Solvency and Financial Condition Report 2021 – Metfriendly

Page Contents

Abbreviations used in this Report

AFH	Actuarial Function Holder
AWP	Accumulating With-Profits
A&C	Audit and Compliance [Committee]
BEL	Best Estimate Liabilities
CA	Chief Actuary
CEO	Chief Executive Officer [of Metfriendly]
CFO	Chief Finance Officer
CNP	Conventional Non Profit
CMI	Continuous Mortality Investigation
CWP	Conventional With-Profits
DTA	Deferred Tax Assets
FCA	Financial Conduct Authority
FLAOR	Forward Looking Assessment of Own Risks
HRG	Homogeneous Risk Group
IBNR	Incurred But Not Reported
ICOP	In Course of Payment
INSPRU	Prudential Sourcebook for Insurers (contains the regulations under Solvency I)
LOB	Line of Business
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
R&A	Report and Accounts
R&I	Risk and Investment [Committee]
RM	Risk Margin
RSR	Regulatory Supervisory Report
RST	Reverse Stress Test
QMI	Quarterly Management Information
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SMF	Senior 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 regulated group of companies and have no active subsidiaries.

Whilst all serving and former members of the police services and their families 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.

Our core products are with-profits savings and investment products which are intended to be held for the medium to long term. 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.

As at 31 December 2021, Metfriendly had 17,118 members and total assets of approximately £286m.

2. Business Review

Our long-term strategy is defined by our Vision, Mission, Objectives and Strategy, which are underpinned by our values. Our Vision, Mission and Values really mean something to all our stakeholders that all of us at Metfriendly believe in. It also means that putting our members at the heart of everything we do is embedded in our strategy.

Our Vision: To be the trusted provider of financial solutions relevant to the Police Family.

Our Vision is about our aspiration, where we want to be. It is enduring, inclusive and idealistic. Over time, the way in which we deliver it will change as we seek to remain relevant in the future. The vision is underpinned by our Values, which describe how we go about our work and what is important to the Society:

Our Values

We earn T.R.U.S.T. by:

- Treating our members, team and other stakeholders with courtesy, respect, and professionalism;
- Recognising the unique profession of policing and proudly place members at the heart of our Society
- Understanding the need to continually improve in order to meet our members' current and future needs
- Striving to get things right first time
- Taking care to act with honesty and integrity at all times.

These phrases encompass the values we uphold and are a good representation of how we should behave and work. They permeate throughout the Society, from the Board to Staff, and form the cornerstone of how we make decisions. The use of a mnemonic means something to us all and helps in bringing our values to life. TRUST is a word Metfriendly strongly associates with because our members trust us with their hard-earned savings.

Our Mission: To be a commercially strong and modern mutual society that has the financial security of the Police Family at its heart.

Our mission is about how we want to achieve our vision. It is forward-looking and puts the Police at the heart of how we will work.

Strategic Objectives:

Our strategy for a number of years has been growth, primarily though market penetration and some product development. Each year we set objectives so we can monitor our progress. Our five strategic objectives for 2021 were as follows:

1. **Grow membership**

In 2021 our target was to increase our membership to 18,000 by the end of the year.

2. **Grow new business**

In 2021 our target was to deliver £7.3m of Annual Premium Equivalent (APE) new business.

3. **Deliver a member engagement strategy to attract new members and retain current members**

In 2021 we planned to:

- optimise conversion of new members and to retain current members;
- increase 1-2-1 meetings with members
- improve our service to members as measured by our service standards.

4. **Improve profitability**

In 2021 we aimed to continue the improvement to the Society's profitability through increasing sales, controlling expenses, and putting the mechanisms in place to enhance our ability to continue to improve this over the medium term.

5. **Deliver a high level of operational resilience by 2023**

In 2021 objectives centred around the scoping and commencing the delivery of a transformation project to redesign our processes to ensure they are more efficient and in line with the needs of our member base. This redesign goes hand in hand with a system redesign.

Review of 2021

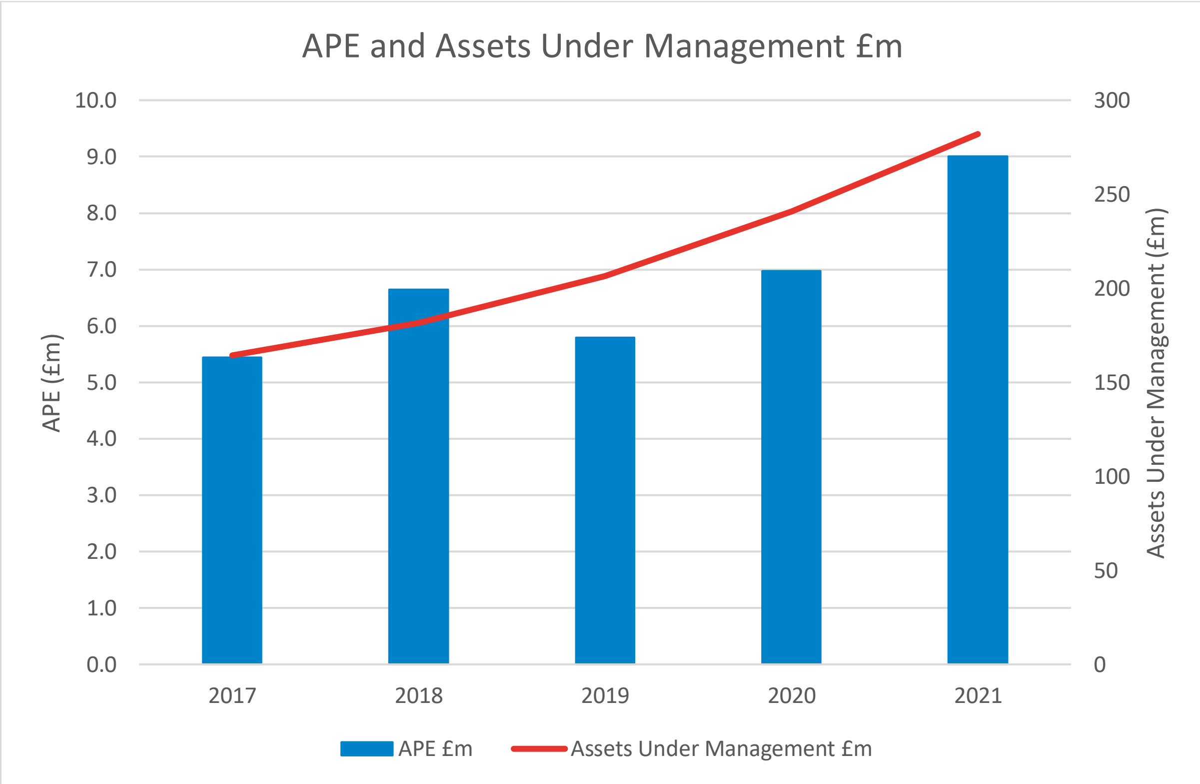
2021 was a successful year for Metfriendly where we met 4 of our 5 strategic objectives. New business volumes measured as APE and assets under management reaching record levels of £9.0m and £285.6[1]m respectively, and this is shown in the graph below. This was delivered against the continued backdrop of the COVID-19 pandemic, which impacted the way we did business for most of 2021.

During the year, our prime concern has been the personal well-being of members, the wider Police Family and our Staff and their families. We have been, and continue to be, committed to helping our members through this challenging period.

[1] Assets under management is calculated as total assets less deferred tax assets and reinsurers' share of technical provisions.

Key actions we have taken included the following:

- We set up capabilities to conduct all our normal member seminars and meetings to be on a virtual basis.
- During the year all areas of Metfriendly returned to the office, and we chose to instigate a hybrid model of partially working from home and partially in the office whilst we have continued to maintain service to members by phone, online and via conference.
- We conducted member surveys to ask how we can best serve our members.

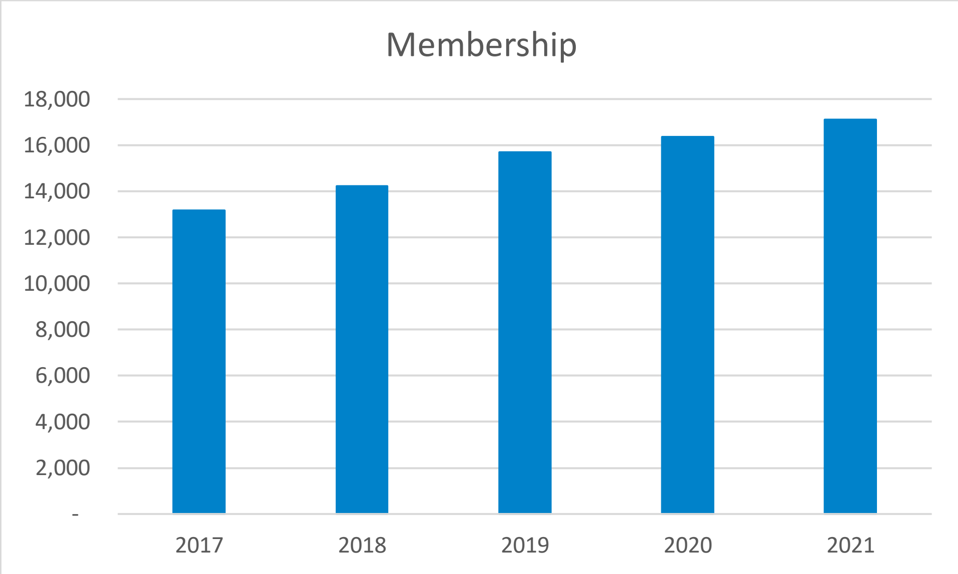


The Key Performance Indicators set for 2021 are summarised in the table below and show comparisons of the performance for 2021 against annual targets set and comparative results for 2020.

1. Membership Growth

	2021 Actual	2021 Target	2020 Actual
Number of members	17,118	18,000	16,359

Membership has continued to grow during 2021. Total membership increased from 16,359 at the start of the year to 17,118 at the end of the year. Access to the new recruit intake at Hendon was lower than originally anticipated for 2021 and this has impacted new members joining. The graph below shows how membership numbers have changed over the last five years.



2. New Business Growth

	2021 Actual	2021 Target	2020 Actual
New Business APE	£9.0m	£7.3m	£7.0m

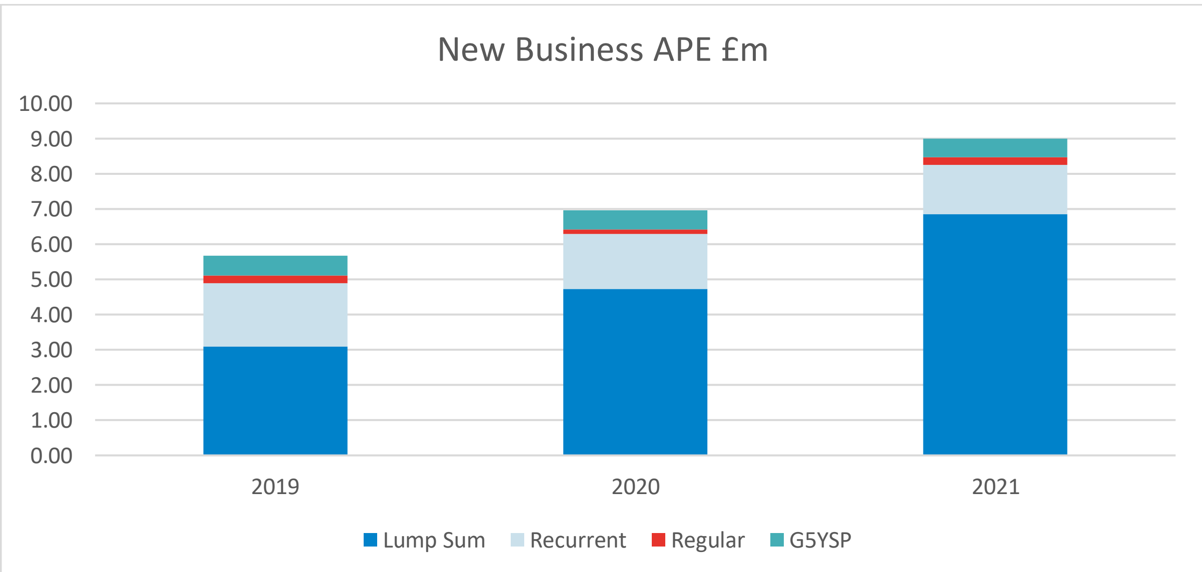
New business growth is measured in terms of our internal measure, Annual Premium Equivalent (APE), which reflects the relative value of different product sales.

APE is an internal performance measure and is calculated as:

- For lump sum contributions: 15% of the premium received.
- For Regular and Recurrent premiums: an equivalent of 12 times the monthly premium received.
- For the Guaranteed Five Year Savings Plan ("G5YSP"): an equivalent of 6 monthly premiums received.

APE for 2021 was £9.0m - a 29% increase on the equivalent value for 2020. For the second year in a row we achieved the highest level of premium income in any calendar year in the Society's history.

The graph below shows our new business levels by product type:



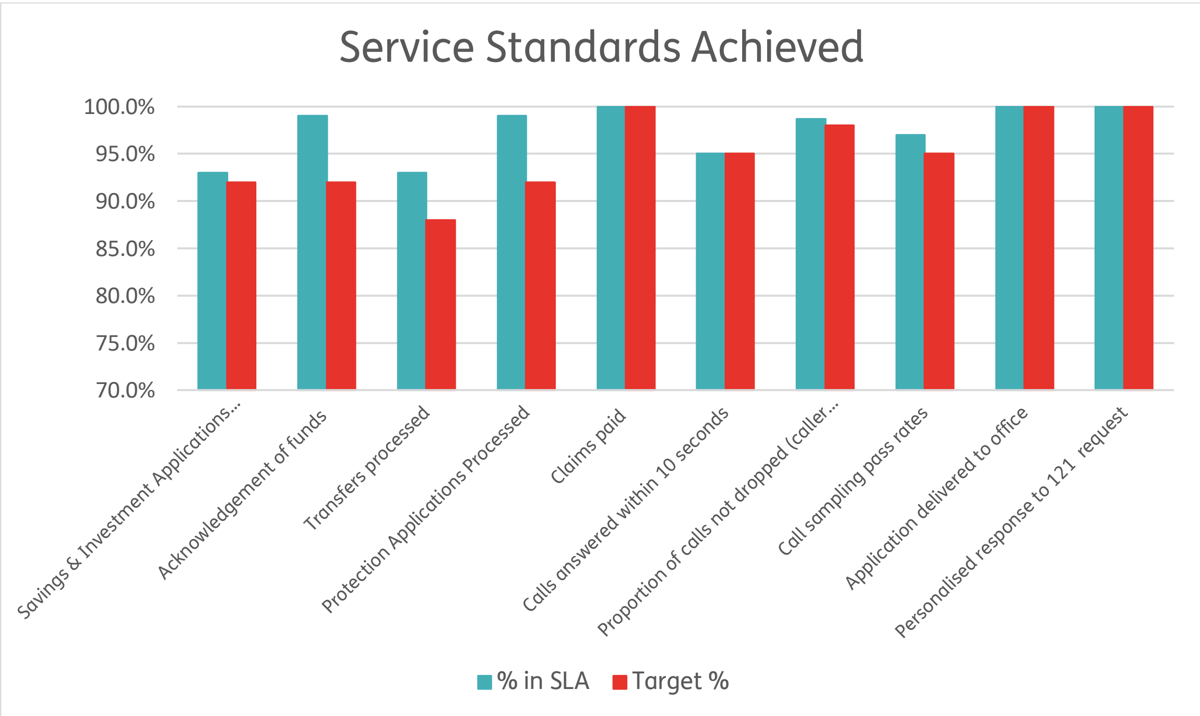
3. Member Engagement and Retention

We aim to deliver the best possible service to our members and so during the pandemic, where possible we moved to virtual one-to-one's, webinars and all our seminars were virtually presented. This has been very well received, often fitting in better with the complex working lives of our members and so it is something we intend to continue to offer in the future.

Key to our service delivery is having clear service standards that are monitored actively. Our service standards are listed below:

- savings and investment applications processed within 5 working days
- acknowledgement of application of funds within 2 working days
- transfers processed within 2 working days once documentation and funds are received from transferring provider
- protection applications - made live, offer terms, postpone or decline within 8 working days
- claims paid within 5 working days once all required information received
- calls answered within 10 seconds
- proportion of dropped calls to be kept below 5% of total call volume
- application delivered to the office within 4 working days by the Field Team
- personalised response to one-to-one meeting requests within 1 working day

Performance against each of our service standards for 2021 is shown in the graph below. All the standards have been achieved for the year.



Members can also provide instant feedback on their experience with the Member Services team by a short phone survey after a call.

Similar to 2020, the Member Services team have focused on member retention to ensure that members considering surrendering their policies are aware of all their options. This has resulted in business being retained and, in some cases, new policies being taken out.

Our member panel has increased to over 1,000 members this year. This allows us to receive regular member feedback by way of surveys or attendance at focus groups, and our digital member engagement activity also includes regular emails and blogs to members.

4. Improve profitability

As a mutual we generate profits to be used for the benefit of our members and provide better returns to With Profits policy holders. We make profit from products by taking charges over the lifetime of the product. These are used to cover our expenses and any remaining surplus is profit. We can improve this by making the business more efficient through increasing volumes and managing our expenses. Significant work has taken place this year to achieve this. Sales saw a significant increase and expenses were below budget.

During 2021, we implemented a Strategic Business Planning tool to improve profitability monitoring. The implemented tool enabled us to enhance our strategic business planning capabilities and lead to improvement of our current offering.

5. Building Operational Resilience

Our process and system redesign project was scoped out through much of 2021. Delivery commenced in earnest with early efficiency gains being achieved, which means the cost to serve members is reduced. The project targets many member and business benefits, but specifically in the area of operational resilience will see us able to adapt more quickly to business. At the core of this work is a desire to make us easier to do business with and to ensure that your Society is fit for purpose for the future.

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 Senior Managers and Certified Employees under the Senior Managers and Certification Regime to have the requisite skills and experience to fulfil their roles and responsibilities. It has robust procedures for ensuring their fitness and propriety on appointment and whilst in office. This is supported by a pre-agreed training schedule for all.

The governance structure supports the Society's approach to risk management by ensuring that risks are managed prudently and in line with the Society's conservative risk appetite. This is based on ensuring that financial 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 Own Funds.

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.

An ORSA Report is approved by the Board in the fourth quarter of the year. This report summarises the key points of each ORSA process and is provided to the regulator along with the component reports. The ORSA report is available to all members of staff.

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

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.

The Appropriateness of using the standard formula to assess the Society's capital requirements is reviewed on at least an annual basis by the Board.

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 2021 to £287.3m as at 31 December 2020, from £244.3m as at 31 December 2020.

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 £258.1m as at 31 December 2021, increased from £214.4m as at 31 December 2020.

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 (capital) 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 coverage ratio as at 31 December 2021 was 193% with Own Funds of £29.2m and a Solvency Capital Requirement ('SCR') of £15.1m The increase in the SCR during 2021 primarily relates to writing materially higher volumes of new business during 2021 than 2020, not just the capital requirements for new business written arising from the market and life underwriting risk modules but also on the capital requirement calculated formulaically in respect of operational risk. In comparison, the SCR Coverage Ratio as at 31 December 2020 was 221%, with Own Funds of £29.8m and an SCR of £13.5m.

Under Solvency II the SCR is subject to a minimum level, known as the Minimum Capital Requirement ("MCR"). The MCR is calculated using a linear formula. Having derived the MCR using the prescribed formula, it is then subject to a cap and floor of 45% and 25% of the SCR respectively, and finally, an absolute minimum level, which is currently set at €3.7 million (£3.1 million).

Following an increase in the SCR over 2021 it is the MCR floor (25% of the SCR) that bites for the Society for the 31 December 2021 valuation. The amount of the Minimum Capital Requirement (MCR) is £3.8m at 31 December 2021. The eligible amount of Own Funds available to cover the MCR is £29.2m, which gives an MCR coverage ratio of 773%. The Society continues to be financially strong and has complied with both the Minimum Capital Requirement and the Solvency Capital Requirement throughout 2021 by a large margin.

During the year the continued impact of Covid-19 has resulted in volatility in investment markets. The Society's investment strategy has provided protection from the worst of these market movements. At all times during the period to the date of submission /signing of this report the Society has been able to meet its capital requirements as measured by the SCR and MCR by a significant margin. Coverage against the key SCR measure has remained comfortably within the Society's risk appetite target range of 150%-300% of SCR. Our ORSA, and in particular the Forward Looking Assessment of Own Risks and Reverse Stress Tests, support the Board's expectation that the Society will be able to continue to do so and has the necessary management actions available to mitigate the risks emerging from the current situation.

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

Consideration for requesting a 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

The Society is classified as a "small insurer" for SFCR external audit purposes as defined in PRA Policy Statement PS25/18. Its score based on the results for the year-ended 31 December 2021 was, at 16.58, below the limit for audit, set by the PRA at 100.

Following consideration of the costs associated and the potential benefits, the Society's Board made the decision not to request an external audit of its Solvency and Financial Condition Report 2021.

A. BUSINESS AND PERFORMANCE

A.1 Description of the Business

A.1.1 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: 12 Endeavour Square, London, E20 1JN 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 trading subsidiaries.

A.1.2 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 take out additional policies.

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 2021 the Society had total assets of £286m, membership of 17,118 and 46 employees (plus 6 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.

Savings plans 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 also including an escalator option), 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.

The Society also offers a Lifetime ISA ("LISA") (minimum amount £50pm / £1,200 lump sum), 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.

Investment plans include a lump sum stocks and shares ISAs (minimum amount £2,000) and is 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.

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 also provides a lump sum critical illness plan to new recruits aged between 18 and 35.

The Society's **With Profits Fund** is invested in a range of assets spread across several pooled investment funds, with diversified allocations in cash, bond funds, a multi asset fund and property funds. 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, liquidity funds and bond funds as are policies which are non profit (guaranteed savings and protection plans).

A.1.3 Significant External Events in 2021

Covid-19

We considered the impact of the ongoing Covid-19 pandemic on the Society during the year. In response to the current economic conditions, management have carefully considered the Society's financial and operational business plans, including new business opportunities and solvency forecasts for the going concern assessment period. The Society has reviewed its risk management, solvency and liquidity positions to ensure that we remain within our risk appetite.

We also subjected the solvency position to stress testing based on several scenarios, including scenarios considering the unfavorable impact in business volumes and the Society envisages that it will remain solvent based on these projections.

A.2 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. The technical provisions in the accounts have been reported on a Solvency II basis consistent with the treatment last year. Under Solvency II the Risk Margin has been allocated to capital and the Best Estimate Liabilities are allocated to each line of business.

For 2021, the result was an underwriting loss of £0.3m (2020: profit of £0.5m). This loss was primarily as a consequence of the strain of writing new business. Table A1 below shows how the 2021 result arises by line of business, including items attributed to capital, such as the Risk Margin, which are covered in the following sections. All business was written in the UK. Accumulating With-Profits (AWP) 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 (CWP) business is written as regular premium business with a fixed payment term.

Table A.1 2021 Results by Line of Business*

	Accumulating With Profits £m	Conventional With Profits £m	Other Savings £m	Protection £m	Attributed to Capital £m	Total 2021 £m	Total 2020 £m
Premiums	53.2	1.2	4.8	0.5	-	59.7	45.0
Investment Return	8.9	0.4	-	-	-	9.3	12.9
Claims	(14.1)	(1.5)	(4.9)	(0.2)	-	(20.7)	(17.3)
Expenses	(4.4)	(0.3)	(0.8)	(0.2)	(0.1)	(5.8)	(4.9)
Taxation	0.1	-	-	-	-	0.1	(0.3)
Decrease/(Increase) in Technical Provisions	(43.2)	0.8	0.4	0.5	(1.2)	(42.7)	(35.0)
Increase/(Decrease) in Reinsurance Asset	-	-	-	(0.1)	-	(0.1)	0.1
Total	0.6	0.5	(0.5)	0.5	(1.3)	(0.3)	0.5

** - Table might contain differences due to rounding. Premiums and claims are shown net of reinsurance.*

AWP business increased by £14.6m compared to 2020. The increase in the expenses was due to planned investment in infrastructure and expanding the team to increase operational capacity.

A.3 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 2021 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 a profit of £9.4m (i.e. investment income and gains) in 2021, equivalent to a gross investment return of 4.3% (2020: profit of £11.5m, 6.2%).

The residual assets, comprising cash and bond funds, returned a loss of £0.01m in 2021 equivalent to a gross investment return of -0.1% (2020: £1.4m, 3.0%).

Table A.2 Breakdown of 2021 Investment Return*

	Investment Income £m	Realised and Unrealised Gains £m	Total (2021) £m	Total (2020) £m
Residual Assets	0.7	(0.8)	**(0.0)**	1.4
Bond Funds	2.3	(1.5)	**0.8**	3.9
Multi Asset Funds	1.6	3.9	**5.5**	7.9
Insurance Linked Security Funds	-	-	**-**	-
Property Funds	0.9	2.2	**3.1**	(0.5)
Deposits and Cash	0.0	0.0	**0.0**	0.1
Total	5.5	3.8	**9.3**	12.9

** - Table might contain differences due to rounding*

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

A.4 Other Factors Affecting Performance

Expense allowances in the contracts covered the actual expenses incurred during 2021. 2020 required a call on capital of £0.6m.

There was no charge for Taxation allocated to capital (2020: £Nil). The capital required for the Risk Margin increased by £0.2m thus increasing the Technical Provisions in 2021 by the same amount.

These factors, along with the investment return on excess assets, are attributed to capital in the underwriting performance shown above. Overall performance led to reported Fund For Future Appropriation decreasing by £0.3m in 2021 (2020: increase of £0.5m). The Fund For Future Appropriation stood at £29.5m as at 31 December 2021 (2020: £29.8m).

B. SYSTEM OF GOVERNANCE

B.1 System of Governance

B.1.1 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 2021 the Board comprised 6 part-time Non-Executive Directors (including the Chair) and 3 full-time Executive Directors. 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 below, comprising four 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 next Board meeting following each committee meeting.

BOARD OF MANAGEMENT 2021

Joanna Young (Chair)

Annette Petchey (Chief Executive Officer)

Ben Grainger (Executive Director)

Gerhardt Ekermans (Executive Director)

Lee Schopp (Non-Executive Director & SID)

Nicola Hayes (Non-Executive Director)

Clive Triance (Non-Executive Director)[1]

Graeme McAusland (Non-Executive Director)

Craig Haslam (Non-Executive Director)

Rebecca Hall (Non-Executive Director)

During 2021 the Board reviewed the committee governance structures to ensure they continue to serve the Society, Regulatory requirements, and its members. Following this review the Board approved changes to committee structure from 2022 (subject to Regulatory approval) as follows:

Audit, Risk and Compliance Committee	**Remuneration, Nomination and Governance Committee**	**Member Committee**	**Strategic Finance & Investment Committee** [2]
Graeme McAusland (Chair)	Nicola Hayes (Chair)	Craig Haslam (Chair)	Lee Schopp (Chair)
Lee Schopp	Joanna Young	Joanna Young	Graeme McAusland
Rebecca Hall	Annette Petchey	Rebecca Hall	Nicola Hayes
	Craig Haslam		Gerhardt Ekermans
			Craig Haslam

1 Clive Triance resigned from the Board July 2021

2 The Strategic Finance and Investment Committee formed at the end of 2021. Initially it focused on Strategic Finance with Investment added in for 2022. Prior to this Investment were overseen by Risk & Investment.

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

The **Audit, Risk 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 regulations along with oversight of the Society's systems of risk and compliance management. The Committee's role includes supervising and monitoring the independence, quality and effectiveness of the Society's external audit auditor, its internal audit function and internal assurance programme.

The **Strategic Finance and Investment Committee** purpose is to provide independent oversight of the Society's strategic financial reporting and investment control, and to enable the Society's financial management, including investment strategy and with-profits business, to be reviewed in greater detail than at regular Board meetings.

The **Remuneration**, **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 Management Functions (SMF) roles. It keeps the Board's governance arrangements under review and makes appropriate recommendations to ensure that these are consistent with appropriate and proportionate governance practices. It also oversees and recommends to the Board matters relating to the remuneration of Executive and Non-executive Directors.

The Member Committee purpose is to put the member, and the police family, at the centre of what Metropolitan Police Friendly Society Ltd ("MPFS") does, to take every opportunity to improve the trust members have in MPFS and look after their wellbeing; through member interaction to review the members experience and journey throughout the Society assuring and recommending changes based on feedback, market movements and affinity group plans. The committee is committed to listening to its members, to understanding their needs and creating output and actions that create a stronger brand and product for all of the members.

B.1.2 Changes to the System of Governance During 2021

The Strategic Finance & Investment Committee and the Audit, Risk & Compliance Committee were both formed in 2021 following a review by the Board to ensure we continue to provide oversight to the Society as a whole. The new committee structure brought together various disciplines under new committees.

B.1.3 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.

The Society operates a discretionary annual bonus scheme that allow for bonus payment not exceeding 12% of annual salary (20% for field staff).

The scheme is driven by performance against the strategic objectives of the Society as well as performance against personal objectives and behaviours. In 2021 a number of the objectives were achieved, and the Remuneration, Nomination and Governance Committee approved payment of a bonus. The scheme is reviewed each year by the committee.

All employees and senior managers are entitled to join a defined contribution group personal pension plan provided by the Society with employer's contribution of 9% of salary if the employee chooses 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 chairing a Board committee). 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 2021. 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.

B.2 Fitness and Propriety

B.2.1 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.

B.2.2 Fitness and Propriety Assessment

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 using the Disclosure and Barring Service (DBS) checks carried out through an external organisation.

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 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 SMF holders and directors are required to complete the Fitness and Propriety declaration which forms part of the CONNECT 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 CONNECT 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
- Triannual externally facilitated Board evaluation exercise

An externally facilitated and independent review of Board effectiveness was undertaken by BP&E Global during 2020. Their recommendations were reviewed and underpinned the subsequent operation of the Board and its Committees and all recommendations from the review were considered closed by the Board during 2021

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.

Non-Executive Directors and any other key function holders are provided with relevant training for their roles and are also required to keep their skills up to date including meeting any professional CPD requirements.

The tables below set out the Society's Senior Insurance Management Functions, followed by the Key Function Holders as at 31st December 2021:

SMF	HOLDER
SMF1 Chief Executive function	Annette Petchey
SMF2 Chief Finance function	Gerhardt Ekermans
SMF3 Executive Director	Annette Petchey
	Ben Grainger
	Gerhardt Ekermans
SMF4 Chief Risk function	Robert Dagg
SMF9 Chair	Joanna Young
SMF10 Chair of the Risk Committee	Graeme McAusland (applied for)
SMF11 Chair of the Audit Committee	Graeme McAusland
SMF12 Chair of the Remuneration Committee	Nicola Hayes
SMF 13 Chair of the Nominations Committee	Nicola Hayes
SMF14 Senior Independent Director	Lee Schopp
SMF15 With Profits Advisory Arrangement	Graeme McAusland
SMF16 Compliance Oversight Function	John Midlane
SMF18 Other Overall Responsibility	Martin Bellingham (Sales & Marketing)
SMF20 Chief Actuary function (outsourced)	Lindsay Unwin*
SMF20a With-Profits Actuary function (outsourced)	Lindsay Unwin*
SMF24 Chief Operations functions	Ben Grainger
Whistleblowing oversight function	Graeme McAusland

KEY FUNCTIONS	HOLDER
(1) Risk Management function	Robert Dagg
(2) Actuarial function (outsourced)	Lindsay Unwin*
(3) Internal Audit function	Metfriendly being not classed as a significant firm by PRA or FCA and having outsourced its Internal Audit Function, does not have a SMF5 but has allocated specific responsibilities for oversight of the Internal Audit function to the Chair of the Audit and Compliance Committee (SMF11)
(4) Compliance function	Annette Petchey (Solvency II)
	John Midlane (FCA COBS)
(5) IT function	David Hurcomb – IT Development
(6) any other function which is of specific importance to the sound and prudent management of the firm	Alan Gray – Overseeing administration function for insurance contracts
	Graeme McAusland (WPAA)
	Dan Stimson – IT Infrastructure
(7) the function of effectively running the firm	Joanna Young (Chair)
	Graeme McAusland (NED & SID)
	Lee Schopp (NED)
	Craig Haslam NED
	Clive Triance (NED)
	Nicola Hayes (NED)
	Ben Grainger (ED COO)
	Gerhardt Ekermans (CFO)
	Robert Dagg (CRO/CoSec)

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

B.3 Risk Management System

B.3.1 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 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 defined according to coverage for the Society's Solvency Capital Requirement and is set at a conservative level to ensure financial 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 coverage for the Solvency Capital Requirement (SCR) under the Solvency II regime is covered within a range which is currently set at 150% to 300%.

A wide target range of coverage is adopted to recognise that the Society's SCR and Own Funds are both sensitive to economic conditions. This SCR coverage ratio is also used to assess annually whether there may be excessive levels of capital such that it is appropriate to distribute some of this capital to with-profits members. An SCR coverage ratio in excess of 300% SCR is regarded as potentially excessive at which point surplus distribution of capital is considered by the Board in consultation with the With-Profits Actuary.

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. This would be carried out more frequently if required as a result of a material change in the Society's risk profile.

B.3.2 Implementation of Risk Management System

Risk governance is overseen by the Board, with detailed review carried out by the Audit, Risk and Compliance Committee on its behalf, including regular review of the Society's risk register. 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, succession planning, 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 monthly 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 focussed on key areas of risk: membership numbers, new business levels, investment returns, expense levels, and the matching of assets against liabilities and solvency coverage. The 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. Separate Appetite Statements explain the Society's approach to key risks. Risk triggers have also been identified to show the point at which management actions would be considered.

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 available capital (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 section B4 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. The Society operates a Risk Working Group with the purpose of identifying and assessing new and emerging risks to the Society. The group meets regularly, usually monthly. 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. All staff are trained in the process of identification and reporting of risks and incidents impacting the society.

Risk is a standing agenda item at executive Leadership Team meetings, which are 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 Risk Working Group reports to the Audit, Risk & Compliance Committee so that new and emerging risk information can be considered as it emerges.

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 relevant parts of Board meetings (including strategy discussions), as well as meetings of the Audit, Risk and Compliance Committee[2], ensuring that risk management is integrated into the organisational structure. The Society's Chief Risk Officer and Chief Actuary also received copies of the minutes of all Board and relevant Committee minutes.

[2] During 2021 under the previous committee structure, both the Audit and Compliance Committee and the Risk and Investment Committee.

B.4 Own Risk and Solvency Assessment (ORSA)

B.4.1 Description of ORSA Process

The Society's ORSA process is conducted throughout the year to ensure integration with decision-making. It comprises several key iterative activities that take part during the business planning and finance and risk management annual reporting cycles. These activities include:

- Preparation and review of a business plan and strategic plan
- Review of the investment strategy
- Review of the Society's expense allocations
- Assessment of the Society's Statutory Solvency
- Review of the Society's risk policy
- Product reviews
- Preparation of the Society's Forward Looking Assessment of Own Risk (FLAOR)
- Reverse stress tests

These activities culminated in the ORSA report itself.

B.4.2 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.

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 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, with updates or a refresh should there be material changes.

B.5 Internal Control Function

B.5.1 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 those controls have been carried out.

The internal control system is subject to internal audit review, overseen by the Audit, Risk & 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, Risk & Compliance Committee, which follows up the implementation of any actions agreed in response. Key procedures include 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 Audit, Risk & Compliance Committee. Following internal and external audit review of the financial statements, they are presented to the Audit, Risk & Compliance Committee for detailed review, prior to final review and approval by the Board.

B.5.2 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 Society Chief Risk Officer for operational matters, and the compliance function reports to the Audit, Risk & Compliance Committee at least quarterly. The Audit, Risk & Compliance Committee's remit includes ensuring that the Compliance Officer has sufficient resource to carry out their duties and has full access to the information they require to do so. The Committee approves the annual Assurance Plan for assurance activities and monitors progress against the plan.

B.6 Internal Audit Function

The Society's internal audit function is managed by the Society's Chief Risk Officer. Performance of internal audit activity is outsourced, principally to RSM Risk Assurance Services LLP, with a three-year rolling plan of testing which is updated and reprioritised as required, and at least annually, in line with business requirements and risk assessments. Further internal audit work on the underwriting of protection claims is carried out annually by an external expert.

The Audit, Risk & 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, Risk & Compliance Committee which reviews the appropriateness, timing and implementation of management's responses to any recommendations that are made.

B.7 Actuarial Function

The Society's Actuarial Function is outsourced to Milliman LLP. The roles of Chief Actuary (SMF20 under the Senior Managers & Certification Regime 'SM&CR') and With-Profits Actuary (SMF20a) 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.

B.8 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 Audit, Risk & Compliance 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 Metfriendly.

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.

The Society has outsourced the majority of its investment management to three 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") and property funds managed by AEW, CTI and RLAM.

B.9 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 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

C.1 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.

Planned costs of development of a Customer Relationship Management (CRM) system, to include a customer portal, due to commence in 2021 has been postponed and will be an additional excess expenditure during 2022.

Expense allowances in the contracts covered the actual expenses incurred during 2021. 2020 required a call on capital of £0.6m.

Lapse rates are reviewed annually with modest and infrequent variations for all significant Society products. In 2021 two sets of lapse rates were introduced for the Lifetime ISA business to differentiate between those policyholders saving to purchase a house and those saving for retirement.

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 sufficient margins from their premiums fluctuations from claims experience are modest.

With the exception of increased planned expenditure, there have been no material changes during 2021. 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 ongoing review cycle 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 2021 (before any allowance for diversification benefit between risk modules) is £2.3m (2020 - £1.9m).

C.2 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 other than through the level of exposure set in the investment strategy. The Society does not hedge currency risk on equities.

Market risk derives from the Society's holdings in corporate bonds and risk assets including UK real property, which are currently all held through pooled funds, thereby avoiding any significant concentration risk. Risk assets are held via a multi asset fund, insurance linked securities funds and three property funds and are allocated entirely to the asset shares backing the Society's with-profits contracts.

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 the MVR Subsidy and is treated as a guarantee cost. This subsidy was removed for new AWP business written from 01/01/2020 but remains for existing AWP business.

The Society has well diversified holdings in corporate bond funds, a multi asset fund and property funds, 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 2021, but the amount of risk assumed increases in line with new business levels and changes in the Society's asset holdings from fund manager's tactical allocations. 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 and loss-absorbing capacity of the deferred tax) solvency capital requirement for such risks as at the end of 2021 (before any allowance for diversification benefit between risk modules) is £11.6m (2020 - £10.7m).

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.

C.3 Credit Risk

Credit risk derives mainly from the Society's holdings in Corporate Bond and Liquidity funds; using pooled funds which have investment constraints that avoid 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, to 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, one being AA- and the other AA+.

The bond fund allocated to asset shares has an average duration of about 8 years. To the extent that the fund fluctuates 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 bond funds have an average duration of about 2 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.

The Society believes that the Standard Formula is an appropriate way to quantify credit risk in relation to the Society's holdings in Corporate Bond and Liquidity funds, and this risk is considered a market risk and contributes to that capital requirement (see Section C.2).

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 credit risks in relation to its reinsurers and other counterparties. There have been no material changes in such risks during 2021 and so the aggregate net (after allowance for the loss-absorbing capacity of technical provisions) solvency capital requirement for such risks as at the end of 2021 (before any allowance for diversification benefit between risk modules) is £0.5m (2020 – 0.5m).

C.4 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. At 31 December 2021 illiquid with-profit assets (in the form of property funds) amounted to 8%. 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 2021.

C.5 Operational Risk

The Society considers reputational risk to be significant. It adopts a highly risk averse approach to safeguarding policyholder data. Transmission of such data is always encrypted, and the Society conducts quarterly 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.

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 £2.6m, an increase from £0.6m in 2020 due to an increased volume of lump sum business in 2021 when compared to 2020. 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.

C.6 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 beyond the amounts specified in the Standard Formula and quantifies combined adverse price movements in equities and property (and bonds when appropriate).

During the year the Society considered a range of stress test scenarios, including but not limited to business volume and mix stress testing, expense cap scenarios, climate risk scenarios and reverse stress test scenarios.

C.7 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 three main investment managers, and reputation is a significant factor in choice of managers. The Society monitors the performance of all its funds, and reports this in regular management information. Such reporting includes monitoring actual versus target asset allocation 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. Pooled funds continue to be held with three investment managers. Bond funds (including the cash fund) are managed by Royal London Asset Management. Equity-like "real returns" are derived from a multi-asset fund managed by Columbia Threadneedle Investments and property fund holdings with AEW, Royal London Asset Management and Columbia Threadneedle Investments.

C.8 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 within each year.
- Charges to asset shares for guarantee costs reflect the recent performance of the with profit fund and will rise when market 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

D.1 Assets

The valuation of the Society's assets as at 31 December 2021 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 are also shown in Table D.1.

Table D.1 Assets*

Asset Description	**UK GAAP as at 31 December 2021 £m**	**Solvency II as at 31 December 2021 £m**	**Solvency II / UK GAAP as at 31 December 2020 £m[3]**
Liquidity and Bond Funds	**120.4**	**120.4**	109.8
Multi-Asset Funds	**133.8**	**133.8**	107.7
Insurance Linked Security Funds	**0.0**	**0.0**	0.0
Property Funds	**20.8**	**20.8**	11.6
Cash	**8.8**	**8.8**	11.9
Reinsurers' Share of Technical Provisions	**1.3**	**1.3**	1.4
Tangible and Intangible Assets	**0.5**	**0.2**	0.2
Insurance Receivables	**0.1**	**0.1**	0.1
Reinsurance Receivables	**0.2**	**0.2**	0.0
Other Debtors	**1.6**	**1.6**	1.3
Deferred Tax Asset	**-**	**-**	-
Prepayments and Accrued Income	**0.2**	**0.2**	0.2
Total Assets	**287.6**	**287.3**	244.3

** - Table might contain differences due to rounding.*

[3] The valuation of assets as at 31 December 2020 was consistent under Solvency II and UK GAAP and so only one position is presented here.

Total Assets for 31 December 2021 and 31 December 2020 include £0.1m of rounding with respect to prior rows.

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

D.1.1 Investments

Units in unit trusts or other pooled fund vehicles are included at published bid prices or single price for single priced fund. For the AEW UK Core Property and AEW UK Real Return Funds where the single price and Net Asset Value are quoted, the Net Asset Value is used.

D.1.2 Deferred Taxation

Deferred taxation is provided, in respect of timing differences where there is a reasonable probability that such taxation will become payable or recoverable.

D.1.3 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 on the Solvency II balance sheet, £0.1m (2020 £0.1m), relates to the Society's leasehold premises and is depreciated linearly over the outstanding lease term to April 2025. The remainder relates to computer equipment which is depreciated linearly over the lifetime of the equipment.

The Solvency II and UK GAAP valuation of intangible assets are different at 31 December 2021. A new intangible asset in relation to IT expenditure incurred in 2021 ('Project Darwin') amounting to £354k has been amortised under UK GAAP and will be written-off over the estimated useful life of the new software and systems. However, under Solvency II, intangible assets are ascribed a value only when they can be sold separately and when there are quoted prices in an active market for the same or similar assets. This intangible asset does not meet this criteria and so is valued at nil on the Solvency II balance sheet.

D.2 Technical Provisions

The Technical Provisions are determined in line with the regulations set out in Article 77 of the Solvency II Directive[4] 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 December 2021

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. A global reserve held in relation to significant one-off IT expenses to be incurred in 2022 (Project Darwin) has been allocated entirely to the Life With-Profits Participation line of business on proportionality grounds.

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

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 amount of stand alone critical illness business.

The technical provisions as at 31.12.21 for each material line of business are given in table D.3 below.

Table D.3 Solvency II and UK GAAP Provisions

Component (£m)	Line of Business	Technical Provisions as at 31.12.21[1] (£ m)	Technical Provisions as at 31.12.20[1] (£ m)
BEL	Life With-Profits Participation[3]	238.5	195.0
	Other Life Insurance	13.7	14.2
	Health Insurance	1.3	1.6
Risk Margin		1.5	1.3
Total Technical Provisions[2]		254.9	212.2

1. **Technical Provisions are gross of reinsurance.**
2. **Total Technical Provisions for 31 December 2021 and 31 December 2020 include £0.1 of rounding with respect to prior rows.**
3. **Total Technical Provisions for 31 December 2021 for Life With-Profits Participation line of business includes a £1.0m global reserve held in relation to significant one-off IT expenses to be incurred in 2022 (Project Darwin). This has been allocated entirely to the Life With-Profits Participation line of business on proportionality grounds.**

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[5] to apportion the risk margin to its three lines of business, this methodology is unchanged from that used as at 31 December 2020.

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. These 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 0.5% of the total BEL).

With-profits best estimate liabilities as at 31 December 2021 are taken as the sum of:

- the asset shares as at 31 December 2021; 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 1,000 investment return simulations with due allowance for expected management actions, as described in section C8.

[5] https://www.eiopa.europa.eu/sites/default/files/publications/eiopa_guidelines/tp_final_document_en.pdf

The non-profit best estimate liabilities (with the exception of the 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 the PRA at the valuation date to calculate the BEL; in accordance with Article 77 of the Solvency II Directive.

In addition, a global reserve is included in the BEL in relation to significant one-off IT expenses to be incurred in 2022 (Project Darwin).

Projection Basis

Appendix D.1 sets out the basis and assumptions used to determine Metfriendly's Solvency II Technical Provisions as at 31 December 2021.

Mortality Assumptions

Metfriendly's mortality experience is reviewed annually. For a valuation as at 31 December X, the experience analysis is based on experience over the years X-5 to X-1 and considers both the most recent experience, and a rolling four year average, 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. Mortality experience in the year X is also reviewed at a high level (for example with regards to the impact of Covid-19 in 2021) to ensure that the findings of the analysis remain reasonable in light of the most recent experience emerging.

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

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 are derived from this analysis and take the form of a percentage of office premium deduction for the 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 is charged to with-profits asset shares as a deduction of 1.0% p.a. (1.0% p.a. as at 31 December 2020) to the investment return achieved by the assets backing the with-profits business. An explicit allowance for fund management charges (AMCs) on the bond, equity and property funds of 0.4% p.a. (0.4% p.a. as at 31 December 2020) is also charged monthly to the 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 need to be considered.

Lapse Assumptions

Milliman carried out the 2021 annual review of Metfriendly's lapse experience, at a policy level. Best estimate lapse assumptions for use in the model to calculate the Solvency II reporting figures are derived from this review. The lapse rates used in the model are assumed to vary with duration in-force, and by product type as appropriate. The lapse rates are determined at a policy level, split by duration for all the business in-force based on the persistency experience of those policies written in the last 10 years for whom the experience is likely to be more relevant.

Reinsurance

As the reinsurance recoverables are treated as an asset, 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 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

- Health Risks:
    - Health Morbidity Risk
    - Health Expense Risk
    - Health Lapse Risk
    - Health 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, with the exception of operational 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 Regulation (EU) 2015/35. This approach is consistent with Method 1 of the Hierarchy of Simplifications outlined in the Solvency II Guidelines[6].

The operational risk SCR for the Risk Margin is explicitly recalculated at each future year based on projected BEL and premium cashflows. Table D.4 below sets out the risk drivers that are used to project the future SCR based on the initial values by risk module.

[6] https://www.eiopa.europa.eu/sites/default/files/publications/eiopa_guidelines/tp_final_document_en.pdf

Table D.4 Risk Drivers

Risk	Risk Module	Capital Requirement (£k) for the reference undertaking as at 31 December 2021	Projection risk driver
Mortality	Life Underwriting	491	Non-profit: Capital at risk in-force on term assurance business (net of reinsurance) With-profits: Asset share in-force
Disability – Morbidity	Life Underwriting	12	Capital at risk in-force on term assurance business (net of reinsurance)
Expenses	Life Underwriting	623	Non-profit: Capital at risk in-force for term assurance business (net of reinsurance) With-profits: Asset share in-force
Lapses	Life Underwriting	1302	Non-profit: Capital at risk in-force on term assurance business (net of reinsurance) With-Profits: Asset share in-force
Life Catastrophe	Life Underwriting	90	Capital at risk in-force on term assurance business (net of reinsurance)
Disability – Morbidity	Health (SLT) Underwriting	290	Income Protection: Proportion of income protection policy holders in-force Standalone Critical Illness: Capital at risk in-force on standalone critical illness business (net of reinsurance)
Expenses	Health (SLT) Underwriting	129	Capital at risk in-force on standalone critical illness business (net of reinsurance)

Lapses	Health (SLT) Underwriting	109	Capital at risk in-force on standalone critical illness business (net of reinsurance)
Health Catastrophe	Health Underwriting	24	Proportion of income protection policy holders in-force
Counterparty Default	N/A	485	Asset share in-force
Operational Risk	N/A	654	Formulaic calculation based on projected premiums, technical provisions and Basic SCR. No driver used.

D.2.4 Uncertainty in the Technical Provisions

Asset Shares

The asset shares as at 31 December 2021 as determined by the Society, comprise around 93% of the technical provisions. The Chief Actuary carried out an analysis of the movement in asset shares from 31 December 2020 to 31 December 2021 based on information provided by Metfriendly and compared the results with the relevant entries in the accounts. The asset shares, as part of the technical provisions, are also subject to external audit.

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 table D.5 below.

Table D.5 Impact on Technical Provisions of different assumptions

Scenario	Impact on Technical Provisions	Impact on Own Funds £m
An increase in risk free rates of 1%	Decrease of £8.8m, 3% of TP	Decrease of £0.2m
A widening of credit spreads of 1%	Decrease of £6.8m, 3% of TP	Decrease of £2.9m
An absolute increase of 3% in the underlying implied volatility in the equity investments	Increase of £0.3m, 0.1% of TP	Decrease of £0.3m
A fall in market value of equities by 20%	Decrease of £8.5m, 3% of TP	Decrease of £1.9m
A 10% deterioration in the demographic assumptions underlying the valuation of the best estimate liabilities for the non-profit business	Increase of £0.8m, 0.3% of TP	Decrease of £0.5m

Modelling

Further tests have been carried out to assess the sensitivity of the present value 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, or for the comparison between the 5,000 and 1,000 investment return simulations. Hence reduced model points and 1,000 investment return simulations have been used to calculate the best estimate liabilities and in the 1-in-200 stress calculations used to calculate the solvency capital requirement.

Model Points

The cost of guarantees and charges in the base run (i.e. to calculate the best estimate liabilities) 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 the tables D.6 and D.7 below.

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

Comparison of present value of the Cost of Guarantees			
	Reduced MP (£ m)	**Full MP (£ m)**	**Difference (%)**
CWP	0.64	0.64	0.16%
AWP	5.66	5.65	0.22%
Total	6.31	6.29	0.22%

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

Comparison of present value of the Cost of Guarantees Charges			
	Reduced MP (£ m)	**Full MP (£ m)**	**Difference (%)**
CWP	0.23	0.24	-0.24%
AWP	5.95	5.94	0.16%
Total	6.18	6.17	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. 1,000 such scenarios are used and to demonstrate that this is sufficiently large the base run using 1,000 scenarios is compared against a run using 5,000 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 1,000 and 5,000 Scenarios

Comparison of present value of the Cost of Guarantees			
	5,000 scenarios (£m)	1,000 scenarios (£m)	Difference (%)
CWP	0.64	0.64	0.20%
AWP	5.67	5.66	-0.03%
Total	6.31	6.31	-0.01%

Table D.9 Comparison of Charges for Cost of Guarantees using 1,000 and 5,000 Scenarios

Comparison of present value of the Cost of Guarantees Charges			
	5,000 scenarios (£m)	1,000 scenarios (£m)	Difference (%)
CWP	0.23	0.23	0.31%
AWP	5.94	5.95	0.07%
Total	6.18	6.18	0.08%

The differences are considered sufficiently small that results from the 1,000 rather 5,000 scenarios can be used without adjustment.

Risk Margin

The sensitivity of the risk margin to the 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.

A 1% parallel increase in the risk free interest rate curve decreases the risk margin by £0.1m (£0.1m as at 31 December 2020), from £1.5m to £1.4m.

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% (10% as at 31 December 2020) from £1.5m to £1.6m as at 31 December 2021.

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 (UK GAAP) as at both 31 December 2021 and 31 December 2020.

Adjustments

As at 31 December 2021, 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, including 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

As at 31 December 2021 a global reserve has been established in the BEL in relation to significant one-off IT expenses to be incurred in 2022 (Project Darwin). There was no similar reserve held as at 31 December 2020.

There have been no other material changes in assumptions made in the calculation of the technical provisions as at 31 December 2021 compared to those used as at 31 December 2020.

D.3 Other Liabilities

The other liabilities as at 31 December 2021 are given in the Table D.10 below.

Table D.10 Other liabilities*

	Solvency II / UK GAAP as at 31 December 2021	**Solvency II / UK GAAP as at 31 December 2020**
Other Liabilities	**£ m**	**£ m**
Deferred Tax Liability	0.3	0.2
Insurance and intermediaries payables	1.7	1.0
Reinsurance payables	0.1	0.0
Payables (trade not insurance)	0.3	0.3
Pension benefit obligations	-	-
Accruals and deferred income	0.7	0.4
Other (all taxation)	0.1	0.3
TOTAL	**3.2**	**2.3**

** - Table might contain differences due to rounding.*

Total Other Liabilities for31 December 2020 include £0.1m of rounding with respect to prior rows.

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.

D.4 Alternative Methods for Valuation

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

D.5 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 set out the Solvency II best estimate assumptions as at 31 December 2021 and 31 December 2020 for comparison.

Table D.11 Assumptions for Solvency II Best Estimates

Assumption category		**31/12/2021**	**31/12/2020**
Discounting	PRA Solvency II Yield Curve	1-year rate: 0.758% (0.868% increase) 2-year rate: 1.006% (1.085% increase) 5-year rate: 1.050% (0.967% increase) 10-year rate: 0.948% (0.659% increase) 25-year rate: 0.850% (0.374% increase)	1-year rate: -0.110% 2-year rate: -0.079% 5-year rate: 0.083% 10-year rate: 0.289% 25-year rate: 0.476%
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: 9.0% p.a. year 1-6 6.0% p.a. years 7+ Mortgage Protection Assurances: 10% p.a. years 1-6 8%p.a. years 7+ Level Term Assurances: 4.0% p.a. year 1 2.5% p.a. years 2+ Guaranteed 5 year savings plan: 5.0% p.a. year 1 6.5% p.a. year 2 6.0% p.a. year 3 5.0% p.a. year 4 3.5% p.a. final year Table 8: 2.5% p.a. Table 10: 1.0% p.a. Table 11: 6.0% p.a. years 1-5 4.0% p.a. years 6+ Tables 21 and 22	**Lapse rates assumed for all business.** In particular: Decreasing Term & Mortgage Protection Assurances: 10.0% p.a. year 1-6 8.0% p.a. years 7+ Level Term Assurances: 4.0% p.a. year 1 2.5% p.a. years 2+ Guaranteed 5 year savings plan: 5.0% p.a. year 1 6.5% p.a. years 2-3 5.5% p.a. year 4 4.0% p.a. final year Table 8: 2.5% 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+

Assumption category		31/12/2021	31/12/2020
		5.0% p.a. years 1-5 3.0% p.a. years 6+ Table 12: 6.0% p.a. years 1-5 4.0% p.a. years 6+ Tables 15 and 16: 5.0% p.a. years 1-5 3.0% p.a. years 6+ Table 19: 5.0% p.a. year 1 8.0% p.a. years 2-5 5.0% p.a. years 6+ Table 26: 7.0% p.a. Table 25: 10.5% p.a. year 1 15.0% p.a. years 2-6 11.0% p.a. years 7-10 8.0% p.a. years 11+ Table 27: 9.0% p.a. year 1 12.0% p.a. year 2 16.0% p.a. years 3-5 13.0% p.a. years 6-7 9.0% p.a. years 8+ Tables 29 and 32: 7.5% year 1 15.0% years 2+ Tables 30 and 33: 2.0% p.a. years 1-2 5.0% p.a. years 3-11 12% p.a. years 12-13 6.0% p.a. years 14 Table 24: 2.0% p.a. year 1 6.0% p.a. years 2-3 7.5% p.a. years 4-6 6.0% p.a. years 7+ Table 28: 2.0% p.a. years 1-2 6.0% p.a. years 3-6 12.0% p.a. years 7-8 6.0% p.a. years 9+ Stand alone critical illness : 14.0% p.a. years 1-2	Tables 12, 15 and 16: 5.0% p.a. years 1-5 3.0% p.a. years 6+ Table 19: 9.0% p.a. years 1-5 5.0% p.a. years 6+ Table 26: 7.0% p.a. Table 25: 10.5% p.a. year 1 15.0% p.a. years 2-6 11% p.a. years 7+ Table 27: 9.0% p.a. year 1 12.0% p.a. year 2 16.0% p.a. years 3-7 12.0% p.a. years 8+ Table 29,30, 32 and 33: 7.5% year 1 15.0% years 2+ Tables 24 and 28: 2.0% p.a. year 1 6.0% p.a. years 2-3 7.5% p.a. years 4-6 6.0% p.a. years 7+ Stand alone critical illness : 12.0% p.a. years 1-2

Assumption category		31/12/2021	31/12/2020
		7.0% p.a. years 3+ Table 31 (Lives Aged 18-34 at Issue): 14.0% p.a. year 1 21.0% p.a. years 2-3 27.0% p.a. years 4+ Table 31 (Lives Aged 35+ at Issue): 8.0% p.a.	8.0% p.a. years 3+ Table 31: 12.0% p.a. year 1 18.0% p.a. years 2+
Expenses	Per Policy (term assurances)	£49.00 p.a.	£54.00 p.a.
	Per Premium (AWP and G5YSP)	5.5%	5.5%
	Investment (with-profits)*	1.00% p.a. of asset share	1.00% p.a. of asset share
	Fund Expenses (AMCs)	0.4% p.a. deduction to investment return	0.4% p.a. deduction to investment return
	Expense Inflation	4.00% p.a.	3.75% p.a.
IP			
IBNR		Premiums (net of 30% for expenses) – 68% for 2021, 52% for 2020, 24% for 2019, 12% for 2018 and 4% for 2017.	Premiums (net of 30% for expenses) – 68% for 2020, 52% for 2019, 24% for 2018, 12% for 2017 and 4% for 2016.
ICOP		Best estimate of claims data, additional 15% for expenses.	Best estimate of claims data, additional 15% for expenses.

E. Capital Management

E.1 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. This amounted to £29.2m as at 31 December 2021 (£29.8m as at 31 December 2020).

Solvency II Own Funds decreased over 2021 by £0.6m (2020: increase £0.5m). The material contributory factors to this decrease in Own Funds was:

- new business strain; and,
- a global reserve held in relation to significant one-off IT expenses to be incurred in 2022,

largely offset by:

- strong investment returns; and,
- an increase in the risk free yield curve as at 31 December 2021 when compared to that as at 31 December 2020.

E.1.1 Reconciliation of UK GAAP fund for future appropriations ("FFA") to Solvency II Own Funds

The FFA in the financial statements represents the surplus in the Society's with-profits fund on a UK GAAP basis for which the allocation between participating policyholders has yet to be determined. The FFA is effectively the net assets on a UK GAAP basis.

The reconciliation below shows the differences between the FFA in the UK GAAP financial statements and the Solvency II Own Funds.

Table E.1 Reconciliation of UK GAAP fund for future appropriations (FFA) to Solvency II Own Funds

31 December (£m)	2021	2020
Fund for future appropriations per UK GAAP financial statements	**29.5**	**29.8**
Adjustments to move to Solvency II valuation basis:		
Adjustments to intangible assets (see D.1.3)	-0.4	0.0
Total Own Funds under Solvency II	**29.2**	**29.8**

1. **Total Own Funds under Solvency II for 31 December 2021 include £0.1 of rounding with respect to prior rows.**

E.2 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 2021 amount to £15.1m and £3.8m, respectively (comparative figures as at 31 December 2020 were £13.5m and £3.4m). The amount of the SCR split by risk module, before any diversification benefit is applied between risk modules, is shown in Table E.2 below. The values shown are after allowance for the loss-absorbing capacity of technical provisions and loss-absorbing capacity of deferred tax.

Table E.2 SCR by Risk Module before Diversification Benefit

Risk Module		SCR £m as at 31 December 2021	SCR £m as at 31 December 2020
Market Risk		11.6	10.7
Life Insurance Risk		1.8	1.4
Health Insurance Risk		0.4	0.5
Counterparty Risk		0.5	0.5
Operational Risk		2.6	2.0

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 through a Modification by Consent. The Modification Directive is effective from 19 August 2020 and ends on the date that the relevant rule within the directive is revoked, or no longer applicable to the Society.

Table E.3

Date		SCR £m	MCR £m	Linear MCR biting?
Day 1		7.7*	2.7	Linear MCR
Year End 2020		13.5	3.4	MCR – MCR floor
Year End 2021		15.1	3.8	MCR – MCR 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.

A formulaic cap and floor apply to the calculation of the MCR. At both Year End 2021 and Year End 2020 the MCR floor (25% of SCR) bites.

The increase in the SCR during 2021 primarily relates to writing materially higher volumes of new business during 2021 than 2020, not just the capital requirements for new business written arising from the market and life underwriting risk modules but also on the capital requirement calculated formulaically in respect of operational risk.

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.

Income Protection

The income protection business comprises less than 1.0% of the total technical provisions (including the risk margin). 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 £0.2m as at 31 December 2021.

Loss Absorbing Capacity of Deferred Tax

The actuarial model used to project the cash flows does not allow for any deferred tax benefit following a market stress. Consequently a manual reduction is made to the capital requirement to reflect the loss-absorbing capacity of deferred tax up to the value of the existing deferred tax liabilities. Further work to demonstrate to the regulator the recoverability of any increases in deferred tax assets has not been commissioned by Metfriendly, on materiality grounds.

The loss-absorbing capacity of deferred tax is determined as the proportion of the asset shock that transmits into guarantee costs for that part of the deferred tax benefit that is deemed to be recoverable. The loss-absorbing capacity of deferred tax amounted to £0.1m as at 31 December 2021.

Smoothing

The impact of smoothing is expected to be neutral in the long term and therefore Metfriendly does not hold any additional capital in respect of smoothing.

E.3 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.

E.4 Internal Model Information

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

E.5 Non-Compliance with the MCR or SCR

Metfriendly has a MCR coverage ratio of 773% and an SCR coverage ratio of 193% as at 31 December 2021 and is financially strong. It has complied with the both the Minimum Capital Requirement and the Solvency Capital Requirement throughout 2021 by a large margin.

E.6 Any Other Information

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

Metropolitan Police Friendly Society Limited

Solvency and Financial Condition Report

Disclosures

31 December

2021

(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 2021
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.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	138
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	274,983
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	274,972
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	11
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	1,316
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	1,316
R0320	*Health similar to life*	181
R0330	*Life excluding health and index-linked and unit-linked*	1,135
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	1,412
R0370	Reinsurance receivables	188
R0380	Receivables (trade, not insurance)	296
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	8,790
R0420	Any other assets, not elsewhere shown	165
R0500	**Total assets**	287,288

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*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	254,925
R0610	*Technical provisions - health (similar to life)*	1,575
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	1,303
R0640	*Risk margin*	272
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	253,350
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	252,161
R0680	*Risk margin*	1,190
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	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	291
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	1,714
R0830	Reinsurance payables	81
R0840	Payables (trade, not insurance)	285
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	807
R0900	**Total liabilities**	258,103
R1000	**Excess of assets over liabilities**	29,185

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	317	54,418		5,250					59,986
R1420	Reinsurers' share	27	0		305					332
R1500	Net	290	54,418		4,945					59,654
	Premiums earned									
R1510	Gross	317	54,418		5,250					59,986
R1520	Reinsurers' share	27	0		305					332
R1600	Net	290	54,418		4,945					59,654
	Claims incurred									
R1610	Gross	15	15,546		5,451					21,012
R1620	Reinsurers' share	0	0		427					427
R1700	Net	15	15,546		5,024					20,585
	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**	98	5,229		424					5,752
R2500	**Other expenses**									
R2600	**Total expenses**									5,752

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	59,986						59,986
R1420	Reinsurers' share	332						332
R1500	Net	59,654						59,654
	Premiums earned							
R1510	Gross	59,986						59,986
R1520	Reinsurers' share	332						332
R1600	Net	59,654						59,654
	Claims incurred							
R1610	Gross	21,012						21,012
R1620	Reinsurers' share	427						427
R1700	Net	20,585						20,585
	Changes in other technical provisions							
R1710	Gross	0						0
R1720	Reinsurers' share	0						0
R1800	Net	0						0
R1900	**Expenses incurred**	5,752						5,752
R2500	**Other expenses**							
R2600	**Total expenses**							5,752

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**	238,485					1,757	11,918			252,161		1,303				1,303
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						1,135				1,135		181				181
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	238,485					622	11,918			251,025		1,122	0			1,122
R0100	**Risk margin**	953				237					1,190	272					272
	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**	239,438				13,912					253,350	1,575					1,575

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	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	29,539	29,539			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-354	-354			
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**	29,185	29,185	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	29,185	29,185	0	0	0
R0510	Total available own funds to meet the MCR	29,185	29,185	0	0	
R0540	Total eligible own funds to meet the SCR	29,185	29,185	0	0	0
R0550	Total eligible own funds to meet the MCR	29,185	29,185	0	0	
R0580	**SCR**	15,102				
R0600	**MCR**	3,775				
R0620	**Ratio of Eligible own funds to SCR**	193.26%				
R0640	**Ratio of Eligible own funds to MCR**	773.04%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	29,185
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	29,539
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	-354
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	50,149		
R0020	Counterparty default risk	485		
R0030	Life underwriting risk	13,892	9	
R0040	Health underwriting risk	412	9	
R0050	Non-life underwriting risk	0	9	
R0060	Diversification	-9,391		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	55,547		

USP Key

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

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

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	2,624
R0140	Loss-absorbing capacity of technical provisions	-42,962
R0150	Loss-absorbing capacity of deferred taxes	-107
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**	15,102
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	15,102
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	No

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	-107
R0650	LAC DT justified by reversion of deferred tax liabilities	-107
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	-793

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	-3,618

		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	93,390	
R0220	Obligations with profit participation - future discretionary benefits	145,095	
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	14,978	
R0250	Total capital at risk for all life (re)insurance obligations		223,555

	Overall MCR calculation	C0070
R0300	Linear MCR	-3,618
R0310	SCR	15,102
R0320	MCR cap	6,796
R0330	MCR floor	3,775
R0340	Combined MCR	3,775
R0350	Absolute floor of the MCR	3,126
R0400	**Minimum Capital Requirement**	3,775