HealthyInvestment

ethical investments since 1835

Solvency and Financial Condition Report

The Rechabite Friendly Society Limited

31 December 2017

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Introduction

The Solvency and Financial Condition Report (SFCR) for The Rechabite Friendly Society Limited (the Society) which trades as Healthy Investment has been prepared to meet the regulatory reporting requirements under the Solvency II regime which came into force on 1 January 2016.

The SFCR has been prepared on the basis of the financial information and risk assessments as at 31 December 2017. The report has been approved by the Board.

The report fully meets all of the requirements for the SFCR as set out in the Solvency II rules and follows the prescribed structure as set out in Annex XX of Delegated Regulation EU 2015/35.

Summary

2017 has been another successful year for the Society and we are proud to report that at the end of 2017 the Society now looks after £156 million of members' investments.

The Balance Sheet increased by 12.6% to £158 million and the Society's Own Funds in the Solvency II Balance Sheet were £12.4 million. The regulatory capital requirement, the Solvency Capital Requirement, was £8.5 million giving solvency coverage of 145%.

Members chose to invest a total of £14.4 million in the year, £9.6 million in our Investment Bonds and ISA's, £4.8 million in endowment contracts and £538,000 of contributions in our Child Trust Funds.

At the end of 2017 115,015 members trusted us to look after their investments with 1,348 new policies taken out during the year. Whilst membership of our main With-profits Fund grew, overall membership showed a slight decline due in the main to the maturity of Coventry Assurance policies.

Investment performance generated £12.7 million through income and net gains, both realised and through an increase in the fair value of investments held at 31 December 2017.

The Society's Board has been able to declare added bonuses to members' policies of £2.1 million.

Business overview

There have been no material changes to the Society's business, system of governance, risk profile, valuation for solvency purposes under the Solvency II basis and capital management during 2017.

The Society is a mutual provider of With-profits Investment Bonds, ISAs, Junior ISAs and Tax Exempt and Standard Endowment Savings Plans. It also manages Stakeholder and Ethical Child Trust Funds which are Unit-linked investments.

In addition to a number of legacy schemes it manages the run off of policies previously held with Coventry Assurance Society in a ring fenced With-profits Fund.

Investments are only accepted from UK residents.

Business strategy

The overarching strategy of the Society is to maximise member value by growing the Society.

Our mission is to be an ethical provider of ethical investment products that meet the needs of members. We pursue our mission by distributing our savings and investment products through financial advisers, introducers and directly to consumers.

Our system of governance

You can read more details about our governance arrangements later in the report.

We have a Board with 2 Executive and 5 Non-executive Directors and in order to help the Board fulfil its responsibilities we have 5 sub-committees:

- Audit Committee
- Risk Committee
- Nomination Committee
- Remuneration Committee
- Investment Committee

We also have an independent With-profits Committee to provide oversight of the Society's management of the With-profits Funds.

We allocate specific responsibilities to individuals to ensure that all of the regulators' key functions and prescribed responsibilities are fulfilled.

We ensure that all our Directors and Senior Managers meet the highest standards of fitness and propriety and are competent for their roles.

Principal risks

The principal risks that the Society is exposed to and are further detailed in Section C of this report are:

- Underwriting risk
- Market risk
- Credit spread risk
- Liquidity risk
- Operational and strategic risk

This report explains how each of these risks could impact us, by how much and the management action we take or could take in different circumstances in order to manage and mitigate the risks.

Solvency

Throughout the year the Society has exceeded the statutory solvency levels required by the regulator. At year end the Society's Own Funds in the Solvency II Balance Sheet were £12.405 million (2016: £9.694 million). At year end the regulator required us to have £8.545 million in assets over and above our liabilities (this is called the Solvency Capital Requirement), we exceeded this by £3.860 million.

A. Business and performance (unaudited)

A.1 Business

A.1.1 The company

The Rechabite Friendly Society Limited, which trades as Healthy Investment, is an incorporated friendly society within the meaning of the Friendly Societies Act 1992. Our friendly society registration number is 218f.

The Society is a mutual insurance company owned by and run for the sole benefit of its members.

Formed in 1835 as part of the temperance movement the Society provided a range of savings and protection products to members who abstained from alcohol. Since 2002 membership has been opened to everyone.

The Society owns one subsidiary company The Rechabite Financial Services Limited, which has not traded during the year.

A.1.2 Regulation

The Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority, under firm reference number 109994.

The PRA can be contacted at:
Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH.

The FCA can be contacted at:
Financial Conduct Authority
25 The North Colonnade
London
E14 5HS.

As a small firm the Society does not have a named PRA or FCA supervisor.

A.1.3 External auditor

The Society's external auditors are:
Deloittte LLP
2 Hardman Street
Manchester
M3 3HF.

A.1.4 Lines of business and geographical areas

Healthy Investment is a With-profits provider of life insurance investment products including Friendly Society Tax Exempt Savings Plans, Qualifying Life Policies, Investment Bonds and ISAs.

Within its main With-profits Fund (HI WPF) it also administers a number of legacy products including endowment policies, whole of life plans and profit sharing and surplus contribution schemes.

It also provides Child Trust Funds (CTF) which are Unit-linked investments in one of Healthy Investment's Unit-linked Life Funds (HI ULFs). The stakeholder CTFs are invested in the Healthy Investment Stakeholder CTF Unit-linked Life Fund and the Ethical CTFs are invested in the Healthy Investment Ethical Unit-linked Life Fund.

Stakeholder CTFs must meet government standards on charges, minimum contribution levels and investment strategy. All unclaimed CTF vouchers allocated by HMRC were initially invested in stakeholder CTFs.

Following the acquisition of the business of Coventry Assurance Society in 2011, Healthy Investment administers these policies which are maintained within the Coventry Assurance Ring Fenced Fund (CAS RFF).

All of the business of the Society is carried out in the United Kingdom.

A.1.5 Significant business and other events that have occurred

In the 2017 Annual Report and Accounts there has been a restatement of the 2016 financial statements. During the 2017 valuation process the Society identified an issue with the extraction of data supplied to the Actuary in the calculation of our technical provisions (liabilities to members). The data provided was not reflecting additional investments to existing ISAs and withdrawals from Investment Bonds during the year, as it was believed to.

This resulted in the technical provisions and solvency for the year ended 31 December 2016 being understated by £2.8 million.

The 2016 comparatives have not been restated in any of the tables for the purposes of this report.

The additional data we are now extracting from our policy administration system has been used to correctly calculate this year's technical provisions and recalculate previous years.

The Society has undertaken an audit of the values members have received when they have made a withdrawal from their investment or the bonuses that have been added to policies. No customers have been affected and the Society has exceeded its statutory solvency limits throughout. The Board has therefore concluded that this has not had a material impact on members or the Society.

A.2 Underwriting performance

A.2.1 Revenue account

	2017 £000	2016 £000
Premiums	13,866	15,877
Investment returns	12,249	13,566
Other income	813	613
Claims	(6,969)	(6,598)
Expenses	(1,955)	(2,051)
Technical provisions	(12,818)	(23,237)
Surplus / (deficit)	5,186	(1,830)

Premium income, which excluded the additional contributions to Child Trust Funds decreased due to a lower level of new single premium ISA and investment bond business.

Investment return was comparable to the previous year's performance due to the good equity returns from a rising stock market. The change in technical provisions has been caused through the increased level of in-force business.

A.2.2 Line of business

2017	HI WPF £000	CAS RFF £000	Total With-profits Funds £000	CTF ULFs £000	Total £000
Premiums	13,392	474	13,866	-	13,866
Deposits	-	-	-	537	537
Investment returns	5,343	281	5,624	7,100	12,724
Claims	(6,108)	(861)	(6,969)	(199)	(7,168)
Expenses	(1,796)	(82)	(1,878)	(77)	(1,955)
Technical provisions	(6719)	442	(6,277)	(6,541)	(12,818)
Surplus	4,112	254	4,366	820	5,186

2016	HI WPF £000	CAS RFF £000	Total With-profits Funds £000	CTF ULFs £000	Total £000
Premiums	15,341	536	15,877	-	15,877
Deposits	-	-	-	501	501
Red Rose transfer				6,524	6,524
Investment returns	6,401	534	6,935	6,631	13,566
Claims	(5,867)	(731)	(6,598)	(143)	(6,741)
Expenses	(1,900)	(88)	(1,988)	(63)	(2,051)
Technical provisions	(16,553)	(68)	(16,621)	(12,885)	(29,506)
Surplus / (deficit)	(2,578)	183	(2,395)	565	(1,830)

Table A2.2 above includes all income and expenditure for CTFs. The reconciling items between the two tables for 2017 CTF business is made up of:

2017	£000
Investment returns in A2.2	12,724
Plus deposits	537
Less claims	(199)
Less other income	(813)
Investment returns in A2.1	12,249

Underwriting performance in 2017 was favourable with members choosing to invest a total of £14.4 million in the year, £9.6 million in our Investment Bonds and ISA's, £4.8 million in endowment contracts and £537,806 of contributions in our Child Trust Funds. Bond and ISA single premium business was in line with budget, regular endowment business whilst not reaching budget, was in line with the previous year.

Investment returns were again buoyant largely as a result of continued strong equity performance. Investment performance generated £12.7 million through income and net gains, both realised and through an increase in the fair value of investments held at 31 December 2017.

Claims were comparable with the previous year and in line with budget.

Administration expenses excluding commission costs for the year were £1,562,680, widely comparable with last year and favourable against our budgeted costs for the year. There remains a consistent focus on how we manage our costs without compromising the service to our members.

Technical provisions have increased in line with the growth in-force funds under management.

A.3 Investment performance

The Healthy Investment With-profits Fund (HI WPF) invests in a mix of assets including UK and global equities, government and corporate bonds, commercial property and cash deposits.

The percentage of each asset class held changes over time based on the view of the Board, actuary and investment managers.

The Board has set matrices of minimum and maximum holdings of asset class and credit spread exposure based on its appetite for risk.

The equity, fixed interest and property holdings are professionally managed on a discretionary management mandate by Investec.

The Coventry Assurance Ring Fenced Fund (CAS RFF) is managed on a similar basis with its own matrix of maximum and minimum asset classes.

Healthy Investment operates two Unit-linked Life Funds for its Stakeholder and Ethical CTFs.

The Healthy Investment Stakeholder CTF Unit-linked Life Fund is 100% invested in Legal and General's All Share Index Tracker and the Healthy Investment Ethical CTF is invested in a mix of UK and global equities, government and corporate bonds, commercial property and cash deposits.

A.3.1 Funds

2017	HI WPF £000	CAS RFF £000	CTF ULFs £000	Total £000
Income received	2,723	192	2,110	5,025
Gains and losses	2,619	89	4,990	7,699
Total	5,343	281	7,100	12,724

2016	HI WPF £000	CAS RFF £000	CTF ULFs £000	Total £000
Income received	2,435	213	1,608	4,256
Gains and losses	3,967	320	5,023	9,310
Total	6,402	533	6,631	13,566

A.3.2 Asset class performance

2017	HI WPF £000	CAS RFF £000	CTF ULFs £000	Total £000
Property	1	0	0	1
Fixed interest	2,039	134	50	2,223
Equities	3,302	147	7,050	10,499
Bank and cash balances	0	0	0	0
	5,343	281	7,100	12,724
Investment expenses	(315)	(25)	0	(340)
Return	5,027	256	7,100	12,383
Return %	6.55%	4.21%	13.05%	

2016	HI WPF £000	CAS RFF £000	CTF ULF's £000	Total £000
Property	15	0	0	15
Fixed interest	4,025	386	14	4,425
Equities	2,360	148	6,617	9,125
Bank and cash balances	1		0	1
	6,401	534	6,631	13,566
Investment expenses	(281)	(26)	0	(307)
Return	6,120	508	6,631	13,259
Return %	9.42%	8.55%	14.8%	

A.3.3 Investment gains and (losses) – realised and unrealised

	2017 £000	2016 £000
Property	0	(22)
Fixed interest	514	2,560
Equities	7,184	6,772
Total	7,699	9,310

A.3.4 Investment in securitisation

The Society has not invested in any securitised investments.

A.4 Performance of other activities

The Society's wholly owned subsidiary, The Rechabite Financial Services Limited, did not trade in 2017.

The Society does not have any material financial leases or operating leases.

A.5 Any other information

The Society maintains two charitable funds.

The Douglas Carr Memorial Scholarship Fund provides bursaries to members studying at university. In 2017 it distributed £3,250 to members.

The Temperance Fund, in recognition of the Society's history, makes donations to charities and organisations that support healthy lifestyle choices. In 2017 donations of £1,500 were made.

B System of governance (unaudited)

B.1 General information on the system of governance

B.1.1 Introduction

The Society, as part of its mission to be an ethical provider of ethical savings and investment products, is committed to the highest standards of corporate governance and compliance with the Annotated Corporate Governance Code for Mutual Insurers.

Under the codes' comply or explain regime the Society has reported one explanation of non-compliance in the 2017 Annual Report and Accounts.

> The Board has retained responsibility for setting the remuneration of all Executive and Non-Executive Directors rather than delegate the responsibility to the Remuneration Committee.
>
> Whilst the Board listens carefully to the view of the Remuneration Committee regarding Director remuneration, given the size of the organisation and the importance of managing overall expenses, the Board did not feel it appropriate to delegate authority to the committee to set levels of Director remuneration.

B.1.2 Organisational structure

The Board has appointed two Executive Directors, the Chief Executive and Director Finance and Risk with operational responsibility for the Society.

In addition the Board has formed 5 committees with specific terms of reference and responsibilities.

The Society has 3 senior managers with responsibility for finance and administration, business development and governance.

B.1.3 Role of the Board

The Board has responsibility for ensuring that the Society is run for the benefit of members and that all members are treated fairly. It is responsible for developing and setting the strategic direction of the Society, ensuring adequate risk management policies and procedures are in place, defining the culture of the Society and for ensuring that it is governed in accordance with its rulebook and the PRA's and FCA's principles and rules.

To ensure it fulfils its responsibilities it has established a governance structure which includes:

- The formation of 5 committees with agreed terms of reference and responsibility for monitoring and reporting on specific areas.
- A written statement of the matters reserved for the Board.
- The appointment of Key Function Holders with specific responsibilities for operational activities.
- Job descriptions for the Chairman and Chief Executive which define their roles and responsibilities and detail segregation of duties.
- The implementation of a robust risk management system which includes the annual review and setting of a risk profile and appetite.
- Written policy statements and procedures for all critical functions and processes which clearly identify roles, responsibilities and reporting requirements, and are reviewed regularly.

- The provision of timely management information to monitor the key risks and performance of the Society.
- The annual review and approval of the Strategic and Operational Business Plan.

B.1.4 The role of Board committees

B.1.4.1 The Audit Committee

The Audit Committee has responsibility for:

- Overseeing the Society's systems and controls.
- Ensuring that all financial reporting is in line with accounting standards and regulatory requirements.
- Recommending to the Board the appointment of external and internal auditors.
- Oversight of the external and internal audit functions.
- Recommending to the Board approval of the Annual Report and Accounts.
- Recommending to the Board approval of the Solvency and Financial Condition Report and the Regulatory Supervisory Report.
- Recommending to the Board approval of the process for approval and submission of the Quarterly Reporting Templates.
- Recommending to the Board the internal and external audit strategy.
- Reviewing external and internal audit reports.
- Ensuring management information is appropriate and consistent with the business plan and risk profile.
- Recommending to the Board approval of the Solvency II technical provision assumptions.

B.1.4.2 The Risk Committee

The Risk Committee has responsibility for:

- Oversight of the risk management system.
- Recommending to the Board the risk appetite.
- Recommending the approval of the Own Risk and Solvency Assessment process.
- Identification of the key risks and recommending the operational management tolerance limits.
- Approval of the reverse stress and FLAOR testing scenarios.
- Review of the result of the stress tests.
- Reporting to the Board on the effectiveness of the risk management system.
- Recommending the appointment of the Chief Risk Officer.
- Oversight of the compliance function.
- Recommending use of the Standard Formula Model.

B.1.4.3 The Nomination Committee

The Nomination Committee has responsibility for:

- Monitoring the balance of skills, knowledge, experience and diversity on the Board to ensure that the Board has the necessary mix to meet regulatory expectations and effectively pursue its strategy.
- Recommending to the Board the appointment of Board and Committee members.
- Reviewing the independence of Non-executive Directors.
- Reviewing the fitness and propriety of Directors and senior managers.
- Ensuring the performance of the Board and individual Directors is appraised annually.

- Leading the recruitment of new Executive and Non-executive Director appointments.

B.1.4.4 The Remuneration Committee
The Remuneration Committee has responsibility for:
- Reviewing and recommending to the Board the remuneration strategy and policy.
- Ensuring that the remuneration policy and strategy is consistent with the Society's appetite for risk, and compliant with regulatory requirements.
- Making recommendations to the Board for the remuneration of Executive and Non-executive Directors.
- Monitoring employees' compliance with the regulators' fitness and propriety requirements.

B.1.4.5 The Investment Committee
The Investment Committee has responsibility for:
- Recommending an investment strategy in line with the Society's risk appetite.
- Overseeing the outsourced discretionary management of the Society's investment portfolios.
- Reviewing investment performance.
- Recommending to the Board investment matrices, taking into account the views of the actuary and investment managers, which seek to match the Society's asset exposure to the key features of its liabilities, whilst taking risks in line with the Risk Appetite Framework.
- Monitoring asset allocation to the investment matrices.
- Monitoring adherence to the Society's ethical investment strategy.
- Monitoring counterparty exposure.

B.1.4.6 The With-profits Committee
In addition, the With-profits Committee provides independent oversight of the Society's management of the With-profits Funds. It comprises two independent members and one Non-executive Director, all with experience of managing With-profits business.

The With-profits Committee has responsibility for:
- Reviewing the Board's compliance with its Principles and Practices of Financial Management of its With-profits Funds.
- Monitoring the Society's fair treatment of all members.
- Considering the fairness of the annual bonus declaration.
- Reviewing member communications.
- Being an independent voice on behalf of policyholders.

The With-profits Committee meets at least annually and receives the papers of all Board and Committee meetings to enable it to comment on any issues of fairness.

B.1.5 Key functions
The Society has 5 key functions:

B.1.5.1 Risk management
The Key Function Holder, being the Chief Risk Officer, is Keith Ashcroft, Director Finance and Risk.

The function holder reports directly to the Chairman of the Risk Committee on all matters relating to risk management.

The Chief Risk Officer is responsible for advising the Board on and overseeing the implementation of the Society's system of risk management.

He is responsible for ensuring risks are identified, assessed, mitigated and monitored, with monthly reports made of exposure against the Society's risk appetite and tolerance limits.

The Chief Risk Officer is responsible for the development and embedding of the Society's ORSA process.

B.1.5.2 Compliance

The Key Function Holder, being the Head of Compliance, is Peter Green, Chief Executive.

The function holder reports directly to the Board on all matters relating to regulatory compliance.

The Head of Compliance is responsible for ensuring that the Board and senior management understand the Society's regulatory responsibilities and fulfil both the letter and spirit of PRA and FCA principles and rules.

He is responsible for the preparation and implementation of an annual compliance development plan and for reporting to the Board on its implementation.

B.1.5.3 Internal audit

The Audit Committee Chair, Dianne Payne, has responsibility for oversight of the outsourced internal auditors.

Throughout the year MHA Moore & Smalley LLP, Chartered Accountants and Business Advisers have provided independent internal audit services.

B.1.5.4 Actuarial

The Key Function Holder is Stephen Dixon of Steve Dixon Associates LLP, who acts as Chief Actuary and With-profits Actuary.

The function holder reports directly to the Chief Executive who is responsible for control of the outsourced function holder.

The Chief Actuary is required to give advice to the Board on the calculation of technical provisions and on the methods and assumptions used, as well as giving advice on the underwriting and reinsurance policies.

B.1.5.5 Investment

The Board has determined that the control of investment management is a key function and has appointed Keith Ashcroft as the Key Function Holder.

The function holder reports directly to the Chairman of the Investment Committee on matters relating to investment management and has responsibility for oversight of the outsourced service providers.

The Chief Investment Officer is responsible for monitoring the performance of the outsourced service providers and for ensuring compliance with the matrices approved by the Board. He is responsible for ensuring that the outsourcing arrangements do not hamper the ability of the PRA and FCA to carry out their monitoring obligations.

It is the responsibility of the Board to ensure that all Key Function Holders have the authority and resources necessary to fulfil their responsibilities.

B.1.6 Senior Insurance Manager Functions

The Society has appointed the following Senior Insurance Manager Functions and Controlled Functions:

SIMF 1	Chief Executive	Peter Green
SIMF 2	Chief Finance Function	Keith Ashcroft
SIMF 4	Chief Risk Officer	Keith Ashcroft
SIMF 9	Chairman	Steven Spilsbury
SIMF 10	Chair of the Risk Committee	Timothy Birse
SIMF 11	Chair of the Audit Committee	Dianne Payne
SIMF 12	Chair of the Remuneration Committee	Dianne Payne
SIMF 14	Senior Independent Director	Dianne Payne
SIMF 20	Chief Actuary	Stephen Dixon
SIMF 21	With-profits Actuary	Stephen Dixon
CF 1	Director	Peter Green Keith Ashcroft
CF 2a	Chair of Nominations Committee	Steven Spilsbury
CF 2b	Chair of With-profits Committee	Roger Frier
CF2	Notified NED	Peter Wyper
CF2	Notified NED	Philip Okell
CF2	Notified NED (With-profits committee)	Elaine Fairless
CF 10	Compliance oversight	Peter Green
CF 11	Money Laundering Reporting Officer	Mark Brennan
CF28	Systems and Controls	Keith Ashcroft

The Board believes that there is sufficient segregation of duties to ensure that each Key Function Holder, Senior Insurance Manager and Controlled Function Holder can fulfil their responsibilities independently.

B.1.7 Material changes to the system of governance

There have been no significant changes to the system of governance during the year.

Oliver E Pike retired as Director of Finance and Risk on 11 August 2017.

Keith Ashcroft was appointed to the role on 2 October 2017 and was formally approved by the PRA / FCA and appointed a Director in January 2018.

There have been no resignations or appointment of Non-executive Directors during the year.

During the year the Society assigned the responsibility of oversight of the outsourced internal audit providers to Dianne Payne, the Society's Audit Committee Chair.

B.1.8 Remuneration

B.1.8.1 Remuneration policy

The Society's remuneration policy is designed to support the recruitment, motivation and retention of employees. Remuneration is considered within the context of the financial services and friendly society sectors. The objective is to pay at the relevant market level with a package that is fair, competitive, rewards performance, provides attractive benefits and motivates staff to achieve the Society's objectives and inspires individuals to reach their full potential.

Remuneration policy for Executive Directors
The remuneration of the Executive Directors comprises salary together with pension and other benefits in common with many financial services organisations. No fees are paid to Executive Directors. Remuneration reflects individuals' experience and responsibility. It is based on relevant individual market comparators related to job size, function and sector, as well as individual and company performance and is benchmarked to other friendly societies and mutual insurers.

Details of Directors' remuneration are shown in the Annual Report and Accounts.

Service contracts
Executive Directors
The Chief Executive is employed on a contract with the Society which requires six months' notice by either party and includes a discretionary performance related bonus element of up to 15% of basic salary.

The Chief Executive's contract precludes him for engaging in any other paid employment or business activities for profit. The Chief Executive has received no remuneration for any of his voluntary roles in the charity sector.

The other Executive Director is employed on a contract with the Society with a three months' notice period and includes a discretionary performance related bonus element of up to 15% of basic salary.

Non-executive Directors
Fees for Non-executive Directors, which take the form of a daily allowance of £300 and an annual retainer, are determined by the Board.
There is no other remuneration except where the Society meets the authorised expenses of Non-executive Directors incurred on Society business.

Annual retainers:
Chairman £6,000
Other Non-executive Directors £3,000

The remuneration of Non-executive Directors is subject to the pensions auto-enrolment legislation and where obligated to Non-executive Directors have been auto-enrolled at the minimum contribution rate into the Society's Stakeholder Pension Scheme with People's Pension.

On retirement a Non-executive Director may receive a discretionary retirement honorarium of £100 per year of service in respect of Board membership prior to June 2016.

The Executive Directors' service contracts and the letters of appointment of Non-executive Directors are available for inspection during normal working hours at the registered office of the Society.

Salaries
All staff salaries are reviewed annually, or at other times if there is a significant change in an individual's responsibilities. The Society aims to pay salaries at the relevant level for the role based on the individual's performance.

B.1.8.2 Pension schemes
The Society operates a money purchase pension scheme which is open to employees who have completed their probationary period, with the option of contribution levels of 2.5% or 5.0% of basic salary, with respective employer contributions of 6.25% and 12.5%.

The Society has an auto-enrolment pension scheme to which eligible staff and Directors are enrolled, although there is the ability to opt out. Contribution levels for the year were 1% for employees and the Society.

B.1.8.3 Variable remuneration
As Executive Directors the Chief Executive and Director Finance and Risk participate in a discretionary bonus scheme which provides a maximum payment of up to 15% of salary. Any payment under the scheme is not pensionable.

Payment is based on the achievement of Society wide key performance indicators and personal objectives set by the Board.

Payment of 60% of the bonus is paid annually in arrears with 20% of the bonus is deferred for a further 12 months and the final 20% deferred for 24 months and is not payable on certain criteria:
- No reversionary bonus is declared for members.
- The Society has breached its minimum solvency requirements.
- The Society is subject to PRA / FCA enforcement action.
- The employee is dismissed for misconduct.

The Society's sales staff receive an element of commission and bonus which is determined by the Board.

There are no elements of variable remuneration for any Non-executive Directors.

B.1.9 Material related party transactions

As a mutual the Society is owned by its members.

There have been no transactions with Executive and Non-Executive Directors, senior managers or other staff, other than transactions relating to policies they hold. The transactions entered into by the Society's Directors and Committee of Management have all been conducted at arm's length.

The Nomination Committee has reviewed the policies held by Directors and all employees and has concluded that no holding is sufficient to create a material conflict of interest between the individual as a policyholder and as a Director or employee.

B.2 Fit and proper requirements

The Board has a policy which sets out the required standards of fitness and propriety to reflect the requirements of the Senior Insurance Managers Regime. The Society's full fitness and propriety regime extends to all Directors and senior managers, with a proportionate risk based approach adopted for other staff.

The Nomination Committee has oversight for monitoring the implementation of the Board's policy.

The Nomination Committee ensures that the Board collectively possesses appropriate qualifications, experience and knowledge in the following areas:

- Insurance and financial markets.
- Business strategy.
- Systems of governance.
- Financial and actuarial analysis.
- Regulatory compliance.

All of the Society's key and senior insurance manager regime function holders have been approved by the appropriate UK regulatory bodies.

The Society has decided that its Chief Executive should be an experienced business leader with experience of the financial services sector and a commitment to mutuality.

The Society has decided that its Chief Finance Officer should be a qualified accountant with experience of the financial services sector.

The Society has decided that its Chief Actuary should be a qualified Fellow of the Institute and Faculty of Actuaries holding a current Practicing Certificate for Chief Actuary, with experience of With-profits business.

The Society's assessment of individuals' fitness and propriety reflects the requirements of the Senior Insurance Managers Regime and includes:

- Financial soundness.
- Honesty, integrity and reputation.
- Competence and capability.

In order to assess fitness and propriety the Society:

- Assesses performance against the PRA conduct standards and FCA conduct rules.
- Assesses performance against internal policies and procedures.
- Obtains a satisfactory Disclosure and Barring Service check.
- Undertakes an annual performance review.
- Obtains satisfactory credit references.

In addition, on initial appointment employment references are obtained.

The Board and every Committee undertakes an annual evaluation of its performance with an external appraisal of Board effectiveness undertaken at least every 3 years. This was last undertaken in 2015 and is due in 2018.

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management system

The Society is committed to the highest standards of risk management with the Risk Committee having oversight of the Board's risk management system. The Board has appointed Keith Ashcroft, Director Finance and Risk, as Chief Risk Officer and Peter Green, Chief Executive as the Compliance Officer.

A Risk Management Team (RMT) comprising the Executive Directors and all senior managers is responsible for implementing and integrating the risk management system into the Society. The Risk Committee reviews the work of the Risk Management Team at its committee meetings to ensure that all relevant risks are identified, measured and monitored.

It is a regulatory requirement that all prudentially regulated firms have an 'Own Risk and Solvency Assessment' (ORSA) process in place in order to manage risk. A report on the ORSA process is produced annually and the Board believes that the process is effective and embedded in the culture of the Society.

B.3.2 Risk strategy

As a mutual organisation the overarching risk strategy is to ensure that the Society is run in the best interest of members and that it is able to maintain its regulatory capital requirements and honour the guarantees made to policyholders whilst achieving a fair and realistic investment return.

The Society has identified the risks it may face and has determined its attitude to risk based on the following criteria:

- Avoid – where the Society is unwilling to accept any risk that, after management action, could result in loss.
- Minimalist – where the Society is willing to accept some risk which, after management action, may result in loss or disruption that has a minor impact on the Society.
- Cautious – where the Society is willing to accept some risk, which after management action, may result in loss or disruption that has some impact on the Society but not to the extent that would have noticeable detriment to members.

- Open – where the Society is willing to accept risk, which after management action, may result in loss or disruption that has an impact on the Society to the extent that members may experience minor disruption in service with the possibility of the Society being unable to smooth the loss, resulting in a possible reduction in returns.
- Adventurous – where the Society is willing to accept a high level of risk, which after management action, may result in serious disruption to members, reduced returns or breach of regulatory rules.

Each risk is categorised according to these criteria noting the existing controls and an impact and probability score. The tolerance level, its financial consequence and governance responsibility completes the Risk Register. This is reviewed by the Risk Management Team (RMT) at least twice a year or more frequently if there has been any significant change in risk or appetite to risk. The Risk Register is then approved by the Board.

B.3.3 Risk process

The Risk Committee is responsible for overseeing the operational activities of the business and for risk management including:
- Review of policy statements.
- Review of actuarial reports.
- Review of internal audit reports.
- Review of external auditor's reports.
- Review of RMT reports.

The RMT met 4 times in 2017 and has:
- Reviewed the Risk Register on a line by line basis. The reviews included considering the actuarial, internal and external audit reports and operational issues.
- Considered new and emerging risks.
- Produced an Annual Report.
- Drafted a Risk Appetite Framework Report.
- Reviewed the ORSA report.
- Carried out and reported on two reverse stress scenarios.
- Reviewed the risk cost (liability) estimates.
- Considered risks in the context of the actuarial report on the suitability of the Standard Formula Model (SFM) to ensure consistency and the assessment of risks not included within the SFM.
- Updated the risk cost (liability) estimates following the results of stress testing.

The actuary has contributed to the risk management process by the production of the following reports which have been reviewed by the RMT, Risk Committee and Board:
- Suitability of the Standard Formula Model.
- Solvency II Technical Provisions and Capital Requirements.
- Forward Looking Assessment of Own Risks (FLAOR).
- Experience analyses and assumptions.

The Risk Committee met 3 times in 2017. The recommendations of the RMT were reviewed and challenged.

The Committee reviewed the Society's risk strategy, considered new and emerging risks, and approved changes to the Risk Register, Risk Appetite Framework and Society policy statements.

The Committee undertook risk assessments on the Society's outsourced functions, and provided recommendations to the Board. The Committee reviewed and challenged the Society's budget, business plan and product reviews from management.

The Chief Executive and Chief Risk Officer have:
- Drafted a Strategic and Operational Business Plan.
- Produced management information on key performance indicators.
- Monitored key risks and taken management action when appropriate.
- Referred risk issues identified to the appropriate committee.
- Communicated internally the ORSA Report and Risk Appetite Framework Report.
- Ensured that the risk management process was embedded throughout the Society.

The Internal Audit Function has reviewed the risk management processes to monitor their effectiveness and confirmed their suitability. The Society ensures the internal audit function maintains its independence during its review by employing best practice in that Internal Audit reports directly to the Audit Committee and for day to day administrative purposes reports to the Chief Executive. The Society ensures that Internal Audit have unrestricted access to the Society's records to ensure there is no impairment to independence. The Society ensures Internal Audit maintain their objectivity by safeguarding that they do not assume any operational responsibility and that they retain an impartial and unbiased attitude by avoiding situations that could cause conflict.

B.3.4 Risk monitoring

The Risk Management Team is closely involved in the daily operations of the business and can draw on this extensive knowledge in not only identifying risks but also in monitoring them for any changes.

The key risks are agreed annually and are identified through the actuarial reports on the calculation of the technical provisions, the suitability of the Standard Formula Model, the FLAOR and sensitivity and stress testing and through the Risk Register.

The Risk Committee carried out a review of the FLAOR and the solvency position and set tolerance limits for all material risks, taking into account the Society's risk appetite.

The key risks are reported on in the monthly management information which is reviewed by senior management and the Board.

The Risk Register is the core tool used in the identification, ongoing assessment and recording of risks.

The RMT reviews the Risk Register on a line by line basis at least twice a year and reports to the Risk Committee.

The Risk Committee then reviews and challenges the updated Risk Register and the RMT's report on its review and recommends approval by the Board.

B.3.5 Own Risk and Solvency Assessment (ORSA)

The Society determines its own solvency needs through the ORSA process. The ORSA is a circular and continuous process with activity throughout the year. The ORSA policy provides for the processes and procedures in place to conduct the ORSA. Capital management activities and the risk management system in place, oversee the Society's risk profile, risk tolerance limits, overall solvency needs and the methods and methodologies required to provide that information. The Society's first ORSA report was submitted to the PRA in June 2017. The Society's ORSA policy was last reviewed in August 2017 and is reviewed annually.

If there are significant changes in the risk profile of the Society or material changes in the external environment then elements of the ORSA process may be carried out more frequently.

The elements of the ORSA process include the Society's:

- Business strategy.
- Appetite for risk.
- Corporate governance arrangements.
- Risk management system.
- Data governance arrangements.
- Forward Looking Assessment of Own Risks.
- Stress and scenario testing.
- Reverse stress tests.
- Assessment of the suitability of the Standard Formula Model.
- Calculation of the technical provisions.

The ORSA process is conducted on an ongoing basis and is used to facilitate decision making throughout the business.

An ORSA record is maintained which records when individual components of the ORSA have been completed and which Committee has reviewed them.

An annual ORSA report is produced by the Risk Management Team and is reviewed by the Risk Committee who recommends its approval to the Board.

The overarching results of the ORSA and a summary of the ORSA report are presented to all staff.

B.4 Internal control system

B.4.1 Internal control system

The Society's system of internal control is an important part of its risk management system and includes:

- Board policy statements.
- Operating procedures.
- Defined authority limits.
- Management reporting lines.

- Physical controls.
- Segregation of duties.
- Reviews by management, the Board and external advisers.

These have been implemented in order to safeguard policyholders' investments and the Society's assets.

The Audit Committee has responsibility for the Society's system of internal control and for reviewing its effectiveness. Implementation and maintenance is the responsibility of the Chief Executive and senior management. All of the Society's control policies and procedures are documented and are subject to regular review.

The Audit Committee reviewed the performance of the internal control system during the year, the activities of internal audit, and the Directors' Report to members that appropriate controls have been maintained throughout the year.

B.4.2 Compliance function

The Chief Executive, Peter Green, has responsibility for the compliance function and is the Compliance Officer.

The Board approves an Annual Compliance Plan produced by the Compliance Officer that sets out compliance activities for the coming year. The annual plan takes into consideration the implications of regulatory changes, policy and procedures for ensuring compliance with money laundering, data protection and health and safety legislation, in addition to business risks.

A Compliance Report is reviewed at every Board meeting monitoring implementation of the Annual Compliance Plan and highlighting emerging themes and new regulations.

B.5 Internal Audit function

Internal audit services, throughout 2017, were outsourced to MHA Moore & Smalley LLP. Dianne Payne, the Society's Audit Committee Chair has responsibility for oversight of their performance.

MHA Moore & Smalley undertakes an audit needs assessment, with involvement from the Executive Directors and senior management. From the audit needs assessment an Internal Audit Strategy is produced, including the internal audit plan for the year, which is reviewed by the Audit Committee who recommend its approval by the Board.

The internal auditors report regularly to the Chief Executive and Director Finance and Risk and directly to the Audit Committee, including meeting with the Audit Committee in the absence of the Executive Directors.

The internal auditor's annual report concluded that they were satisfied that sufficient internal audit work had been undertaken to allow them to draw a reasonable conclusion as to the adequacy and effectiveness of the Society's risk management and control processes. In their opinion Healthy Investment has adequate and effective management and control processes to manage its achievement of the Society's objectives.

B.6 Actuarial function

The actuarial function has been outsourced. Stephen Dixon of Steve Dixon Associates LLP, has been appointed as Chief Actuary and With-Profits Actuary.

The actuarial function is responsible for:

- Advising the Board on the suitability of the Standard Formula Model (SFM).
- Calculation of the technical provisions using the SFM if appropriate.
- Forward looking assessment of own risk (FLAOR).
- Assisting with reverse stress testing.
- Advising on the investment matrices.
- Recommending bonus rates and market value reduction rates.
- Reviewing and advising on the Principles and Practices of Financial Management (PPFM).
- Supporting the Executive in completion of the regulatory returns.
- An annual report on the underwriting and reinsurance policy.
- Reviewing existing product profitability.
- Reporting on the profitability of any proposed new products.
- Reviewing and updating product illustrations.
- Surrender value calculations and updating of surrender spreadsheets.
- The solvency estimator spreadsheet.
- The terminal bonus / MVR monitoring spreadsheet.
- Advising the Board / Committees and Executive Directors on actuarial matters.
- Advising the Board on the Child Trust Fund pricing methodology and making recommendations for changes/revision to the CTF unit pricing spreadsheets.
- Attending With-Profits Committee meetings.
- Notifying, as appropriate, the Risk Committee of any significant changes to new or existing risks.
- Input into business planning and budgeting.

In addition to all of the above, being an important part of the Society's system of risk management, the Actuary is available to give advice to the Executive and Board on all matters of risk management including emerging risks.

B.7 Outsourcing

The Society's policy on outsourcing is detailed in its Board policy statement on outsourcing.
It is the policy of the Society to use internal resources for all functions that can be carried out cost effectively.

The following key functions have been outsourced:

- Actuarial Function.
- Internal Audit.

The following critical functions have also been outsourced.

- IT support.
  This includes hardware and software support.
- Disaster recovery management.
  This includes the 24 hour availability of a duplicate server and office accommodation.

- Investment management.
  This includes the discretionary management of fixed interest, equity and property portfolios, within matrices agreed by the Board, for the With-profits Funds and the Ethical CTF Fund and the provision of an All Share Index Tracker Fund for the Stakeholder CTF Fund.

The following important functions have also been outsourced:

- HR support.
  This includes advice on recruitment, disciplinary procedure and absence management.
- Taxation support.
  This includes the calculation and submission of corporation tax returns and general tax advice relating to life insurance contracts.

The Board's policy statement on outsourcing is reviewed annually and includes the appointment process, performance management and re-appointment process.

All outsourced service providers are based in the United Kingdom and subject to UK jurisdiction and are subject to ongoing monitoring and review.

B.8 Any other information

All material information regarding the Society's system of governance is disclosed in sections B.1 to B.8.

The Board is satisfied that the system of governance and risk management is robust and appropriate for the nature, scale and complexity of the business.

C Risk profile (unaudited)

Introduction

The Society provides a range of With-profits savings and investment products including Investment Bonds, ISAs, Endowment Savings Plans and Unit-linked Child Trust Funds.

In addition the Society administers various legacy products including endowment policies, whole of life plans and profit sharing and surplus contribution schemes.

A comparison as at 31 December of the risk profile shown in the Standard Formula Calculation of the Gross Solvency Capital Requirement (SCR) is:

Risk	2017 %	2016 %
Underwriting - Life	16	20
Market	83	79
Counterparty	1	1
	100	100

Monitoring

As part of the risk management process the Risk Committee identifies, for each key risk, tolerance limits, based on the Society's risk appetite and designed to ensure that the capital management objectives are achieved. A series of pre-agreed management actions are allocated to each key risk to ensure that appropriate action is taken to maintain exposure within the tolerance limits.

Key risks are reported to the Board within the monthly management information pack which is supported by annual actuarial investigations.

C.1 Underwriting risk

C.1.1 Description of the risk

Underwriting or insurance risk is the risk of loss arising from actual experience being different from that assumed when a product was designed and priced. For Healthy Investment insurance risk includes mortality and longevity risk, expense risk and persistency risk.

Mortality and longevity

Life business is exposed to changes in life expectancy experience. The products' technical provisions are calculated based on the assumed mortality of policyholders. The risk is that more or fewer policyholders die than expected and the benefit paid is more or less than the policy's technical provision.

Expenses

In pricing the insurance policies and in setting technical provisions, assumptions are made as to the acquisition and maintenance expenses over the life of the policies. The Society is exposed to the risk that the charges it deducts from policyholders' benefits are not sufficient to cover these expenses and that the technical provisions make inadequate allowance for future expenses. A significant part of the cost of running the Society is fixed and not dependent upon the number or value of policies in force. Therefore, the volume of new and in force business has a major impact on whether policy charges can meet the expenses incurred.

Persistency

In pricing the life insurance business and in setting technical provisions, assumptions have been made as to the rate at which the policyholder will surrender or lapse policies. The risk is that policies do not remain in force as long as expected or stay in force longer than expected. In turn, this also affects the number of policies over which fixed costs can be spread and the recovery of acquisition costs.

C.1.2 Measures used to assess the risk

The calculation of the SCR assesses the underwriting risk exposure.

C.1.3 Risk exposure and concentration of risk

The Society measures exposure to risk using the total financial amount that the risk could affect. The impact of this exposure is measured by examining stresses to expected experience and their impact on the finances of the Society.

Mortality and longevity

As at 31 December 2017 Healthy Investment was exposed to £45.9 million of mortality risk in the form of total benefits that would be payable on death (assuming everyone died immediately) in excess of the technical provisions.

A 15% permanent increase in future mortality rates assumed would decrease technical provisions by £61,100 before loss absorbency and £27,506 after. A 20% permanent reduction in mortality would increase technical provisions by £115,252 before loss absorbency and £114,428 after. A large scale epidemic could cause a one off impact of £69,803 on Own Funds with no reduction for loss absorbency. These risks are relatively minor in impact.

The mortality exposure is not concentrated in a few lives but is widely spread through all the insurance policies written by the Society.

Expenses

Total expenses (excluding commission) in 2017 were £1.6 million.

A permanent 10% increase in expenses and a 1% per annum permanent increase in future inflation would increase the technical provisions by £1.4 million before loss absorbency and £0.8 million after.

Expenses are largely concentrated in employee remuneration and other employment costs.

Persistency

Healthy Investment is exposed to persistency risk from surrender values being less or more than technical provisions and the loss of margins to pay future expenses. Surrender values of all non CTF policies amount to £81.5 million. The technical provisions amount to £83.7 million.

A permanent 50% increase or decrease in the rates of assumed lapses had minimal impact on technical provisions. Allowing for a mass lapse at 40% of the policies in force reduces future margins and would reduce the Own Funds by £2.3 million before allowing for loss absorbency and £2.1 million after.

C.1.4 Risk mitigation

Mortality and longevity

The risk is mitigated through regular review of actual experience against estimated mortality so that adequate provisions are established. Underwriting standards for new policies are reviewed following on from the experience review.

Expenses

The risk is mitigated through implementing an effective sales strategy, regular reports on expenses against budget and control of expenditure where necessary.

Persistency

The risk is mitigated through regular reporting of claims experience and persistency and where appropriate pursuing an active member retention strategy. An analysis of exposure by adviser firm has been undertaken to ensure no material exposure to any one source of business.

C.2 Market risk

C.2.1 Description of the risk

Market risk is the risk of a loss arising either directly or indirectly from fluctuations in the level and volatility of market prices of assets and liabilities.

The key market risks relate to the performance of the assets in the With-profits Funds although loss of future margins due to reduced annual management charges on the CTF Unit-linked Funds is also material.

Equity price risk

The equity price risk is the exposure to fluctuations in the market value of the equity portfolios.

Property price risk

The property price risk arises from changes in the value of the investment properties, held directly or through collective investment schemes.

Interest rate risk

Interest rate risk is the risk that the value of fixed interest financial instruments will vary as market rates of interest vary and that technical provisions will vary due to changes in the level of risk free rates of return used to discount the underlying cash-flows.

Currency risk

Currency risk is the exposure to fluctuations in currencies in the value of non-sterling denominated assets.

Counterparty risk

The counterparty risk is the risk of a loss arising due to a party defaulting on any type of debt. The key area of risk is the amounts held with banks and other financial institutions.

C.2.2 Measures used to assess the risk

The calculation of the SCR assesses the market risk exposure.

C.2.3 Risk exposure and concentration of risk

Equity price risk

As at 31 December 2017 the equity exposure in the With-profits Funds was £24.9 million. The equity risk capital required under Solvency II before loss absorbency was £10.2 million (including loss of margins on the CTF portfolio of £1.3 million) and £5.7 million after.

Property price risk

As at 31 December 2017 the property exposure in the With-profits Funds was £14.8 million. The property risk capital required under Solvency II before loss absorbency was £3.7 million and £0.9 million after.

Interest rate risk

As at 31 December 2017 the interest rate exposure was £59.5 million. The interest rate risk capital required under Solvency II before loss absorbency was £2.0 million, and £31,000 after.

Currency risk

As at 31 December 2017 the currency exposure was £8.5 million. The currency risk capital required under Solvency II before loss absorbency was £2.1 million and £nil after.

Counterparty risk

As at 31 December 2017 Healthy Investment was exposed to £0.7 million due to cash held in banks and other financial institutions and £0.7 million from assets held by Healthy Investment.

Other counterparty exposures, such as balances due from insurance receivables and reinsurance are not material.

C.2.4 Risk mitigation

Equity price risk

The equity price risk is controlled through limits on equity exposure, which is determined based on the Society's risk appetite. There is a process, when appropriate, for management action to reduce equity exposure.

Property price risk

Property price risk is managed through setting a maximum exposure and monitoring the value of holdings. There is a process, when appropriate, for management action to reduce property exposure.

Interest rate risk

The control of the interest rate risk is achieved by trying to ensure that fixed interest securities match the duration of the liability cash-flows underlying the technical provision. In practice, cash-flow matching is very difficult to achieve and the interest rate risk is mitigated by setting a target mean duration of the fixed interest portfolio. The interest rate risk is managed through regular review and re-assessment of the mean duration and monitoring market interest rates.

As part of the ORSA process a sensitivity test of the impact of a 1% increase and a 1% reduction in equity and property returns was undertaken.

Currency risk

The currency risk is controlled through limits on holding of currency denominated securities and the overseas equity exposure, which is determined based on the Society's risk appetite. There is a process, when appropriate, for management action to reduce currency exposure.

Counterparty risk

Counterparty risk is managed through limits on total exposure to individual counterparties. The investment managers provide a quarterly look through of holdings in collective investment schemes.

C.3 Credit spread risk

C.3.1 Description of the risk

Credit spread risk is the sensitivity of the values of corporate bonds to changes in the level or in the volatility of credit spreads. As credit spreads will typically be narrower for well rated securities than for poorly rated securities (and for short duration rather than long duration securities), the Society specifies credit quality limits to the assets in its Investment Policy.

C.3.2 Measures used to assess the risk

The calculation of the SCR assesses the counterparty risk exposure.

C.3.3 Risk exposure and concentration of risk

As at 31 December 2017 the credit spread exposure was £17.7 million. The table below shows the exposure of the corporate bonds by credit rating:

The credit quality steps are Healthy Investment's assessment of the credit quality of the bonds reflecting information from two external rating agencies as provided by its investment managers. The rating agencies provide information on some of the bonds and some of the bonds are rated by one or both of these agencies. The steps reflect the steps defined within the Solvency II rules with 0 being the highest credit quality and 6 being the lowest. Credit step 4 is normally equivalent to the lowest investment grade step. Credit step 7 reflects bonds under which no rating was available.

Credit quality step	HI WPF	% holding	CAS RFF	% holding	Total	% holding
1	180,624	1%	111,030	8%	291,654	2%
2	4,886,285	30%	491,004	34%	5,377,289	30%
3	8,141,974	50%	597,518	42%	8,739,492	49%
4	1,756,512	11%	0	0%	1,756,512	10%
5	404,940	2%	0	0%	404,940	2%
7	954,661	6%	224,738	16%	1,179,399	7%
Total	16,324,997	100%	1,424,290	100%	17,749,287	100%

The credit spread risk capital required under Solvency II before loss absorbency was £3.1million and after loss absorbency £0.6 million.

C.3.4 Risk mitigation

The credit spread risk exposure is managed by setting limits on the exposure to counterparties of various risk classifications.

C.4 Liquidity risk

C.4.1 Description of the risk

Liquidity risk is the risk that the Society cannot make payments as they become due because there are insufficient cash or other assets available that can be realised quickly.

C.4.2 Measures used to assess the risk

The business plan includes a cash-flow projection. The liquidity position is monitored on a daily basis in line with the policy on cash management.

C.4.3 Risk exposure and concentration of risk

The fixed interest and equity holdings are traded on recognised investment exchanges and can be realised for cash within five business days.

	2017 £000
Assets in cash and realisable in 5 days	95,422

The insurance cash-flow expected from policies and fixed interest investment:

	Policy (claims plus expenses less premiums) £000	**Fixed interest maturities and coupons £000**
< 1 year	6,675	1,734
1 – 3 years	18,911	11,783
4 – 5 years	9,958	8,773
6 – 10 years	24,255	14,059
11 – 15 years	24,403	8,621
16 – 20 years	7,606	10,924
Total	91,807	55,894

The total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2) is nil.

C.4.4 Risk mitigation

Liquidity is maintained at a level where the Society is confident all claims can be paid without delay to the member. The risk exposure is managed by matching maturities of assets and liabilities and holding investments which can be readily realised.

The liquidity requirements are taken into consideration in the investment matrices set by the Board. No liquidity sensitivity analysis has been undertaken.

C.5 Operational risk

C.5.1 Description of the risk

Operational risk covers the losses due to failure of people or processes. The material risks are:

- Data security – the risk of unauthorised access, use or disclosure of data.
- IT infrastructure – the risk of system failure, integrity, reliability or effectiveness.
- Outsourcing – the risk of a service provider failure, non-performance or ineffective management.
- Compliance – the risk of not meeting regulatory or legal requirements.
- Reputation – the risk of adverse publicity.
- Fraud – the risk of policyholders' funds being misappropriated.
- Key man – the risk of the Society losing more than one key member of staff without notice.

C.5.2 Measures used to assess the risk

The risk management process identifies, quantifies and documents risks. The calculation of the SCR includes assessment and quantification of operational risk exposure.

C.5.3 Risk exposure and concentration of risk

As at 31 December 2017 the operational risk in the SCR was £573,374.

C.5.4 Risk mitigation

Management of operational risk is through the close involvement of senior managers in the day to day running of the business, a robust data security regime, monitoring of regulatory and legal changes, reporting on compliance issues to the Board, sign off by the Board of all new products, internal operating procedures and controls, internal audit and the Society's succession plan.

C.6 Other material risks

There is a strategic risk that the Society will not effectively implement its strategy and achieve the objectives of its business plan.

The Strategic and Operational Business Plan identified 4 strategic risks that have the potential to affect the achievement of the long term objectives:

- Levels of new business.
- Ongoing expenses.
- Product profitability.
- Lower than expected investment returns.

The strategic risk is managed through the implementation of the business plan, the setting of sales objectives and the monthly monitoring of performance.

As part of the Forward Looking Assessment of Own Risk (FLAOR) an analysis of the sensitivity to the following scenarios was undertaken:

- Lower new business.
- Higher new business.
- Increase in lapses and surrenders.
- Lower surrenders on MVR free anniversaries.
- Lower or higher investment returns.

The key exposures identified were:
- Lower investment return.
- Expenses.
- Low risk free rates of return.
- Low levels of new business creating expense overruns in the future.

The FLAOR concluded that the capital requirement would be met throughout the course of the business plan. This is dependent upon the management actions identified in the risk mitigation plan being taken.

The Society carried out reverse stress tests on two scenarios during the year:
- A failure of the Society's policy administration software in tandem with IT hardware failures.
- A change in regulation to restrict the sales of With-profits policies to advised sales.

The Society believes that it has sufficient management actions available to manage the impact of the scenarios.

C.7 Any other information

The Society fulfils its obligations to invest all its assets in accordance with the prudent person principle set out in Article 132 of the Directive 2009/138/V through adherence to its policy statements on investment management and risk management.

The Board approves investment matrices for each fund which set neutral, minimum and maximum positions on exposures to each asset class, fixed interest duration, current credit quality and counterparty limits.

Investment management is outsourced with the investment managers able to make asset allocation and stock selection decisions within the matrices.

The appointment of the outsourced investment managers is a matter reserved for the Board and is undertaken in accordance with the Board's policy on outsourcing which details the required due diligence.

The Board monitors the performance of the investment managers on an ongoing basis and formally through the monthly management information produced for the Board.

The Society's approach to investment management reduces risk by ensuring diversification and avoids excessive reliance on individual assets.

All the invested assets are readily tradeable on recognised investment exchanges.

D. Valuation for solvency purposes (audited)

D.1 Assets

D.1.1 Summary of assets

For 31 December 2017 the bid (or selling) values of assets have been used rather than mid-market valuations as used on 31 December 2016. This is a change in valuation method.

Assets held by the Society as at 31 December 2017 were as follows:

£000	Solvency II	Financial statements	Difference
Government bonds	42,021	41,419	602
Corporate bonds	18,013	18,043	(30)
Equities	29,880	29,880	0
Collective investments undertakings	5,336	5,336	0
Property direct	0	0	0
Property, plant and equipment held for own use	299	299	0
Cash and cash equivalents	736	736	0
Insurance and intermediaries receivables	21	21	0
Assets held for unit-linked contracts	61,261	61,261	0
Intangible assets	-	284	(284)
Prepayments and accrued income	92	663	(572)
Other	2	4	(1)
Total	157,662	157,947	(285)

D.1.2 Equities

Equities have been valued at fair market value under Solvency II on market prices, as at the reporting date. These are quoted bid prices, provided by the investment managers on a look through basis, on equities which are all readily traded on recognised active markets. The value of these in the financial statements, in accordance with FRS 102, is on a bid basis. No significant estimates or judgements are used in the valuation of these investments.

D.1.3 Bonds

The bonds have been valued at fair market value under Solvency II on market prices, as at the reporting date, plus any accrued interest. These are bid prices provided by the investment managers, on bonds which are all readily traded on recognised active markets. The value of these in the financial statements, in accordance with FRS 102, is on a bid basis with no allowance for accrued income. Accrued income is held separately in the financial statements. No significant estimates or judgements are used in the valuation of these investments.

D.1.4 Collective investment schemes

The collective investment schemes have been valued at fair market value under Solvency II on market prices, as at the reporting date. These are quoted bid prices, provided by the investment managers, on schemes which are all readily traded on recognised active markets.

The value of these in the financial statements, in accordance with FRS 102, is on the same basis. No significant estimates or judgements are used in the valuation of these investments.

The investment manager provides quarterly reports detailing the underlying securities held, based on information provided by the schemes' fund managers.

The Society determines if a market is active by assessing its depth, frequency of trades and bid-ask spreads based on information provided by the investment managers and publicly available.

D.1.5 Assets held for Unit-linked contracts

Equities have been valued at fair market value under Solvency II on market prices, as at the reporting date. These are quoted bid prices, provided by the investment managers on a look-through basis, on equities which are all readily traded on recognised active markets. The value of these in the financial statements, in accordance with FRS 102, is on a bid basis.

The bonds have been valued at fair market value under Solvency II on market prices, as at the reporting date, plus any accrued interest. These are prices provided by the investment managers, on bonds which are all readily traded on recognised active markets at bid basis. The value of these in the financial statements, in accordance with FRS 102, is on a bid basis.

The collective investment schemes have been valued at fair market value under Solvency II on market prices, as at the reporting date. These are quoted bid prices, provided by the investment managers, on schemes which are all readily traded on recognised active markets. The value of these in the financial statements, in accordance with FRS 102, is on the same basis.

The valuations of the financial assets are all at fair value on quoted bid prices and are not subject to estimation.

D.1.6 Prepayments and accrued income

Accrued income consists of accrued interest on fixed income bonds of £572,262 and dividends due of £55,663. Other prepayments consist of contract costs paid in advance, as at 31 December 2017.

D.1.7 Cash and other cash equivalents

Cash and cash equivalents are bank and cash account balances, which are not in fixed term accounts and have been valued at fair value. The values are the statement balances at the reporting date less unpresented payments. No estimation or adjustments are required on these. The value in the financial statements is the same.

D.1.8 Insurance and other receivables

Insurance receivables are outstanding amounts due from policyholders. The amount due to policyholders has been valued at fair value. No estimation or adjustments are required on these.

The value in the financial statements is the same.

D.1.9 Property, plant and equipment held for own use

Tangible assets are valued at cost less accumulated depreciation and impairment losses. The estimated useful life is assessed for tangible assets and the depreciation over this period is on a straight line basis. The property for own use is recorded at fair value. The last formal revaluation was as at 31 December 2015, by Ian S Parr, FRICS Chartered Surveyor. A desktop valuation has been carried out by management taking into account similar office accommodation and the current condition of the property.

D.1.10 Intangible assets

Under the Solvency II valuation at 31 December 2017 the Society had no intangible assets.

The financial statements include £283,793 of intangible assets recorded at cost less accumulated depreciation.

D.1.12 Solvency II and financial statement differences

The table below shows, by material asset class, the differences between the Solvency II and financial statements values:

	2017 £000	**2016 £000**
Solvency II assets	157,662	139,985
Differences -		
Intangible assets	284	312
Investments at fair value	1	(30)
Other	-	1
Financial statements assets	157,947	140,268

D.2 Technical provisions

The Society has three main lines of business within the Healthy Investment With-profits Fund:

- Conventional With-profits life policies split between tax exempt and taxable policies and between endowments and whole life assurance. Some of these have been paid by single premium; the remainder are regular premium contracts. There are also the remaining Adult Sick and Death policies which are now overwhelmingly paid up whole life assurances and some minor profit sharing sickness plans and some quinquennial insurance.
- Accumulating With-profits policies including Single Premium Bonds and ISAs. The latter are available for adults and for juniors. The ISAs are recurring single premium whole of life policies whereas the Single Premium Bonds are only single premium whole life policies.
- Child Trust Fund (CTF) Unit-linked policies.

and one main line of business within the Coventry Assurance With-profit Fund:

- Conventional With-profits life policies. These are split between endowment assurances and whole life assurances with the major category of policies being the Unibond regular premium endowment assurances.

The total technical provisions as at 31 December 2017 for the above lines of business are:

Material class of liabilities	Best Estimate £000	Risk Margin £000	Technical Provision £000
Healthy Investment With-profits Fund			
Single premium With-profits bonds	33,519	590	34,108
Adult With-profits ISA	20,085	143	20,228
Junior With-profits ISA	1,127	95	1,222
Tax exempt endowments and pure endowments	13,899	62	13,961
Tax exempt whole life assurances	183	1	184
Taxable endowments and pure endowments	9,274	68	9,343
Taxable whole life assurances	94	1	95
Single premium taxable endowments	92	0	92
Single premium taxable whole life	16	0	16
Adult Sick and Death - Whole Life	1,258	229	1,488
Adult Sick and Death - Sickness	8	0	8
Profit Sharing	88	14	102
Quinquennial insurances	8	2	10
Unit-linked Child Trust Fund	57,244	677	57,922
Total Healthy Investment main fund	136,895	1,882	138,778
Coventry Ring Fenced Fund			
Endowments taxed	61	0	61
Endowments tax exempt	560	1	561
Whole Life assurances	8	0	8
Unibond	4,810	10	4,820
Table A	157	2	160
Total Coventry Ring Fenced Fund	5,596	14	5,610
Total	142,492	1,896	144,388

Other technical and charitable liabilities calculated using a proportionate technique are:

Liabilities	**£000**
Surplus Contribution Fund	39
Temperance Fund	105
Douglas Carr Fund	76
Supplementary pensions for ex staff	94
Total	314

Best Estimate Liabilities (BEL):

The BEL is calculated as the sum of the policy reserves and the Cost of Guarantee (CoG). The best estimate liability for the With-profits business is calculated by projecting, for each individual policy, the net monthly cash-flows and then discounting these net cash-flows back to the valuation date.

The net monthly cash-flow is the expected expenses for administering a policy (allowing for expense inflation) and investment expenses, plus expected claim amounts (including claims upon death, maturity (where applicable) and surrender) allowing for future reversionary and terminal bonuses, plus expected discretionary cash benefit claims less expected premiums.

The cash-flow calculations comply with Article 28 - 36 of the Delegated Act.

The CoG is an additional reserve held to cover the cost of guaranteed benefits.

The best estimate for the CTF Unit-linked business is the sum of:

- a unit reserve which is the value of policy units, and
- a value in force which reflects the discounted value of monthly future administration and investment expenses plus cost of any risk benefits provided less monthly future annual management charges. The future annual management charge is the monthly charge which the Society applies to the CTF policy units. The administration and investment expenses are the expected actual costs of the CTF policies to the Society. The calculations allow for expected claims (including claims upon death, transferring out and maturity).

Risk margin

The risk margin is the additional premium to ensure that the value of the technical provisions is equivalent to the amount that another insurer would be expected to require if taking over and meeting the liabilities of the Society.

The risk margin is calculated as the present value of the future projected non-hedgeable solvency capital requirement multiplied by a cost-of-capital rate of 6% per annum and discounted using the same discount rates as the policy net cash-flows. The future solvency capital requirements are projected until the last policy is expected to exit.
No simplifications are used within the calculation of the risk margin.

The Risk Margin calculation is calculated using the interest rate set out in Articles 37 and 39 of the Delegated Act.

D.2.1 The main assumptions used in the calculation of the technical provisions.

The calculation of the technical provisions require realistic assumptions on:

- discount rates for future cash-flows
- lapse rates
- expenses and expense inflation
- mortality rates

D.2.1.1 Discount rates for future cash-flows

The discount rates are used to discount the expected future net cash-flows to generate a value as at the valuation date. The rates used are spot rates provided by the European Insurance and Occupational Pensions Authority (EIOPA). EIOPA publishes risk-free spot rate curves for each currency on a monthly basis. As the Society's liabilities are all denominated in Sterling the GBP yield curve is used.

Example rates from the implied forward yield curve as at 31 December 2017 are shown in the table below:

Term to maturity (years)	Risk free rate	Term to maturity (years)	Risk free rate
1	0.555%	30	1.340%
2	0.684%	40	1.241%
5	0.937%	50	1.166%
10	1.188%	60	1.437%
15	1.330%	70	1.780%
20	1.378%	75	1.933%
25	1.365%	80	2.069%

No judgement has been applied as the risk-free interest rate is supplied by EIOPA.

D.2.1.2 Lapse assumptions

For With-profits products, lapse is a generalised term for when a policy is lapsed or surrendered. For the CTF products a lapse is a transfer of the CTF Fund out of the Society. It is assumed that all CTFs mature at the life assured's 18th birthday.
The lapse rate assumptions are based on the latest analysis of the Society's past experience.
The lapse assumption rates reflect actual experience, based on an investigation in 2016 in to full lapses and partial withdrawals.

Judgement is applied when assessing historical data to ensure that the data used is applied appropriately. Judgement is also used when assessing data validity.

The table below shows the lapse assumptions used within the valuation for 31 December 2017.

Healthy Investment:

Product	Annual lapse rate for months		Partial withdrawals rate	MVR free Take up rate
	0-12	12+		
ASD	n/a	0.6%	N/A	N/A
CTF	n/a	0.14%	N/A	N/A
Adult SP ISA Direct *	5.2%	10.0%	1.20%	30%
Adult RP ISA Direct *	5.2%	10.0%	2.33%	30%
Adult SP ISA Adviser	5.3%	9.7%	1.64%	30%
Adult RP ISA Adviser	5.3%	9.7%	2.84%	30%
Junior ISA Direct	3.4%	1.8%	0.00%	30%
Junior SPISA Adviser	3.4%	1.8%	0.36%	30%
Junior RPISA Adviser	3.4%	1.8%	0.90%	30%
SPB Direct **	2.9%	6.8%	2.22%	30%
SPB Adviser	3.3%	6.2%	2.51%	30%
Conventional	3.8%	1.7%	N/A	N/A

Coventry Assurance Ring Fenced Fund:

Product	Annual lapse rate for months 0-12	12+	Partial withdrawals rate	10 year option take up rate
Conventional	N/A	0.6%	N/A	N/A
Unibond	N/A	8.2%	N/A	46%

*For Adult ISAs (on both regular and single premium variants) sold directly without an adviser, the assumption for 0-12 months above applies for 0-36 months, there is a rate of 17.9% for months 37-48 months and the 12+ rate applies for months 49 on.

** Similarly, for SP Bonds sold without an adviser, the 0-12 month rate applies for 0-48 months, there is a rate of 17.2% for months 49 to 60 and the rate under the 12+ column applies from month 61 on.

For 2016 the assumptions were:
Healthy Investment:

Product	Annual lapse rate 0-12 months	12+ months	Partial withdrawals rate	MVR free Take up rate
ASD	0.0%	0.6%	N/A	N/A
CTF	0.1%	0.1%	N/A	N/A
Adult ISA Single	3.4%	10.3%	2.51%	30%
Adult ISA Regular	3.4%	10.3%	1.62%	30%
Junior ISA	1.0%	2.0%	N/A	30%
SPB	1.0%	5.9%	1.75%	30%
Conventional	2.8%	2.0%	N/A	N/A

Coventry Assurance Ring Fenced Fund:

Product	Annual lapse rate 0-12 months	12+ months	Partial withdrawals rate	10 year option take up rate
Conventional	N/A	1.0%	N/A	N/A
Unibond	N/A	6.0%	N/A	42%

ASD	Adult Sick and Death policies
CTF	Child Trust Funds
ISA	Individual Savings Accounts
SPB	Single Premium Bonds
RP / SP	Regular and Single premium variants

Conventional With-profits policies include Tax Exempt and Taxable Endowment Savings Plans.

D.2.1.3 Expense assumptions

The expense assumptions have been set based on the most recent open fund expense analysis for the Society.
The expense analysis projects forward the Society's budgeted management expenses allowing for expense inflation. The management expenses are split between acquisition, renewal and investment expenses. The acquisition and renewal expenses are further split between administration and overhead expenses.

The analysis also projects forward the expected premium income, number of in force policies and the With-profits and CTF Funds in order to derive appropriate assumptions to cover all expected future management expenses.

For the CTF valuation an assumption is required on the costs incurred by the Society for administering the CTF policies which need to be covered by the annual management charge applied to the policy units. The expected CTF administration costs are based on a Society budget of the expected costs for the forthcoming year and the number of CTF policies in force.

The expense inflation is based on inflation figures from the government bond market (comparing index linked and nominal based UK gilts) and the Society's view of other elements of inflation.

Judgement is used to split expenses between the expense category and the products.

The table below shows the expense assumptions used within the valuation for 31 December 2017:

Product	**Expense assumptions**
Healthy Investment CTF	Allowance of 0.6% pa of the fund Allowance for marginal administration per policy expense of £0.19 per annum per policy Allowance for maturity expense of £3.00 per maturity. Expense inflation of 2.9% pa to apply to the per policy allowances.
Other Healthy Investment products	Allowance of 0.68% pa of funds under management Allowance of 0.65% of future premiums Allowance of £12.00 per policy Expense inflation of 2.9% pa to apply to the per policy allowances.
Coventry products	For Table A whole of life policies; Allowance of £5 per claim not inflating Allowance of 0.7% pa funds under management For Unibond endowment policies; Allowance of 0.7% pa funds under management Allowance of 7.5% of future premiums. For other endowment policies; Allowance of 0.7% pa funds under management Allowance of 12.5% of future premiums.

The table below shows the expense assumptions used within the valuation for 31 December 2016:

Product	Expense assumptions
Healthy Investment CTF	Allowance of 0.6% pa of the fund Allowance for marginal administration per policy expense of £0.28 per annum per policy Allowance for maturity expense of £2.86 per maturity. Expense inflation of 3.5% pa to apply to the per policy allowances.
Other Healthy Investment products	Allowance of 0.68% pa of funds under management Allowance of 0.65% of future premiums Allowance of £13.42 per policy Expense inflation of 3.5% pa to apply to the per policy allowances.
Coventry products	For Table A whole of life policies; Allowance of £5 per claim not inflating Allowance of 0.7% pa funds under management For Unibond endowment policies; Allowance of 0.7% pa funds under management Allowance of 7.5% of future premiums. For other endowment policies; Allowance of 0.7% pa funds under management Allowance of 12.5% of future premiums.

D.2.1.4 Mortality assumptions

Mortality assumptions are based on published standard mortality tables. These are then adjusted by applying a percentage based on the latest analysis of the Society's past experience.

The standard mortality tables used for all products, except the CTF, are the AMC00/AFC00 tables. The mortality table used for the CTF is the English Life Table number 16 (ELT16).

The table below shows the mortality assumptions used for 31 December 2017:

Product type	Assumptions made
Healthy Investment CTF	14% English Life Tables 16 for ages up to 17 and 77% AMC00 / 106% AFC00 mortality tables for older ages.
Healthy Investment Adult Sick and Death	65% AMC00 and 65% AFC00 series.
Healthy Investment Endowment / Whole Life and AWP products	100% English Life Tables 16 for ages up to 17 and 77% AMC00 /106% AFC00 mortality series for older ages.
Supplementary Pensions	92% of IMA92C20 and IFA92C20
Coventry Assurance products	100% English Life Tables 16 for ages up to 17 and 100% AMC00 series/ 100% AFC00 for older ages.

The table below shows the mortality assumptions used for 31 December 2016:

Product type	Assumptions made
Healthy Investment CTF	14% English Life Tables 16 for ages up to 17 and 77% AMC00 / 106% AFC00 mortality tables for older ages.
Healthy Investment Adult Sick and Death	65% AMC00 and 98% AFC00 series.
Healthy Investment Endowment / Whole Life and AWP products	50% English Life Tables 16 for ages up to 17 and 77% AMC00 /106% AFC00 mortality series for older ages.
Supplementary Pensions	92% of IMA92C20 and IFA92C20
Coventry Assurance products	50% English Life Tables 16 for ages up to 17 and 66% AMC00 series/ 108% AFC00 for older ages.

Judgement is used in the selection of the standard mortality tables. Judgement is also applied when assessing historical data to ensure the data used is valid and applied appropriately.

D.2.2 Level of uncertainty associated with value of technical provisions

The technical provisions are calculated using financial models and as such there is always an inherent degree of uncertainty. Historical Society experience is used to guide the assumption setting but past experience is no guarantee of future experience.

Analysis of how model results compare to past experience can be used as a guide.

The sensitivity of the model results is also central to the assumption setting process.

A robust assumption setting process is followed to ensure that any uncertainties are kept to a minimum.

D.2.3 Material difference to valuation in financial statements

For investment business, current accounting standards require only the value of policy units to be brought into account. Therefore, the value in-force for CTF Unit-linked business is not included in the technical provisions within the financial statements. The result is to increase the technical provisions by £3.2 million in the financial statements compared to the Solvency II Balance Sheet.

D.2.4 Adjustments or transitional measures used to calculate the value of technical provision

The Society is not using a volatility adjustment or matching adjustment or any transitional arrangement within the calculation of technical provisions.

D.2.5 Recoveries from re-insurance

The Society has a reinsurance contract with Hanover Life Re which covers sums insured over £10,000 with a maximum of £50,000 for a premium of approximately £4 per annum. The policy groups covered are closed to new business.
The amount recoverable from the reinsurer is therefore deemed insignificant for the purpose of Solvency II.

D.3 Other liabilities

A summary of the other liabilities is:

	2017 £000	2016 £000
Deferred tax	90	307
Corporation tax	1	93
Insurance and intermediary payables	205	178
Trade (not insurance) payables	259	349
Total	555	927

Other liabilities have been valued on the FRS 102 basis. There is no difference in value to the Solvency II fair value basis.

D.3.1 Corporation and deferred tax

The current Corporation tax rate applicable to the Society is 20%. (2016: 20%).
Corporation and deferred tax liability is calculated on the policyholders' profit on taxable business, as set out in the corporate tax regulations, all other business is non-taxable. The applicable policyholders' rate is 20.0%.

The corporation tax is due within 12 months and the deferred tax is after 12 months

Deferred tax on unrealised gains has been based on the current allocation of the tax liability for taxable business. The timing of the outflow is uncertain due to gains only becoming liable and values known on realisation.

The excess expenses deferred asset has been based on the excess of the proportion of taxable business expenses over income. The timing of the benefit is uncertain, as it is offset against taxable income.

Judgement has been used in assessing the taxable proportion and the future rate of corporation tax.

D.3.2 Insurance and intermediary payables

As at 31 December 2017 the total insurance and intermediary balances payable were £205,171, which includes claims that have been reported but not paid out and are due within 1 month.

Claims that have been reported but not yet paid to policyholders were £183,050. The claims outstanding have been valued at fair value. No adjustments or judgements are made for valuation purposes.

Premiums paid in advance of due date were £12,672. These have been valued at the full amount paid in advance. No adjustments or judgements are made for valuation purposes.

Commission and fees payable to intermediaries were £9,449. The balance is calculated in accordance with the terms and conditions of the contract with the intermediaries.

No adjustments or judgements are made for valuation purposes.

D.3.3 Trade (not insurance) payables

As at 31 December 2017 the total trade payables were £258,514, which are all due within 12 months. Trade payables are amounts due and estimates made for services and goods supplied.

There are no capital commitments or leasing arrangement liabilities.

D.3.4 Employee benefit liabilities

There are no material employee benefit liabilities. The employee pension schemes are money purchase schemes.

The Society operates an incentive scheme for Executive Directors with 40% of bonuses deferred equally over two years. As at 31 December 2017 £5,200 was deferred from the 2016 bonus.

D.3.5 Solvency II and financial statement differences

The table below shows the differences, by material liability class, between the Solvency II and financial statements values:

	2017 £000	**2016 £000**
Solvency II liabilities	145,257	130,119
Differences -		
Technical provisions	3,243	3,101
Fund for future appropriations	9,447	7,048
Financial statements liabilities	157,947	140,268

D.4 Alternative methods of valuation

No alternative methods of valuation have been used other than those for proportionality and bid-prices of equity and bond valuations on a look through basis.

Some small insurance policies have been valued using a proportional method. This includes the Surplus Contribution Fund as well as some other non-insurance liabilities such as the Douglas Carr Fund and the Temperance Fund. All have had the full face value recognised. The amounts of the liabilities are small and the insurance liabilities are in run off. The costs of setting up complete technical provision calculations would be disproportionate to the greater accuracy achieved. The supplementary pensions given to ex-staff are in extreme run off and have been valued using actuarial techniques at a best estimate. There are two remaining ex-staff beneficiaries.

D.5 Any other information

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

E. Capital management (audited)

E.1 Own Funds

E.1.1 Policies and objectives

The key capital management objectives are:

- To comply with the capital requirements of the UK regulator, the PRA.
- To ensure that the Society's financial strength is maintained.
- To ensure that the Society's strategy is sustainable and can be implemented.
- To give current and future members and other stakeholders confidence in the long term stability of the Society.

These objectives are reviewed at least annually. The Board is responsible for meeting the capital requirement at all times. The Society complied with the PRA's capital requirement throughout the year.

The Board aims to maintain an appropriate buffer in excess of the capital requirement.

The Society prepares a strategic business plan over 5 years and an operational business plan for 1 year.

The Society maintains the agreed capital objectives through its system of risk management, investment policy, control of expenses and the implementation of its operational business and distribution plan.

E.1.2 Measurement and monitoring of capital

The capital position of the Society is monitored on a regular basis. Benchmarks are set to assess the adequacy of the Society's financial strength. In circumstances where there is a significant fall in the capital base management action is taken to reduce risk exposure.

As a mutual organisation the Fund for Future Appropriations is Tier 1 capital. The Society has no Tier 2 or Tier 3 Own Funds.

The Solvency II Own Funds as at 31 December was:

	2017 £000	**2016 £000**
Value of net assets	157,662	139,985
Technical provisions	(144,388)	(129,192)
Other liabilities	(869)	(927)
Excess of Assets over liabilities	12,405	9,866
CAS RFF – restricted Own Funds adjustment	-	(172)
Reconciliation Reserve	12,405	9,694

	2017 £000	2016 £000
Reconciliation Reserve	12,405	9,694
Total available Own Funds to meet the SCR	12,405	9,694
SCR	(8,545)	(5,366)
MCR	(3,251)	(3,332)
Capital Required (Higher of SCR, MCR)	(8,545)	(5,366)
Own Funds in excess (Tier 1)	3,860	4,328

For both years, all Own Funds are basic Own Funds (tier 1).

E.1.3 Reconciliation

A reconciliation of the Fund for Future Appropriations and Solvency II Own Funds:

		2017 £000
Fund for Future Appropriations		9,447
Difference in technical provisions for Unit-linked liabilities	3,243	
Difference in intangible assets	(284)	
Difference in subsidiary value	(1)	
		2,959
Own Funds (Tier1–unrestricted)		12,405

The Fund for Future Appropriations represents the excess of assets over policyholder liabilities within the With-profits Funds and represents the cumulative retained earnings which have not been allocated to policyholders.

E.2 Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

E.2.1 Capital requirement

The amount of the capital requirement at 31 December was:

	2017 £000	2016 £000
Eligible Own Funds (Tier 1)	12,405	9,694
Minimum Capital Requirement	3,251	3,332
Solvency Capital Requirement	8,545	5,366
Coverage	145%	181%

E.2.2 Analysis of SCR by risk module

An analysis of the SCR by risk module is:

Risk	**2017 £000**	**2016 £000**
Market	16,472	12,898
Insurance	3,310	3,322
Default	177	192
BSCR undiversified	19,959	16,413
Less diversification	(2,315)	(2,256)
Gross BSCR	17,644	14,157
Less loss absorbency	(9,688)	(9,511)
Operational risk	573	635
Ring Fenced Fund adjustment	16	85
Net SCR	8,545	5,366

There were no simplifications used in the calculations.

No specific parameters have been used in the Standard Formula Model calculations.

E.2.3 Inputs used in the Minimum Capital Requirement

The inputs used in the MCR are:

	£000
Absolute floor MCR – 3,700 euros	3,251
SCR	8,545
MCR	3,251

E.2.4 Material changes in the SCR

The material changes in the SCR are:

	SCR £000
As at 1 January 2017	5,366
Changes in:	
Interest rate risk	(604)
Equity Risk	3,144
Property Risk	280
Currency Risk	765
Loss Absorbency	(177)
Other	(228)
As at 31 December 2017	8,545

The equity risk before loss absorbency has increased significantly (£3.1 million) since the previous valuation.

There are three reasons for this increase:
- Increased equity stress (£0.8 million).
- Increased equity holdings within the HI Fund (£2.0 million). Equity holdings have increased from £19.5 million to £23.8 million.
- Increased CTF Fund (£0.3 million).

The increase in Property risk (£0.3 million) is due to the £1.4 million increase in the Real Estate Investment Trusts which creates an £1.2 million increase in property exposure after allowing for gearing.

The interest rate risk reduction (£0.6 million) is due to closer immunisation of the bond portfolio to the impact of changes in the risk free rate on the technical provisions.

E.2.5 Material changes in the MCR

	MCR £000
As at 1 January 2017	3,332
Changes in:	
Euro exchange rate	(81)
As at 31 December 2017	3,251

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

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

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

The Society has not used an internal model.

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

Throughout 2017, the MCR and SCR were complied with.

E.6 Any other information

There is no other material information regarding capital management.

F. Templates

The following QRTs are required for the SFCR:

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.12.01.02 - Life and Health SLT Technical Provisions
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

The templates are included at the end of the report.

The Rechabite Friendly Society Limited

Solvency and Financial Condition Report

Disclosures

31 December

2017

(Monetary amounts in GBP thousands)

General information

Undertaking name	The Rechabite Friendly Society Limited
Undertaking identification code	213800Y2Y2XDCTRFCE80
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2017
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet

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

S.05.02.01 - Premiums, claims and expenses by country

S.12.01.02 - Life and Health SLT Technical Provisions

S.23.01.01 - Own Funds

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

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	299
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	95,250
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	29,880
R0110	*Equities - listed*	29,880
R0120	*Equities - unlisted*	0
R0130	*Bonds*	60,034
R0140	*Government Bonds*	42,021
R0150	*Corporate Bonds*	18,013
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	5,336
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	61,261
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	0
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	21
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	736
R0420	Any other assets, not elsewhere shown	94
R0500	**Total assets**	157,662

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	86,466
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	86,466
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	85,247
R0680	*Risk margin*	1,219
R0690	Technical provisions - index-linked and unit-linked	57,922
R0700	*TP calculated as a whole*	61,165
R0710	*Best Estimate*	-3,921
R0720	*Risk margin*	677
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	314
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	90
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	205
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	259
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1
R0900	**Total liabilities**	145,257
R1000	**Excess of assets over liabilities**	12,405

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		13,866	538						14,403
R1420	Reinsurers' share									0
R1500	Net		13,866	538						14,403
	Premiums earned									
R1510	Gross		13,866	538						14,403
R1520	Reinsurers' share									0
R1600	Net		13,866	538						14,403
	Claims incurred									
R1610	Gross		6,969	199						7,168
R1620	Reinsurers' share									0
R1700	Net		6,969	199						7,168
	Changes in other technical provisions									
R1710	Gross		9,110	6,399						15,509
R1720	Reinsurers' share									0
R1800	Net		9,110	6,399						15,509
R1900	**Expenses incurred**		1,955	0						1,955
R2500	**Other expenses**									
R2600	**Total expenses**									1,955

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	14,403						14,403
R1420	Reinsurers' share							0
R1500	Net	14,403	0	0	0	0	0	14,403
	Premiums earned							
R1510	Gross	14,403						14,403
R1520	Reinsurers' share							0
R1600	Net	14,403	0	0	0	0	0	14,403
	Claims incurred							
R1610	Gross	7,168						7,168
R1620	Reinsurers' share							0
R1700	Net	7,168	0	0	0	0	0	7,168
	Changes in other technical provisions							
R1710	Gross	15,509						15,509
R1720	Reinsurers' share							0
R1800	Net	15,509	0	0	0	0	0	15,509
R1900	**Expenses incurred**	1,955						1,955
R2500	**Other expenses**							
R2600	**Total expenses**							1,955

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**		61,165								61,165						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole										0						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	85,247		-3,921							81,327						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default										0						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	85,247		-3,921	0						81,327						
R0100	**Risk margin**	1,219	677								1,896						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						
R0120	Best estimate										0						
R0130	Risk margin										0						
R0200	**Technical provisions - total**	86,466	57,922								144,388						

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	12,405	12,405			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	12,405	12,405	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	12,405	12,405	0	0	0
R0510	Total available own funds to meet the MCR	12,405	12,405	0	0	
R0540	Total eligible own funds to meet the SCR	12,405	12,405	0	0	0
R0550	Total eligible own funds to meet the MCR	12,405	12,405	0	0	
R0580	**SCR**	8,545				
R0600	**MCR**	3,251				
R0620	**Ratio of Eligible own funds to SCR**	145.17%				
R0640	**Ratio of Eligible own funds to MCR**	381.64%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	12,405
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	12,405
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	16,486		
R0020	Counterparty default risk	177		
R0030	Life underwriting risk	3,313	9	
R0040	Health underwriting risk	0	9	
R0050	Non-life underwriting risk	0	9	
R0060	Diversification	-2,317		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	17,660		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	573
R0140	Loss-absorbing capacity of technical provisions	-9,688
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	8,545
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	8,545

	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	8,173
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	372
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01

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

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

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	565

		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	51,298	
R0220	Obligations with profit participation - future discretionary benefits	33,950	
R0230	Index-linked and unit-linked insurance obligations	57,244	
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		45,923

	Overall MCR calculation	C0070
R0300	Linear MCR	565
R0310	SCR	8,545
R0320	MCR cap	3,845
R0330	MCR floor	2,136
R0340	Combined MCR	2,136
R0350	Absolute floor of the MCR	3,251
R0400	**Minimum Capital Requirement**	3,251

G. Board's responsibility statement

Approval by the Board of the Solvency and Financial Condition Report Financial period ended 31 December 2017

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulatory Authority (PRA) and Solvency II regulations.

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

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

- Throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA Rules and Solvency II Regulations as applicable; and
- It is reasonable to believe that at the date of the publication of the SFCR, the Society continues so to comply, and will continue so to comply in the future.

By order of the Board

Peter Green
Director and Chief Executive.

4 May 2018.

H. Auditor's report

Report of the external independent auditor to the Directors of The Rechabite 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 and 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' and 'Capital Management' sections 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.
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 the Society 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 The Rechabite Friendly Society Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in relation to this matter.

David Heaton
Deloitte LLP
Manchester
4 May 2018

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Registered and incorporated under The Friendly Societies Act 1992. Register No 218F.
Authorised by the Prudential Regulation Authority and regulated by The Financial Conduct Authority and the Prudential Regulation Authority.
Financial Services Register 109994.

Member of the Association of Financial Mutuals (AFM).