

SOLVENCY AND FINANCIAL CONDITION REPORT

SOLVENCY AND FINANCIAL CONDITION REPORT

2022



SOLVENCY AND FINANCIAL CONDITION REPORT

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SOLVENCY AND FINANCIAL CONDITION REPORT

Director's Report

British Friendly Society Limited

Approval by the Board of Directors of the Solvency and Financial Condition Report

Financial period ended 31 December 2022

We certify that:

The Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects and in accordance with the PRA rules and 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, at the date of the publication of the SFCR, the Society has continued so to comply, and will continue so to comply in future.



Stuart Purdy (Chairman)

Date: 05 April 2023

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Summary

The Society was founded in 1902 to provide sickness benefits for commercial travellers and their families. We are one of the larger Friendly Societies with over 31,000 members across the UK and £49m in assets. The principal activity of the Society is to provide sickness cover for its members in times of illness or injury. After paying sick pay and expenses, any surplus is invested for the benefit of the members in accordance with the Society's investment policy as determined by the Board of the Society. As a Mutual, the Society exists solely for the benefit of its members and has no shareholders to whom we need to pay dividends. One of the ways that the Society looks to provide additional benefit to members is through the Mutual Benefits programme. The Mutual Benefits programme provides access to resources and support for members and their families at no additional cost. In 2021 the Society reviewed the Mutual Benefits programme and in 2022 will have increased the health services offered to members through the partnership with Square Health. This includes increased digital GP consultations, second medical opinions, mental health support, physiotherapy, and health MOTs.

The core business of the Society is the provision of Income Protection insurance products. Until 2011, insurance policies were mainly of a 'Holloway' type with a capital element building up over time through the payment of interest and apportionment bonuses. The Society has over 6,000 Holloway members of which over 2,000 commuted their sickness benefits at age 60, but retain their capital balances with the Society, earning annual bonuses and may receive a final, or terminal, bonus currently 10% on withdrawal of their funds. Through its BFS Protect product, the Society has been successful in establishing itself as one of the leading providers of Income Protection for working people and had an overall membership of over 31,000 members at December 2022. BFS Protect policies generate over 80% of total premium income and account for over 80% of overall membership. The Society also offers Breathing Space, a policy which does not require financial underwriting and is designed for the self-employed market.

The Society has previously provided loans to members with a capital account up to 85% of the value of their accounts and secured against the capital account balance. This service was provided through a subsidiary company, BFS Member Services Limited (separately authorised by the FCA) and does not have a material impact on the Society's financial or solvency position.

Our ongoing Own Risk Solvency Assessment process demonstrated that the Society has had a comfortable margin of capital resources over the Solvency Capital Requirement as required under the provisions of Solvency II regulation. The Board remain satisfied that the Society has a capital position that is appropriate for an insurance business of its size and complexity.

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A. Business Performance

A1. Business Description

British Friendly Society Limited is incorporated under the Friendly Societies Act 1992 under registration number 392F. The Society is a friendly Society owned 100% by its members. Each of the Society's members is entitled to one vote at the Annual General Meeting or on resolutions requiring member votes. There are no other persons or entities with an ownership interest in the Society. The Society's principal activity is the provision of Income Protection insurance to its members. The Society carries out its business within the United Kingdom. The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) are responsible for the financial supervision of the Society.

PRA
20 Moorgate
London
EC2R 6DA
020 7601 4444

FCA
12 Endeavour Square
London
E20 1JN
Phone: 020 7066 1000

The statutory auditor of the Society is:
G Joshi
BDO LLP
55 Baker Street, London
W1U 7EU).

A1.2. Business Summary

The Society underwrites income protection contracts within the United Kingdom. The Society's membership consists of Protect members and members who hold a 'Holloway-style' product. The 'Holloway-style' products are not actively promoted and has been closed to new business. The number of Protect members increased in 2022. All policies are administered by the Society.

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A2. Underwriting Performance

Underwriting performance is reflected in the difference between the premiums received against the claim payments made to members. The table below shows the premiums and claims by product type and movement against the prior year:

	2022 £000	2021 £000	Mvt (%)
Protect premiums	9,429	9,068	4%
Holloway premiums	2,249	2,346	-4%
Outward Reinsurance Premiums	(7)	-	-
Total premiums earned	11,671	11,414	2%
Protect claims	(4,719)	(4,767)	1%
Holloway claims	(316)	(321)	1%
Total Claims incurred	5,035	5,088	1%
Net Underwriting surplus	6,636	6,326	5%

The Society has entered a re-insurance agreement with a proportion of the new level costed income protection business being reinsured on a quota share basis. thus providing a partial risk transfer of morbidity and persistency risk exposure.

A2.1 Claims

Providing financial support to members at their time of need is the reason for our existence. Our policies are priced to deliver fair value to members yet at a level which the Society remains sustainable. We expect to receive new claims every year and every claim has a cost. If more members are unable to work than expected or members claim for longer than expected, then the Society becomes financial weaker impacting solvency. The Society continually monitors and reviews the volume of new claims and the reasons that members are unable to work. Active claims management is a key function in the Society as we support members financially and support their recovery and rehabilitation. In 2022 the Society paid a total of £5m (£5m in 2021) in claims. The Society is proud of its long-term record of paying a high proportion of the claims it receives.

A2.2 Membership

The Society's membership consists of Protect members and members who hold a 'Holloway-style' product. The 'Holloway-style' products are not currently open to new business applications, and the number of members has been falling for many years, a trend which continued in 2022. The number of Protect members increased in 2022 driven by the Society's strategic plan, allowing expenses to be spread across a wider member base.

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A3. Investment Performance

The Society employs professional investment managers to manage its portfolio of investments under a conservative investment mandate. The relationship is managed on a day-to-day basis by the Society's Executive team and governed by the Risk and Investment committee.

The Society's portfolio is invested in a mixture of:

1. Government and corporate fixed interest debt
2. Equities and hedge funds
3. Property funds/Unit trusts
4. Freehold property

Investment returns	2022 £000	2021 £000	Mvt %
Investment income	208	2,755	-92%
Unrealised gains on investments	-	1,642	-100%
Unrealised losses on investments	(4,627)	(1,461)	-217%
Investment expenses	(109)	(143)	24%
Net investment income	(4,528)	2,793	-262%

Investments	2022 £000	2021 £000	Mvt %
Government securities	14,703	11,458	28%
Corporate bonds	18,049	17,605	3%
Unit trusts	-	376	-100%
Equities	-	7,122	-100%
Investment properties	235	6,290	-96%
Secured mortgages	18	23	-22%
Loan to members	267	287	-7%
Cash and cash equivalents	4,576	8,730	-48%
Total investments	37,848	51,891	-27%

We invest our assets in order to provide a stable return to our members whilst putting capital preservation at the heart of the investment strategy. Given the volatility in investment markets key items that have been reviewed throughout the year including the risk profile of the investments and it's appropriateness for meeting future member benefits. These discussions concluded in early 2022 with decisions to sell the listed equity portfolio and the investment properties in the second half of the year, actions achieved by the year-end. Proceeds of these sales were largely reinvested in government securities which are lower risk and a closer match to the liabilities of the Society. Investment returns for 2022 were impacted by the global volatility in investment markets but the unrealised losses were primarily driven by rising interest rates reducing the value of fixed income securities. It

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should be noted that a significant proportion of the capital loss will not be realised if the investments are held until maturity of the assets which will guarantee a return of capital.

The Society considers both current returns and longer-term trends when considering the level of bonus rates set for its 'Holloway' type members who have accumulated capital account balances. Despite significant unrealised losses in 2022, the Board agreed that we should continue to pay bonuses on members' capital balances, although they decided that it was prudent to adjust the Annual Interest Bonus. The Annual Interest Bonus earned on members' capital balances was moved to 1.50% (2021: 0.50%) to reflect the Bank of England's interest rate rises. The Apportionment Rate applied to members' capital balances was increased to £1.80 (2021: £1.68) for commuted members and unchanged at £1.08 for non-commuted members and the Final Bonus to be applied to the value of commuted members' capital accounts on withdrawal has been decreased to 10%.

A4. Performance of other activities

The Society does not perform any other activities other than underwriting and administering income protection insurance products or investment of funds.

A.5. Any other information

A5.1 Re-insurance

As mentioned above, the Society has entered a re-insurance agreement with a proportion of the new Level costed income protection business being reinsured on a quota share basis. The Society has been actively assessing how further financial transactions could support the Society's balance sheet by providing liquidity for growing the Society's membership and reducing risk. This has included entering stop loss re-insurance arrangement which insures losses above a pre-determined level and up to a maximum limit. This solution can provide a re-insurance solution against a mass lapse scenario and against a significant increase in the number of lapses, known as a 'lapse up' scenario'. Due to the Society's exposure to both these scenarios the lapse risk stop loss re-insurance can provide an improvement to the Society's solvency coverage by reducing the Solvency Capital Requirement. The Society's Board continue to consider a number of further potential financial solutions that reduce risk and provide liquidity.

A.5.2 Model development

The Society's technical provisions increased in 2022 by £6.7m as a result of a change to the approach of modelling future premiums. Despite this change the Society's trading returned a surplus in 2022 of £4.2m (2021 returned a deficit of £0.8m). It should be noted that although the model adjustments impacted the future capital assessment, they did not impact tangible assets or cash.

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B. System of Governance

B1. General Information on the system of governance

British Friendly Society Limited is led by a Board who are responsible for promoting the long-term sustainable success of the Society and generating value for current and future members. The Board's role is set out in the Memorandum and Rules of the Society and delegates some authority through its three main sub-committees:

- Audit and Compliance
- Risk and Investment
- Remuneration and Nomination

Full details of the responsibilities of the Board and its committees are set out in a Responsibilities Map and Terms of Reference. There is a clear division of responsibilities between the roles of Chairman and Chief Executive, and they are held by different individuals. Each has their specific roles and responsibilities. The Chairman is primarily responsible for the effective running of the Board and for ensuring full and constructive participation of all Board members in discussions and the decision-making processes within the remit of the Board. The Chief Executive is responsible for the executive management of the Society within specific guidelines established by the Board. The Board comprises the Chair of the Board, who is an Independent Non-Executive Director, four other Non-Executive Directors (of which one is a Senior Independent Director) and one Executive Director. The Board remains satisfied with the independence of Non-Executive Directors.

The Remuneration Policy is designed to attract and retain personnel of the calibre, skills and values required to deliver the objectives and strategy of the Society. It adopts the following key principles:

- The Policy will be to promote fair and transparent remuneration structures and are aligned to the long-term sustainable success of the Society
- Remuneration is aligned with applicable statutory regulatory and statutory requirements
- Remuneration will promote sound and effective risk management
- Fixed and variable remuneration will be appropriately balanced with arrangements designed to align the interests of employees with those of members
- 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 is an inclusive employer and is committed to ensuring that all of its people are remunerated fairly. Whilst the Society is not currently obliged to publish any gender pay calculations relating to diversity, it intends to take steps to monitor equality and reduce or eliminate any pay gap where applicable

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B2. Fitness and propriety requirements

The Society subjects all individuals considered for appointment to a Senior Managers Function or identified as a Certified role to determine honesty, competence, and capability as well as financial soundness. The following factors are considered when assessing an applicant for a relevant appointment:

- a) The probity of the individual as judged during the recruitment process
- b) The reputation of the individual as judged from a review of public media
- c) The individual's financial soundness as judged from credit reference reports obtained by the Society.
- d) Regulatory references (pertaining to the last six years)
- e) Any information obtained during the criminal record checks

In addition, an assessment of competence considers whether an individual

- a) Has the personal characteristics of good repute and integrity
- b) Possesses the level of competence, knowledge, and experience
- c) Has relevant qualifications to carry out their role
- d) Has undergone or is undergoing all training, required to enable such person to perform their role effectively and in accordance with any relevant regulatory requirements, including those under the regulatory system, and to enable sound and prudent management of the firm

Holders of Senior Manager Functions or a Certified role are also required to confirm that they continue to satisfy regulatory standards by completing an annual declaration of continued fitness and propriety. In addition, the Society also assesses the ongoing fitness and propriety of approved persons.

B3. Risk Management Framework including the own risk and solvency assessment

The Society's Risk Management Framework sets the approach for risk management and is complemented by risk management policies which have been approved by the Society's Board. The Society's Risk Management Framework is designed to provide coverage over the principal risks: Financial, Insurance, Conduct, Operational, Reputational and Strategic. It also provides consideration of new and emerging risks, including those posed from climate change, economic and political developments, and changes in regulation. The Society's Risk Appetite contains statements and metrics that have been approved by the Board and support how principal risks which impact the Society, and the strategic objectives are managed. These risks are linked to the risk register and reported to the Board via the Risk and Investment Committee. This provides oversight of the Society's risk exposure, risks to strategic objectives and actions taken to manage such risks. The Board's risk appetite

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statements are regularly reviewed by the Risk and Investment Committee and covers the key risks that the Society is exposed to.

The Society operates a three lines of defence model which ensures accountability, oversight, and transparency in risk management. The Board delegates oversight of risk to the Risk and Investment Committee.

The first line of defence is comprised of the operational areas such as Claims, Underwriting and Member Services and support functions such as Finance, IT and HR. The first line, led by the Chief Executive and supported by the senior management team is responsible for the day to day running of the Society, identifying, and managing risks and ensuring their processes and controls remain effective.

The second line of defence is made up of Risk and Compliance. These functions are led by the Chief Risk Officer and ensure the first line are appropriately managing risk and conforming with legislative and regulatory requirements. Risk and Compliance also provide oversight through policies, frameworks, tools, and techniques and are responsible for advice, oversight, and challenge.

The third line of defence provides objective and independent assurance to the Board ensuring the first and second lines of defence are effectively managing risk. The outsourced Internal Audit function reviews and reports on systems of risk management and internal controls to the Audit and Compliance Committee.

The Society, through its Own Risk and Solvency Assessment (ORSA), continuously assesses the adequacy of its solvency requirements specific to the risk profile, risk tolerance limits and the business strategy which facilitates decision making and strategic analysis. During 2022 the Society has conducted stress testing and undertaken scenario analysis in order to ascertain the current and projected solvency positions under normal and severe, yet plausible, scenarios, both individually and combined. This allows the Society to fully understand the material risks it faces and consider mitigating actions.

B4. Internal control system

Internal controls are used to manage the risks facing the Society within the defined risk tolerance levels agreed by the Board. The controls set through processes, frameworks and policies are established and embedded within the first line of defence where each control has a dedicated owner. The effectiveness of the Society's internal control environment is assessed through monitoring, second line of defence reviews and internal audits.

There is a risk and compliance function independent of business areas responsible for advising the Board on risk exposure, compliance (including changes) to regulations, and other laws, regulations and administrative provisions adopted in accordance with the Solvency II Directive.

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B5. Internal audit function

The Society has an internal audit function which has been recognised as a key function. The performance of the Internal Audit is outsourced to specialist firms who provide the Audit and Compliance Committee with independent and objective assurance on the effectiveness of the Society's internal controls and risk management.

B6. Actuarial function

The Society outsources its actuarial function who report to the Society's Board. The Chief (and With-Profits) Actuary is responsible for the adequacy and quantification of capital requirements and technical provisions under Solvency II including appropriateness of the methodologies, models, assumptions, and data used.

B7. Outsourcing

The Society outsources the following Solvency II activities: Internal Audit and the Actuarial function. The Board of the Society retains ultimate responsibility for ensuring that these services are provided in accordance with the Solvency II Directive. The Society assesses all outsourced activities in accordance with its Third Party Risk Management Policy and undertakes risk assessments to determine the materiality and risk exposure. The Society also conducts regular assessments to ensure the services provided by its outsourced third parties remains adequate.

All the outsourced activities are subject to robust oversight and controls, including contractual protections.

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C. Risk Profile

C1. Summary of current risk profile

The Society's primary business involves taking on risk for its members through Income Protection policies. There are three main types of risks that are inherent to the Society's business model.

- Insurance risks: this includes underwriting, morbidity (sickness), mortality (life expectancy) and persistency (lapsing of policies)
- Operational and business risks: this includes losses incurred resulting from inadequate processes, people, and systems, including model changes and developments in the regulatory environment, external risks and risks associated with achieving our strategic objectives such as facilitating future growth
- Financial risks: These include lower than expected returns or defaults arising from investments due to market fluctuations and the risk of the asset issuer, reinsurance or distribution partner not being able to make payments when they fall due which could impact our liquidity.

Risks are grouped by risk type and aligned to the principal risks which have been approved by the Board. Risks are identified on a regular basis, using a range of techniques including internal and external trend monitoring, risk events analysis and management information.

C2. Risk measuring and monitoring

The Society has identified its overall appetite for risk and expressed this in terms of its solvency position. Where applicable, risks are measured against the impact to the Solvency II Solvency Capital Requirement (SCR) and the solvency coverage ratio (own funds in relation to SCR). In addition to the minimum solvency requirement defined by the prevailing regulatory environment, the Society has determined a minimum level of additional solvency required at all times forming part of the internal risk appetite. This is set by the Board as a key component of, and constraint upon, the strategic plan.

At 31 December 2022, the Society had £10.7m of surplus funds (own funds less SCR). The Society also uses the SCR and Solvency cover ratio as a basis to measure and monitor the sensitivity of its assets to certain key risks by stress and scenario testing through its valuation model. These are reported on an annual basis and included in the ORSA as key drivers of the Society's risk appetite.

The Society uses a range of mitigation techniques to reduce and manage its risk exposures including the use of internal controls, limits, asset liability matching and cashflow planning.

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C3. Risk concentration

The Society offers different products and product options to suit the needs of members. The Society has a diverse member base with regard to age, occupation, and geographical location. The Society uses a number of additional techniques and limits to manage concentration exposure including holding a diverse investment portfolio with differing asset classes and durations to reduce exposure to credit, liquidity and interest rate risk.

C4. Insurance risk

Insurance risk relates to actual experience differing from assumptions, which are used to calculate premium amounts. Assumptions such as claims and lapses, including their timings, occurrence and amounts differing could have an impact on our expenses and solvency.

Experience analysis is conducted to assess the impact of from material variances identified. The Society has also enhanced monitoring processes in place to identify potential changes in exposure.

C5. Operational risk

Operational risk is the risk of direct or indirect loss arising from business operations including failed internal processes, people, and systems, including external risks. Operational risks are assessed through the risk control assessment process which includes an assessment of the design and operational effectiveness of controls and the impact to the residual risk. Exposure is managed through implementation of policies and frameworks which set the control requirements for management of operational risk. As operational risks cannot be fully mitigated, the Society has limited appetite for accepting exposure to operational risk events.

C6. Financial risk

Due to the nature of the Society's investments, the Society incurs three main types of financial risks – market, credit, and liquidity.

Market risk arises from unexpected movements or volatility within the financial markets resulting in lower than anticipated returns. Exposure is managed by holding a diverse investment portfolio which is managed by experienced investment managers within a Board approved investment mandate. The Society further limits exposure by not investing in volatile, structured or complex products.

Credit risk arises where the market value of fixed income investments fluctuates because of changes in the financial condition of the issuer or the appetite in the market for this risk. This risk is managed by through a Board approved investment mandate, where performance of the investment managers is that is continually monitored by the Executive team, and governed by the Risk and Investment Committee

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Counterparty risk arises due to the default or failure of a third party (including distributors and reinsurers) in meeting their contractual payment obligations resulting in financial loss. Exposure is managed through our credit control processes. Liquidity risk arises from the inability to make payments as they become due as a result of insufficient assets in a liquid form. This risk is managed through the investment holdings in our investment mandate and regular cashflow forecasting.

C7 Investment Assets

The Society ensures that all assets are invested with the prudent person principle. All assets included in the table set out in D1 have been invested in accordance with the prudent person principle, such that the Society only invests in assets where the Society can properly identify, measure, monitor, control and report and appropriately take into account in the assessment of its overall solvency calculations. Investment assets are managed by external investment managers within the remit of the Board approved investment mandate. Investment performance is regularly monitored and reported through the Risk and Investment Committee.

C8. Climate Change

Through the Society's business model, strategies and practices, the exposure to financial risk arising from climate change is limited primarily driven by our sustainable approach to investing and investment holdings and has reduced further in 2022 due to the Society disinvesting from equities and commercial property. Working with our investment management partners and other stakeholders, we are committed to promote sustainability and reduce the impact on the environment.

Whilst physical risks arising from climate change are not expected to fully crystallise for a number of years, such as longevity, morbidity, and mortality to which the Society is exposed, we continue to monitor experience over time.

The Society has limited exposure to asset transition risks due to its sustainable investment portfolio and composition of investments. As a result of this, litigation risks that could arise from parties who have been adversely impacted from climate change is also limited. We regularly review our portfolio sustainability ratings and have agreed parameters through our investment mandate to promote sustainable investing.

To reduce our carbon footprint and the impact to the environment, the Society is decarbonising its operations and supply chain. These initiatives include reduction of energy consumption and consumables through printing and adopting digital technology where appropriate, reducing travel emissions by promoting flexible working and working with our suppliers to increase energy efficiency and sustainability.

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C9. Other Information

The Society' has focussed on enhancing risk management and controls across the Society in addition to significant system and infrastructure developments. This has had a positive impact across all business areas, including Distribution, Proposition, Underwriting, Claims and IT. During this reporting period, taking into consideration internal and external factors, including economic and political uncertainty, the Society has derisked the investment portfolio by withdrawing from property and equity investments. The Society has also benefited from reducing insurance risk exposure by partly transferring some morbidity and persistency risk through reinsurance arrangements. The combination of these management actions has resulted in a positive impact on the Society's solvency position. These were partially offset by refinements to actuarial model assumptions which resulted in adjustments to the future capital assessment but did not impact tangible assets or cash.

Following on from the coronavirus pandemic, the Society has fully embedded flexible working practices that has significantly increased the capability and diversity of staff and in addition to the risk and control enhancements described above, supports fulfilment of good member outcomes and strategic objectives. Risks are continually monitored and managed to prevent disruption or harm to the Society or its members including risks arising from the pandemic and economic landscape.

The Board is responsible for the delivery of risk management and controls. Detailed below are the Society's principal risks and mitigating actions.

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Risk and Description	Mitigating Actions
<p>Financial Risk: This comprises of credit, counterparty, market, and liquidity risks and can materialise due to adverse movements in the financial markets, downgrading or default of a creditor (including distributors and reinsurance partners), reduced investment income or the inability to meet financial obligations as they fall due</p>	<p>The Society manages credit and market risk by defining agreed parameters and trigger points established through an investment mandate with its investment managers. Performance of the investment portfolio is regularly monitored, and management are made aware of any deviations.</p> <p>Investment credit exposures are managed by investing in high credit quality assets and ongoing monitoring and management support loss mitigation. Counterparty risk is managed through the setting of financial limits and monitored using internal and external information.</p> <p>The Society also undertakes budgetary planning and cash flow matching to ensure sufficient funds are readily available over the short and medium term to fulfil financial obligations as they fall due.</p> <p>As mentioned above, the Society made a proactive decision to reduce its market risk exposure during 2022.</p>
<p>Insurance Risk: This risk relates to the risks transferred to us by our members. Insurance risk considers the uncertainties that arise from mortality, morbidity and persistency and could crystallise if the cost of claims and benefits exceed the amount of premium and investment return received. Included within this risk is concentration and expense risk.</p>	<p>The Society has processes and controls to assess the risk of new business through its product design, pricing, and underwriting processes. Existing business insurance risks such as claims and lapses are monitored against thresholds and assumptions. Monitoring by distribution channel, adviser and by product option to manage concentration risk and ensure good outcomes for our members.</p> <p>This risk is also managed by our flexible approach which ensures we are able to adapt to changes or movements in the</p>

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	<p>intermediary market to aid our risk exposure.</p> <p>The Society has strengthened controls to reduce insurance risk exposure arising from product design, underwriting and claims. As mentioned above, the Society has also entered into reinsurance arrangements providing morbidity and persistency relief.</p>
<p>Conduct Risk: This risk considers action that could result in adverse member outcomes resulting from the Society's actions including ineffective controls.</p>	<p>The Society is committed to drive the right culture, behaviours, and values to deliver the best outcomes for our members and exceed regulatory expectations. This risk is managed through outcome focussed policies, processes and ensuring staff are sufficiently skilled to deliver good member outcomes. Conduct risk is monitored through the use of assurance, key indicators.</p> <p>Whilst the Society puts members at the heart of everything it does, the Society continues to enhance its Conduct risk management, incorporating regulatory initiatives.</p>
<p>Operational Risk: This risk considers direct or indirect loss arising from failures from our people, processes, or systems. Included in this risk are legal, regulatory, third party, resilience, data, models, and cyber risks.</p>	<p>The Society has processes and controls in place to minimise the impact and/or likelihood of adverse operational events.</p> <p>The Society conducts regular reviews of operational risks including control adequacy and effectiveness and continues to develop proactive monitoring. This will enable the Society to take preventative action and further reduce operational risk exposures</p> <p>During 2022, the Society has invested in strengthening its operational controls, ensuring resiliency, improving efficiency, and reducing potential harm to members</p>

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	through failure of services. The Society continues to monitor its operational risks and associated exposure.
Reputational Risk: This risk relates to actions that could reduce trust or confidence of the Society's integrity, values or operations, resulting in either loss of members and/or financial loss, including regulatory censure.	The Society manages this risk by embedding our values with our people and regularly reviews stakeholder satisfaction. This includes member, third party and satisfaction from our people. This risk is continuously monitored to understand where the Society's processes can be optimised for effectiveness, efficiency and to identify emerging risks.
Strategic Risk: This risk considers failed business decisions which have an impact on executing our strategy or meeting strategic objectives within the prescribed timescale. This also includes risks associated with climate change and sustainability.	The Society's strategy plans are clearly defined and regularly reviewed, taking into account internal and external factors. This risk is monitored through a suite of agreed metrics. Due to the Society's non-complex structure and limited geographical footprint, risks arising from recent political and economic events have been mitigated where possible and did not impede the Society's ability to successfully execute its strategic plan. The Society consists of an experienced management team who aligned with and measured against delivery of the strategic objectives. The Society's Board receive regular updates on the execution of the strategic plan.

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D. Valuation for Solvency Purposes

D1. Assets

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

£000s	31/12/2022	31/12/2021
Property	235	6,290
Equities	-	7,122
Government bonds	14,703	11,458
Corporate bonds	18,049	17,605
Collective Investment Undertakings	-	376
Loans and mortgages	284	311
Any other assets	6,665	10,912
Total	39,936	54,074

The listed investments are all included at market value. The property portfolio is fully revalued every three years with a desktop valuation in the intervening years so that changes in market value can be taken into account. Cash and deposits are valued at face value. The Society does not hold listed investments which are not held on an active regulated market. The Society has no leasing arrangements or material deferred tax assets. The Society has no related undertakings.

There have been no changes to approach to valuation and no significant exercise of judgement in arriving at the values shown. The assets are shown at the same value as the values in the financial statements subject to adjustments in respect of deferred acquisition costs and intangible assets. The following table reconciles the differences.

£000s	31/12/2022	31/12/2021
Value of assets presented in financial statements	49,296	62,491
Less Deferred acquisition costs	3,144	2,530
Less Intangible assets	6,216	5,887
Solvency II value of assets	39,936	54,074

SOLVENCY AND FINANCIAL CONDITION REPORT

D2. Technical Provisions

The following table summarises the technical provisions as at 31 December 2022 and 31 December 2021.

£000s	31/12/2022	31/12/2021
Best estimate liabilities	10,204	13,168
Risk margin	3,596	8,528
Technical provisions	13,800	21,696

All the Society's liabilities relate to health (Similar to Life) business.

Valuation Methods

The following paragraphs detail the methodology adopted for the Solvency II valuation as at 31 December 2022 for the following specific components of the Society's business:

- a) valuation of all the Society's Holloway and Income Protection income and liability cashflows
- b) valuation of Holloway members' accounts and allowance for interest, apportionment, and final bonuses
- c) valuation of sickness claims in payment
- d) IBNR (incurred but not reported)
- e) negative reserves
- f) valuation of individual policies
- g) allowance for expenses
- h) reinsurance
- i) currency exposures
- j) options and guarantees
- k) discount rates

SOLVENCY AND FINANCIAL CONDITION REPORT

Valuation of Holloway and Income Protection income and liability cashflows

The Society adopts a gross premium methodology approach to the valuation of each of its contracts of insurance. This means that we project, for each individual contract on the Society's books, net cashflows out of the Society every single month into the future as follows.

Net cash flow each month =

Expected monthly sickness payment (not relevant for commuted Holloway contracts) assuming all policyholders are healthy at the date of valuation:

- (+) Expected monthly maturity and withdrawals on Holloway commuted and non-commuted accounts allowing for future rates of interest and apportionment bonuses
- (+) Monthly cost of maintenance and investment expenses allowing for future expense

Each monthly projected net cashflow is then discounted back to the valuation date at an assumed discount rate of interest. A positive value represents a liability to the Society; a negative value represents an asset to the Society.

Valuation of Holloway member accounts and allowances for interest, allocation, and final rates of bonus

The Society had accrued £44,906,137 in member capital accounts at the end of 2022 (including the 2022 declared bonus). These are all linked to 'Holloway' type contracts of insurance.

This amount is guaranteed to be payable on maturity or earlier on death. The Society applies its discretion in the amount it pays in the event of withdrawal before maturity. A final bonus may also be paid on maturity or earlier death at the discretion of the Society.

Each year these benefits are increased by both an interest bonus, in respect of investment returns over the year, and an apportionment bonus in respect of the Society's favourable sickness experience (akin to a bonus equal to premiums less claims less expenses).

The value of these accounts is equal to the discounted value of the expected future amounts payable on these accounts allowing for future rates of interest, apportionment, and final bonus. Expected future interest is allowed for at the Society's long-term sustainable rate equal to half the discount rate of return less 0.75%; future apportionment and final bonuses are assumed to be paid at the long-term sustainable levels.

Additional reserves are held to cover all Income Protection claims in payment at the valuation date based on the discounted value of all future sickness cashflows expected to arise from the current sickness.

SOLVENCY AND FINANCIAL CONDITION REPORT

Incurred But Not Reported (IBNR)

An additional reserve is held to cover the value of claims where policyholders have fallen sick but where they have not reported that fact to the Society (or they have reported the claim, but it has yet to be admitted by the Society). This calculation is based on the annual average of the last 3 years' sickness claims experience.

Allowance for expenses

Expenses are allowed for in the valuation of the Society's liabilities by a per policy charge. This is assumed to be incurred monthly and covers each policy's share of the maintenance and investment related expenses of the Society. The calculation of each policy's share of these costs allows for the expected volumes of new business the Society expects to write. Expected maintenance and investment related expenses and new business volumes are set by the Society's strategic plans until 2026.

Reinsurance

The Society has a quota share reinsurance arrangement for its level premium Protect business. The premiums payable to the reinsurer are projected based on risk rates provided by the reinsurer. The benefits recoverable from the reinsurer are based on the gross sickness benefits and the quota share as described in the treaty. The Society has also entered into a Mass Lapse / Lapse Up Reinsurance deal and the impacts of both the reinsurance arrangements are allowed for in the Society's Own Funds and Solvency Capital Requirement.

Currency

The Society's liabilities are all denominated in GBP.

Options and guarantees

None of the Society's contracts has any material options or guaranteed surrender values in place at 31 December 2021 or 31 December 2022.

Discount rates

All the Society's cashflows are discounted at the required risk-free rates of interest set by the PRA as at 31 December 2022.

SOLVENCY AND FINANCIAL CONDITION REPORT

Key assumptions used in the valuation of best estimate liabilities

Assumptions need to be made for:

- a) sickness inception and recovery rates
- b) mortality rates
- c) lapse and withdrawal rates
- d) expense inflation
- e) rate used to discount future cashflows

Sickness Rates

The Society's sickness experience has been analysed both by the rate of inceptions and by rates of recovery and are split between Holloway style contracts (Holloway and Century) and the Society's pure Income Protection business (Protect and Breathing Space). The inceptions and recoveries are explicitly allowed for in the cash flow methodology. The sickness tables used are based on the industry standard "CMIR12" tables.

Mortality

The rate of mortality assumed to apply to the Society's business are split between the Holloway and Century non-commuted and commuted policyholders, as well as the Society's Protect and Breathing Space policyholders

Lapse and withdrawal rates

The rates of lapse and withdrawal assumed to apply to the Society's business are split between the Holloway and Century non-commuted and commuted policyholders, as well as the Society's Protect and Breathing Space policyholders.

CFI (Cancelled from Inception) rates

The CFI rates are assumed to apply to the Society's Protect business and are reflective of a policy commencing but cancelling within a defined period and premiums refunded. These include those policies cancelled within the cooling off period.

Expense inflation

The Society makes approximations on future costs. These include fixed costs such as operational expenses and costs which are directly linked to a policy such as commission.

Rate used to discount future cashflows

The Solvency II risk free yield curve as specified by the PRA at the end of the relevant financial year has been used.

SOLVENCY AND FINANCIAL CONDITION REPORT

Valuation of the risk margin

The risk margin is the additional premium, over and above the best estimate, that another insurer might need in order to take on those liabilities. This value is a formulaic calculation prescribed by the Solvency II regulations based on the value of risk inherent in the insurance contracts written by the Society.

To calculate a full risk margin would involve projecting the Society's balance sheet and SCR calculation for 60 years. In view of the onerous nature of this task there are five permitted simplifications and Societies may choose the most appropriate simplification having regard to the scale and complexity of their business. The Society has chosen simplification 2 which means that each element of the SCR is projected separately in line with the key risk driver for the particular sub-risk being considered.

The amount of the SCR that is projected is based on a reference undertaking with no market risk.

The loss absorbing capacity of technical provisions assumed in the reference undertaking is assumed to be same as that currently assumed to apply for the Society's business. The same future management actions are assumed.

The total amount of the risk margin at 31 December 2022 is £3,596,027 (2021: £8,528,267). This all relates to health (Similar to Life) business.

Differences with financial statements

The Society prepares its financial statements using UK generally accepted accounting principles (UK GAAP). The derogation contained in Article 9 of the Solvency II Directive allows firms the option of recognizing and valuing assets and liabilities under UK GAAP for Solvency II purposes as long as certain conditions are fulfilled.

In accordance with supervisory statement SS 38/15 issued by the UK regulator "Solvency II: consistency of UK generally accepted accounting principles with the Solvency II Directive", the Society considers that these conditions have been fulfilled for the purposes of recognising and valuing assets and liabilities under UK GAAP for Solvency II purposes.

As noted above, the assets are shown at the same value as the values in the financial statements subject to adjustments in respect of deferred acquisition costs and intangible assets. There are no material differences between the valuation of the liabilities for Solvency purposes and the values that will be shown in the financial statements.

SOLVENCY AND FINANCIAL CONDITION REPORT

Other information

There is uncertainty in that the calculation of technical provisions requires assumptions to be made about future experience which could turn out to be different. The key sensitivities are to future lapse, expense and sickness experience. There are no particular uncertainties associated with the methodology used to value the technical provisions.

No use has been made of a matching adjustment.

No use has been made of a volatility adjustment.

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

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

There are no material reinsurance arrangements in force.

SOLVENCY AND FINANCIAL CONDITION REPORT

D3. Other liabilities

Other liabilities cover those due for payment within the next 12 months. Their value has been calculated in accordance with the Society's financial statements.

D4. Alternative valuation methods

No alternative valuation methods have been employed.

D5. Any other information

No other information is supplied.

SOLVENCY AND FINANCIAL CONDITION REPORT

E. Capital Management

E1. Own funds

The Society is an incorporated Society within the meaning of the Friendly Societies Act 1992. As such it has no shareholders, and its members are the ultimate owners of the business. There is no defined mutual member fund.

The table below shows the amount of own funds at the valuation date.

£000s	31/12/2022	31/12/2021
Assets	39,933	54,073
Best estimate liabilities	10,204	13,168
Risk margin	3,596	8,528
Current liabilities	3,297	2,140
Own funds	22,839	30,237
Solvency Capital Requirement (SCR)	12,108	18,825
Surplus funds	10,731	11,412

The Society reviews, as part of its regular ORSA process, the current and likely future capital position of the business and whether there is a material risk that its solvency may be threatened. This is assessed over the Society's business plan time horizon which covers the period 2022 to 2026. In the event that the Society's projected solvency position is at risk, defined as not having sufficient capital resources to cover the Solvency Capital Requirement, then the Society will draw up appropriate plans to rectify that position. These plans will be appropriate to the Society's circumstances at the time but might include:

- Taking such management actions as may be anticipated within its SCR calculations
- Reviewing and refocusing its strategic objectives and priorities
- Re-pricing its contracts of insurance
- Reviewing its expense base, including potentially closing to new business
- Seeking a transfer of engagements

The Society is a Friendly Society with a single members' fund and all capital is Tier 1.

The amount of Tier 1 own funds at the reporting date is £22,839,357. There are no restrictions on the use of own funds and this amount is available to cover the SCR and the MCR.

The own funds changes over the reporting period reflects a number of changes such as higher yield curve and assumption changes as noted in D2.

There are no material differences between the equity in the Society's financial statements and the free capital for solvency purposes. (Aside from the items noted in D1)

There are no items subject to a transitional arrangement.

There are no items of ancillary own funds.

SOLVENCY AND FINANCIAL CONDITION REPORT

There are no deductions from own funds and no restrictions on availability and transferability.

E2. Solvency Capital Requirement and Minimum Capital Requirement

The Solvency Capital Requirement at 31 December 2022 was £12,107,867 after allowing for management actions and the Minimum Capital Requirement was £3,444,600. The Solvency Capital Requirement is subject to supervisory assessment.

The SCR split by risk module is shown below:

£000s	31 December 2022	31 December 2021
	Management actions	Management actions
	Net	Net
Market risk	4,187	404
Counterparty default risk	412	670
Health risk	9,727	18,081
Diversification across all risks	(2,684)	(787)
Basic Solvency Capital Requirement	11,643	18,368
Operational risk	465	457
Solvency Capital Requirement	12,108	18,825
Minimum Capital Requirement	3,445	4,706

The standard formula is used for all risk modules and there are no simplifications applied to the SCR calculation. There are no undertaking-specific parameters used in the SCR calculation.

The MCR represents the minimum capital requirement that must be held in addition to the technical provisions and affords a minimum level of protection of a Solvency II firm's policyholders and beneficiaries; breaching the MCR is regarded as an unacceptable level of risk. It is calculated in a relatively simple manner with the formula based on technical provisions and capital at risk on death or disability, multiplied by specified factors. For many firms the floor, to which this calculation is subjected, exceeds the formula result and the MCR is set at 25% of the SCR (subject to an absolute floor (£3.44m at end 2022)).

The reduction in Solvency Capital Requirement and Minimum Capital Requirement over the reporting period are mainly due to the implementation of the Mass Lapse / Lapse Up Reinsurance arrangement.

E3. Duration-based equity risk sub-module in the calculation of the SCR

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

SOLVENCY AND FINANCIAL CONDITION REPORT

E4. Differences between the standard formula and any internal model used

The Society does not use an internal model.

E5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Society has complied with the Solvency Capital Requirement and the Minimum Capital Requirement throughout the reporting period.

E6. Any other information

No other information is supplied.

SOLVENCY AND FINANCIAL CONDITION REPORT

Disclosures

General Information

Undertaking name	British Friendly Society Ltd
Undertaking identification code	2138007191E8L8M80Q28
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	English
Reporting reference date	31 December 2022
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet

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

S.12.01.02 - Life and Health SLT Technical Provisions

S.23.01.01 - Own Funds

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

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

SOLVENCY AND FINANCIAL CONDITION REPORT

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	807
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	37,563
R0080	<i>Property (other than for own use)</i>	235
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	32,753
R0140	<i>Government Bonds</i>	14,703
R0150	<i>Corporate Bonds</i>	18,049
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	4,576
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	284
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	284
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	-447
R0280	<i>Non-life and health similar to non-life</i>	0
R0290	<i>Non-life excluding health</i>	
R0300	<i>Health similar to non-life</i>	
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	-447
R0320	<i>Health similar to life</i>	-447
R0330	<i>Life excluding health and index-linked and unit-linked</i>	0
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	1,282

SOLVENCY AND FINANCIAL CONDITION REPORT

R0420	Any other assets, not elsewhere shown	
R0500	Total assets	39,490
		Solvency II value
		C0010
R0510	Technical provisions - non-life	0
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	
R0550	<i>Risk margin</i>	
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	13,353
R0610	<i>Technical provisions - health (similar to life)</i>	13,353
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	9,757
R0640	<i>Risk margin</i>	3,596
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	0
R0680	<i>Risk margin</i>	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	0
R0720	<i>Risk margin</i>	0
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	3,297
R0900	Total liabilities	16,650

SOLVENCY AND FINANCIAL CONDITION REPORT

R1000 Excess of assets over liabilities

22,839

SOLVENCY AND FINANCIAL CONDITION REPORT

2022

S.05.01.02

Premiums, claims and expenses by line of business

Life

Line of Business for: life insurance obligations						Life reinsurance obligations		Total
Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300

Premiums written

R1410	Gross	11,678						11,678
R1420	Reinsurers' share	7						7
R1500	Net	11,671	0					11,671

Premiums earned

R1510	Gross	11,629						11,629
R1520	Reinsurers' share	2						2
R1600	Net	11,627	0					11,627

Claims incurred

R1610	Gross	11,530						11,530
R1620	Reinsurers' share							0
R1700	Net	11,530	0					11,530

Changes in other technical provisions

R1710	Gross							0
-------	-------	--	--	--	--	--	--	---

SOLVENCY AND FINANCIAL CONDITION REPORT

R1720 Reinsurers' share
R1800 Net
R1900 **Expenses incurred**
R2500 **Other expenses**
R2600 **Total expenses**

								0
0	0							0
10,169	0							10,169
								10,169

SOLVENCY AND FINANCIAL CONDITION REPORT

S.12.01.02 Life and Health SLT Technical Provisions

	Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	Technical provisions calculated as a whole															
										0						0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole															
										0						0
Technical provisions calculated as a sum of BE and RM																
Best estimate																
R0030	Gross Best Estimate															
										0		-30,493	40,250			9,757
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default															
										0		-447				-447
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re															
	0									0		-30,046	40,250			10,204
R0100	Risk margin															
										0	3,596					3,596
Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole															
R0120	Best estimate															
R0130	Risk margin															
										0						0
R0200	Technical provisions - total															
	0									0	13,353					13,353

SOLVENCY AND FINANCIAL CONDITION REPORT

S.23.01.01
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above

R0220 Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

R0230 Deductions for participations in financial and credit institutions

R0290 Total basic own funds after deductions

Ancillary own funds

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

Available and eligible own funds

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

R0580 SCR

R0600 MCR

R0620 Ratio of Eligible own funds to SCR

R0640 Ratio of Eligible own funds to MCR

Reconcilliation reserve

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

Expected profits

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

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0	0		0	
0	0		0	
0	0		0	
0		0	0	
0	0			
0		0	0	
0		0	0	
22,839	22,839			
0		0	0	
0				
0	0	0	0	
0				
0	0	0	0	
0				
0		0	0	
22,839	22,839	0	0	

[illegible]

22,839	22,839	0	0	
22,839	22,839	0	0	
22,839	22,839	0	0	
22,839	22,839	0	0	

12,108
3,445
188.63%
663.05%

C0060	
22,83	0
	0
	0
22,83	

30,493
30,493

SOLVENCY AND FINANCIAL CONDITION REPORT

2022

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

R0010	Market risk
R0020	Counterparty default risk
R0030	Life underwriting risk
R0040	Health underwriting risk
R0050	Non-life underwriting risk
R0060	Diversification

R0070 Intangible asset risk

R0100 **Basic Solvency Capital Requirement**

Calculation of Solvency Capital Requirement

R0130	Operational risk
R0140	Loss-absorbing capacity of technical provisions
R0150	Loss-absorbing capacity of deferred taxes
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
R0200	Solvency Capital Requirement excluding capital add-on
R0210	Capital add-ons already set
R0220	Solvency capital requirement

Other information on SCR

R0400 Capital requirement for duration-based equity risk sub-module

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
4,612		
412		
0		
20,927		
0		
-3,304		
	USP Key	
0	For life underwriting risk: 1 - Increase in the amount of annuity benefits 9 - None	
22,647	For health underwriting risk: 1 - Increase in the amount of annuity benefits 2 - Standard deviation for NSLT health premium risk 3 - Standard deviation for NSLT health gross premium risk 4 - Adjustment factor for non-proportional reinsurance 5 - Standard deviation for NSLT health reserve risk 9 - None	
	C0100	
465	For non-life underwriting risk: 4 - Adjustment factor for non-proportional reinsurance 6 - Standard deviation for non-life premium risk 7 - Standard deviation for non-life gross premium risk 8 - Standard deviation for non-life reserve risk 9 - None	
-11,005		
0		
12,108		
0		
12,108		
0		

SOLVENCY AND FINANCIAL CONDITION REPORT

R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

Approach to tax rate

R0590 Approach based on average tax rate

C0109

0

LAC DT

Calculation of loss absorbing capacity of deferred taxes

C0130

R0640	LAC DT	
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

SOLVENCY AND FINANCIAL CONDITION REPORT

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

C0010

R0010 MCR_{NL} Result

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole

Net (of reinsurance) written premiums in the last 12 months

C0020

C0030

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

Linear formula component for life insurance and reinsurance obligations

C0040

R0200 MCR_L Result

381

SOLVENCY AND FINANCIAL CONDITION REPORT

		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	10,204	
R0250	Total capital at risk for all life (re)insurance obligations		238,029
Overall MCR calculation		C0070	
R0300	Linear MCR	381	
R0310	SCR	12,108	
R0320	MCR cap	5,449	
R0330	MCR floor	3,027	
R0340	Combined MCR	3,027	
R0350	Absolute floor of the MCR	3,445	
R0400	Minimum Capital Requirement	3,445	

SOLVENCY AND FINANCIAL CONDITION REPORT

2022

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It feels good to be covered