of uncertainty when setting these assumptions. The results of these investigations are set out in the table D.5 below.

Table D.5 Impact on Technical Provisions of different assumptions

Scenario	Impact on Technical Provisions £m	Impact on Own Funds £m
An increase in risk free rates of 1%	Decrease of £4.0m, 3% of TP	Decrease of £0.6m,
A widening of credit spreads of 1%	Decrease of £2.8m, 2% of TP	Decrease of £1.5m
An absolute increase of 3% in the underlying implied volatility in the equity investments	Increase of £0.3m, 0% of TP	Decrease of £0.3m
A fall in market value of equities by 20%	Decrease of £7.7m, 6% of TP	Decrease of £0.9m
A 10% deterioration in the demographic assumptions underlying the valuation of the BEL for the non-profit business	Increase of £0.8m, 0.5% of TP	Decrease of £0.4m

Modelling

Further tests have been carried out to assess the sensitivity of the PV of the cost of, and the charge for, the guarantees if full rather than reduced model points are used, and if 5,000 rather than 1,000 investment return simulations are used. This analysis is performed to highlight the level of uncertainty in attempting to model the complexity of estimated future investment returns. The results of these investigations are set out below and show that the difference is not material for the grouping of model points. However, the comparison between 1,000 and 5,000 investment return simulations indicated that there was not sufficient convergence between the two sets of results and consequently a further test was carried out comparing the results of 5,000 investment return simulations with 10,000. These showed good agreement, details of which are shown below and 5,000 investment return simulations have been used in the base and all the 1-in-200 stress calculations.

Model Points

The cost of guarantees and charges in the base run using reduced model points ('MP') are compared against a base run using full model points in order to determine the impact of using reduced model points. The results are shown in Tables D.6 and D.7 below.

Table D.6 Comparison of Cost of Guarantees using Full or Reduced Model Points

Comparison of PV Cost of Guarantees			
	Reduced MP (£ m)	Full MP (£ m)	Difference (%)
CWP	1.12	1.12	+0.07%
AWP	3.64	3.64	+0.13%
Total	4.76	4.76	+0.11%

Table D.7 Comparison of Charges using Full or Reduced Model Points

Comparison of PV Charges			
	Reduced MP (£ m)	Full MP (£ m)	Difference (%)
CWP	0.38	0.38	-0.21%
AWP	4.31	4.30	+0.18%
Total	4.68	4.68	+0.15%

The differences are considered sufficiently small that results from the reduced model points can be used without adjustment.

Number of investment return simulations

The investment returns are modelled stochastically by using a large number of randomly generated economic scenarios. 5,000 such scenarios are used and to demonstrate that this is sufficiently large the base run using 5,000 scenarios is compared against a run using 10,000 scenarios. The results of this comparison are given in tables D.8 and D.9 below.

Table D.8 Comparison of Cost of Guarantees using 5,000 and 10,000 Scenarios

Comparison of PV Cost of Guarantees			
	5,000 scenarios (£ m)	10,000 scenarios (£ m)	Difference (%)
CWP	1.11	1.11	-0.12%
AWP	3.58	3.57	+0.17%
Total	4.68	4.68	+0.10%

Table D.9 Comparison of Charges using 5,000 and 10,000 Scenarios

Comparison of PV Charges			
	5000 scenarios (£ m)	10000 scenarios (£ m)	Difference (%)
CWP	0.41	0.41	+0.10%
AWP	4.29	4.29	+0.13%
Total	4.71	4.70	+0.13%

The 10,000 scenario results produce a cost of guarantee that is 0.10% lower than in the 5,000 scenario case. This difference is of extremely low significance and demonstrates that using 5,000 scenarios is sufficient for the year-end valuation under Solvency II.

Risk Margin

The sensitivity of the risk margin to changes in the risk drivers, variability in the initial amounts of the SCRs to be projected and a parallel upward shift in the risk free interest rate curve have been investigated.

The introduction of a more accurate methodology for determining the risk margin indicated that the risk margin was relatively sensitive to this change, reducing the risk margin as at 31 December 2016 by £0.3m from £1.2m to £0.9m. The principal change to the methodology is to use an explicit calculation to project the Operational Risk SCR component of the risk margin, based on the Operational Risk SCR for the reference undertaking.

However, this will provide a more stable risk margin going forward.

In addition, a detailed review of the appropriateness of all the risk drivers resulted in a number of refinements to the risk drivers used to project the other components of the risk margin, all of which had an immaterial impact.

A 1% parallel increase in the risk free interest rate curve decreases the risk margin by £0.1m, from £0.9m to £0.8m.

The risk margin is most sensitive to any changes in the SCR of the reference undertaking, an increase of 10% to all the initial SCRs for the non-hedgeable risks increases the risk margin by 10% from £0.9m to £1.0m as at 31 December 2017.

D.2.5 Difference in technical provisions reported under Solvency II and those published in the Financial Statements

There are no differences between the technical provisions reported under Solvency II and those published in the financial statements as at 31 December 2017. The comparative figures for 31 December 2016 have been restated, such that they are the same as those reported under Solvency II as at 31 December 2016.

Adjustments

As at 31 December 2017, the Society does not make use of any of the following potential adjustments:-

- matching adjustment;
- volatility adjustment;
- transitional provisions on the risk-free interest rate term structure; or,
- transitional measures for technical provisions.

D.2.6 Reinsurance recoverables

The reinsured amounts have been separately calculated in accordance with Article 81 of the Solvency II Directive. The reinsurance recoverables relate to the non-profit protection business and the income protection business. The reinsurance recoverables have been determined on a basis consistent with the valuation of the gross liabilities.

D.2.7 Material changes over the period

There have been no material changes in assumptions made in the calculation of the Solvency II technical provisions as at 31 December 2017 compared to those used as at 31 December 2016. There has been a material change to the methodology used to for the calculation of the risk margin, which is described in more detail in D2.3 and D2.4.

D3 OTHER LIABILITIES

The other liabilities as at 31st December 2017 are given in the Table D.10 below.

Table D.10 Other Liabilities

	2017	2016
Other Liabilities	**£ m**	**£ m**
Deferred Tax Liability	0.5	0.6
Insurance and intermediaries payables	1.0	0.4
Reinsurance payables	0.1	0.1
Payables (trade not insurance)	0.2	0.2
Pension benefit obligations	0.0	0.0
Other (all taxation)	0.5	0.4
TOTAL	2.3	1.7

For the other liabilities set out above, there are no material differences between the valuation basis, methodology and assumptions used for the financial statements and those used for the Solvency II balance sheet.

The deferred tax liability comprises a deferred tax liability of £0.8m in respect of deemed capital gains already incurred which are charged over a 7 year period, and a deferred tax asset of £0.3m in respect of acquisition expenses already incurred which are relieved over a 7 year period.

The taxation liability is substantially in respect of the estimated corporation tax assessed for 2017, due to be paid in 2018.

D4 ALTERNATIVE METHODS FOR VALUATION

The Society does not make use of any alternative valuation methods.

D5 ANY OTHER INFORMATION

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

APPENDIX D.1 BEST ESTIMATE ASSUMPTIONS

Table D.11 below sets out the Solvency II best estimate assumptions as at 31 December 2017 and 31 December 2016 for comparison.

Table D.11 Assumptions for Solvency II Best Estimates

Assumption category		**31/12/2016**	**31/12/2017**
Discounting	EIOPA Solvency II Yield Curve	1-year rate: 0.382% 2-year rate: 0.439% 5-year rate: 0.694% 10-year rate: 1.079% 25-year rate: 1.290%	1-year rate: 0.555% (0.17% increase) 2-year rate: 0.684% (0.25% increase) 5-year rate: 0.937% (0.24% increase) 10-year rate: 1.188% (0.11% increase) 25-year rate: 1.365% (0.08% increase)
Decrements	Mortality	**80% of standard mortality tables**: AMC/AFC00 for with-profits endowment business and G5YSP TMN/TFN00 for term assurance business (non-smokers) TMS/TFS00 for term assurance business (smokers)	**80% of standard mortality tables**: AMC/AFC00 for with-profits endowment business and G5YSP TMN/TFN00 for term assurance business (non-smokers) TMS/TFS00 for term assurance business (smokers)
	Morbidity	**100%/120%** of standard morbidity tables (non-smokers/smokers): CIBT93 M/F with 2% p.a. deterioration rate	**100%/120%** of standard morbidity tables (non-smokers/smokers): CIBT93 M/F with 2% p.a. deterioration rate
	Lapses	**Lapse rates assumed for all business.** In particular: Decreasing Term Assurances: 5.0% p.a. years 1-2 7.0% p.a. years 3+ Level Term Assurances: 3.0% p.a. Guaranteed 5 year savings plan: 5.0% p.a. at all durations, except 3.0% final year Table 8: 2.0% p.a. Table 10: 1.0% p.a. Tables 11, 21 and 22: 4.0% p.a. Tables 12, 15 and 16: 5.0% p.a. years 1-4 2.0% p.a. years 5+ Table 14: 4.0% p.a. at all durations, except 3.0% final year	**Lapse rates assumed for all business.** In particular: Decreasing Term Assurances: 8.0% p.a. Level Term Assurances: 8.0% p.a. year 1 3.0% p.a. years 2+ Guaranteed 5 year savings plan: 6.0% p.a. at all durations, except 4.0% final year Table 8: 2.0% p.a. Table 10: 1.0% p.a. Tables 11, 21 and 22: 5.0% p.a. years 1-5 3.0% p.a. years 6+ Tables 12, 15 and 16: 5.0% p.a. years 1-5 3.0% p.a. years 6+ Table 14: 5.0% p.a. at all durations, except 4.0% final year

Assumption category		31/12/2016	31/12/2017
		Tables 19 and 26: 8.0% p.a. Tables 25, 27 and 29: 12.0% p.a. Table 24: 5.0% p.a. Tables 28 and 30: 0% p.a. Stand alone critical illness : 0% p.a.	Tables 19 and 26: 7.0% p.a. Table 25: 12.0% p.a. Table 27: 14.0% p.a. Table 29: 7.0% year 1 12.0% years 2+ Table 24: 2.0% p.a. year 1 5.0% p.a. years 2+ Tables 28 and 30: 0% p.a. Stand alone critical illness : 0% p.a.
Expenses	Per Policy (term assurances)	£40.00 p.a.	£45.20 p.a.
Expenses	Per Premium (AWP and G5YSP)	5.5%	5.5%
Expenses	Investment (with-profits)*	1.00% p.a. of asset share	1.00% p.a. of asset share
Expenses	Fund Expenses (AMCs)	0.5% p.a. deduction to investment return	0.5% p.a. deduction to investment return
Expenses	Expense Inflation	3.0% p.a.	3.5% p.a.
IP			
IBNR[5]		Premiums (net of 30% for expenses) – 68% for 2016, 52% for 2015, 24% for 2014, 12% for 2013 and 4% for 2012.	Premiums (net of 30% for expenses) – 68% for 2017, 52% for 2016, 24% for 2015, 12% for 2014 and 4% for 2013.
ICOP[6]		Best estimate of claims data, additional 15% for expenses.	Best estimate of claims data, additional 15% for expenses.

*Note that the charge for MISAs is a 2.25% deduction to investment return, which includes both investment expenses and recoup of initial expenses.

[5] Incurred But Not Reported ("IBNR") reserve.
[6] In Course of Payment ("ICOP") reserve.

E CAPITAL MANAGEMENT

E1 OWN FUNDS

The Society's Own Funds arise entirely from historical surpluses which have not been distributed to members. As such the capital is all Tier 1 and there are no restrictions on the availability of those funds to support the MCR or SCR. The Society expects its Own Funds to remain sufficient to cover the SCR and plans its business accordingly – there is no intention to raise capital by other means.

The Own Funds have been quantified as total assets less technical provisions and other liabilities. At 31 December 2017 this amounts to £29.8m (2016 restated: £27.2m).

As noted under "Business and Performance", the Fund for Future Appropriations increased over 2017 by £2.6m. The material contributory factors to this increase in Own Funds was strong investment returns, increases in yields and falls in volatility.

E2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 Solvency Capital Requirement ('SCR') and Minimum Capital Requirement ('MCR')

The SCR and MCR as at 31 December 2017 amount to £8.7m and £3.3m, respectively (comparative figures as at 31 December 2016 were £8.3m and £3.3m respectively). The amount of the SCR split by risk module, before any diversification benefit is applied between risk modules, is shown in Table E.1 below.

Table E.1 SCR by Risk Module before Diversification Benefit

Risk Module	SCR £m as at 31 December 2017	SCR £m as at 31 December 2016
Market Risk	6.7	6.7
Life Insurance Risk	0.9	0.8
Health Insurance Risk	0.4	0.4
Counterparty Risk	0.4	0.4
Operational Risk	1.5	1.2

Metfriendly uses the Standard Formula to determine its Solvency Capital Requirement, it does not make use of any company specific parameters or undertaking specific parameters.

The PRA has granted Metfriendly quarterly reporting exemptions with effect from 1 January 2016 until 1 January 2021. Table E.2 below sets out the amounts of the SCR and MCR as reported to the PRA.

Table E.2 SCR and MCR Reported to the PRA

Date	SCR £m	MCR £m	Linear MCR biting?
Day 1	7.7*	2.7	Linear MCR
Year End 2016	8.3	3.3	MCR – absolute floor
Year End 2017	8.7	3.3	MCR – absolute floor

* The Day 1 SCR figure has been restated (previously £7.2m) to reflect modelling improvements incorporated as part of the 2016 year-end investigations.

The absolute floor component of the MCR continues to bite and the slight reduction between that as at 31 December 2016 and 31 December 2017 reflects a change in the Euro exchange rate during 2017, on which it is based.

The increase in the SCR during 2017 primarily relates to the impact of writing significantly higher volumes of new business during 2017 including a consequential increase to the operational risk capital requirement. This increase is offset by a release of capital from business exiting during 2017, the impact of good investment returns along with the increase in the proportion of cash in the Own Funds as at 31 December 2017.

E.2.2 Simplifications

The following simplifications are used in the standard formula when determining the Society's SCR:

Life Catastrophe SCR

For with-profit business, due to low materiality, the formula simplification for catastrophe risk SCR which is based on the capital-at-risk is applied. This is because the run-time for this stress would be unduly onerous for an immaterial contribution, which is estimated to be of the order of £10k to the overall Life Underwriting SCR.

Market Risk

A simplification is applied to the calculation of the credit spread risk SCR on bonds and loans. There is insufficient granularity of information in the investment data to permit the use of the full formula for calculating the credit spread SCR for each individual bond exposure. Instead, bond holdings are grouped by bond fund and 5-year or 15-year durations within those, to reflect the way that the assets are categorised in the projection model. The full credit spread calculation is applied for these grouped exposures based on the breakdown of the credit rating of each bond fund as detailed in its fund factsheet.

An adjustment is made to ensure that the stress factors broken down in this way reconcile to the stress factor that would apply if the bond funds were treated as a whole.

Income protection

The income protection business comprises less than 1.5% of the total technical provisions (including the risk margin) and is currently not actively marketed, such that the number of policyholders in force has been in a gradual decline for some years. As such, it is considered appropriate, given the nature, scale and complexity of this business to determine the approximate level of capital under the 1-in-200 morbidity stress as 100% of the annual premium for the in force business. This amounts to £0.3m as at 31 December 2017 (£0.3m as at 31 December 2016).

Deferred Tax Assets

The actuarial model used to project the cash flows allows appropriately for a deferred tax benefit following a market stress. To the extent that the deferred tax benefit thus allowed for exceeds Metfriendly's own view of the maximum amount of deferred tax that could be recovered from future taxable gains, a manual addition is made to the capital requirement to reflect the Society's internal limit.

The additional capital requirement is calculated by pro-rataing that part of the deferred tax benefit that is not deemed to be recoverable by a measure of the loss absorbing capacity of technical provisions (in that the non-recoverable element would be charged to asset shares). This capital is then allocated proportionately to the relevant risk sub-modules (undiversified capital for individual risks). This additional capital requirement amounted to £0.3m as at 31 December 2017 (£0.4m as at 31 December 2016).

Smoothing

Metfriendly holds additional capital to reflect an unmodelled management action, whereby the terminal bonus attributed to the 5 year with-profits plan will not be reduced below 4% in the event of a 1-in-200 market risk event. This results in an additional capital requirement of £0.2m (post diversification in the market risk module) as at 31 December 2017 (£0.4m as at 31 December 2016). This capital amount is apportioned to the individual market stresses before diversification such that it amounts to £0.2 m after diversification in the market risk module, in line with the requirement under Solvency II to allocate all required capital at the undiversified risk level.

These contracts are no longer written and the final policy will have matured by 31 December 2018. This manual addition to capital is expected to reduce to 0 during the next year in a broadly linear manner.

E3 USE OF DURATION BASED EQUITY RISK SUB-MODULE

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

E4 INTERNAL MODEL INFORMATION

Metfriendly does not use an internal model for determining its SCR.

E5 NON-COMPLIANCE WITH THE MCR OR SCR

Metfriendly has a MCR coverage ratio of 919% and an SCR coverage ratio of 342% as at 31 December 2017 and is financially strong. It has complied with the both the Minimum Capital Requirement and the Solvency Capital Requirement throughout 2017 by a large margin.

Metropolitan Police Friendly Society Limited

Solvency and Financial Condition Report

Disclosures

31 December

2017

(Monetary amounts in GBP thousands)

General information

Undertaking name	Metropolitan Police Friendly Society Limited
Undertaking identification code	2138004FK1A956D5KT97
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.05.02.01 - Premiums, claims and expenses by country
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	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	211
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	159,134
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	155,717
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	1,026
R0210	*Other investments*	2,390
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	7
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	7
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	1,166
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*	1,166
R0320	*Health similar to life*	271
R0330	*Life excluding health and index-linked and unit-linked*	895
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	710
R0370	Reinsurance receivables	66
R0380	Receivables (trade, not insurance)	432
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	3,747
R0420	Any other assets, not elsewhere shown	69
R0500	**Total assets**	165,542

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)	133,385
R0610	*Technical provisions - health (similar to life)*	1,889
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	1,653
R0640	*Risk margin*	236
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	131,496
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	130,854
R0680	*Risk margin*	641
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	29
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	474
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	1,006
R0830	Reinsurance payables	101
R0840	Payables (trade, not insurance)	153
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	552
R0900	**Total liabilities**	135,699
R1000	**Excess of assets over liabilities**	29,842

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	297	29,377		4,170					33,844
R1420	Reinsurers' share	36	0		373					409
R1500	Net	261	29,377		3,797					33,435
	Premiums earned									
R1510	Gross	297	29,377		4,170					33,844
R1520	Reinsurers' share	36	0		373					409
R1600	Net	261	29,377		3,797					33,435
	Claims incurred									
R1610	Gross	251	13,280		585					14,116
R1620	Reinsurers' share	50	0		108					158
R1700	Net	201	13,280		477					13,958
	Changes in other technical provisions									
R1710	Gross	0	0		0					0
R1720	Reinsurers' share	0	0		0					0
R1800	Net	0	0		0					0
R1900	**Expenses incurred**	91	2,655		381					3,127
R2500	**Other expenses**									
R2600	**Total expenses**									3,127

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	33,844	0	0	0	0	0	33,844
R1420	Reinsurers' share	409	0	0	0	0	0	409
R1500	Net	33,435	0	0	0	0	0	33,435
	Premiums earned							
R1510	Gross	33,844	0	0	0	0	0	33,844
R1520	Reinsurers' share	409	0	0	0	0	0	409
R1600	Net	33,435	0	0	0	0	0	33,435
	Claims incurred							
R1610	Gross	14,116	0	0	0	0	0	14,116
R1620	Reinsurers' share	158	0	0	0	0	0	158
R1700	Net	13,958	0	0	0	0	0	13,958
	Changes in other technical provisions							
R1710	Gross	0	0	0	0	0	0	0
R1720	Reinsurers' share	0	0	0	0	0	0	0
R1800	Net	0	0	0	0	0	0	0
R1900	**Expenses incurred**	3,127	0	0	0	0	0	3,127
R2500	**Other expenses**							0
R2600	**Total expenses**							3,127

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**										0						0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole										0						0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	120,836					1,479	8,539			130,854		1,653				1,653
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						895				895		271				271
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	120,836					584	8,539			129,959		1,383	0			1,383
R0100	**Risk margin**	435				207					641	236					236
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						0
R0120	Best estimate										0						0
R0130	Risk margin										0						0
R0200	**Technical provisions - total**	121,271				10,225					131,496	1,889					1,889

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	29,842	29,842			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	0	0			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	29,842	29,842	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	29,842	29,842	0	0	0
R0510	Total available own funds to meet the MCR	29,842	29,842	0	0	
R0540	Total eligible own funds to meet the SCR	29,842	29,842	0	0	0
R0550	Total eligible own funds to meet the MCR	29,842	29,842	0	0	
R0580	**SCR**	8,728				
R0600	**MCR**	3,251				
R0620	**Ratio of Eligible own funds to SCR**	341.90%				
R0640	**Ratio of Eligible own funds to MCR**	918.06%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	29,842
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	29,842
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	0
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0
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	35,074		
R0020	Counterparty default risk	391		
R0030	Life underwriting risk	2,052	9	
R0040	Health underwriting risk	357	9	
R0050	Non-life underwriting risk	0	9	
R0060	Diversification	-2,032		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	35,841		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,537
R0140	Loss-absorbing capacity of technical provisions	-28,649
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**	8,728
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	8,728
	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	-1,362

		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	52,354	
R0220	Obligations with profit participation - future discretionary benefits	68,482	
R0230	Index-linked and unit-linked insurance obligations	0	
R0240	Other life (re)insurance and health (re)insurance obligations	10,506	
R0250	Total capital at risk for all life (re)insurance obligations		59,157

	Overall MCR calculation	C0070
R0300	Linear MCR	-1,362
R0310	SCR	8,728
R0320	MCR cap	3,928
R0330	MCR floor	2,182
R0340	Combined MCR	2,182
R0350	Absolute floor of the MCR	3,251
R0400	**Minimum Capital Requirement**	3,251