HEALTHSHIELD
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Health Shield Friendly Society Ltd
Solvency & Financial Condition Report (SFCR)
For the year ended 31 December 2017

INVESTORS IN PEOPLE

Health Insurance, COVER and Corporate Adviser Awards Best Health Cash Plan Provider, Health Screening Protection Review Gold

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Executive summary

The purpose of this report

- This report is produced by the Health Shield Friendly Society (HSFS) in line with its obligations under Solvency II. HSFS is the sole insurance entity within the Society's structure and is therefore the focus of this report.
- This Solvency and Financial Condition Report (SFCR) provides information about our financial strength and other key messages about how we manage our business.
- It covers the year ending 31 December 2017.

The key messages in this report are:

Our Market Outlook

- Our core product continues to be Health Cash Plans for which the market has remained relatively static. A slight fall in the individual business has been countered by a rise in employer paid group business. However, our outlook for the market is positive and we have been able to demonstrate significant growth over a number of years, reflected in growth in premium income to over £41m, the highest in the Society's history.
- Pricing in the market remains competitive and, along with potential for increases in Insurance Premium Tax, will remain a major challenge for the Society in the immediate future.

Our Financial Strength

- We have £44.2m in assets over liabilities; this is known as Own Funds (2016: £48m). This means that we are exceptionally financially strong with a 383% coverage of our Solvency Capital Requirement (SCR). The SCR is the amount of capital that the PRA require us to hold under Solvency II.
- The key elements which gave rise to the reduction in Own Funds compared to 2016 were: a reduction in investment income and gains, an increase in Technical Provisions, significant investment in infrastructure and continued high levels of claims returns to members.

Our Governance

- We have strong internal governance structures, including a robust three lines of defence. We will continue to invest in developing and growing our business and our senior management team has been significantly strengthened to achieve this goal.

A. Business and performance

A.1 Business

A.1.1 Name and legal form

Health Shield Friendly Society Ltd is a directive Friendly Society, incorporated under the Friendly Societies Act 1992 (register number 50F). Health Shield is a regulated financial services firm, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

The address of Health Shield's registered office is:

Electra Way

Crewe Business Park

Crewe

CW1 6HS

A.1.2 Supervisory authority details

The name and contact details of the supervisory authorities responsible for the supervision of Health Shield are:

PRA	20 Moorgate London EC2R 6DA
FCA	25 The North Colonnade London E14 5HS

A.1.3 Legal structure and internal organisation

Health Shield was incorporated on 1 January 2000 and has, at the time of writing, just over 311,000 members. It writes primarily health cash plan business on a long-term basis under the Financial Services and Markets Act 2000. Health Shield provides health cash plans in the UK to individuals, corporate clients and their employees. Health Shield offers its product on a retail, non-advised basis.

The Society has three direct subsidiaries:

- Health Shield Wellbeing Limited; a company set up to enable the Society to offer its stakeholders access to non-insurance, health related products, which itself has a subsidiary, Prevent Ltd trading as Health Shield;
- Medex Protect Limited, which is authorised and regulated solely by the FCA as an insurance intermediary; and

- Health Shield Insurance Services Limited, which is dormant.

These subsidiaries have been formed to enable the Society to diversify its product range into related health and well-being products, which complement the Society's core business.

As a UK-regulated financial services company, Health Shield must comply with all applicable sections of the FCA handbook and the PRA rulebook; the rules contained therein having been established by the Financial Services & Markets Act 2000 and the Financial Services Act 2012.

As at 31 December 2017, Health Shield had 163 full time equivalent employees.

Internal Board structure

The Society conducts its business under the direction and management of the Board. The Board is collectively responsible for the long-term success of the Society with an overarching aim of safeguarding members' interests.

The Board operates within the regulatory provisions and guidance issued by the FCA and the PRA.

Annual General Meeting

The Society is governed by the Annual General Meeting ("AGM") of the Society, which is composed of delegates from the membership. Every member is eligible to be a delegate at the AGM. Prior to the AGM, representatives of the Board hold a series of area meetings with the prospective delegates to provide an update on the Society's current position and the Society's future plans. It also receives feedback from the members on areas that they feel could be improved. Each area meeting can appoint up to twenty-five Delegates to attend the AGM.

A.1.4 External auditor of the undertaking

The independent auditors of Health Shield are:

Deloitte LLP

Statutory Auditor

Manchester

A.1.5 Market position

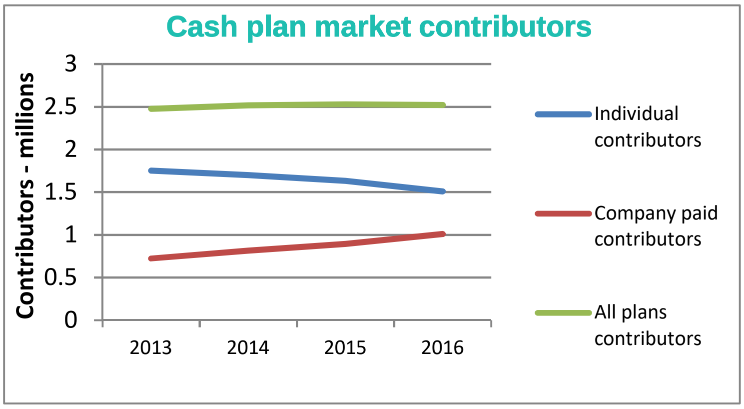
The Society has used the Laing & Buisson Health Cover UK Market Report (Laing & Buisson) published in October 2017 and based on the health cover market up to the end of 2016, as a basis to determine its market position and understand market trends.

Market summary

The health cash plan market is highly competitive and most providers are 'not for profit' insurers. There are 17 'not for profit' and 11 'for profit' providers. 14 of the 28 providers also offer private medical insurance and other protection products.

Market trends

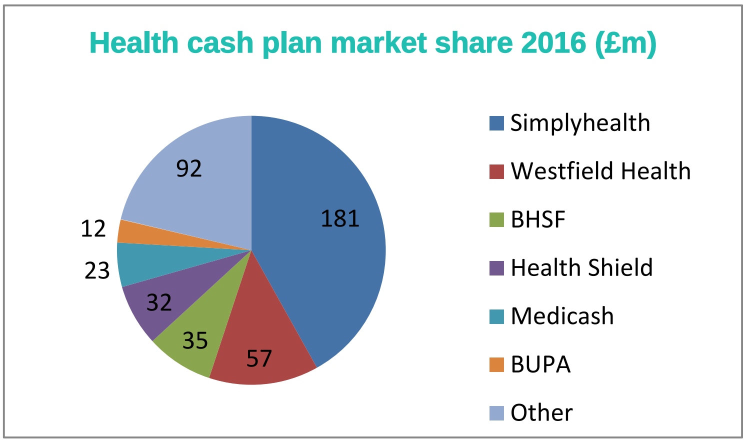
Laing & Buisson indicates that the volume of demand for UK health cash plans has marginally decreased in a broadly a static market. This is in contrast to a gradually rising trend that has been evident in recent years. The positive growth in the corporate sector has been affected by an uncertain economy and political environment and there is a continued reduction in the individual sector.



Though contributor volumes moved very little in 2016, the number of people covered by cash plans fell marginally by 1.5%.

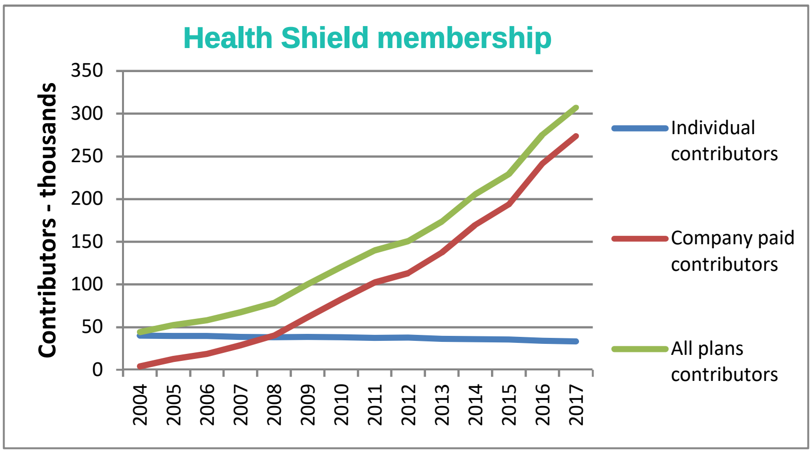
Penetration across the UK edged down to an estimated 5.2% of the population at the end of 2016, compared with 7.6% in 2007, prior to market contraction.

Whilst the overall demand for health cash plans has remained static, there has been a 6.8% fall in people covered by individual health cash plans in 2016. This is countered by 11.8% rise in employer paid contributors to health cash plans, which confirms that scope for growth in this area remains as strong as ever.



Health Shield has achieved significant growth over the last 10 years and has increased its premium income and market share during this period and the Board expects this level of growth to continue – at least in the short to medium term.

In 2005, the Society's market share stood at 3.6%. By the end of 2016, this had increased to 7.8% and the Society occupied 4th place for Health Cash Plan providers by premium income.



The top three providers by premium income remained unchanged in 2016. If the Society continues to grow its company paid business at its current rate then the Society will be the third largest provider in 2017, going ahead of the BHSF Group.

A.1.6 Distribution channels

Sales and marketing

The Society must constantly evolve and adapt to changes in the competitive environment and the demands of its stakeholders. Sales and Marketing have benefited from the improved business intelligence developed as part of the extensive Sales and Marketing review conducted in 2016, which has enhanced the development and pricing of products

In terms of product distribution, Intermediaries have continued to increase their market presence, offering a health cash plan proposition to their corporate customers, where previously only addressing their PMI needs. The Society is responsive to and engaged with the intermediary market. As well as working with intermediaries, the Society also has its own direct sales force.

Digital transformation

The Society will continue to invest in its technology. Underlying this is the need to deliver a digital transformation looking at automation to embrace online solutions, new technologies and to optimise the operational working processes so that we deliver a streamlined member experience.

A.1.7 Significant business events during the reporting period

In 2017, the Society conducted a full review of its Executive and Senior Management team. The Board implemented a detailed restructure of the Executive and Senior Management team. Courtney Marsh, previously the Society's Director of Operations and Risk became Commercial Director. Philip Wood, previously Executive Director - Sales and Marketing, became the Society's Sales Director with an increased focus on sales and responsibility for implementing an effective retention strategy.

In addition, the Society has significantly strengthened the Senior Management Team during the year. Stuart Hayhurst has been appointed as Director of IT & Operations, Nick Foskett has been appointed to the role of Financial Controller and Liam Foster has been engaged as Director of Compliance and Risk.

In January 2017, the Society purchased Prevent Ltd, a health screening and occupational health company. The deal has provided the Society with further opportunities for growth within the employer health and wellbeing market, and will add greater depth to both its product offering and skills base.

In November 2017, the Society purchased Medex Protect Limited, a company selling policies that cover private medical insurance (PMI) excesses and provide shortfall cover. The deal will enable the Society to offer a complementary bolt-on offering to the provider's existing suite of products, extending the availability of stand-alone PMI excess cover to more companies; whether a health cash plan is in place or not. In a relatively short space of time, Medex Protect has built a strong name for itself in the intermediary market thanks to providing great service and offering a unique proposition.

A.2 Underwriting performance

The table below shows Health Shield's revenue account for the period ended 31 December 2017.

£000s	2017*	2016
Gross premiums	41,270	37,185
Insurance premium tax	(3,851)	(3,250)
Reinsurer's share	(25)	(24)
Gross claims	(29,748)	(26,577)
Reinsurer's share of claims	0	0
Expenses including commission	(11,974)	(12,220)
Changes in other technical provisions	(2,018)	(986)
Other income	3,271	5,340
Surplus / (Deficit)	(3,076)	(530)

*2016 data includes discounts allowed as operating expenses, 2017 data has this netted out of premiums. The 2016 statutory accounts have been restated but the data within the SFCR has not been adjusted and remains the same.

The Society's performance was driven by the following:

- For the 14th consecutive year, Health Shield's premium income has increased. Premium income has risen to over £41 million, the highest level in the Society's history. This has been achieved entirely through organic growth and an ongoing investment in the Society's staff and IT infrastructure.
- Continued competitive pricing, along with ongoing increases in Insurance Premium Tax, will remain major challenges for the Society in the immediate future.
- The Society's loss ratio has increased this year in line with the Society's policy of returning more in the form of benefits to its membership.
- The Society's expense ratio has increased slightly during the year due to increased acquisition expenses in particular commission payable to intermediaries.
- The increase in technical provisions over the year has predominantly been driven by changes to the claims basis and target loss ratios.
- The Society has one small reinsurance contract that covers multiple personal accident claims arising from one incident. No claims were recovered from this policy in 2017

The manner in which the Society mitigates its underwriting risk is described within section C and its Own Risk and Solvency Assessment (ORSA).

A.3 Investment performance

A.3.1 Income and expenses arising from investments by asset class

At 31 December 2017, the assets invested by the Society fell into the following asset classes:

£000s	2017	2016
Government Bonds	10,155	11,433
Corporate Bonds	11,520	11,711
Equities	7,935	9,551
Investment Funds	12,220	13,072
Property	2,425	2,425
Related undertakings	77	0
Total	44,332	48,192

Data includes accrued interest not included in the statutory accounts.

At 31 December 2017, the income receivable from investments, together with the realised and unrealised gains/losses, was as follows:

£000s	2017	2016
Income	1,296	1,351
Realised Gains	1,878	2,698
Unrealised Gains/(Losses)	97	1,292
Total	3,271	5,340

The level of investment income remained relatively constant in 2017. Investment gains, realised and unrealised, fell compared to 2016 as a result of lower performance across both equity and fixed interest markets.

The Society paid its Investment Managers, Investec Wealth & Investment, £142k during 2017 to manage its portfolio of investments. This fee was calculated quarterly based on 0.25% plus VAT on the value of the Society's portfolio. There was an additional charge levied by the rating agencies S&P and Fitch during the year. Other than this, there was no additional commission or transaction fees.

A.4 Performance of other activities

A.4.1 Other material income and expenses

During 2017, the Society purchased Prevent Limited, a health screening and occupational health company and Medex Protect Limited, a company selling policies that cover private medical insurance (PMI) excesses and provide shortfall cover.

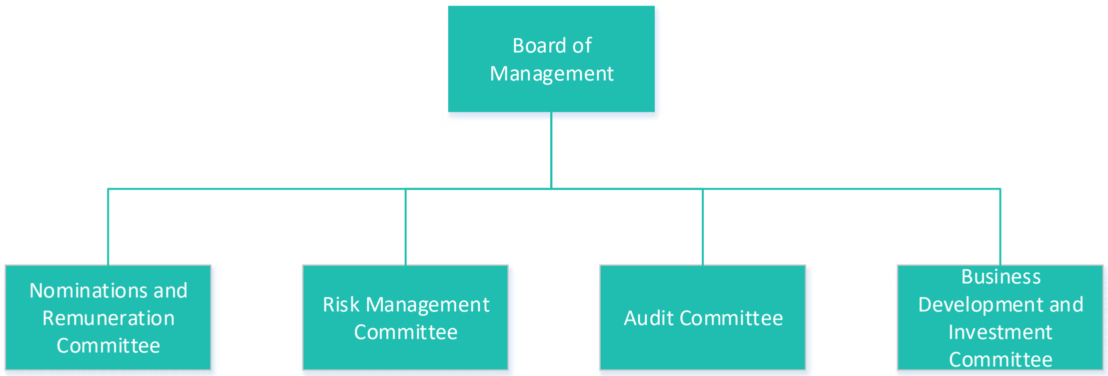
In the year ended 31st December 2017, the following values were included in the Consolidated Income Statement since the respective acquisition dates:

	Turnover (£)
Prevent Limited	581,537
Medex Protect Limited	111,816

B. Systems of governance

B.1 General information on the system of governance

B.1.1 Governance Structure



The diagram above shows the structure of the Board of Management at 31 December 2017. The key roles and responsibilities for the Board and each of the sub-committees are detailed below.

Board of Management

The Board of Management is collectively responsible for the long term success of the Society with an overarching aim of safeguarding members' interests. Its role is to provide leadership within a framework of prudent and effective controls which enables risk to be identified, assessed and managed. It sets the strategy and business objectives, ensures that the necessary financial, human and other resources are in place to achieve these objectives and monitors and reviews management performance. It is also responsible for the organisation's culture, setting values and standards of corporate behaviour which cover its obligations to all stakeholders, and for ensuring that these are understood and met.

The Board of Management operates within the regulatory provisions and guidance issued by the Financial Conduct Authority and the Prudential Regulation Authority. Board Members should deal with the regulators in an open and co-operative way and advise them promptly of any event, of which they could reasonably expect prompt notice.

Key responsibilities include:

- Determining the Society's vision and mission in order to provide overarching guidance for current operations and future developments
- Setting the strategy and agreeing the risk appetite that determines the risks that the Society is willing to take to achieve its strategic objectives
- Ensure that the Society's organisation structure and capability are appropriate for implementing and delivering the chosen strategies and plans

- Agreeing appropriate corporate plans for the development of the Society's business, along agreed strategic lines, taking account of the risks faced by the Society
- Maintaining adequate financial resources and overseeing the delivery of planned results by monitoring performance against agreed strategic objectives and targets set out in the business plan and annual budget

Nominations and Remuneration Committee

The Role of the Nominations and Remuneration Committee is to provide assurance to the Board in regards to recruitment, retention, training, performance and reward. This includes the maintenance of the appropriate skills and competence mix to meet the strategic aim of the Society.

Key responsibilities include:

- Formulate plans for succession for both executive and non-executive directors and in particular for the key roles of chairman and chief executive, suitable candidates for, in consultation with the chairman of those committees
- Oversee the Terms of Reference for all sub-committees of the Board
- Review and monitor the job descriptions for all key roles including Chairman, Chief Executive & Senior Independent Director
- Review succession planning arrangements for Directors, senior management, key function holders and other material risk takers, taking into account the challenges and opportunities facing the Society, and what skills and expertise are needed on the Board of Management to ensure future success.
- Evaluate the balance of skills, knowledge, experience and diversity on the board, and, in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the committee shall consider the use of open advertising or the services of external advisers to facilitate the search
- Review the results of the Board performance evaluation process that relate to the composition of the Board
- Ensure that on appointment to the Board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings
- Ensure that any newly appointed director discloses any other business interests that may result in a conflict of interest. The director will also be required to adhere to the Society's conflicts of interest policy for all future business interests.

Audit Committee

The Role of the Audit Committee is to provide independent objective oversight and challenge of the financial statements and the internal control environment. This is achieved through ensuring that the principles, policies and practices adopted in the preparation of the Annual Accounts, Financial Statements and the Solvency and Financial Condition Report comply with all statutory requirements in order that it may provide detailed assurance to the Society's Board of Management.

In addition, it is the role of the Committee to ensure a systematic, disciplined approach to obtaining assurances as to the adequacy and effectiveness of the full range of internal control procedures of the Society.

Key responsibilities include:

- Recommend policies that maintain and improve the financial health and integrity of the Society
- Review and approve the internal audit strategy and ensure that the Internal Audit function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors
- Oversee the relationship with the Society's external auditor, maintaining regular, timely, open and honest communication with the external auditors, ensuring that all relevant matters are reported to enable the Committee to carry out its oversight responsibilities
- Review the Society's procedures for Whistleblowing ensuring that the Society's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters are adequate
- Review the Society's procedures for the prevention of bribery and receive reports on non-compliance
- Review the Society's procedures for detecting fraud and receive reports on non-compliance
- Monitor the financial performance of the Society as a whole against its approved operating and capital expenditure budgets, long-term trends and industry benchmarks

Risk Management Committee

The Role of the Risk Management Committee is to provide an independent, objective oversight and challenge function that recommends the risk strategy, appetite and limit framework operated across the Society and oversees the business planning process and ORSA. The Risk Management Committee also provides oversight of the investment risks.

Key responsibilities include:

- Advising the Board on the Society's overall risk strategy, appetite and tolerance (including measurement), taking account of the current and prospective macroeconomic and financial environment and drawing on financial stability assessments such as those published by relevant industry and regulatory authorities
- Reviewing and recommending to the Board the Risk Management Policy and Framework to be adopted by the Society ensuring that they identify, measure, manage and mitigate, risks facing the Society
- Reviewing and recommending to the Board the ORSA report

- Reviewing the scenarios and stress tests that are used by the Society to assess the adequacy of its capital position including any reverse stress tests that will assist in identifying circumstances that render the Society's business unviable
- Receiving reports from the Compliance Function regarding compliance with regulatory requirements and keep under review the adequacy and effectiveness of the Compliance Function.
- Reviewing the approach used for calibrating the regulatory risk capital requirements taking into account the appropriateness of the standard formula before recommending a suitable approach to the Board
- Overseeing and advising the Board on the current risk exposures of the Society and future risk strategy.
- Ensuring that a sound risk culture is developed and embedded by assessing the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks (the risk management system) and reviewing and approving the statements to be included in the annual report concerning risk management
- Considering and approving the remit of the risk management function, ensuring that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee also ensures that the function has adequate independence and is free from management interference and other restrictions
- Approving the Society's approach to market and liquidity risk management and monitoring the market and liquidity risk appetite ensuring that appropriate actions are being taken by the executive team
- Reviewing the adequacy of the Society's Business Continuity Plan, recovery and resolution plan and information security procedures

Business Development & Investment Committee

The role of the Business Development and Investment Committee is to lead the development of the Society's business and commercial strategies that support and underpin the sustainability of the Organisation and to consider and advise the Board on all aspects of business and product development. In addition, the Committee oversees the Society's investment policies and processes including the appointment of external advice and the management of the contractual relationship.

Key responsibilities of the Committee include:

- Reviewing the business environment within which the Society operates, identifying trends, risks and opportunities, evaluating potential changes in direction and making recommendations to the Board about emerging developments and market positioning
- Reviewing the continuing relevance of the Society's vision, mission, values and objectives as they affect the Society's business development capacity and recommend to the Board any proposed changes
- Advising the Board on business policies, business priorities and direction and ensuring their alignment with overall Organisational objectives and targets

- Identifying and reviewing the Society's comparative strengths and weaknesses, its challenges and opportunities and making recommendations to the Board for the development of business, arising therefrom
- Seeking out and considering new business opportunities and potential targets for further partnerships, mergers and acquisitions
- Overseeing the processes and controls associated with the merger or acquisition of new operational entities and monitoring the delivery of the merger/acquisition process
- Reviewing progress against the sales and marketing and business development elements of the business plan and identifying key metrics against which to measure the success of the Society's current and future business growth
- Overseeing the pricing and underwriting of new business and products that will ensure the long-term financial health of the Society
- Approving the acceptance of underwriting risk and ceding of insurance risk to third parties through reinsurance whilst reviewing the Society's policy on reinsurance and making any necessary amendments in response to changes in the market or insurance landscape
- Agreeing a policy and process framework for the Society's investment of its assets including the establishment of guidelines for asset allocations, investment objectives, targets and benchmarks
- Overseeing the implementation of the Investment policy and its associated procedures
- Monitoring the performance of the investment portfolio, against agreed targets and benchmarks, taking due account of the Society's solvency and capital management requirements and the accounting policies and practices under which the Society operates
- Considering reports from appointed external Investment Advisers
- Reviewing the performance of the outsourced investment management function and recommending action as necessary

B.1.2 Material changes in the system of governance that have taken place over the reporting period

Approval was given for Non-Executive Director Chris Chappell to become the Chair of the Risk Management Committee (SIMF10) and Non-Executive Director Michael Carpenter to become Chair of the Nominations and Remuneration Committee (SIMF11 and CF2A).

The following Non-Executive Directors stepped down at the AGM which took place on 19 May 2017:

- Mr Michael Yates
- Mr Henry Melville Welsh

The following were appointed to the Board as notified Non-Executive Directors at the same AGM:

- Mrs Julie Hansen

- Ms Cecilia Gannon

An application for Scott Robinson to become a notified Non-Executive Director was entered in November 2017 and he is expected to be elected to the Board at the AGM in 2018.

An application for the Director of Compliance and Risk, Liam Foster, to take on the CF10 and SIMF 4 roles was made in December and was subsequently approved in 2018.

PricewaterhouseCoopers were appointed as the outsourced SIMF5 Head of Internal Audit on 23 July 2017.

The Executive Director Finance, Mrs Maxine Wilson, left the business on 29 June 2017 following a restructure and an application for Chief Executive, Jonathan Burton, was entered and approved for the SIMF2 role.

B.1.3 Remuneration policy

Health Shield believes that its people play a key part in the overall success of the Society. Consequently, it is committed to providing total remuneration packages that will enable it to attract, reward, motivate and retain high quality people in return for high quality performance.

The policy:

- Sets out the principles governing the Society's remuneration
- Ensures that remuneration is in line with applicable statutory and regulatory requirements
- Ensures that remuneration will promote sound and effective risk management
- Identifies who is responsible for determining the remuneration and benefits packages offered by the Society and the factors to be considered by them when determining employee compensation
- Defines the various elements that make up employee remuneration including the additional benefits that Health Shield provides to its employees

Health Shield's Remuneration Policy has been designed to reflect the Society's objectives for good corporate governance and to provide sustained and long-term value for its Members. The over-arching principles of the Remuneration Policy are as follows:

- Health Shield will adopt a remuneration policy and practices in line with its business and risk strategy, objectives, values and performance
- The remuneration policy will be applied in a proportionate and risk-based way, taking into account employees' specific roles and functions
- The Society's remuneration policy will be overseen by the Nominations and Remuneration Committee
- Fixed and variable remuneration (e.g. bonuses and commission) will be appropriately balanced so that the Society's employees do not become overly reliant on the variable component
- Variable remuneration will be based on a combination of the assessment of the individual and the collective performance and overall results of the Society

- The Society has decided to dis-apply the need for a deferral period having exercised appropriate judgement to ensure that the specific arrangements for Solvency II staff set out in Article 275(2) of the Solvency II Regulation (which include deferral) are applied proportionally and modified to meet the nature, scale and complexity of the risk inherent to the Society's business
- Financial and non-financial performance will be considered when measuring an individual's performance, and risk adjustments should be made when assessing performance for bonus awards
- The remuneration policy will be transparent internally and adequately disclosed externally
- Whilst the Society is not currently impacted by the regulatory remuneration code, it will comply with the core requirement of that code and ensure that the remuneration policy is risk-focused
- Health Shield is an equal opportunities employer and is committed to ensuring that all of its employees are remunerated fairly. Whilst the Society is not currently obliged to publish any gender pay calculations, it intends to take steps to monitor gender equality and reduce or eliminate their gender pay gap where applicable

The key objectives of the policy are to ensure that:

- The Society is able to attract, develop and retain high-performing and well-motivated employees in a competitive market — at all levels within the Society
- Employees are offered a consistent, competitive and market-aligned remuneration package in which fixed remuneration makes up a significant proportion of all remuneration; and the variable remuneration elements structured in order to link rewards to corporate and individual performance in a manner that promotes the long-term success of the Society
- A fixed salary contributes a significant proportion of the overall remuneration package
- Employees feel encouraged to perform to the best of their ability at all times and achieving individual and group targets is rewarded fairly and proportionately
- The process for determining the appropriate remuneration at all levels of the company is transparent and fair so that employees remain informed
- Employee remuneration does not become excessive, disproportionate or pose a threat to the long-term stability and viability of the Society as a business
- Employee remuneration packages are compatible with the Society's '10 Conduct of Business Principles' — in particular '*staff should not be provided with incentives that may risk Members being sold unsuitable products'*
- Employee remuneration is compliant with existing statutory legislation and industry regulation
- Employees receive more than the minimum remuneration package that they are entitled to in line with statutory legislation

B.1.4 Material transactions with persons who exercise a significant influence

No material transactions were carried out within the period.

B.2 Fit and Proper requirements

B.2.1 Skills, knowledge and expertise

The Society ensures that all persons who effectively run the Society or have other Key Functions are fit to provide sound and prudent management through their professional qualifications, knowledge and experience and are proper by being of good repute and integrity.

The Society ensures that its business functions are led by appropriately skilled people who collectively possess professional qualifications, experience and knowledge, including but not limited to:

- insurance and financial markets;
- sales operations;
- IT and business operations, including human resources;
- business strategy and business model;
- system of governance;
- financial and actuarial analysis; and
- regulatory framework and requirements.

B.2.2 Fitness and propriety of persons

In order to ensure that Senior Managers and Directors of the Society are fit, they are recruited giving due regard to their qualifications, knowledge and relevant experience. Background and other checks are conducted as required and relevant to the role to be undertaken. Some of the general checks conducted include:

- Educational Background Check; and
- Professional Qualifications / Membership Check

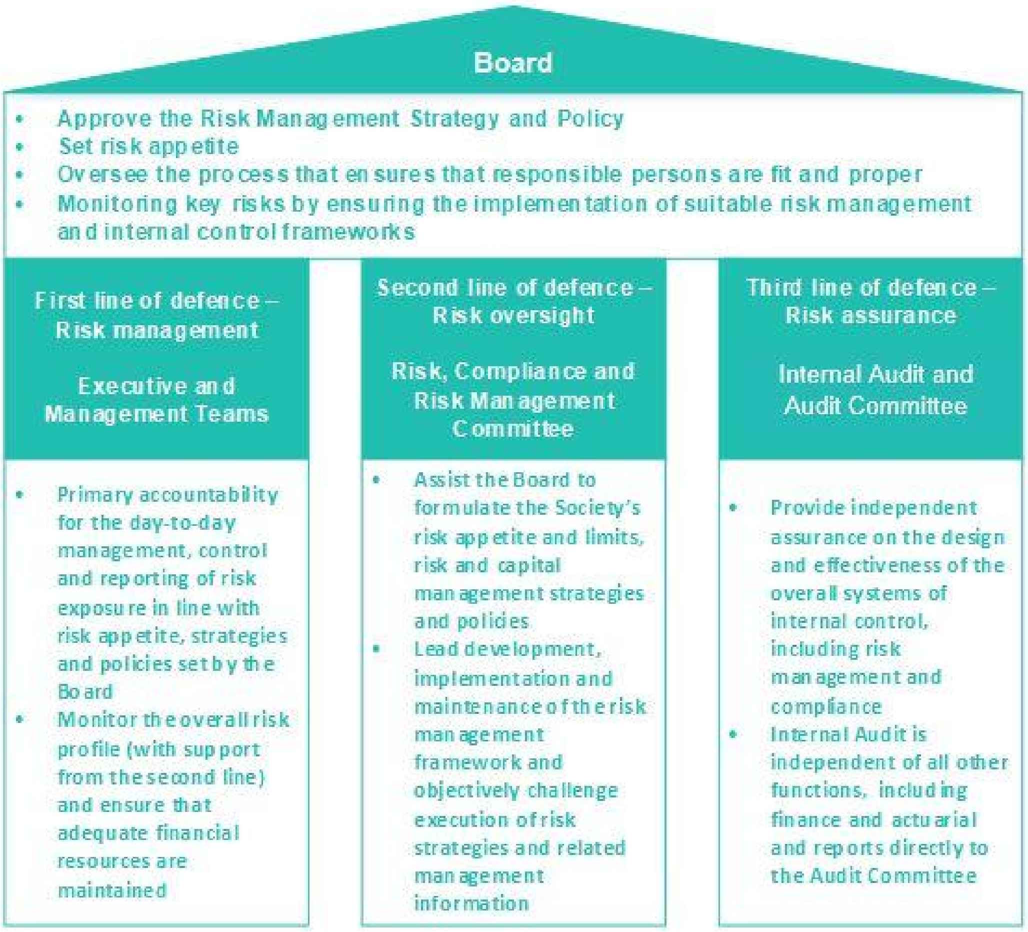
In order to ensure that Senior Managers and Directors are proper, they are subjected to a variety of checks at the commencement of their assessment, which may include:

- Credit checks
- Identity checks (including passport)
- FCA Register search
- UK Directorship search
- Five Years Employment History (including gap activity over 30 days)
- Social Media checks
- Standard Disclosure checks
- Enhanced Disclosure checks

B.3 Risk management

B.3.1 Risk management system

The Society's framework is built around a three lines of defence approach:



The Board has ultimate responsibility for risk management and the effectiveness of the risk management system. They agree the Society's strategy and appetite for risk and ensure it has the right people in place in each line of defence to manage and monitor risk in line with the strategy and appetite.

1. Risk management - risk will be managed day to day on the front line by the executive, managers and staff. This is in accordance with the risk appetite, strategies and the risk framework, which are all set by the Board

2. Risk oversight – the Society has independent Risk, Compliance and Actuarial Functions. All three functions will provide assurance to the Board on risk and capital management, business planning and internal controls

3. Risk assurance – the Society's Internal Audit Function currently consists of an Internal Auditor for operational issues and an external firm for strategic issues. This will provide independent assurance on the design and effectiveness of the overall system of internal control, including risk management and compliance.

B.3.2 Roles within the risk management system

Within the risk management system, there are expectations of key roles. These include:

The Board

- The Board will have ultimate responsibility for risk management and the effectiveness of the risk management system
- The Board will oversee risk and capital management and make sure that its appetite for risk is managed by staff on a day to day basis by people who are fit and proper for the roles
- The Board will monitor compliance with its risk appetite statement
- Risk and capital management strategies will be developed taking into account all risk and capital reports
- The Board will receive advice from the Risk Function and Actuarial Function but it is ultimately responsible for monitoring key risks and managing capital

Executive and management

- On a day to day level, the Executive along with management will be responsible for managing risk and identifying emerging risks
- Each risk on the risk register will have an owner at management or Executive level and all will be aware and understand the Board's risk appetite
- Each risk will be managed within the Board's risk appetite and any deviances reported back to the Board (through the second line of defence)
- The Executive will manage capital to ensure that adequate financial resources are maintained at all times
- The Executive will be responsible for enforcing the risk management policy and embedding a risk culture
- Management will also be responsible for embedding a risk culture by encouraging their staff to consider risk and incorporate risk related objectives into performance and development reviews
- For managers involved in product development allowing for capital requirements, including stress and scenario testing, will form a key part of all business cases

Risk function

- The Risk Function will assist the Risk Management Committee in setting risk appetite, strategy, the risk management framework and policy
- The Risk Function will monitor the first line of defence on a day to day level to ensure risk is being managed in line with the Board's appetite, framework and policy
- The Risk Function will highlight key areas of risk, emerging trends and so on to the Risk Management Committee
- The Risk Function will also be involved in a wide range of strategic and key business decisions, providing challenge as appropriate such that risk is explicitly considered
- Training on risk to all staff, managers, Executive and the Board will be driven by the Risk Function working alongside HR

B.3.3 Reporting lines

The Executive and the Risk Function jointly report to the Risk Management Committee as shown in the diagram below.

In addition, the Conduct Risk Committee reports to the Risk Management Committee.

The Executive and Risk Function produces a quarterly report in line with the Risk Committee meeting cycle. This report is designed to provide the Board and Risk Committees with sufficient oversight of the key risk exposures, changes since the previous report and with a focus on the key issues facing the Society.

B.3.4 Own Risk and Solvency Assessment (ORSA)

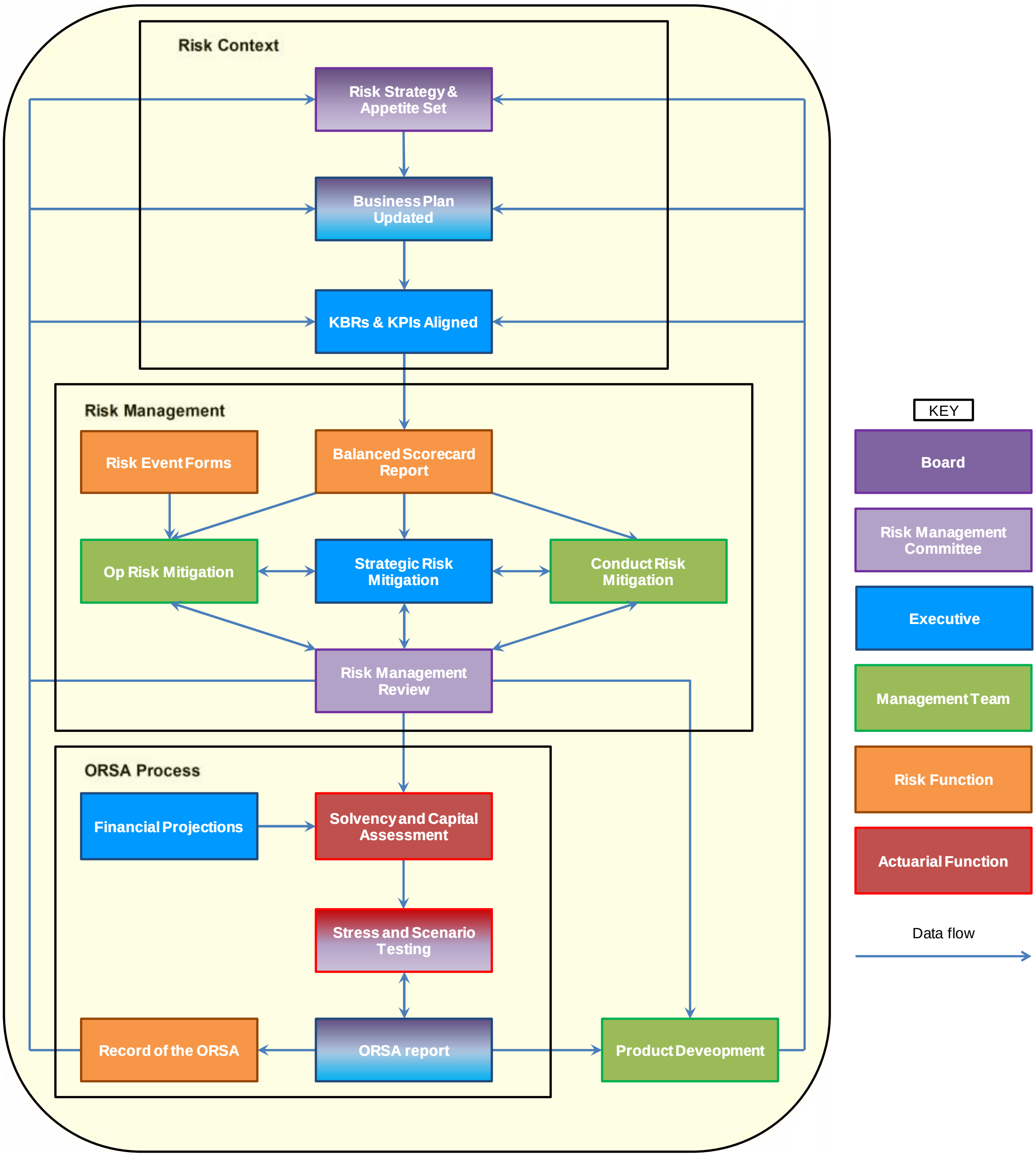
The Society conducted a full ORSA process in 2016 and implemented its strategy and business plan through 2017. The Society has now extended its 2017 ORSA process into 2018 to reflect a strategic review that is being undertaken. The Society's ORSA Report, strategy and business plan will then be fully documented in the first half of the year.

The output of the work of the Risk Function, Executive and management in the year is captured in the ORSA Report which is owned by the Board and reviewed by the Risk Committee. Under normal circumstances an ORSA Report is reviewed and approved at least annually by the Board.

The ORSA process is conducted throughout the year to facilitate integration with decision making, culminating in the annual ORSA Report, which is owned and shaped by the Board. The Risk Function coordinates the report and brings in subject matter experts from across the business. The ORSA process is illustrated below.

The Board considers each year whether its own solvency assessment is adequate compared to the standard formula and it determines whether additional solvency cover is required. The outcome of this assessment is recorded in the ORSA Report and shared with the regulator.

The ORSA Process



B.3.5 Implementation of risk management system

The risk management system is carried out by the first line of defence, with the Risk Function reviewing and challenging the output.

The Board is responsible for taking key decisions across the organisation, but delegates some of its decision making responsibilities to the Executive and sub-committees. The output of the risk management system is reviewed by the Executive and Risk Committee with a summary of key items taken to the Board. The Board then delegates authority for decisions and actions to be taken forward by the Executive or other relevant sub-committees.

This process facilitates the integration of the risk management system in the decision making process.

All key decisions made at Health Shield such as product development, capital management, investment strategy, Sales and Marketing strategy follow internal governance processes, which include an assessment of the risk exposure and mitigation strategies.

B.4 Internal control system

The Society has documented its internal control system. The whole system of controls, financial or otherwise, established by the Society helps to ensure that its business can be run in an orderly and efficient manner, while adhering to management policies, safeguarding the Society's assets and securing as far as possible the completeness and accuracy of the records.

It is the responsibility of the Society's management to decide the scope, nature and implementation of the internal controls, ensuring that they remain effective and appropriate to the market in which the Society operate and that they meet the requirements of the ever-changing regulatory environment.

All the risks that pertain to the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework have been identified and documented.

There are controls (manual and automated) in place to address these risks and they are adequately designed to prevent or detect material misstatements in the financial statements and disclosures.

All controls identified operate as they are supposed to and are appropriately evidenced.

The internal control system is subject to annual review of the appropriateness and effectiveness of the controls. This review is conducted in accordance with the Society's Risk Assurance map and the results submitted to the Audit Committee.

The GAAP financial statements are also subject to rigorous controls in the production and review leading up to Board approval and subsequent publication. The actuarial liabilities are produced using best actuarial practices and are subject to review by the Risk Function and the Audit Committee. The statements are also subject to both internal and external audit review. They are presented to the Audit Committee and Board for sign-off prior to publication.

B.4.1 Implementation of the compliance function

The Compliance Function is established as an independent second line control function. Its independence is maintained by ensuring that the function is separated from first line activity and is not engaged in any activity that could create a conflict of interest.

To provide for the independence of the Compliance Function, the Compliance and Risk Director reports directly to the Risk Management Committee.

The Compliance Function is responsible for reporting to senior management any breaches, or non-compliance with its policy or any other relevant policy, rules and regulations. This enables the Compliance Function to carry out its functions using its own initiative, without obstruction from management and other staff members.

The main Compliance activities are shown in the following diagram:

B.5 Internal audit function

B.5.1 Implementation of the internal audit function

The Internal Audit function is the third line of defence in the Society and is implemented through the following process:

- An audit plan is created on an annual basis and ensures sufficient evidence will be obtained to evaluate the effectiveness of the risk management and control processes across the business. The plan includes a review of the risk management processes operating across the business and a selection of the key risks identified from those processes. The audit plan also considers those operations most affected by recent or expected changes, for example changes following acquisitions or restructures and areas of regulatory focus. The proposed plan is flexible so that adjustments can be made during the year due to changes in management strategies, external conditions, major risk areas, or revised expectations in respect of achieving the business' objectives. Any proposed changes or updates to the plan are reported to the Audit Committee for review and agreement prior to being incorporated into ongoing work. The Audit Committee review and approve the plan at least annually
  - Based on the annual plan, the internal audit activity evaluates the adequacy and effectiveness of controls encompassing the business' governance, operations, and information systems. This includes:
    - Reliability and integrity of financial and operational information;

  - Effectiveness and efficiency of operations;
  - Safeguarding of assets; and
  - Compliance with laws, regulations, and contracts.

- To minimise duplication of effort and inefficiencies in the work planned, whilst determining the proposed audit plan, the Internal Audit Function considers relevant work that will be performed by other areas, e.g. Risk, Compliance and External Audit; and
- The Executive and the Board requires that the Internal Audit Function performs sufficient audit work and gathers other available information during the year in order to form a judgement regarding the adequacy and effectiveness of the risk management and control processes. The Internal Audit Function communicates overall judgement regarding the Society's risk management process and system of controls to the Executive and Audit Committee on an annual basis, in addition to communicating key findings from the completion of individual audits.

B.5.2 Independence of the internal audit function

The internal audit function of the Society is outsourced to PwC who currently holds the role of Head of Internal Audit. PWC have a direct line of report into the chair of the Audit Committee. The Society also has an in-house Internal Auditor who reports administratively into the Chief Executive. This reporting structure ensures independence of the internal audit function.

A key advantage of using this model to carry out Internal Audit activity is that it provides a wider array of skills to carry out audits of different parts of the business including the more technical areas.

B.6 Actuarial function

The Society provides for an Actuarial Function led by the Chief Actuary.

The position of Chief Actuary (SIMF20, under the Senior Insurance Management Function 'SIMF' regime) is held by a partner at Oliver Wyman who has a wealth of experience in the UK Life and Health insurance industry. The role holder is a Fellow of the Institute and Faculty of Actuaries and has complied continuously with the specific professional obligations this requires. He holds a Practicing Certificate and is an Approved Person under the SIMF regime.

The Chief Actuary is supported by Fellows and members of the Institute and Faculty of Actuaries, as well as other technical professionals within Oliver Wyman.

The Chief Actuary is independent from the Executive as he has a reporting line into the Audit Committee and is not involved in the day-to-day running of the business.

The Actuarial Function produces a suite of written reports to be submitted to the Board annually setting out the tasks that have been undertaken by the Actuarial Function and their results, and any relevant recommendations.

B.7 Outsourcing

B.7.1 Outsourcing Policy

The Society's Outsourcing Policy is to follow the process below:

- When considering outsourcing arrangements, the Society will take into account the requirements of the strategic business plan and compliance with regulatory requirements Any outsourcing arrangements entered into by the Society will require a Service Level Agreement that sets out the Society's expectations from the third party provider
- The Society's Compliance Department will maintain a list of all outsourcing arrangements
- The Society will regularly monitor and review the performance of each outsourced arrangement
- Where the function is considered critical to the Society, the Board will receive regular reports on performance and service provision
- All outsourcing arrangements will be subject to regular review and where necessary be subject to a rigorous tender process
- Where the function is considered critical, the outsourced arrangements will be approved by the Board
- The Society will adequately take into account the outsourced activities in its risk management framework and internal control system
- The Society will ensure that the service provider's staff are sufficiently qualified and reliable and that the service provider has adequate contingency plans in place
- The Society will ensure that it has suitable contingency plans in place to mitigate the risk of failure of the outsourced provider including the identification of alternative providers
- The Society will have in place a documented plan for termination arrangements for each outsourced function
- The Society will ensure that the termination clause in all contracts provides a long enough period to allow it to source an alternative provider

B.7.2 Outsourcing of critical operational functions

The Society is currently utilising several service providers to undertake critical or important functions on its behalf. Details of the functions and activities they provide are shown in the table below:

What has been outsourced
IT – Hardware Support
IT – Software Support
Internal Audit Function
Actuarial Services and the role of Chief Actuary
The provision of legal advice
Investment Management

C. Risk profile

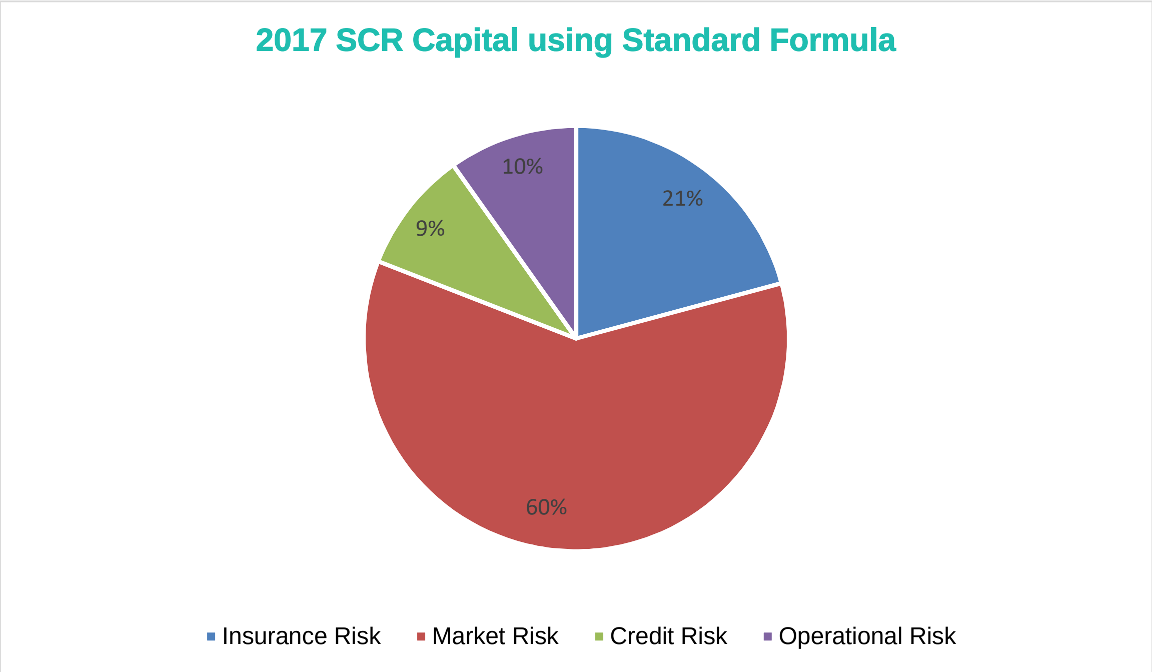
Material lines of business

The Society's core business is the provision of a health cash plan insurance to corporate and individual customers. It offers a number of variations on the health cash plan products each with their own target market.

The Society has three wholly owned subsidiaries, which do not underwrite insurance, and do not currently represent material lines of business for the Society.

Summary of risk profile

Health Shield writes long-term protection business, which provides the core benefits of a health cash plan to members, either for whole of life or a specified term. The resulting standard formula undiversified basic Solvency Capital Requirement ("SCR") risk profile for Health Shield as at 31 December 2017 is shown below:

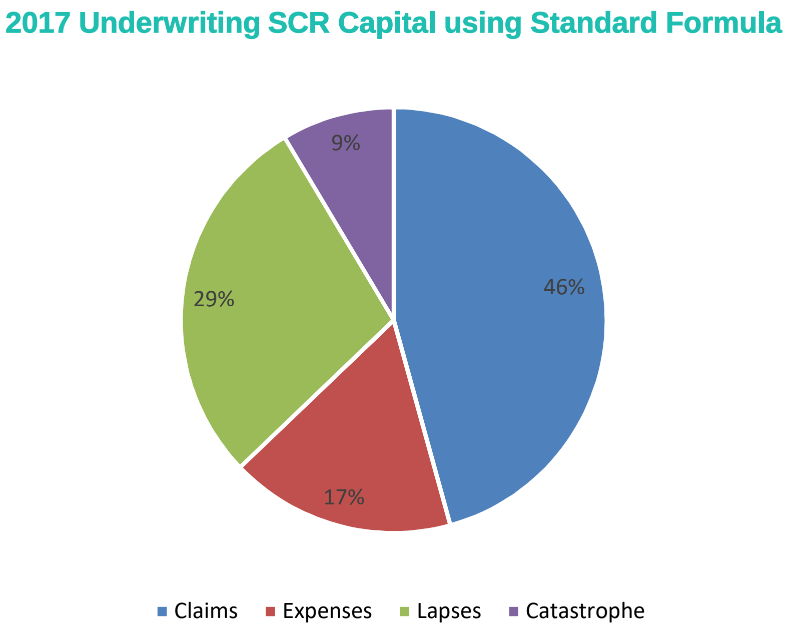


The SCR profile is dominated by market risk, which is consistent with prior years. This is due to the Society's holdings of equities, both UK and overseas. This is followed by insurance risks which arise specifically from unexpected changes in claim or lapse experience.

Although the business is long-term in nature, as the Society has the right to review premiums on an annual basis a one-year contract boundary has been used in the calculation of the SCR.

The Society's Solvency II technical provision for 2017 is £4.7m, which is an increase of £2m on 2016 and reflects changes to the claims basis and target loss ratios in pricing and an increase in IPT. Given that the Society holds nearly £45m in assets, against a diversified SCR of £11.5m, it remains in an exceptionally strong financial positon. The Society's assets are held primarily to meet operational and new business funding requirements as well as solvency capital requirements. In addition, the Board is actively looking at potential acquisitions to better utilise its free assets for the benefit of the membership and to further diversify the Society's offerings.

C.1 Underwriting risk



Underwriting risk at 31 December 2017 comprises 21% of the total undiversified SCR, compared to 20% for 2016. It is dominated by claims and lapse risk for which our outlook remains unchanged. We seek to manage our exposure through close monitoring and adjustments to pricing and benefits.

Lapse Risk

Health Shield is exposed to the risk of lapse rates being higher than expected when business is profitable and lapses being lower than expected when business is not. It is also exposed to an instantaneous one-off shock lapse event.

The risk of mass lapse arises on business where future profit is expected to emerge. A mass lapse event would mean that the profit could not emerge on policies that have lapsed.

Lapse risk can arise due to inaccurate estimation, trends, economic shocks, competitor activity (lapse and re-entry), changes in policyholder behaviour and reputational damage.

Claims Risk

The risk is simply that claims incidence and payments are higher than expected. This could be from an above expected inflation rise in claim payments or an increase in members' propensity to claim. Due to the nature of cash plans, one off large claims are very unlikely. In fact, the only way this could happen is through multiple personal accident claims. However, the Society has a reinsurance policy to cover this eventuality.

C.1.1 Assessment and management of underwriting risk

Health Shield monitors and controls underwriting risks via various methods, including:

Claims risk

- Premium increases / benefit reviews across all products to manage down claims in line with the Society's business plan and risk appetite
- Pricing & underwriting expertise to win only desirable business and review existing products
- Reinsurance is held for multiple personal accident claims. The appropriateness of the reinsurance programme is assessed at least once a year

Lapse risk

- Maintaining high levels of Stakeholder service
- Managing scheme renewals / reviews to keep members and groups with good experience but be willing to let unprofitable business go

Expense risk

- Departmental budgets
- Variance analysis

In addition, across all underwriting risks, monthly performance reporting through the Society's balanced scorecard highlights any areas outside of the Board's risk appetite.

The Society's ORSA also includes stress and scenario testing which is used to assess the risks under stressed conditions.

The Society's product design team has a policy that ensures all new products and reviews of existing products are designed with the member in mind but always link through to the Board's risk appetite.

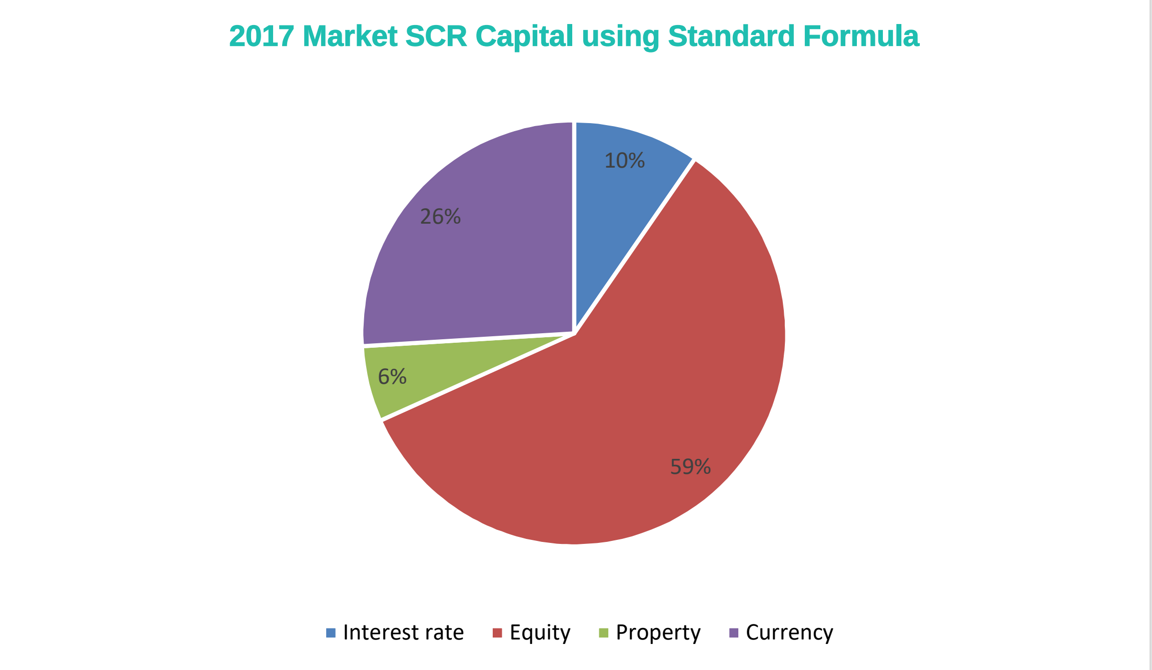
C.1.2 Risk sensitivity for underwriting risk

Health Shield carries out extensive stress and scenario testing as part of the ORSA process, including for material underwriting risks. For each ORSA, the solvency position and the projected solvency position over the next five years is calculated following adverse stresses and this process will be continued in finalising the 2017 ORSA process and report.

The Society's Actuaries undertake a variety of stress and sensitivity testing as part of the calculation of the Society's Solvency II balance sheet. The results of the sensitivity analysis completed as part of the 2017 SCR calculation showed that the most material impact on the SCR coverage was an unexpected rise in claims. A 10% increase in claims could have a corresponding 9% drop in free assets. Again, the Society remains in a strong financial position, even after such a scenario.

Reverse stress tests were also performed and the analysis indicated that it would take far more than a 1 in 200 adverse event to breach the Society's lower tolerance for SCR coverage. Therefore, the Society's underwriting risk profile was assessed to be resilient to withstand severe shocks and is within the Board's risk appetite.

C.2 Market risk



Market risk at 31 December 2017 comprises 60% of the total undiversified SCR, compared to 61% for 2016. It is dominated by equity risk and to a lesser extent currency risk. As in previous years this is due to the Society's significant holdings in equities, both UK and overseas.

Equity risk

Health Shield invests directly in UK equities and uses collective investment schemes to invest in overseas equities. It is therefore exposed to the volatility of these asset classes.

Currency risk

Health Shield has made the decision to diversify its portfolio and invest in overseas as well as UK assets. It accepts there is additional currency risk from investing overseas but is happy to incur this risk due its financial strength and the benefits of portfolio diversification. There has been a slight decrease in currency risk capital due to a reduction in the use of collective investment schemes which are exposed to foreign currencies.

Other risks

Health Shield's property risk comes mainly from its ownership of its head office in Crewe. Interest rate risk stems from being intentionally mismatched in terms of duration on its fixed interest portfolio compared to the underlying liabilities. This decision has been made in order to increase overall returns on the portfolio.

C.2.1 Investment assets and prudent person principle as applied to market risk

The Society's investment policy requires all liabilities and the SCR to be prudently covered by fixed interest and cash investments.

There are no investments in derivative instruments.

C.2.2 Assessment and management market risk

The Society states its appetite for market risk within its investment policy and monthly monitoring of compliance with this policy is performed. In addition, across all market risks, monthly performance reporting through the Society's balanced scorecard highlights any areas outside of the Board's risk appetite.

The Society's ORSA also includes stress and scenario testing which is used to assess the risks under stressed conditions.

The Board is happy with the risk it is taking within its portfolio. However, it is aware that the portfolio could be de-risked in a number of ways:

- Reduction in equity holdings and increase in fixed interest
- Better matching of liabilities (by holding shorter duration assets)
- Only holding UK assets

These changes would release a significant amount of capital and could be implemented relatively quickly.

The Society's asset and liability profile does not lead itself to hedging strategies or the use of derivatives. However, if this position were to change in the future these would be considered.

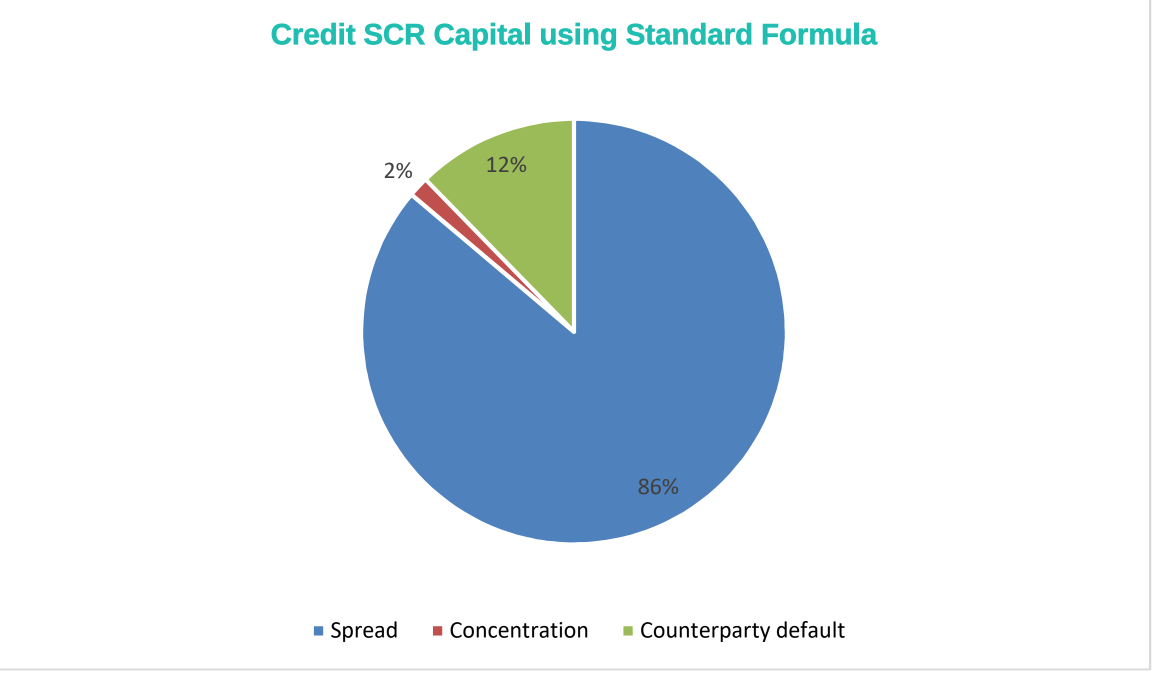
Any value created by these mitigating actions can be summarised as a risk reward trade off. The portfolio can be de-risked, although this would be at the expense of lower expected returns and vice versa. It is for the Board to set its appetite for market risk and subsequent investment strategy in order to maximise returns.

C.2.3 Risk sensitivity for market risk

Health Shield carries out extensive stress and scenario testing as part of the ORSA process, including for market risk. For each ORSA, the solvency position and the projected solvency position over the next five years is calculated following adverse stresses and this process will be continued in finalising the 2017 ORSA process and report.

The Society's Actuaries undertake a variety of stress and sensitivity testing as part of the calculation of the Society's Solvency II balance sheet. The results of the analysis showed that a material impact on the SCR coverage could be caused by a significant fall in equity markets. A 20% fall in equities could result in a 6% reduction in free assets. The impact from other market risks was relatively small in comparison.

C.3 Credit risk



Credit risk at 31 December 2017 comprises 9% of the total undiversified SCR, which is a 1% reduction on 2016. It is dominated by spread risk as concentration and counterparty default risk are very low. Spread Risk reduced slightly in 2017 due to improvements in credit quality of the fixed interest investments.

Spread risk

Health Shield invests directly in corporate bonds. It holds a range of bonds with differing credit ratings and is therefore exposed to the volatility of these assets and the risk of spread movements and downgrades.

C.3.1 Investment assets and prudent person principle as applied to credit risk

The security of the bond portfolio was considered and holdings may be of any credit rating but the average rating of the portfolio must be at least Standard and Poor's single 'A' or the equivalent rating. In addition, Health Shield places limit on the size of any individual counterparty to avoid concentration risk.

C.3.2 Assessment and management of credit risk

The Society states its appetite for credit risk within it investment policy and monthly monitoring of compliance with this policy is performed. In addition, the performance of the fixed interest portfolio is reported on monthly reporting through the Society's balanced scorecard that highlights any areas outside of the Board's risk appetite.

The Society's ORSA also includes stress and scenario testing which is used to assess credit risks under stressed conditions.

The Board is satisfied with the risk it is taking within its portfolio. However, it is aware that the portfolio could be de-risked by holding higher-grade fixed interest or cash investments.

These changes would release capital and could be implemented relatively quickly.

C.3.3 Risk sensitivity for credit risk

Health Shield carries out extensive stress and scenario testing as part of the ORSA process, including for credit risks. For each ORSA, the solvency position and the projected solvency position over the next five years is calculated following adverse stresses and this process will be continued in finalising the 2017 ORSA process and report.

C.4 Liquidity risk

Liquidity risk is not in the standard formula and is a risk that is managed rather than capitalised against, as holding additional capital will not help in a liquidity stress scenario. The Society has a robust and appropriate liquidity management system and holds adequate liquid assets to meet outgoings in a wide range of scenarios

As at 31 December 2017, the Society holds a significant proportion of its assets in fixed interest and cash across a range of durations.

C.4.1 Prudent person principle as applied to liquidity risk

The Society's assets are prudently invested taking into account the liquidity requirements of the business and the nature and timing of the insurance liabilities.

C.4.2 Assessment and management of liquidity risk

The Society's Finance team regularly assess liquidity requirements and work closely with the Society's investment managers to ensure liquid assets are available if needed.

C.5 Operational risk

C.5.1 Material operational risk

The key material operational risks that the business continues to manage proactively over the period include:

- Data – the risk that the Society fails to protect its data from unauthorised access, usage, exposure, modification or deletion
- Insurance & failure of professional advisors – the risk that the professional advice that the Society relies upon is inadequate or that its insurance fails to protect its interests when called upon
- New business – the risk that processes involved in pricing, marketing or selling the Society's products fail and result in poor outcomes for stakeholders
- Information Technology (IT) – the risk that the Society cannot maintain a reliable, effective and secure IT infrastructure

- Staff & training – the risk that the Society fails to attract, engage, develop and retain its workforce and contractors
- Customer relations – the risk that the Society fails to maintain positive outcomes for its membership through the delivery of its products
- Finance & fraud – the risk that the Society's processes fail in relation to accurate and timely, invoicing, collection, allocation and payment of funds
- Compliance – the risk that the Society's actions, or lack thereof, cause it legal liability or a failure to comply with regulatory requirements
- Reputational, sabotage and facilities – the risk that the Society is unable to protect either itself, its property or premises from physical or reputational damage

C.5.2 Assessment and Management of operational risks

The following measures are used to assess operational risks:

- Operational performance is measured on a monthly basis against the business plan and departmental targets via the Society's balanced scorecard report
- Operational risks are monitored and reviewed on an on-going basis. Interrelated risks are grouped together and the associated risk owners form a consensus assessment on the current effectiveness of their controls and solvency capital value. This is calculated from a combination of likelihood, best case impact and worst case impact

All material operational risks to which the Society is exposed are identified and recorded in the risk register. The risks are assessed and, once the actions required to manage the risks have been agreed, the risks are reported to senior management, the Risk Management Committee and the Board.

Operational risk capital is not currently at a level where it would threaten the Society's solvency. However, there are operational risks that could threaten the Society's ability to administer business. The mitigating actions currently in place are described in full within the Society's risk register.

The key consideration in any operational risk control activity is whether the return on the expenditure is value for money. For example, where risk can be reduced by a new policy or training, the cost is minimal and likely to be beneficial due to reduced capital costs and a safer working environment. However, the opposite is also true. Where significant cost is required to achieve limited benefit, the Board may consider that this would not be a sensible use of the Society's assets.

C.5.3 Risk sensitivity for operational risk

Operational risk makes up around 10% of the standard formula SCR at 31 December 2017, compared to 9% for 2016. The Operational risk SCR is linear formula based so will grow in line with the Society's premium income.

C.6 Other material risks

C.6.1 New business risk

New business risk capital is held within the Society's ORSA as the Board felt that it was not appropriately allowed for within the standard formula. Therefore, the Society holds additional capital for the risk that new business is not profitable, including the costs of acquiring it. This could be because the acquisition expenses are too high, the volumes sold are too low, the wrong mix of business is sold or the products being offered are simply not priced correctly. There is also a risk to new business volumes given that Insurance Premium Tax (IPT) may be increased further from its current rate.

C.6.2 Assessment and management of new business risk

New business risk causes a threat where the mix or volume is different to expectations. The Society uses its balanced scorecard to monitor this position continuously. Deviations would be managed through staff training, strategy and incentives.

If a particularly large scheme were to be brought in, advice would be sought from a pricing and capital perspective from the Actuarial Function and Pricing & Underwriting team.

Many of the ways new business risk can be mitigated have little cost including staff training and the further education of brokers. Even when changing commission structures, the cost can be mitigated by the improved profitability and improved lapses they incentivise.

C.6.3 Risk sensitivity for other material risks

Health Shield carries out extensive stress and scenario testing as part of the ORSA process, including new business risks. For each ORSA, the solvency position and the projected solvency position over the next five years is calculated following adverse stresses and this process will be continued in finalising the 2017 ORSA process and report. The key areas of risk are new business strain and the increased use of brokers. However, neither is expected to threaten the Society's appetite for SCR coverage.

C.6.4 Use of derivatives, reinsurance and management actions

Given the nature of its assets and its current and projected financial position, the Society does not use and is not planning to use derivatives.

The Society uses one small reinsurance contract as described earlier in this section to cover multiple personal accident claims. However, this is not recognised within the calculation of the best estimate liabilities due to its size.

Finally, no management actions are used in the calculation of the SCR.

D. Valuation for solvency purposes

Solvency II Summary Balance Sheet

The table below summarises the Solvency II balance sheet as at 31 December 2017 and 31 December 2016:

Balance Sheet	2017 £000s	2016 £000s
Total Assets	52,613	54,905
Technical Provisions	(4,749)	(2,730)
Other Liabilities	(3,667)	(3,512)
Excess of Assets over Liabilities (Own Funds)	44,197	48,663

D.1 Assets

The Society's financial statements are prepared on the basis of UK GAAP, which is largely consistent with the Solvency II basis with only minor adjustment (as explained in the below). The Solvency II valuation for each material class of asset is as follows:

Asset types	2017 £000s	2016 £000s
Investments	41,906	45,766
Head office property	2,425	2,425
Fixtures, Fittings and Equipment	992	1,261
Other Net Assets	5,759	3,749
Cash	1,531	1,704

Investments

The majority of the Society's assets are externally managed by Investec. They manage the Society's holdings of UK equities, overseas equities (through collective investment schemes), gilts, corporate bonds, alternative assets and some cash.

The level of investment income remained relatively constant in 2017. Investment gains (realised and unrealised) fell compared to 2016 as a result of lower performance across both equity and fixed interest markets.

All assets are valued at fair value under Solvency II based on market prices at the reporting date, which are quoted prices in active markets for identical assets per Article 10(2) of the Delegated Regulation. As these are publicly traded securities, the market prices are readily available and are actively traded – details of which are provided in a statement from the investment manager.

No significant estimates or judgements are used in the valuation of these investments.

Cash held by Investec is placed on deposit with a range of banks in order to reduce the exposure to any one institution. Its Cash & Credit Management Committee set minimum credit criteria, which are based on Fitch ratings and they are responsible for approving banks for deposit placing purposes.

Cash is valued at fair value by the relevant financial institution, and the Society receives monthly reports from the Investment Manager at the period end that confirm the balances held.

Head office property

The Society owns its head office in Crewe. It was valued on an open market basis on 31 December 2017 by the Society's surveyors, Legat Owen Limited.

Other net assets

Other net assets at 31 December 2017 include debtors arising out of direct insurance operations, prepayments, investments in related undertakings, accrued income and accrued interest from fixed interest holdings.

No estimation methods, adjustments for future value or valuation judgements are required for these balances.

The Society has acquired two non-insurance business as strategic investments in related undertakings. Under Solvency II these acquisitions are valued using the adjusted equity method (i.e. the value of the net assets on a Solvency II basis), rather than the acquisition method (including goodwill) under GAAP. This results in a £1.4m reduction in total assets in the Solvency II balance sheet in comparison to the Society's report and accounts.

Cash

The Society directly holds its cash in UK sterling bank accounts

No estimation methods, adjustments for future value or valuation judgements are required for these balances.

Cash is valued at fair value by the relevant financial institution, and the Society receives monthly statements at the period end to confirm the balances held.

There are no significant estimates or judgements used in valuing cash holdings due to the nature of the asset. For Solvency II, the total of cash (reported in the Quantitative Reporting Template ("QRT") reference S.02.01) includes only those balances held in bank accounts – the total of collective investment undertakings is reported on a separate line.

D.2 Technical provisions

D.2.1 Technical provisions by material line of business

The table below compares the technical provisions at 31 December 2017 to the previous year, by line of business:

Technical provision	2017 £m	2016 £m
Ordinary members' reserve	1.3	(0.5)
Incurred but not paid (IBNP) reserve	3.1	2.8
Life & L&Y[1]	0.1	0.1
Risk margin	0.2	0.2
Total technical provisions	4.7	2.7

The most significant change in Technical Provisions is in the Ordinary members' reserves which has seen an overall increase of £1.8m on 2016. This change can be largely attributed to the £2m movement in the Morbidity Basis, which is driven by a change in the morbidity claims assumptions.

This is an area of judgement to which the overall Ordinary Members' Reserve is highly sensitive. A more prudent reserve has been set in 2017 based on past claims experience, management's future expectations as per the business plan and management's actual track record in meeting those expectations.

Other contributors to the movement in the Technical Provisions are:

- Changes to claims basis and target loss ratios
- An increase in the level of renewal commission premium payable
- An increase in Insurance Premium Tax

[1] L & Y refers to the Lancaster & York Sick Fund and Insurance Societies

The following table shows the detailed movements in the technical provisions from 1 January 2017 to 31 December 2017:

Movement type	Technical provisions £m	Impact £m
1 January 2017	2.7	
+ 2017 Change in Membership Profile *		(1.5)
+ 2017 Morbidity Basis		2.0
+ 2017 Change in Target Loss Ratios **		1.1
+ 2017 Expense Basis		(0.3)
+ 2017 Lapse Basis		0.0
+ 2017 IPT Basis		0.4
+ 2017 IBNP Basis		0.3
+ 2016 Miscellaneous ***		0.0
31 December 2017	4.7	

* Change in Membership Profile includes updated Premiums and Renewal Commissions

** Change in Target Loss Ratios includes updated adjustments (see D.2.6)

*** Miscellaneous includes: Mortality Basis; Catastrophe Risk; Operational Risk; Counterparty Default Risk; Yield Curve; Life and L&Y

D.2.2 Methodology for the calculation of Technical Provisions

The valuation methodology is based on the gross premium method, i.e. the reserves are calculated by discounting the members' expected future benefits, commission payable, IPT and expenses less the members' future premiums.

The long-term business provision is based on the Solvency II technical provisions (under the Standard Formula), without any adjustments. For avoidance of doubt, no allowance has been made for transitional measures for liabilities calculations, volatility or matching adjustment.

The Solvency II technical provisions comprises of the best estimate liabilities plus a "Risk Margin" which reflects the cost of "unhedgeable risks" that an external buyer of the business would theoretically require. Its calculation methodology is prescribed by the regulations under Solvency II based on applying a 6% "cost of capital" to the SCR capital requirements associated with certain types of risk.

The Society's membership is split into the following product groups for the purpose of the valuation:

- Corporate
- Direct (including Connect)
- Flex

- Tailored
- Essentials and Elements

Allowance is made for negative reserves on a policy-by-policy level.

D.2.3 Contract boundary

When setting the contract boundary, the Society has considered the relationship between premium and claims inflation. In particular, premium reviews are conducted on a periodic basis while claims inflation occurs on a continuous basis. In order for the reserves to be calculated on a consistent basis, the contract boundary should be set to cover at least one complete premium review cycle.

Although in practice most products operate on biennial premium review cycles, the terms and conditions convey a right to review premiums on an annual basis if the Society chooses to do so. Consequently, The Society has elected to maintain the link between contract boundary and the contractual terms and conditions and has adopted a one-year contract boundary for all products for the purpose of the valuation.

D.2.4 Benefit payments

The valuation basis assumes that the Society guarantees 100% of future claims.

D.2.5 Fixed costs benefits

Fixed cost benefits have been calibrated according to the additional costs of these benefits outlined in the five-year plan. They include items such as third party benefit costs which are provided within the health cash plan.

D.2.6 Claims and demographics assumptions

Claims rates

For each product group (except for Tailored), separate claims bases were produced for all levels. For Tailored business, a single claims basis is adopted defined in proportion to coverage levels by benefit. Claims rates have also been assessed by sex, age bands and individual/family.

This claims basis has been derived through an analysis of the claims experience over 2017. For each product group, average claim amounts per member per month are produced by analysing the actual claims in each homogeneous group and then applying statistical techniques to ensure that the basis is smooth, internally consistent and still representative of the actual experience.

Lapse assumptions

A detailed analysis of lapses over 2017 was conducted, split by each product group and age band. The best estimate assumptions were based on the average lapse rates from over the last three years.

Raw lapse rates for each product are calculated based on the lapse experience over a three-year period from 1 January 2015 to 31 December 2017. From these raw lapse rates, two separate lapse profiles by age are created for:

- Direct business

- All other business – this is an average of all other product lines, weighted by exposure in each product

The above approach is taken because the lapse profile for direct business by age is significantly flatter than the other products. The lapse profile is then scaled up/down for each of the four constituent product lines to produce four separate lapse profiles consistent with each product's actual experience.

Mortality assumptions

A detailed analysis of the decrements experienced over 2016-2017 has been carried out in order to generate a mortality assumption for the 31 December 2017 valuation. The best estimate mortality assumption is set at 35% of the standard AM/FC00 Ultimate table published by the Continuous Mortality Investigation Bureau

Incurred But Not Paid (IBNP) reserve

A provision has been made for claims that have been incurred but not yet reported or paid by the Society. This is calculated by analysing the delay between the date a claim is incurred and the date that it is paid.

D.2.7 Inflation and economic assumptions

Claims Inflation

Claims inflation assumptions have been set based on the Society's Business Plan, but allow for the following adjustments:

- Adjustment for actual vs budgeted loss ratios
- Shift from a "paid basis" to an "incurred basis"

Premium inflation

Future premium inflation assumptions are required for the valuation basis. These mirror the assumptions used in the Business Plan, without adjustment.

Expense inflation

Maintenance expenses are currently set as a fixed percentage of premium for the valuation, which implicitly assumes that maintenance expenses are inflating in line with premium inflation. Therefore, explicit expense inflation assumptions are not set.

This approach ensures that expenses are modelled in line with the Business Plan and the projected expenses are therefore what we expect to be incurred.

Inflation for fixed cost benefits

Fixed cost benefits are assumed to inflate at RPI, based on data sourced from the Bank of England as at 31 December 2017. The shortest term for which data exists is 25 months, so the 25-month RPI spot rate (2.9% p.a.) has been selected.

Discount rate

The interest rate used for the valuation is based on the Sterling "risk free" yield as published by EIOPA as at 31 December 2017. The one-year spot rate as at 31 December 2017 was 0.555% p.a. (December 2016: 0.382% p.a)

D.2.8 Other assumptions

Expenses

The gross premium valuation explicitly allows for expenses for the regular members.

Assumptions for maintenance expenses have been set equal to the 2018 budgeted claims expenses and administrative expenses of £6.9m (as detailed in the business plan). They represent 15.1% of the 2018 budgeted premiums (£45.6m) including expected new business and the valuation maintenance expense assumption has therefore been set to 15.1%.

The Society's Actuarial function investigated whether Business Plan expenses are a reasonable basis for setting the expense assumptions for the valuation by comparing the actual expenses against budgeted expenses over the past three years. The investigations showed that the actual expenses were on average less than 0.1% higher than budgeted expenses (i.e. 0.02% of 2017 premiums), which validated the approach.

Insurance premium tax (IPT)

An increase in IPT from 10% to 12% came into effect from 1 June 2017. However, it is only immediately applicable to new business written from that date onwards. With respect to existing in-force business (and therefore for the purpose of the valuation), the IPT increase would come into effect from 1 June 2018.

For the purpose of this valuation, which is performed on a one-year contract boundary, a blended IPT rate of 11.3% has been adopted.

Renewal commission

Renewal commission is currently paid for products sold through the broker distribution channel each year. The renewal commission is paid on the policy renewal date over the contractual term of the scheme, which for the valuation purposes will be equivalent to the contract boundary.

The renewal commission paid in 2017 as a percentage of total brokered business earned premiums was calculated and it was then assumed that this average commission rate applies to all in-force brokered policies.

Capital stresses (for the calculation of the Risk Margin)

While the SCR capital requirement does not directly contribute to the LTBP, it indirectly feeds into the calculation of the Risk margin. The capital stresses and correlation assumptions have been set in line with the Standard Formula basis under Solvency II.

D.3 Other liabilities

Other liabilities £000s	2017	2016
Trade creditors	384	325
Taxation & social security costs	1,176	1,037
Other creditors	0	69
Accruals	1,525	1,555
Defined contribution pension scheme accrual	38	35
Provision for unearned premiums	544	490
Total	3,667	3,512

No estimation methods, adjustments for future value or valuation judgements are required for these balances.

E. Capital management

E.1 Own Funds

The objective of own funds management is to maintain, at all times, sufficient Own Funds to cover the SCR and MCR with an appropriate buffer as stated in the Society's risk appetite statement.

The Society's Own Funds are all tier 1 unrestricted and available to cover both the SCR and MCR. Own Funds at the year-end stood at £44.2m in contrast to £48.7m for 2016. This reduction is attributable to investment performance across both equity and fixed interest markets, which has suffered in comparison to 2016, and an increase in Technical Provisions (see section D.2).

The Society monitors its SCR coverage after each quarterly valuation as required under Solvency II. The Risk Management Committee reviews solvency compared to risk appetite and reports through to the Board in line with its terms of reference. As part of Own Funds management, the Society prepares ongoing annual solvency projections as part of its ORSA process that are based on the Society's business plans.

Although the Society is in a very strong financial position, it considers within its business planning process the options available to improve the capital position. These include:

- De-risking – the quickest source would be de-risking the investment portfolio. Market risk capital could be reduced substantially if the Society switched from higher risk investments to lower risk such as cash and gilts
- Reinsurance – reinsurance could be used to reduce the capital. However, as claims risk capital is less than £2m, and reinsurance would have its own costs, the release of capital would not be significant. However, it is still an option if solvency was seriously threatened
- Mutual deferred shares bill – due to the Society's strong financial position the Board has not spent significant time investigating the options available to the Society under this bill. However, it notes that it would be a possible avenue for raising capital
- M&A – in the worst case the Society could approach another insurer to seek a buyer or perform a merger. However, the Board strongly believes that it has the current capital and management team to avoid the Society being forced into this position

E.2 Solvency Capital Requirement and Minimum Capital Requirement

As at 31 December 2017, the Society's SCR was £11.5m and the MCR was £3.3m. The table below breaks down the components of the SCR at 31 December 2017:

Risk (£m)	2017 SCR	2016 SCR
Underwriting risk	2.5	2.4
Market risk	8.9	9.2
Default risk	0.2	0.1
Operational risk	1.7	1.5
Diversification benefit	(1.7)	(1.6)
Total SCR	11.5	11.6
SCR Coverage	383%	420%

Simplified calculations are not used for any of the risk modules or sub-modules.

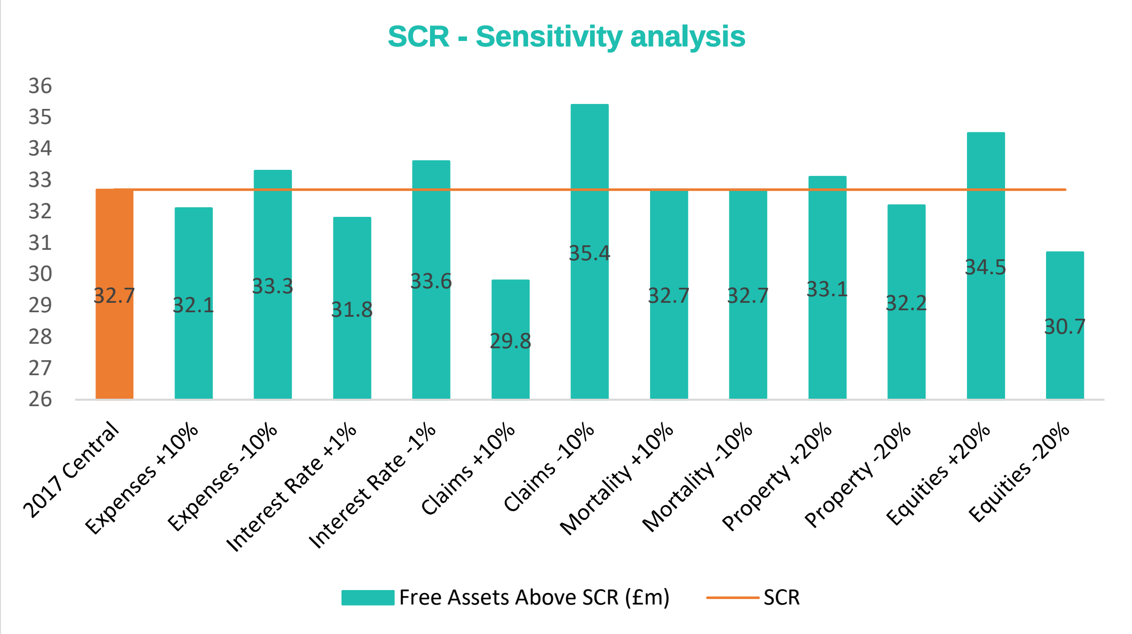
The table below shows the inputs into the MCR calculation as at 31 December 2017.

MCR (£m)	2017	2016
Linear MCR	0.8	0.7
SCR	11.5	11.6
MCR cap	5.2	5.2
MCR floor	2.9	2.9
Combined MCR	2.9	2.9
Absolute floor of the MCR	3.3	3.3
MCR Coverage	1339%	1461%

The MCR and SCR levels have remained consistent with 2016. The change in both the SCR and MCR coverage ratio is reflective of the reduction in Own Funds, which is attributable to investment performance across both equity and fixed interest markets, which has suffered in comparison to 2016, and an increase in Technical Provisions. The Society remains in an exceptionally strong financial position.

SCR sensitivity analysis

The following chart shows the impact on the Society's Free Assets above the SCR in each of the specified scenarios. As at 31 December 2017, the Society has £32.7m in Free Assets above the SCR on its balance sheet:



Given the Society's large equity holding it is naturally exposed to a fall in equity markets. A 20% fall in equity markets would cause its Free Assets Above SCR to fall by £2.0m. This is clearly still a strong financial position for the Society to be in, even after such an onerous scenario.

The Society's largest insurance risk exposure is to an increase in claims (morbidity). A 10% increase in claims would cause the Free Assets Above SCR to decrease by £2.8m to £29.8m. Again, the Society remains in a strong financial position after such a scenario.

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

This duration-based equity risk sub-module has not been applied.

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

This does not apply as at 31 December 2017 the Society used the Standard Formula to derive its SCR.

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

The Society has complied with both the MCR and SCR during the period.

F. Directors' responsibility statement

The Board of Management are responsible for preparing the Solvency and Financial Condition Report in accordance with the Prudential Regulation Authority rules and the Solvency II Regulations.

We are satisfied that:

a. throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Society; and

b. it is reasonable to believe that the Society has continued so to comply subsequently and will continue so to comply in future.

Courtney Marsh

Acting Chief Executive Director

For and on behalf of the Board of Management of the Health Shield Friendly Society

G. Report of the external independent auditor

REPORT OF THE EXTERNAL INDEPENDENT AUDITOR TO THE DIRECTORS OF HEALTH SHIELD FRIENDLY SOCIETY LIMITED ('THE SOCIETY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT CHAPTER OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR")

Opinion

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

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Society as at 31 December 2017, ('the Narrative Disclosures subject to audit'); and
- Society templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the SFCR'.

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

- the 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- Society templates S.05.01.02, S.05.02.01; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

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

Basis for opinion

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

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' section of the SFCR, which describe the basis of accounting. The SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in relation to these matters.

Other Information

The Directors are responsible for the Other Information.

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

In connection with our audit of the SFCR, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the SFCR, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the SFCR or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in relation to these matters.

Responsibilities of Directors for the Solvency and Financial Condition Report

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

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a SFCR that is free from material misstatement, whether due to fraud or error.

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. The same responsibilities apply to the audit of the SFCR.

Use of our Report

This report is made solely to the Directors of Health Shield Friendly Society Limited in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the PRA, for our audit work, for this report or for the opinions we have formed.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Health Shield Friendly Society's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in relation to this matter.

Elanor Gill (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 April 2018

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The relevant elements of the SFCR that are not subject to audit comprise:

- Elements of the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR identified as 'unaudited'.

Appendix 1 – quantitative reporting templates (QRTs)

S.02.01.01
Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	3,417,252.15
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	41,906,460.53
R0080	*Property (other than for own use)*	0.00
R0090	*Holdings in related undertakings, including participations*	76,771.00
R0100	*Equities*	7,934,607.00
R0110	*Equities - listed*	7,934,607.00
R0120	*Equities - unlisted*	
R0130	*Bonds*	21,675,347.00
R0140	*Government Bonds*	10,155,169.00
R0150	*Corporate Bonds*	11,520,178.00
R0160	*Structured notes*	0.00
R0170	*Collateralised securities*	0.00
R0180	*Collective Investments Undertakings*	12,219,735.53
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0.00
R0210	*Other investments*	0.00
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0.00
R0240	*Loans on policies*	0.00
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	0.00
R0280	*Non-life and health similar to non-life*	0.00
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0.00
R0320	*Health similar to life*	0.00
R0330	*Life excluding health and index-linked and unit-linked*	0.00
R0340	*Life index-linked and unit-linked*	0.00
R0350	Deposits to cedants	0.00
R0360	Insurance and intermediaries receivables	4,235,292.00
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	0.00
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.00
R0410	Cash and cash equivalents	1,531,060.32
R0420	Any other assets, not elsewhere shown	1,522,721.00
R0500	**Total assets**	52,612,786.00

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0.00
R0520	*Technical provisions - non-life (excluding health)*	0.00
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0.00
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	4,748,699.19
R0610	*Technical provisions - health (similar to life)*	4,748,699.19
R0620	*TP calculated as a whole*	0.00
R0630	*Best Estimate*	4,512,202.93
R0640	*Risk margin*	236,496.25
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0.00
R0660	*TP calculated as a whole*	0.00
R0670	*Best Estimate*	0.00
R0680	*Risk margin*	0.00
R0690	Technical provisions - index-linked and unit-linked	0.00
R0700	*TP calculated as a whole*	0.00
R0710	*Best Estimate*	0.00
R0720	*Risk margin*	0.00
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	544,372.00
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	130,584.00
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	
R0850	Subordinated liabilities	0.00
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0.00
R0880	Any other liabilities, not elsewhere shown	2,991,832.00
R0900	**Total liabilities**	8,415,487.19
R1000	**Excess of assets over liabilities**	44,197,298.81

S.05.01.01

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*	41,324,780.00								41,324,780.00
R1420	*Reinsurers' share*	25,125.00								25,125.00
R1500	*Net*	41,299,655.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	41,299,655.00
	Premiums earned									
R1510	*Gross*	41,269,924.00								41,269,924.00
R1520	*Reinsurers' share*	25,125.00								25,125.00
R1600	*Net*	41,244,799.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	41,244,799.00
	Claims incurred									
R1610	*Gross*	29,748,013.00								29,748,013.00
R1620	*Reinsurers' share*									0.00
R1700	*Net*	29,748,013.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	29,748,013.00
	Changes in other technical provisions									
R1710	*Gross*	2,018,018.00								2,018,018.00
R1720	*Reinsurers' share*									0.00
R1800	*Net*	2,018,018.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,018,018.00
R1900	**Expenses incurred**	11,285,898.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11,285,898.00
R2500	**Other expenses**									
R2600	**Total expenses**									11,285,898.00

S.05.02.01

Premiums, claims and expenses by country

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	Life	**Home Country**	**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*	41,324,780.00						41,324,780.00
R1420	*Reinsurers' share*	25,125.00						25,125.00
R1500	*Net*	41,299,655.00	0.00	0.00	0.00	0.00	0.00	41,299,655.00
	Premiums earned							
R1510	*Gross*	41,269,924.00						41,269,924.00
R1520	*Reinsurers' share*	25,125.00						25,125.00
R1600	*Net*	41,244,799.00	0.00	0.00	0.00	0.00	0.00	41,244,799.00
	Claims incurred							
R1610	*Gross*	29,748,013.01						29,748,013.01
R1620	*Reinsurers' share*							0.00
R1700	*Net*	29,748,013.01	0.00	0.00	0.00	0.00	0.00	29,748,013.01
	Changes in other technical provisions							
R1710	*Gross*	2,018,018.36						2,018,018.36
R1720	*Reinsurers' share*							0.00
R1800	*Net*	2,018,018.36	0.00	0.00	0.00	0.00	0.00	2,018,018.36
R1900	**Expenses incurred**	11,285,898.00						11,285,898.00
R2500	**Other expenses**							
R2600	**Total expenses**							11,285,898.00

S.12.01.01
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, incl Unit-linked)	Health insurance (direct business)			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			Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life accepted insurance contracts and relating to insurance obligation other than			Contracts without options and guarantees	Contracts with options or guarantees	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180	C0210
R0010	**Technical provisions calculated as a whole**									0.00					0.00				0.00
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									0.00					0.00				0.00
	Technical provisions calculated as a sum of BE and RM																		
	Best estimate																		
R0030	**Gross Best Estimate**									0.00					0.00		4,512,202.93	0.00	4,512,202.93
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default									0.00					0.00		0.00	0.00	0.00
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	0.00		0.00	0.00		0.00	0.00	0.00	0.00					0.00		4,512,202.93	0.00	4,512,202.93
R0100	**Risk margin**									0.00					0.00	236,496.25			236,496.25
	Amount of the transitional on Technical Provisions																		
R0110	Technical Provisions calculated as a whole														0.00	0.00			0.00
R0120	Best estimate														0.00		0.00	0.00	0.00
R0130	Risk margin														0.00	0.00			0.00
R0200	**Technical provisions - total**	0.00	0.00			0.00			0.00	0.00					0.00	4,748,699.19			4,748,699.19

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Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0.00	0.00		0.00	
R0030	Share premium account related to ordinary share capital	0.00	0.00		0.00	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	44,197,299.81	44,197,299.81		0.00	
R0050	Subordinated mutual member accounts	0.00		0.00	0.00	0.00
R0070	Surplus funds	0.00	0.00			
R0090	Preference shares	0.00		0.00	0.00	0.00
R0110	Share premium account related to preference shares	0.00		0.00	0.00	0.00
R0130	Reconciliation reserve	0.00	0.00			
R0140	Subordinated liabilities	0.00		0.00	0.00	0.00
R0160	An amount equal to the value of net deferred tax assets	0.00				0.00
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0.00	0.00	0.00	0.00	0.00
	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					
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	0.00				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0.00	0.00	0.00	0.00	0.00
R0290	**Total basic own funds after deductions**	44,197,299.81	44,197,299.81	0.00	0.00	0.00
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0.00			0.00	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0.00			0.00	
R0320	Unpaid and uncalled preference shares callable on demand	0.00			0.00	0.00
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0.00			0.00	0.00
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0.00			0.00	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0.00			0.00	0.00
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00			0.00	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00			0.00	0.00
R0390	Other ancillary own funds	0.00			0.00	0.00
R0400	**Total ancillary own funds**	0.00			0.00	0.00
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	44,197,299.81	44,197,299.81	0.00	0.00	0.00
R0510	Total available own funds to meet the MCR	44,197,299.81	44,197,299.81	0.00	0.00	
R0540	Total eligible own funds to meet the SCR	44,197,299.81	44,197,299.81	0.00	0.00	0.00
R0550	Total eligible own funds to meet the MCR	44,197,299.81	44,197,299.81	0.00	0.00	

R0580	**SCR**	11,531,647.11
R0600	**MCR**	3,250,561.00
R0620	**Ratio of Eligible own funds to SCR**	383.27%
R0640	**Ratio of Eligible own funds to MCR**	1359.68%

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	44,197,299.81
R0710	Own shares (held directly and indirectly)	0.00
R0720	Foreseeable dividends, distributions and charges	0.00
R0730	Other basic own fund items	44,197,299.81
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0.00
R0760	**Reconciliation reserve**	0.00

	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	996,166.00
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0.00
R0790	**Total Expected profits included in future premiums (EPIFP)**	996,166.00

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0030	C0080	C0090
R0010	Market risk	8,888,092.87		0
R0020	Counterparty default risk	176,675.52		
R0030	Life underwriting risk	0.00	0	0
R0040	Health underwriting risk	2,503,088.95	0	0
R0050	Non-life underwriting risk		0	0
R0060	Diversification	-1,697,448.11		
R0070	Intangible asset risk	0.00		
R0100	**Basic Solvency Capital Requirement**	9,870,409.23		

	Calculation of Solvency Capital Requirement	C0100
R0120	Adjustment due to RFF/MAP nSCR aggregation	0.00
R0130	Operational risk	1,661,237.88
R0140	Loss-absorbing capacity of technical provisions	0.00
R0150	Loss-absorbing capacity of deferred taxes	0.00
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0.00
R0200	**Solvency Capital Requirement excluding capital add-on**	11,531,647.11
R0210	Capital add-ons already set	0.00
R0220	**Solvency capital requirement**	11,531,647.11

	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0.00
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

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

		C0010
	Linear formula component for non-life insurance and reinsurance obligations	
R0010	MCR_{NL} Result	0.00

		C0040
	Linear formula component for life insurance and reinsurance obligations	
R0200	MCR_L Result	766,107.63

		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		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	4,748,699.19	
R0250	Total capital at risk for all life (re)insurance obligations		951,978,500.00

		C0070
	Overall MCR calculation	
R0300	Linear MCR	766,107.63
R0310	SCR	11,531,647.11
R0320	MCR cap	5,189,241.20
R0330	MCR floor	2,882,911.78
R0340	Combined MCR	2,882,911.78
R0350	Absolute floor of the MCR	3,250,561.00
R0400	**Minimum Capital Requirement**	3,250,561.00