Solvency and Financial Condition Report

31 December 2021

Transport Friendly Society Limited
3rd Floor Derbyshire House
St Chad's Street
London WC1H 8AG

Registered and Incorporated under the Friendly Societies Act 1992
Register No. 434F

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority
FRN 110020

29 March 2022

Contents

Introduction

The Solvency and Financial Condition Report (SFCR) is an annual report that Transport Friendly Society Limited (TFS) is required to produce under European Union (EU) and United Kingdom (UK) law, as part of the Solvency II regime. The report follows the prescribed structure as set out in Annex XX of Delegated Regulation EU 2015/35.

On 17 October 2018 the PRA published PS25/18 Solvency II: External audit of the public disclosure requirement. This Policy Statement confirms the removal of the audit requirement in respect of the public Solvency II reporting of smaller insurers. Transport Friendly Society has taken the opportunity not to have the report audited this year.

The SFCR is a public document and the Society is required to disclose this document on its website. TFS must also provide a copy to the UK supervisory authority, the Prudential Regulation Authority (PRA).

Where possible the SFCR has been prepared on the basis of the financial information and risk assessments as at 31 December 2021.

The report has been approved by the TFS Board.

Summary

Transport Friendly Society Limited is a friendly society which is a mutual organisation owned by its members. Transport Friendly Society is a regulated firm within the scope of the Solvency II regime (SII).

The SFCR covers five main sections:

- **Business Performance**

  This section details our business performance and significant events during the year, as well as noting who regulates us and who our auditors are.

  Despite the continuing Covid pandemic, which resulted in direct access to the Society's usual market only being available for 5 months of the year due to restrictions, it was pleasing to note that the Society achieved £513k of new business, an increase of 70% in 2021 compared to 2020. Total premium income in 2021, excluding unit-linked contributions, was £2,988k, a decrease of 13.7% over the previous year. This decrease was mainly as a result of data cleansing. Total assets were £84,306k at the end of 2021 an increase of £6,700k over the previous year. These results were achieved despite paying out a further £204k in Covid-related sickness claims. The main contributor to the Society's continuing growth was its positive investment performance over the year despite market conditions continuing to be volatile. The Society's investment portfolio achieved a positive net return of 5.6%.

In addition, the Board continues to monitor closely the Society's operating expenses in order to utilise the members' funds most efficiently. The operating expenses as at the end of 2021 were £1,865k compared to £1,895k in 2020, a decrease of 1.6%.

Inevitably, as a result of the pandemic, the Society's sickness claims increased significantly, partly following the Board's decision to honour all Covid-related sickness claims, including those for self-isolation, which were supported by medical evidence.

- **System of Governance**

This section outlines our system of governance and how the Society is directed and controlled. The Society reviews its governance arrangements formally once a year. The Society's Board is satisfied that it has the right level of oversight given the nature, scale and complexity of the business.

The Society is unusual in that the Board of Management draws on the experience of three Non-Executive Directors (NEDs) who are actively working for, and the Chair who has retired from, the Passenger Transport Industry. This experience, combined with the experience of four professionals who have worked in financial services for many years plus the Society's Chief Executive, helps the Society in its stated aims. Mr Rudyk was elected to the Society's Board in June 2021.

The Board is responsible for setting the Society's risk appetite and ensuring that an Own Risk and Solvency Assessment ("ORSA") is produced and that it is fit for purpose, fully embedded within the Society's processes and procedures and is used in business planning and risk management.

- **Risk profile**

This section details the key risks in the business, how they are monitored and how we might deal with them should those events occur.

The Society uses the standard formula to calculate its Solvency Capital Requirement as the Board considers that this provides a reasonable basis by which the Society can quantify the risks inherent in its business. The material risks are underwriting, market risk and credit risk.

The Society is also exposed to the risk of other events happening outside its control. The oversight of these risks is managed by the Society's Compliance and Risk Committee and the Board.

- **Valuation for Solvency Purposes**

This section details the bases, methods and assumptions used to value the Society's assets and liabilities.

The methods used to value the Society's assets and liabilities are unchanged from those used at the end of the previous year. Assumptions were updated at 31 December 2021 to reflect the then current economic conditions and our estimate of future demographic experience at that time.

In addition, a specific reserve of £450k has been made in respect of future Covid claims.

- **Capital Management**

This section details the capital the Society has available to manage its business and the capital needed to cover the risks in the business.

Despite another difficult year, the Society's Own Funds (excess of assets over liabilities) position remains strong, at £30,572k at 31 December 2021 compared with £27,809k at the end of 2020. The Society's Solvency Ratio, defined as the ratio of Own Funds to the Solvency Capital Requirement, decreased from 267% at the end of 2020 to 216% at the end of 2021 due to the increased SCR. This solvency ratio is within the target set in the PPFM, which is calculated as between 150% and 250% of the SCR.

The Minimum Capital Requirement (MCR) is £3,541k at 31 December 2021 compared with £3,338k in 2020. Throughout the year the Society had sufficient assets to cover both its required SCR and MCR.

A. Business and Performance

A1 Business

A1 (a) The Society's name and contact details:

Transport Friendly Society Limited
3rd Floor Derbyshire House
St Chad's Street
London WC1H 8AG
Attention: Ali Ramezankhani
Tel: 020 7833 2616
Fax: 020 7833 4426
Email: Ali@tfs.uk.com

The Society is Registered and Incorporated under the Friendly Societies Act 1992. Register No. 434F. The Society is a mutual organisation owned by its members.

The Society dates back to 1885 when it was formed within the London Road Car Company Limited. The Society has always drawn the majority of its membership from the bus operating divisions of London Transport.

A1 (b) The Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

As a Category 5 firm the Society is supervised by the Small Firms Division of the PRA. The Society does not have a named PRA or FCA supervisor. The Society's FRN is 110020.

The PRA can be contacted at:

Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

The FCA can be contacted at:

Financial Conduct Authority
12 Endeavour Square
London E20 1JN

A1 (c) The Society's External Auditors:

BDO LLP
150 Aldersgate Street
London EC1A 4AB
Attention: Tom Reed
Tel: 020 7333 9191
Email: tom.reed@bdo.co.uk

A1 (d) As a mutual organisation, there are no holders of qualifying holdings in the Society.

A1 (e) The Society is not part of a group and has no subsidiaries.

A1 (f) The Society currently offers four products to those who work in the Passenger Transport Industry or are associated with those who work in the Passenger Transport Industry – a tax exempt regular savings product, a plan with benefits payable in the event of sickness, a health cash plan and a unit-linked ISA launched in January 2022. All products are available to UK residents only.

Savings

- Minimum age at entry 16, maximum age day before 65th birthday
- Minimum term 10 years, maximum to age 75
- Premiums – minimum £2.30 per week, maximum £5.75 per week
- Bonuses may be added
- Members may become eligible for discretionary benefits
- Plans may also be taken out by spouses, partners and the friends and family of those who work in the Passenger Transport Industry.

Savings for children are also available.

Sickness

- Minimum age at entry 16, maximum age 59
- Maximum term to age 65 with optional annual extension to 70
- Benefit available after 13 weeks contributing membership
- Minimum benefit £35 per week
- Maximum benefit £175 per week
- Choice of 5, 12 or 25 weeks of sickness benefit
- No claim bonuses may be added
- Members may also take out hospital benefit
- Members may become eligible for discretionary benefits

Sickness Plan Extension

- If members who already have sickness plans, at age 65, are still in employment, they may apply to extend their plans up to age 70
- The level of cover may be maintained or decreased
- Cover will be guaranteed
- Premiums must be paid monthly by direct debit
- Premiums will increase annually and the rate charged may be subject to change

Health Cash Plan

- Minimum age at entry 18, maximum age 59
- Maximum term to age 65
- Benefit available after 13 weeks contributing membership, except Birth/Adoption benefits which are subject to a 10 month qualifying period
- Choice of Silver, Gold or Platinum levels of cover
- Options include 'Individual' and 'Individual + Partner' plans, both of which include up to four children for free
- Plans may also be taken out by spouses, partners and the friends and family of those who work in the Passenger Transport Industry

Stocks and Shares Individual Savings Accounts (ISAs)

- Minimum age at entry 18
- Premiums – minimum £30 per month, single premium £500
- Choice of two environmentally friendly active unit-linked funds
- Annual fund charge 1.5%
- Plans may also be taken out by spouses, partners and the friends and family of those who work in the Passenger Transport Industry
- Transfers in are accepted from current and previous years
- A junior Stocks and Shares ISA is also available

In addition, the Society participated in HMRC's distribution of unclaimed Child Trust Fund (CTF) vouchers and provides a stakeholder product. The Society does not actively seek additional contributions from CTF members. HM Revenue and Customs no longer open Revenue Allocated Accounts for Children. The death benefit payable on a CTF is the value of units allocated to the contract.

In September 2020, these CTF accounts began to mature. The Society launched a CTF Protected account, identical to the Child Trust Fund (CTF) account in terms of structure, investment fund and charges, to hold benefits for 'gone-away' and non-respondent CTF members.

The CTF Accounts are considered as investment business and hence CTF premiums and claims are not included in the Revenue Account. Their net impact is reflected within the changes in technical provisions.

The Society only distributes its products in the United Kingdom. The material geographic areas where it carries out business are Greater London, the Home Counties and a number of towns and cities in England.

A1 (g) During the reporting period (2021) the Covid-19 pandemic continued to have a material financial impact on the Society. This resulted in significant movements both in the Society's assets and technical provisions and an increase in sickness claims.

- **Assets -** The Society achieved a modest positive investment performance over the year despite market conditions continuing to be volatile.
- **Technical provisions** – An explicit reserve of £100k for additional mortality due to the Covid 19 pandemic in respect of with profits products and an explicit reserve of £350k for future Covid-19 related sickness and hospitalisation claims has been included within the Society's technical provisions at the year end.
- **Sickness claims** – During 2021 the Society paid out £204k in Covid-related sickness claims.

A2 Underwriting Performance

The following tables set out a summary of the Society's underwriting performance over 2021 and over 2020. All the business is written in the UK. Underwriting performance is defined for the purposes of this section as the amount of premiums received over and above claims paid. No allowance is made for expenses or the change in liabilities associated with these cashflows.

Underwriting Performance 2021

	Line of Business			
	Health Insurance £000	With-profit Life £000	Unit-Linked Life £000	Total £000
Premiums (P)	1,775	1,213	357	3,345
Claims	1,765	1,228	150	3,143
Underwriting surplus (S)	10	(15)	207	202
Surplus (S/P)	15%	(1%)	58%	6%

transport friendly society

Underwriting Performance 2020				
	Line of Business			
	Health Insurance £000	With-profit Life £000	Unit-Linked Life £000	Total £000
Premiums	2,109	1,352	173	3,634
Claims	1,754	913	75	2,742
Underwriting surplus (S)	355	439	98	892
% Surplus (S/P)	17%	32%	57%	25%

Performance Summary for 2021 and comparison with previous year

The tables that follow summarise some of the key performance indicators for 2021 and 2020

Year	Net Earned Premium Income# £000	Increase over Previous Year %	Net Operating Expenses £000	Increase/(decrease) Over Previous Year %	Net Operating Expenses/ Contribution Income Ratio
2021	**2,988**	**(13.7)**	**1,865**	**(1.6)**	**0.62:1**
2020	3,461	9.2	1,895	5.3	0.55:1

 # Excludes CTF income

The net operating expenses stated above are before adjusting for pension fund service costs in accordance with Financial Reporting Standard 102.

Membership and Recruitment

The table below shows the number of new contracts effected in 2021 compared with 2020

Section	2021	2020
Endowment	**294**	279
Sickness	**984**	902
Hospitalisation	**50**	49
Health Cash Plan	**32**	20
Endowment (Junior)	**127**	170
ISA	**206**	-
Junior Isa	**7**	-
Child Trust Fund Protected Account*	**548**	149

** These are transfers from maturing CTF accounts*

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A summary of the movement in membership in 2021 compared with 2020 is as follows:

	2021		2020	
	Adult	Junior	Adult	Junior
Number at beginning of year	21,557	1,416	21,825	1,325
New Members	1,334	134	1,007	170
Exits	2,671	196	1,275	79
Number at end of year	**20,220**	**1,354**	21,557	1,416
Child Trust Fund Exits	n/a	590	n/a	255
Child Trust Fund Members*	n/a	**45,921**	n/a	46,511

** HM Revenue and Customs no longer open Revenue Allocated Accounts for children*

A3 Investment Performance (including A3 (a) and A3 (b) Income and Expenditure, Equity Gains and Losses)

Externally, the financial markets started the year with a degree of volatility due to the United Kingdom formally exiting the European Union, a new president in the White House and a new variant of the Covid virus. However, after the first quarter the equity markets began to perform positively until the fourth quarter. A number of events including the temporary shortage of fuel, the increase in energy prices and the spread of the Omicron variant of the Covid-19 virus as well as the gradual rise in inflation toward the end of the year caused a decline in the fourth quarter following the positive gains achieved earlier in the year.

Despite the market volatility, the Society's investment portfolio produced a net return of 5.6% excluding the Child Trust Funds.

The Board of Management, in consultation with its advisors agrees a suitable mix of investments (described as the 'investment matrix') designed to maximise investment returns whilst ensuring the Society is not taking excessive risks. This matrix is reviewed regularly and continually monitored to ensure it is not breached.

Investments

	2021		2020	
	Level 1 £000	**Level 2 £000**	**Level 1 £000**	**Level 2 £000**
Shares and other variable yield securities and units in unit trusts	58,790	-	51,566	-
Debt securities and other fixed income securities	21,534	-	23,986	-
Subordinated deposits	-	-		663
TOTAL	**80,324**	**-**	**75,552**	**663**

The fair values of level 1 investments have been determined at prices quoted in an active market. The fair values of level 2 investments have been calculated using valuation techniques that take account of observable market data. All investments are measured at fair value through profit or loss.

Included within shares and other variable yield securities and units in unit trusts is £24,988k (2020: £21,362k) held to cover unit linked liabilities.

The Society held two subordinated debts with the Manchester Building Society. One of the investments was due to mature in 2022 and the other in 2023. However, Manchester Building Society redeemed both debts in full on 20 December 2021.

Investment income

	2021 £000	**2020 £000**
Income from listed investments	1,735	1,667
Income from other investments	24	26
TOTAL	**1,759**	**1,693**

Investment Management Expenses

	2021 £000	**2020 £000**
Fund Manager's fees	175	157
TOTAL	**175**	**157**

A3 (c) Securitisation

The Society has not invested in any securitised investments.

A4 Performance of other activities

The Society has not performed any other activities which would have a material effect on the Society's income or expenses.

A5 Other Information

The Society has no other material information to declare about its business.

B. System of Governance

B1 General Information on the System of Governance

B1 (a) Structure

The Society's Board is accountable to the Society's members and UK Regulators for the operation of the Society. The Board regards good corporate governance as fundamental to this responsibility. The Society follows the Association of Financial Mutuals' (AFM) Principles of the Code of Corporate Governance.

Principle 1 -Purpose and leadership

The Society was founded in 1885 as a friendly society and operates in the Passenger Transport Industry. The Society seeks to generate added value for its Members in all that it does.

The Society's Mission is to:

- Continue as a Mutual Society and promote and support mutuality wherever possible
- Provide products and services that its members value
- Respond to the changing needs of its members
- Be an employer of choice

The Society's Values:

The Society believes in conducting all its dealings with integrity and aims to treat our members, staff and stakeholders fairly.

Principle 2 – Board Composition

The Board currently comprises a Chair, Chief Executive and 7 Non-Executive Directors (NEDs). The Society is unusual in that the Board of Management draws on the experience of the Chair and the three Non-Executive Directors (NEDs) who are from the Passenger Transport Industry. This experience, combined with the experience of other professionals who have worked in financial services plus the Society's Chief Executive, helps the Society in its stated aims.

The Directors have equal voting rights when making decisions, except the Chair, who has a casting vote in the event of a tie. All Directors have access to the advice and services of the Society's Secretary and as appropriate, take professional advice at the Society's expense.

The duties of the Board are executed partially through committees. The Non-Executive Directors attend and act as Chair to relevant committees so that they are able to challenge and influence a broad range of areas across the Society's business.

The Board ensures that the values, strategy and culture align, are implemented and are communicated consistently to the Society's staff through regular team meetings and the annual general meeting.

The Directors update their skills, knowledge and familiarity with the Society's products and operations by meeting with senior management, visiting its office and by attending appropriate external seminars and training courses.

Principle 3 – Director Responsibilities

Accountability

Good governance supports open and fair business, ensures that the Society has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by the individuals and committees with the most appropriate knowledge and industry experience.

Each Board member has a clear understanding of their accountability and responsibilities. The Board and Committees have a programme of principal meetings every year and can have additional meetings as and when necessary.

The Society's and the Board's key areas of focus are set out in the Society's Annual Business Plan.

The Chairman, Chief Executive, Non-Executive Directors and other Members of the wider leadership team complete an Annual Code of Conduct declaration confirming that they have behaved in accordance with the Society's behaviours and values. As part of this process, all individuals must declare any potential conflicts of interest. These declarations are collated by the Society's Compliance Officer & Secretary and communicated to the Compliance & Risk Assessment Committee. Where there are potential conflicts, appropriate safeguards have been implemented.

Committees

The Board delegates authority for day-to-day management of the Society to the Chief Executive.

In addition, certain governance responsibilities are delegated to other Board Committees: Advisory Arrangement, Audit, Compliance and Risk Assessment, Development, Remuneration and Nominations. These Committees include both Independent Non-Executive Directors, together with the other Non-Executive Directors, who support effective decision making and independent challenge. The Non-Executive Directors are wholly independent in that they have no material business or other relationships with the Society that might influence their independence or judgement.

Integrity of information

The Board receives regular and timely information on all key aspects of the business including health and safety, risks and opportunities, the financial performance of the business, strategy, operational matters, market conditions and sustainability, all supported by Key Performance Indicators.

Key financial information is collated from the Society's accounting system. The Society's Accountant's function is performed by external providers – Liles Morris Ltd, who are appropriately qualified to ensure the integrity of this information. Financial information is currently externally audited by BDO LLP on an annual basis, and financial controls are reviewed by the Society's internal audit function which is again performed by external providers – RSM Risk Assurance Services LLP.

The Society's actuarial function is also performed by external providers SDA LLP, who are appropriately qualified and experienced to ensure the Society and its Board receive all necessary and appropriate advice and recommendations to assist them in the proper execution of their duties.

Other key information is prepared by the relevant internal function. Processes for collecting data, as well as the reporting of that data, are reviewed on a cyclical basis by the Society's Chief Executive and Compliance Officer & Secretary with quarterly reporting provided to the Audit Committee and the Board.

Principle 4 – Opportunities and Risk

The Board seeks out opportunities whilst mitigating risk.

Opportunities

Long-term strategic opportunities are highlighted in the Society's annual Business Plan which is presented to the Board every year. The Board seeks out opportunities drawn from the business, its strategy and the committees to which it delegates. Short-term opportunities to improve performance, resilience and liquidity are collated by the Executive team and reviewed by the relevant committee on a quarterly basis.

Risk

The Compliance and Risk Assessment Committee ensures that inherent and emerging risks are identified and managed appropriately and in a timely manner. The Committee focuses on monitoring the effectiveness of the Society's approach to risk identification, classification and mitigation. The Society's key operational risks and mitigations are set out in the Society's Risk Register. The Committee meets on a quarterly basis and updates the Risk Register with any changes. The Committee continues to refine and enhance the Society's Risk Management Framework and Risk Register and works to ensure consistency across operations.

The Risk Register is presented to the Board on a regular basis and any specific points raised by the Board are discussed in the subsequent Compliance and Risk Assessment Committee.

The Society's systems and controls are designed to manage and mitigate, rather than to entirely eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against a risk materialising.

Responsibilities

The Society has a Board Handbook and individual Statements of Responsibilities for all Members of the Board and its Executive which encapsulate the Society's operating rules, processes, best practice standards and delegated authorities. These documents are the fundamental platform for the Society's internal control framework. In addition, the Board approves any contract above a prescribed value.

Principle 5 – Remuneration

The Remuneration Committee's primary objective is to set remuneration at a level that will enhance the Society's resources by securing and retaining quality senior management who can deliver the Society's strategic ambitions in a manner consistent with both its purpose and the interests of its Members.

The Remuneration Committee has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Society's remuneration strategy and recruitment framework. In doing so, the Committee takes note of legislative requirements, best market practice and remuneration benchmarking, drawing on evidence from across the Mutual and Friendly Societies sector. Pay is aligned with performance and takes into account fair pay and conditions across the Society's workforce.

The Directors' remuneration is disclosed in the Society's Annual Report and Financial Statements.

Principle 6 – Stakeholders

The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver the Society's objectives and to protect the Society's brand, reputation and relationships with all its Members, other stakeholders and the wider Passenger Transport Industry.

The Board continues to seek to align the Society's strategic direction with its purpose and to the Members' long-term aspirations for sustainability and growth.

The Board is committed to social responsibility, community engagement and environmental sustainability. It achieves this in part through its commitment to a culture of zero harm (ensuring the safety, health and wellbeing of everyone who works with us), creating positive environmental and social impact and being an employer of choice where everyone is valued and respected.

The Board promotes accountability and transparency with all external stakeholders.

The Society's annual general meeting allows Members to raise questions and concerns. The staff also complete an annual declaration confirming that they have complied with the Society's Code of Conduct and confirming that they have behaved in accordance with the Society's behaviours and values.

Additional information

All Directors have access to both independent professional advice, as necessary, and the advice and services of the Society's Secretary, who is responsible to the Board for ensuring that Board Procedures are complied with. The Secretary is also responsible for ensuring good information flows to the Board and its Committees. The Board is satisfied that the Secretary carried out these duties effectively during 2021. Both the appointment and removal of the Secretary is a matter for the Board as a whole.

The following decisions are reserved for the Board:

- Bonus policy / bonus rates
- Preparation and Approval of accounts
- Determination of the Long-Term Business Provision
- Approval of Internal Audit reports
- Approval of Regulatory Returns
- Approval of financial budget
- Approval of Business Plan
- Approval of Risk Management Framework
- Approval of Management Action Plan
- Approval of Climate Change Plan
- Approval of major expenditure
- Investment policy
- Approval of appointment of consultants / outsourcing arrangements / contracts with third parties
- Approval of appointment / termination of senior staff
- Recommendation of changes to the Memorandum and Rules of the Society to be proposed at the Society's AGM.

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The independence of the NEDs is regularly reviewed. Some NEDs hold policies with the Society.

In the opinion of the Board, all NEDs, including the Chairman, are considered to be independent.

The roles of the Chair and Chief Executive remained separate during 2021 and are distinct in their purpose. The Chair is responsible for leadership of the Board and ensuring that the Board acts effectively. The Chief Executive has overall responsibility for managing the Society. Details of their respective responsibilities are available upon request.

The Board of Management has established a number of Committees which are set out below. The composition of Committees is reviewed each year at the first Board meeting after the AGM. The details following give a summary of each Committee's responsibilities and include some brief information in relation to key issues each Committee considered during 2021.

The Terms of Reference of each Committee are published on the Society's website.

With-Profits Advisory Arrangement (AA) N Silby (Chair)

The AA looks after the interests of the With-Profits policyholders. The role of the AA is to advise, recommend and monitor how the Board manages the With-Profits Fund and how any surplus is used. In 2021, the AA met twice to consider the impact of Covid-19 on the Society and the report from the With-Profits Actuary. The AA fed their comments to the Board prior to the Board's approval of Bonus rates and these were adopted.

Audit Committee (AC) B Hutton (Chair)

The Audit Committee met 4 times during 2021. The Committee assists the Board in meeting its responsibilities in respect of systems and controls and external financial reporting. It also considers the effectiveness of Internal Audit which, in the light of the size of the Society, is currently outsourced. The Society's Internal Auditors in 2021 were RSM Risk Assurance Services LLP and its External Auditors were BDO LLP.

Internal Audit Activities for 2021 covered topics including the Society's IT Operational Resilience and Governance and Oversight.

The Committee met with the Society's Internal and External Auditors and considered the reports from them regarding the audit process and outcomes. The Auditors' effectiveness is reviewed by the Audit Committee based on information, accuracy, quality and timeliness of the Audit process. In 2021, following a tender process, the Committee appointed Royce Peeling Green Limited (RPG) as the new external auditors for 2022.

Compliance and Risk Assessment Committee (CRAC) **N Silby (Chair)**

The Compliance and Risk Assessment Committee met 4 times in 2021. The Committee's remit is to ensure and monitor the Society's compliance with its regulatory responsibilities including updating the Society's Own Risk and Solvency Assessment (ORSA). In addition, the Committee monitors the Society's risk exposure against the Society's Risk Appetite.

The Committee also continued its focus on the Society's Culture and Governance, Climate Change Risk as well as the Society's Solvency and Financial Condition Report (SFCR) and other risk and regulatory matters.

In 2021, following a tender process, the Committee appointed Lindsay Unwin of Milliman as the new Chief Actuary and With-Profits Actuary for 2022.

Development Committee (DC) **S Barker (Chair)**

The Development Committee met 3 times during 2021. The Development Committee's role is to assist the Board in meeting its responsibilities in respect of the development of the Society, in increasing the Society's new business as well as its managing Culture and Conduct Risk.

Nominations Committee (Nom) **C Jeffrey (Chair)**

The Nominations Committee did not meet in 2021 because of the Covid-19 pandemic. The Committee oversees the Board's recruitment process. When any vacancy on the Board exists the nomination process openly invites nominations from any Society members. The Society welcomes suitable nominations from any eligible and committed individual regardless of their gender, sexual orientation, marital or civil partner status, race, colour, ethnic/national origin, religion/belief, disability or age.

Remuneration Committee (Rem) **S Barker (Chair)**

The Remuneration Committee met twice in 2021. The role of the Committee is to review the Society's remuneration policy and determine the remuneration packages for Directors and staff.

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Senior Managers Functions

During 2021 the following functions were allocated by the Society:

SMF 1	Chief Executive Officer	Ali Ramezankhani
SMF 2	Chief Finance Function	Ali Ramezankhani
SMF 3	Executive Director	Ali Ramezankhani
SMF 9	Chair	Peter Brown
SMF 10	Chair of the Risk Committee	Nigel Silby
SMF 11	Chair of the Audit Committee	Barry Hutton
SMF 12	Chair of the Remuneration Committee	Stephen Barker
SMF 13	Chair of Nominations Committee	Christopher Jeffrey
SMF 14	Senior Independent Director	Christopher Jeffrey
SMF 15	Chair of With-Profits Committee / Advisory Arrangement	Nigel Silby
SMF 16	Compliance Oversight	Thomas Georghiou
SMF 17	Money Laundering Reporting Officer	Thomas Georghiou
SMF 18	Other Overall Responsibility	Ali Ramezankhani
SMF 20	Chief Actuarial Function	Stephen Dixon
SMF 20a	With-Profits Actuary	Stephen Dixon

The Board is of the opinion that there is sufficient segregation of duties for each Key Function Holder to carry out their duties independently.

B1 (b) Material Changes in the System of Governance

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

B1 (c) Remuneration Policy

Policy	Remuneration Policy
Aim	The Society's Remuneration Policy should ensure a fair and equitable remuneration to all its employees and Non-Executive Directors. The Remuneration Policy would assist the Society to attract and retain the best employees and Non-executive Directors so that it can achieve its objectives.
Who & What	The Society's remuneration policy applies to all employees and Non-Executive Directors and reflects the Society's objectives for good governance as well as sustained and long-term value creation for members. The Board of Management takes overall responsibility for the Society's remuneration policy. The policy applies to all Non-Executive Directors and employees of the Society.
Process	The Board of Management does not believe in target related pay but does believe in performance related pay taking account of the external environment that the firm finds itself in. The Board believe in paying a fair rate for the job/responsibilities the role entails and the level of skill/s those responsibilities require. The Society will have some regard for the market rates but set the policy within the framework of what the Society can actually afford bearing in mind its objectives for good governance as well as sustained and long-term value creation for members. The Board endeavours to ensure that the level of remuneration keeps pace with the Consumer Price Index again subject to affordability and at the same time ensuring that risk, capital and liquidity limits are not exceeded.
Reporting	The policy statement will be reviewed at least annually by the Remuneration Committee with any changes being recommended to the Board of Management.

B1 (d) Material Transactions

The Society, as a mutual organisation does not have shareholders.

There have been no material transactions during 2021 with persons who exercise a significant influence on the Society or with members of the administrative, management or supervisory body of the Society.

B2 Fit and Proper Requirements

B2 (a) Fit and Proper Policy

The Society's Board oversees its balance of fitness, skills, experience and competency.

Non-executive Directors' requirements are knowledge of the Society's products, PRA and FCA regulatory principles and rules, experience of financial services, business and professional qualifications for a balanced skill mix on the Board.

The Board is satisfied that its range of expertise and experience was appropriate for the past year and continues to be for the current needs of the Society. A number of the Society's NEDs still actively work within the Passenger Transport Industry. This helps the Board to satisfy itself that it understands the views of the Society's members in relation to the Society. These NEDs, together with the NEDs with relevant and significant financial experience, provide a balance of skills which helps the Society provide appropriate products and services for the benefit of members.

The actuarial, internal audit and risk key functions are outsourced, and the appointment process is through a beauty parade, which includes assessment of the professional competency for the role.

B2 (b) Fitness and propriety assessment

An annual assessment of the Board's competency, skills and performance is undertaken. This is reviewed and reported to the Board.

The Board evaluates the performance of individual Board members annually through an appraisal system and if any areas of weakness are identified, appropriate remedial action will be taken. Subsequently, if there has been no significant improvement, the Chairman of the Society may request the Board member either not to stand for re-election or resign from the Board. All Board Members' performances were rated at least satisfactory during 2021.

The Chairman also reviews the performance of the Committees which were also rated satisfactory in 2021. The Board also reviews its own performance against the critical success factors laid down in its Business Plan. In addition, the Board seeks the views of its professional advisors to ascertain how the Board has performed as a whole.

B3 Risk Management System including the Own Risk and Solvency Assessment

B3 (a) Risk Management System

The Society's Risk Mitigation Plan for 2022 is as follows:

The Board has set up a Committee structure, which delegates responsibility to the Compliance and Risk Assessment Committee (CRAC), Chief Executive, Compliance Officer and Risk Function for overseeing the operational risk activities of the business and for risk management including:

- Project Managing the ORSA process
- Project Managing production of the SFCR/RSR
- Reviewing the Risk Management Framework
- Review of Governance procedures
- Review of policy statements
- Review of actuarial reports
- Review of internal audit reports
- Review of external audit report
- Review of Risk Function reports

During the year the Chief Executive / Compliance Officer / Risk Function will:

- Review the Risk Register on a line by line basis. The reviews including considering the actuarial, internal and external audit reports and operational issues - ongoing
- Monitor key risks and recommend management action where appropriate
- Consider new and emerging risks – ongoing
- Update the SFCR / RSR documents
- Review Risk Appetite Framework documents
- Draft the ORSA Reporting Document – December sign off
- Update the Society's plan to mitigate the effects of Climate Change
- Draft an Operational Resilience Plan – March sign off

Reports produced by the actuary to be reviewed through the risk process are:

- Suitability of the Standard Formula Model
- Solvency II Technical Provisions and Capital Requirements
- Forward Looking Assessment of Solvency
- Valuation assumptions and analysis of experience.

The CRAC will review the following documents and recommend them to the Board for approval:

Actuarial reports

- Suitability of the Standard Formula Model
- Solvency II Technical Provisions and Capital Requirements
- Forward Looking Assessment of Own Risks
- Valuation assumptions
- Investment trigger points

Risk Management Framework

- Overview
- Risk Policy
- Risk Appetite
- Risk Register

Policy statements
Board Handbook
ORSA Supervisory Report
SFCR / RSR documents

Other elements to be monitored as part of the Risk Mitigation Process (not the responsibility of the CRAC):

- Business Strategy and Plan
- Management information on KPIs; including tolerance limits
- Management Action Plan
- Reporting of risk issues as identified; to appropriate Committee
- Communicate the ORSA Supervisory Report and Risk Framework Report to staff

B3 (b) Implementation of the Risk Management System

Regular review of the Risk Register is the fundamental basis of the Society's Risk Management System.

Each risk identified is assessed with regard to the probability of occurrence and the impact of that occurrence. Risks are scored from 1 (lowest) to 9 (highest). Once the Risk has been evaluated, the Board of Management consider whether to transfer, accept, mitigate or eliminate the risk. In addition, a broad potential impact cost is allocated to each identified risk. Full details can be found in the Risk analysis and Scoring document. Where a new risk is identified the same process operates. Each Risk review is reported to the Board of Management quarterly and the Board consider the results of the review in line with their appetite statement. In addition, the Risk Register and regular review of it, forms part of the Internal Auditor's reviews.

The Society has a Risk Function Holder to monitor risk. In addition, the Chief Actuary produces a Forward Looking Assessment of Solvency (FLAS) which evaluates the key risks to the Society's Solvency going forward.

B3 (c) ORSA Process

The Society has agreed the following Policy to implement the ORSA process:

Policy	**ORSA Policy**
Scope	This Policy relates solely to Transport Friendly Society Limited and includes no other entities.
Aim	In accordance with Articles 41 and 45 of the Solvency II Directive the Society has established this ORSA policy in respect of forward assessment of risks. The Society's aim is to undertakes a regular assessment of all aspects of its business. The items reviewed include, but are not limited to: • Corporate Governance • Risk Assessment – including approved tolerance limits and data quality • Business Strategy / Planning • Stress and scenario testing • Capital and solvency The assessment includes the interaction and link between these elements and brings them together into a cohesive framework and is embedded within all aspects of the organisation. Items from the Society's ORSA are included in the Society's SFCR / RSR.
Who & What	The Board is responsible for the ORSA and the items included in there. The Board has delegated the detailed monitoring of the ORSA to the Society's Risk Officer and the Compliance and Risk Assessment Committee (CRAC) who will carry out detailed reviews of all items included in the process at least once every year. In exceptional circumstances, for example at the time of a takeover or merger, the Board may request an ad hoc ORSA to be produced. In addition, the Board of Management has asked the Chief Actuary to produce an Individual Capital Assessment and Forward Looking Assessment of Solvency (FLAS) which evaluates the Society's Solvency going forward.
Process	Following the annual review of each item in the ORSA a short report will be produced detailing changes made, how they were made and progress to date. These short reports will be reviewed by the CRAC and tabled at Board meetings.
Reporting	The ORSA is an agenda item at all Board meetings and the documentation of the full process will be signed off annually by the Board. Copies of the ORSA Policy, ORSA Supervisory Report and further detailed reports, as appropriate, will be forwarded to the PRA if requested. Staff will be informed of the process as part of the regular staff meetings.

B3 (d) ORSA monitoring

The key risks are assessed and agreed annually. These risks are identified by the Actuarial Reports, FLAS, sensitivity and stress testing and the Risk Register.

B4 Internal Control System

B4 (a) Internal Control System

The Society's system of internal controls is an important part of its risk management system.

The Board has overall responsibility for the Society's systems of internal control and for reviewing their effectiveness. Their implementation and maintenance is the responsibility of the Chief Executive. The Society's control policies and procedures are documented and are subject to regular review.

The Society's internal control systems include financial, operational, compliance and risk management controls. The Audit Committee reviewed the performance of the internal control systems during 2021.

B4 (b) Compliance Function

The Society's Secretary is also responsible for the Compliance Function. An annual Compliance Plan is produced and approved by the Board.

The Compliance and Risk Assessment Committee reviews regulatory changes, compliance policies and procedures.

B5 Internal Audit Function

Throughout 2021 the Internal Audit Function was outsourced to RSM Risk Assurance Services LLP who are an independent third party organisation.

In consultation with senior management, the Internal Auditor produces an Internal Audit Plan for the year. This is reviewed by the Audit Committee and approved by the Board for implementation.

The Internal Audit reports are reviewed by the Audit Committee prior to being considered by the Board.

B6 Actuarial Function

Due to resource and cost considerations the actuarial function has been outsourced. Stephen Dixon has been appointed Chief Actuary and With-Profits Actuary.

The actuarial function is responsible for advising and reporting to the Board and Committees on the following:

- Calculation of technical provisions
- Suitability of the Standard Formula Model
- Recommendation on bonuses – reversionary, interim and terminal
- Reviewing compliance with PPFM
- Carrying out the FLAS
- Recommendation on investment portfolio risk management

B7 Outsourcing

The Society, whenever possible, utilises internal resources. However, due to its size for circumstances where it is not cost effective, the activity is outsourced.
The key activities that are outsourced are:

- Actuarial function
- Internal audit
- External audit
- Risk function
- Investment management

The Board's Outsourcing Policy Statement is reviewed annually and includes the appointment and reappointment process and performance monitoring.

An appropriate manager is appointed as the individual responsible for overseeing the services provided by the outsourced service provider on behalf of the Society. Further details can be found in the Society's Outsourcing Policy Statement.

All outsourced service providers are based in the UK.

As a small organisation, the Society's managers work closely with outsourced service providers. They are therefore well aware of ongoing service levels and quality of service, enabling any issues of concern to be raised and resolved promptly.

B8 Any Other Information

There is no other material information regarding the Society's system of governance.

The Board is satisfied that that the Society's system of governance and risk management is robust and appropriate for the nature, scale and complexity of the risks inherent in the business.
29 March 2022

C Risk Profile

As in all businesses, the Society faces a number of risks which, if not monitored or managed, may adversely impact the Society's sound financial situation. Historically, the Society operated within a cautious risk range overall i.e. the Board of Management had a preference for safe options that had a low degree of risk and possibly only a limited potential for reward. However, in the past year, in the light of the Society's strong capital position, in order to increase the potential long term return for its Members, the Board has adopted a medium risk investment strategy in part by increasing the proportion of the Society's assets invested in equities.

Risk Management has a regular place on agendas for the Society's Board and Committees.

The Board of Management has identified a number of key risks to the Society. These include an increase in sickness claims beyond the level it would reasonably expect to get, higher than expected lapse rates, a significant increase in operational costs and expenses, poor longer term investment returns and consistently poor new business results.

However, as demonstrated during 2021, despite the continued increase in sickness claims and much lower than expected levels of new business as a result of the pandemic, the Society remained in a sound financial position. The Society assessed surrender values on the basis of a policy's asset share and from June 2020 applied a Market Value Adjustment (MVA) to surrenders due to Covid-19. This was not applied after January 2021. No other measures were applied from those set out in the Society's Management Action Plan.

Sickness Claims

The most recent morbidity investigation, based on data as at 30 September 2021 shows that sickness inception rate experience deteriorated in 2020 compared to 2019 and recovery rates were unchanged. The recommended valuation assumptions have been updated to reflect this. In addition, a specific reserve has been made for Covid claims. The Board continues to monitor this specific risk very closely and is prepared to take appropriate management action should this be needed.

Persistency Rates

The most recent persistency investigation, based on data as at 30 September 2021, shows that lapse rates have deteriorated compared to the previous investigation. However, this is partly as result of a data cleansing exercise following up members who have not been paying their premiums during the initial stages of the pandemic. The Board continues to monitor this specific risk very closely and is prepared to take appropriate management action should this be needed.

Operating Expenses

Total operating expenses decreased slightly. However, the low level of new business has resulted in a higher per policy expense assumption being used for the valuation. Nevertheless, operating expenses remain at a level acceptable to the Board of Management.

Investment Returns

Investment returns are monitored closely against relevant indices, the Society's investment matrix and the agreed trigger points. The Board is prepared to take appropriate management action should this be needed.

New Business

Although new business was 70% higher than during 2020, it is still at an unacceptably low level for the future viability of the Society. It is expected to remain low during the first half of 2022, but to increase later in the year and from 2023 onwards.

Monitoring

As part of the risk management process the Compliance and 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.

Risk Profile

The Society's Risk Profile, as at 31 December 2021, after correlation within individual risk categories and loss absorbency shown in the Standard Formula Calculation of the Solvency Capital Requirement is:

	2021		2020	
	£000	**%**	£000	%
Life Underwriting Risk	**925**	**6.2**	918	7.7
Health Underwriting Risk	**1,357**	**9.1**	1,263	10.6
Market Risk	**12,235**	**81.9**	9,446	79.5
Counterparty Risk	**289**	**1.9**	120	1.0
Operational Risk	**135**	**0.9**	145	1.2
	14,941	**100**	11,892	100

Please note that the table assumes no correlation between risk categories.

Further details of the risks the Society faces are set out in the following sections:

C1 (a) Underwriting Risk

Description of Risk

This is the risk associated with writing insurance contracts. It is the risk of a loss arising from actual experience being different from that assumed when a product was priced and designed. Underwriting risk includes mortality and morbidity risk, lower growth volumes, expense risk and persistency risk.

Mortality and Morbidity Risk

Each contract has an inherent risk that mortality and morbidity experience will differ from that assumed when calculating the technical provisions. This means that the amount paid out could be more than the technical provision.

Lower growth volumes

The Society establishes and allocates resources based on growth assumptions. If these are not met, then the income may not support the cost base of the Society.

Expense Risk

The risk that expenses exceed expectations. In pricing insurance contracts and 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' funds 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 on 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 insurance contracts and setting technical provisions, assumptions are made as to the rate at which members will surrender or lapse contracts. Future profits on contracts assume a contract longevity. A change in lapse experience may impact on profitability.

The calculation of the Solvency Capital Requirement (SCR) assesses the underwriting risk exposure.

The total life underwriting risk after risk correlation and loss absorbency is £925k (£918k in 2020). The total health underwriting risk after risk correlation and loss absorbency is £1,357k (£1,263k in 2020).

C1 (b) Market Risk

Description of Risk

This is the largest risk that the Society faces.

The market risk the Society faces is that an adverse movement in the value of assets as a result of interest rate or equity price changes, is not matched by a corresponding movement in the value of liabilities. The Society's investment policy ensures a suitable balance of assets and testing of the impact of particular events on these assets, such as changes in interest rates or equity downturns is a critical part of SII and, in particular the calculation of the SCR.

The calculation of the SCR assesses the market risk exposure.

The market risk, excluding counterparty risk, after risk correlation and loss absorbency is £12,235k (£9,446k in 2020).

The capital requirement for market risk, both before and after loss absorbency, is significantly higher this year. This can be attributed to:

- An increase in the equity risk capital requirement. Equity market values rose during 2021 and the equity allocation within the with profits fund investment portfolio increased to approximately 57%. The percentage equity stresses to be applied to equity market values have also increased due to an increase in the equity symmetric adjustment, -0.48% up to 7.09%

- An increase in the interest rate risk capital requirement. This change reflects the movements in risk free rates during the valuation year. The interest rate down shock has a larger impact when risk free rates are higher due to the underlying method of applying the shock factors.

The increase in market risk capital requirement has been partially offset by a reduction in the spread risk capital requirement. This reduction is due to reduced investment in corporate bonds compared to the previous valuation date.

C1 (c) Credit Risk

Description of Risk

Also known as counterparty risk, credit risk is the risk that counterparties will default on debts owed to the Society.

The calculation of the SCR assesses the counterparty risk exposure.

The counterparty risk after loss absorbency is £289k (£120k in 2020).

There has been an increase in counterparty risk mainly due to the increased level of total deposit assets compared to the previous valuation. The proceeds of the Manchester Building Society subordinated debt redemption, of just over £1m, had not been transferred to Investec at the valuation date. The investment portfolio also had approximately £1.2m of cash in the dealing account at the valuation date.

C1 (d) Liquidity Risk

Description of Risk

The risk of having insufficient readily realisable assets to liquidate in the case of a catastrophe. The Society monitors spikes in expected payments out and the aim is to achieve sufficient income to match day to day outgoings.

The Society's Business Plan includes a cash flow projection to assess liquidity and liquidity is regularly monitored to assess progress towards the income aim set out above.

There has been no material change in liquidity risk during 2021.

C1 (e) Operational Risk

Description of Risk

This includes the risk of failure of people or processes.
The material risks for the Society are:

- Data security
- IT failure
- Outsourcing
- Compliance
- Fraud
- Keyman

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

The calculation of the SCR assesses the operational risk exposure. The operational risk is £135k (£145k in 2020).

There has been no material change in operational risk during 2021 because operational risk exposure is calculated using the Standard Formula.

Conduct Risk

The way the Society and its staff behave is extremely important and both Conduct Risk and Treating Customers Fairly are embedded throughout the organisation. The Society's Conduct Risk dashboard is reviewed by the Compliance and Risk Assessment Committee and also by the Society's Board. This is also part of Operational Risk.

Climate Change Risk

This is an emerging risk for the Society and currently it has a cautious to open appetite to the financial risks of climate change. Sustainable policies are embedded throughout the organisation. The Society has developed a Climate Change plan for which the Board takes overall responsibility with the Society's Secretary and Compliance Officer being the senior manager responsible for managing the financial risks of climate change. The Society maintains a proportionate and cost-effective attitude to managing this risk.

C2 Risk Assessment

C2(a) Measures used to assess the Risk

The calculation of the SCR assesses the Underwriting Risk exposure split by mortality, longevity, morbidity, lapse, expense and catastrophe risk.

As stated above, for market risk testing of the impact of particular events on the Society's assets, such as changes in interest rates or equity downturns is a critical part of SII and, in particular the calculation of the Solvency Capital Requirement (SCR).

The Society's Business Plan includes a cash flow projection to assess liquidity and liquidity is regularly monitored to assess progress towards the income aim set out above.

The Society's Risk Management Process identifies, documents and, where possible quantifies risks via the Society's Risk Register.

C2 (b) Material Risks

The Society operates within a cautious to medium risk range overall, i.e. there is a preference for safer options that have a low degree of risk and consequently may only have limited potential for reward.

Bearing this Risk Appetite in mind, the Society's Board identified a number of key risks to the Society. These are:

- Poor longer-term investment returns
- An increase in sickness claims beyond the level it would reasonably expect to get
- A significant increase in operational costs and expenses
- An increase in lapse rates beyond the level it would reasonably expect to get
- Consistently poor new business results.

The Board continues to monitor these specific risks very closely and is prepared to take appropriate management action should this be needed.

C2 (c) Investment of Assets

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

Investment management is outsourced and the Board monitors the performance of the investment managers against previously agreed indices through regular reports.

C3 Risk Exposure and Concentration of Risk

The total risk exposure is the total financial amount the risk could cost. The Society's FLAS measures the impact of the exposure by projecting various stress scenarios. The risk exposures, before loss absorbency, calculated as part of the SCR at 31 December 2021 were:

	31 December 2021 £000	31 December 2020 £000
SCR Life		
Mortality	41	43
Longevity	34	54
Morbidity	0	0
Lapse	1,302	1,469
Expenses	800	873
Life catastrophe	19	19
Total life risk before correlation	2,196	2,457
Total life risk after correlation	**1,858**	**2,076**
Health SLT		
Mortality - Health SLT	0	0
Longevity - Health SLT	2	25
Morbidity - Health SLT	3,601	3,873
Lapse - Health SLT	2,146	2,464
Expenses - Health SLT	555	519
Health catastrophe	3	3
Total health risk before correlation	6,307	6,884
Total health risk after correlation	**4,591**	**4,967**
Counterparty		
Total counterparty risk	**523**	**204**
Operational Risk		
Total operational risk	**135**	**145**
SCR Market		
Interest rate	465	157
Equity	17,545	13,107
Property	525	587
Currency	4,617	4,537
Spread	834	1,721
Concentration	174	0
Total market risk before correlation	24,160	20,109
Total market risk after correlation	**20,495**	**16,728**

C4 Risk Mitigation

The Society uses its Own Risk and Solvency Assessment (ORSA), FLAS, Risk Appetite Statement and Risk Register to monitor current and potential risks that could affect its solvency adversely.

An overall risk tolerance is established which is expressed as a minimum level of solvency above the PRA minimum threshold.

Individual risk appetites are then established for each of the primary risks the Society faces. If these appetite limits are breached then management actions would have to be taken. Further details of the possible management actions can be found in the Society's Management Action Plan.

No breach of the Society's risk tolerance or risk appetites has occurred in the year ended 31 December 2021.

Further details of the Risk Mitigation Process can be found in Section B3.

C5 Liquidity Risk

The total amount of expected profit included in future premiums as calculated in accordance with Article 260(2) is shown in the following table:

Class of Business	**Expected Profit Included in Future Premiums £000**	
	2021	**2020**
With-Profits – Life	**4,011**	4,126
With-Profits – Sickness & Hospitalisation Benefit	**(3,649)**	(2,678)
Health Cash Plan	**0**	0
Unit-Linked – Child Trust Fund (CTF)	**0**	0

C6 Risk Sensitivity (including Climate Change)

The Society's FLAS projects forward the Society's yearly Solvency II revenue account and balance sheet for 25 years from the projection date under a best estimate scenario. As part of the FLAS the following scenarios are tested:

- Better sickness experience
- Worse sickness experience
- Increases in lapses and surrenders
- Lower new business
- Higher new business
- Lower investment returns
- Higher investment returns

Of these the major exposures are:

- Adverse Sickness experience
- Expense over-run
- Low investment returns
- Lower new business
- Mix of new business

The Revenue Account and balance sheet based on the central FLAS assumptions using data from 31 December 2021 is as follows:

Revenue Account £000	**2022**	**2023**	**2024**	**2025**	**2026**
Investment Income	1,186	1,231	1,204	1,205	1,202
Investment Growth	973	1,065	1,092	1,109	1,137
Premiums – existing business	3,009	2,634	2,287	1,997	1,711
Premiums – new business	363	936	1,445	1,918	2,375
Unit-linked margins	360	373	388	401	412
Policy Claims – All	3,560	3,660	3,684	3,714	4,041
Renewal Expenses	1,378	1,431	1,478	1,529	1,581
Acquisition Expenses	714	741	768	798	828
Tax	0	0	0	0	0
Net Cash Flow	**238**	**408**	**484**	**589**	**388**

transport friendly society

The Balance Sheet based on the central FLAS assumptions using data from 31 December 2021 is as follows:

Balance Sheet £000	2022	2023	2024	2025	2026
With Profit Fund Assets	57,980	58,388	58,871	59,460	59,848
Current Assets	1,518	1,518	1,518	1,518	1,518
Unit-Linked Assets	26,103	27,332	28,512	29,637	30,021
Total Assets	**85,601**	**87,238**	**88,901**	**90,615**	**91,387**
With Profit Fund Technical Provisions	28,510	28,025	27,676	27,432	26,996
Unit-linked Technical Provisions	24,914	26,270	27,576	28,827	29,257
Total Technical Provisions	**53,425**	**54,296**	**55,252**	**56,259**	**56,253**
Current Liabilities	**2110**	**2110**	**2110**	**2110**	**2110**
Gross of loss absorbency BSCR	24,079	24,246	24,450	24,738	25,036
Net of loss absorbency Final SCR	14,280	14,467	14,521	14,553	14,552
Free Assets after Final SCR	**15,786**	**16,365**	**17,017**	**17,693**	**18,471**
MCR	**3,570**	**3,617**	**3,630**	**3,638**	**3,758**

The figures in the previous table were calculated before the Society decided to increase the level of discretionary benefits and terminal bonuses for some contracts.

The assumptions used to produce the above tables based on the central FLAS assumptions are set out in the Society's FLAS report based on 31 December 2021 valuation date.

In addition, following the publication the PRA's supervisory statement SS3/19, "Enhancing banks' and insurers' approaches to managing the financial risks from climate change" and a CEO letter on the same topic in July 2020, the Society is implementing and embedding its plan to mitigate the effects of climate change throughout the organisation. In particular, the Society is using scenario analysis and stress testing techniques to measure the impact of the financial risks from climate change on its business model.

The Society's December 2021 FLAS has looked at the following two initial scenarios:

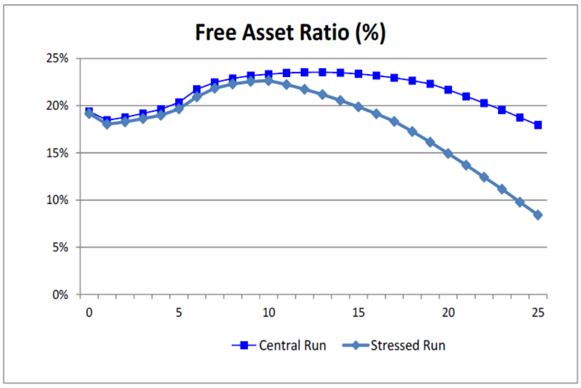
- Moderate global warming of 2 degrees centigrade in average temperatures (moderate warming scenario)
- High global warming of 4 degrees centigrade in average temperatures (high global warming scenario)

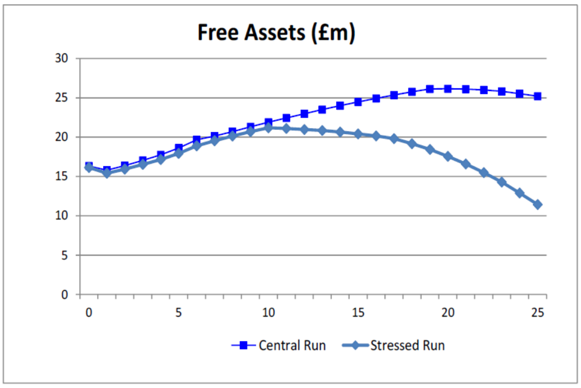
Both transition risks and the initial financial risks have been considered.

Risk	Moderate Global Warming	High Global Warming
Sickness	5% increase in claims from 2032 onwards Increased risk of pandemics	20% increase in claims from 2032 onwards Increased risk of pandemics
New business	20% increase in new business in 2032 and then 5% growth thereafter	40% decrease in new business in 2032 and then 0% growth thereafter
Investment	Bonds and deposits – no change to central run Property – 10% fall in commercial property values in 2022 Equity – 2% drop in total return each year from 2032 onwards	Bond and deposits - no change to central run Property – 10% fall in commercial property values in 2022 and 40% in 2026 Equity – 2% drop in total return each year from 2032 onwards
Expenses	No change to central run	No change to central run

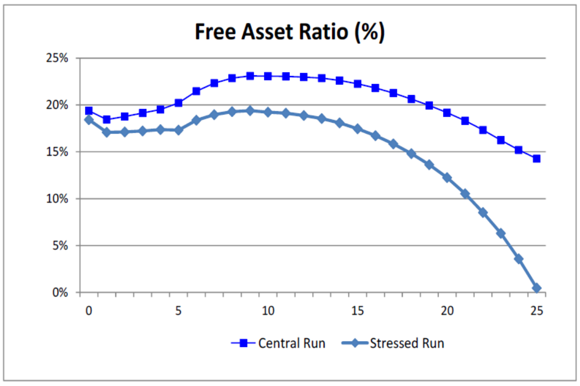
The following graphs show a projection of the change in free asset ratio and free assets over the next 25 years as a result of Moderate Global Warming and Severe Global Warming, compared with the Central Run assumptions. These give an indication of the impact of the above assumptions without any mitigation by the Society. In practice, the Society would take remedial action to minimize the negative effects of Climate Change Risks.

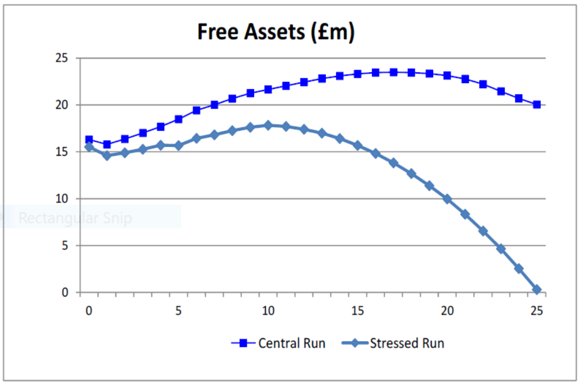
Moderate Global Warming





High Global Warming





For both warming scenarios assumed, the largest risk is the possibility of lower future equity returns.

Sustained increases in sickness claims will also be a key risk.

The impact of increasing or decreasing new business will depend on prevailing factors at the time such as expenses and the current interest rate environment.

C7 Management Actions

The calculation of technical provisions can allow for the loss absorbency, taking into account future management actions such as reducing bonuses, surrender values etc. in periods of market or insurance stresses.

The future management actions are outlined within a Board approved Management Action Plan and accord with the requirements for such a plan stated within the Delegated Act. The management actions also comply with the Society's Principles and Practices of Financial Management (PPFM), product literature and other relevant documents.

The valuation methodology has allowed for the following set of management actions for the purposes of loss absorbency:

- Discretionary cash benefits – these can be reduced to nil if required under both the market and insurance SCR stress scenarios.
- No claims bonuses on sickness policies – the no claims bonus can be reduced to the minimum if required under both the market and insurance SCR stress scenarios. The minimum is currently £1 per unit (as per product literature).
- Reversionary bonuses on life policies – these can be reduced to nil if required under the market SCR stress scenarios only.
- Terminal bonuses on life policies – these can be reduced to nil if required under both the market and insurance SCR stress scenarios.
- Surrender values – market value adjustments can be applied under the market SCR stress scenarios to reflect any adverse movement in the market value of the Society's assets.

These are the same set of management actions as at the previous valuation.

C8 Other Material Risks

The risk exposures highlighted above have not changed materially over the year and no new risk exposures have been introduced.

D Valuation for Solvency Purposes

D1 Assets

D1 1 Valuation

The asset values at 31 December 2021 are shown in the following table:

Asset	Value £000
Pension benefit surplus	1,097
Equities	10,406
Government bonds (including accrued interest)	17,699
Corporate bonds (including accrued interest)	3,835
Collective investment undertakings	23,396
Assets held for unit-linked contracts	24,988
Cash and cash equivalents	2,332
Any other assets	553
Total	**84,306**

D1 2 Asset valuation approach

The valuation of listed assets uses quoted mid-market prices (bid-prices should be used but the difference in total market values between the mid and bid price valuations is deemed immaterial). The pension benefit surplus has been valued in accordance with the Financial Reporting Standard (FRS) 102. The cash and cash equivalents are valued at face value. The 'Any other assets' category consists of policyholder debtors, tangible assets, other debtors, accrued income and other prepayments, and the values used for solvency purposes are those stated within the Society's annual report and accounts.

The Society's listed investments are chosen by the Society's investment manager who invests within active markets.

The Society has no intangible assets, leasings or deferred tax assets.

There have been no changes to the valuation bases in the reporting period and no material assumptions or judgements in valuing the assets.

The total assets used for solvency purposes is the same as the total assets within the annual report and accounts. For the purposes of calculating the Society's property market risk, the market value of the property collective investment scheme assets have been inflated to allow for the impact of any gearing with the funds.

D2 Technical Provisions

The Society has four main lines of business:

- Conventional with profits life products;
- With profits sickness and hospitalisation benefit products;
- Cash plan product;
- Child Trust Fund (CTF) and CTF Protected Account unit-linked products;
- ISA unit linked products.

Technical provisions consist of two elements - the best estimate liability and a risk margin. The technical provisions for the conventional with profits life products and the unit-linked policies are calculated as life business. The technical provisions for the with profits sickness and hospitalisation benefit and the cash plan products are calculated as health (similar to life) business.

The total technical provisions at 31 December 2021 for the above lines of business are:

Products	**Best Estimate £000**	**Risk Margin £000**	**Technical Provisions £000**
With-profits – Life:			
Adult Endowments	6,250	11	6,261
Junior Endowments	1,876	4	1,880
Whole of Life – Old Death	12,773	250	13,023
Whole of Life – New Death	139	12	151
Provident	1,157	3	1,160
With-profits - Sickness and hospitalisation benefit:			
Sickness	5,221	277	5,498
Hospitalisation	(121)	13	(108)
Cash Plan	13	0	13
Unit-linked:			
Child Trust Fund	23,007	114	23,121
CTF Protected Accounts	403	40	443
ISAs	171	9	180
Total	**50,889**	**734**	**51,623**

D2 1 Valuation method

D2 1 1 Best Estimate

The best estimate 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.

For with profits conventional life business, 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 death, maturity (where applicable) and surrender claims) allowing for future reversionary and terminal bonuses, plus expected discretionary cash benefit claims less expected premiums.

For with profits sickness and hospitalisation business, the net monthly cash-flow is the expected expense for administering a policy (allowing for expense inflation) and investment expenses, plus expected sickness or hospitalisation benefit claims (assuming all policyholders are healthy at the valuation date), plus expected sickness no-claims bonus claims (including death, maturity and surrender claims) allowing for expected bonuses for future claim free years, plus expected discretionary cash benefit claims less expected premiums.

The best estimate liabilities for the with profits products includes an explicit reserve of £100,000 for additional mortality due to the Covid-19 pandemic.

For any sickness and hospitalisation claims currently in payment at the valuation date, an additional best estimate liability is calculated equal to the discounted value of the expected future monthly claim amounts for all claims. The liability for these claims is included with the sickness and hospitalisation liabilities in the above table.

An explicit reserve of £350,000 for the future impact of the Covid-19 pandemic on sickness and hospitalisation claims, has been included in the sickness and hospitalisation best estimate liabilities in the above table.

The best estimate liabilities for the with profits products includes an allowance for the cost of backing guaranteed liabilities with assets which may in times of market stress, cause the Society to no longer be able to cover those guaranteed benefits. The allowance is called a 'cost of guarantee'.

The best estimate liabilities for the with profits products also includes an additional liability for death, surrender and sickness and hospitalisation claims which have been incurred but yet reported (IBNR) to the Society at the reporting date. The liability is calculated as the average monthly claim amounts over the past three calendar years multiplied by half the assumed claim delay period for each type of claim.

The best estimate liability for the cash plan product has been calculated as six months of premiums multiplied by an assumed loss ratio of 75% due to the small number of policies in force at the reporting date.

The best estimate liabilities for the unit linked business is the sum of:

- a unit reserve which is the value of policy units
- a value in force which reflects the discounted value of the administration and investment expenses less the annual management charge each month. The future annual management charge is the charge which the Society applies to the policy units. The administration and investment expenses are the expected costs of the policies to be incurred by the Society. The calculations allow for expected claims (including claims upon death, transferring out and maturity).

D 2 1 2 Assumptions

The calculation of the technical provisions require realistic assumptions on:

- mortality rates
- lapse and cancellation rates
- sickness inception and recovery rates
- hospitalisation inception and duration of hospitalisation
- expenses and expense inflation
- discretionary cash benefit claims
- discount rates for future cash-flows
- IBNR claims

Additional assumptions used within the calculation of technical provisions relating to the Covid-19 pandemic are:

- an explicit reserve for the future impact of the Covid-19 pandemic on sickness and hospitalisation claims
- an explicit reserve for the future impact of the Covid-19 pandemic on death claims

Mortality

Mortality assumptions are based on published base mortality tables. These are then adjusted by applying a percentage based on analysis of the Society's experience between 2016 and 2020. The table below shows the mortality assumptions used within the valuation:

Product	Mortality Rate (% of Life Table)
Endowments	65%
Old Death - Contributing and Free Card	70%
Old Death - Paid Up	5%
Old Death - Spouse Contributing and Free Card	55%
Old Death - Spouse Paid Up	5%
New Death	30%
Provident	35%
Sickness (SN, SP & SR Policies)	45%
Sickness (SI & SD Policies)	45%
Sickness (SN, SP & SR Policies) In Deferment Only	40%
Sickness (SI & SD Policies) In Deferment Only	35%
Hospitalisation	80%
Hospitalisation in Deferment	60%
CTF	25%

The standard mortality tables used for all products, except the CTF product, are the Continuous Mortality Investigation permanent assurance combined tables (AMC00 and AFC00). The mortality table used for the CTF product is the English Life Table number 16 table (ELT16).

The mortality assumption for the CTF Protected Account is 85% of the AMC00 and AFC00 tables. This assumption is based on the mortality rates assumed within the development of the product and will be adjusted in future years as the Society gains more experience.

Lapse and Cancellation

For the with profits products, lapse is a generalised term for when a policy is lapsed or surrendered. For sickness and hospitalisation policies it also includes policies where a policyholder has resigned from his transport industry employment.

For the CTF and CTF Protected Accounts and ISA products, a lapse is a transfer of the policy fund away from the Society.

The lapse rate assumptions are based on an analysis of the Society's experience between 2018 and 2020. The table below shows the lapse assumptions split by individual year for the first five years since commencement and then one combined rate is assumed for all years thereafter:

Product	**Year Since Commencement**					
	1	2	3	4	5	6+
Endowments:	13%	12%	7%	7%	9%	5%
Old Death:						1%
New Death:						3%
Provident:						1%
Sickness (SN, SP & SR)	26%	17%	16%	11%	9%	7%
Sickness (SI & SD)						4%
Hospitalisation:	31%	20%	15%	12%	18%	8%
CTF						0.2%

Note: Where no rates are given for particular years since commencement indicates there are no policies with the relevant term during the investigation period

The lapse assumption for the CTF Protected Accounts is 8% for all durations, and 10% for the first year and 8% thereafter, for ISAs. The partial withdrawal assumption for the ISAs is 1.5%. These assumptions are based on the lapse and partial withdrawal rates assumed within the development of the products and will be adjusted in future years as the Society gains more experience.

Cancellation rates only apply to with profits products and refers to when a policyholder cancels a policy within the first 30 days after commencement.

The cancellation rate assumptions are based on the latest analysis of the Society's past experience. The table below shows the cancellation rate assumptions used within the valuation:

Product	Cancellation rate
Endowments:	4%
Sickness (SP & SR)	5%
Hospitalisation:	4%

Sickness Inception and Recovery Rates

The valuation requires assumptions on both the rates of sickness claims (inception rates) and duration of sickness (recovery rates). Both the inception and recovery rates are used to calculate the expected sickness benefit cash-flows for the policy projections.

The assumptions are based on a published industry standard tables from the Continuous Mortality Investigation Report 12 ("CMIR12"). The tables below show the inception and recovery rate assumptions used within the valuation.

The inception rate assumptions are split by products and consist of an initial proportion of the standard tables (26 week deferred period table for the SD product and 1 week deferred period table for all other products) and an occupational class loading and additional loading for female policyholders, which are applied to the initial proportion:

Product	Initial Proportion	Occupational Loading	Female Loading
SI	45%	75%	20%
SD	140%	75%	20%
SN1, SP1 & SR1	70%	75%	50%
SN2, SP2 & SR2	105%	75%	40%
SN3 & SP3	145%	75%	55%

The recovery rate assumptions are split by product, gender and duration of sickness (in weeks) and are percentages of the standard CMIR12 table:

Weeks of Sickness	Male				Female			
	SI	SN1/SP1/SR1	SN2/SP2/SR2	SN3/SP3	SI	SN1/SP1/SR1	SN2/SP2/SR2	SN3/SP3
1	51%	36%	36%	36%	51%	32%	32%	32%
2	73%	78%	78%	78%	73%	68%	68%	68%
3	84%	84%	84%	84%	84%	75%	75%	75%
4	40%	90%	90%	90%	40%	91%	91%	91%
5	70%	137%	137%	137%	70%	135%	135%	135%
6	67%		96%	96%	67%		91%	91%
7	80%		111%	111%	80%		100%	100%
8	133%		131%	131%	133%		131%	131%
9	66%		107%	107%	66%		113%	113%
10 – 12	144%		332%	332%	144%		297%	297%
13+	318%			267%	318%			233%

The recovery rate assumptions for the SD product, for all durations of sickness, are the same as the weeks 13+ assumption for the SI product.

Hospitalisation Inception and Duration of Hospitalisation Rates

The valuation requires assumptions on both the rates of hospitalisation claims (inception rates) and duration of hospitalisation. Both the inception rates and durations of hospitalisation are used to calculate the expected hospitalisation benefit cash-flows for the policy projections.

The assumptions are based on tables of expected rates developed to be specific to the Society's hospitalisation benefit product.

The inception rates within the tables range from 2.5% at age 16 to 6.5% at age 64. The inception rate assumptions consist of an initial proportion of the product specific table rates and an additional loading for female policyholders which is applied to the initial proportion. The assumptions used within the valuation are:

Initial Proportion	Female Loading
60%	75%

The durations of hospitalisation within the tables range from 3 days at age 16 to 20 days at age 64.

The duration of hospitalisation assumptions are split by gender and are proportions of the durations of the product specific table. The assumptions used within the valuation are:

Male	Female
46%	28%

Expenses and Expense Inflation

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 for 15 years, allowing for expense inflation. The management expenses are split between acquisition, renewal and investment expenses. The acquisition and renewal expenses are split further between administration and overhead expenses.

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

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

The expense inflation assumption is based on the Bank of England implied inflation yield curve. The inflation rate used is the average rate over the period covered by expense analysis. The Society's view is that future expense inflation for all expenses will be approximately the same as the increase in the retail price index in any year.

The table below shows the expense assumptions used within the valuation:

Expense Allowance	Assumption
Per Policy Cost (Renewal – Life Policies & CTF Protected Accounts)	£3.80pa
Per Policy Cost (Renewal - Sickness and Hospitalisation Policies)	£10.80pa
Funds under Management Cost (Renewal – With Profits)	1%
Percentage of Premiums Cost (Renewal Best Estimate – With Profits)	16%
Percentage of Premiums Cost (Renewal Mass Lapse – With Profits)	19.5%
CTF & CTF Protected Accounts annual management charge	1.5%
Funds under management cost (CTF)	0.1%
Funds under management cost (CTF Protected Account)	0.4%
Funds under management cost (ISAs)	0.6%
Per Policy Cost (CTF)	£0.80pa
Expense Inflation (applied to per policy costs)	3.75%

The expense assumptions for the CTF Protected Account shown in the above table are the assumptions assumed within the development of the product and will be adjusted in future years as the Society gains more experience.

Incurred but Not Reported Claims

The IBNR claims for sickness and hospitalisation policies is calculated as 2 (half of the assumed claim delay period of 4 months) multiplied by the monthly average of the last three calendar years total sickness and hospitalisation benefit claims.

The IBNR claims for life policies is calculated as 4.5 (half of the assumed claim delay period) multiplied by the monthly average of the last three calendar years total surrender and death benefit claims.

The additional IBNR surrender claims due to the Society being unable to complete its normal contribution arrears reminder process is calculated as 75% of the surrender values for those policies which are in arrears by 20 or more premiums for weekly premiums and 3 or more premiums for other premium modes.

Discretionary Cash Benefit Claims

The discretionary cash benefit claim assumption is an annual amount per eligible policy and is used to calculate the expected discretionary cash benefit cash-flows. The assumption is based on the average annual amount per eligible policy over the last three calendar years and has been £6.50 per policy, rising to £8.70 from 2022.

Rates of Future Bonuses and No-Claim bonuses

The Society pays bonuses on some of its life assurance business and pays a maturity benefit of an accrued no-claims bonus for each year that the member does not claim sickness benefits for all but the SD and hospitalisation products. The rates assumed are such that the best estimate liability (on a risk free rate basis) is calibrated to be slightly above that of the current asset shares of the policy (where possible). This is in line with the current pay out policy. The future bonuses assumed are as follows:

Life:

Product	Reversionary Bonus (Per Unit)	Terminal Bonus
Adult Endowments (EB)	£0.25	20%
Adult Endowments (E60 & E65)	£0.00	15%
Junior Endowments	£0.00	15%
New Death	£0.25	5%
Old Death	£0.00	5%
Provident	£0.00	0%

Sickness:

Product	No Claims Bonus (Per Unit)
Sickness (SN, SP & SR)	£5.00
Sickness (SI)	£0.00

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 are risk free rates provided by the Prudential Regulation Authority (PRA). PRA publishes monthly sets of risk free rates. As the Society's liabilities are all denominated in Sterling the GBP risk free rate curve is used. Example forward rates as at 31 December 2021 are shown in the following table below:

Time to Maturity	Risk Free Rate	Time to Maturity	Risk Free Rate
1	0.75%	20	0.88%
2	1.01%	25	0.85%
3	1.08%	30	0.82%
4	1.08%	35	0.80%
5	1.05%	40	0.74%
10	0.95%	45	0.65%
15	0.91%	50	0.65%

D2 1 3 Risk Margin

The risk margin is the additional premium to ensure the value of the technical provisions is equivalent to the amount that another insurer would require in order to take over and meet the liabilities of the Society.

The risk margin is calculated as the present value of the future projected solvency capital requirements (for insurance risks only) multiplied by a cost-of-capital rate of 6% per annum, 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.

D2 1 4 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.

D2 1 5 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 the unit-linked business is not included in the technical provisions within the financial statements.

D2 1 6 Adjustments or transitional measures used to calculate the value of technical provisions

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

D2 2 Recoverables from reinsurance

The Society does not currently have any external reinsurance ceded or financing arrangements.

D3 Other Liabilities

The value of liabilities other than technical provisions at 31 December 2021 are shown in the following table:

Liability	Value £000
Provisions other than technical provisions	£1,936
Any other liabilities	£174

The provisions other than technical provisions relates to transactions relevant to members such as contributions paid in advance and benefits yet to be paid. The liability is calculated as the total face values of all such transactions.

D3 1 Employee benefits

The Society has a defined benefit staff pension scheme ("the pension scheme") - now closed to new members - for which the surplus or deficit is included within the balance sheet of the financial statements. The pension scheme liabilities are the discounted value of expected future pension benefits for each scheme member (deferred members and pensioners) calculated on an FRS 102 basis. The value of liabilities at 31 December 2021 is £4,713k. The pension scheme assets consist of government bonds, bond, equity and property collective investment schemes, infrastructure funds, multi-asset funds and deposits.

The value of these assets at 31 December 2021 are shown in the following table:

Asset	Value £000	Percentage of Total Assets
Government bonds	1,296	22.3%
Collective investment undertakings – Bonds	917	15.8%
Collective investment undertakings – Equities	2,802	48.2%
Collective investment undertakings – Property	369	6.4%
Collective investment undertakings – Infrastructure	239	4.1%
Collective investment undertakings – Multi Asset	64	1.1%
Cash and cash equivalents	119	2.0%
Any other assets	4	0.1%
Total	**5,810**	**100.0%**

D4 Alternative methods of valuation

No alternative methods of valuation have been used.

D5 Any Other Information

No further material information is required.

29 March 2022

transport friendly society

E Capital Management

E1 Own Funds

E1 1 Policies and objectives

The Society's key capital management objectives are:

(i) To ensure the Society's strategy can be implemented and is sustainable;
(ii) To ensure the Society's financial strength and support the risks it takes on as part of its business;
(iii) To give confidence to policyholders and other stakeholders who have relationships with the Society; and
(iv) To comply with regulatory capital requirements imposed by its UK regulator, the PRA.

These objectives are reviewed at least annually. Management intends to maintain surplus capital in excess of its Solvency Capital Requirement and maintain an appropriate additional margin to absorb changes in both capital and capital requirements.

The Society prepares a strategic business plan over five years.

E1 2 Measurement and monitoring of capital

The Society's capital position is monitored regularly and reviewed formally on a quarterly basis by the Board of Management. Objectives and benchmarks are set by which to judge the adequacy of the Society's capital. The capital position is monitored against the benchmarks to ensure that sufficient capital is available to the Society. If the Society sees large changes in its available capital, it will amend the level of profit allocation and bonuses payable to its Members accordingly, having due regard to the Society's Principles and Practices of Financial Management.

The Society's capital requirements are forecast on a regular basis and compared against the available capital and the Society's minimum internal rate of return. The internal rate of return forecast to be achieved on potential investments is also measured against minimum required benchmarks taking into account the risks associated with the investment.

In the event that sufficient capital is not available, actions would be taken either to raise additional capital or reduce the amount of risk through, for example, reinsurance, reducing business volumes or a change in investment strategy.

As a mutual organisation the Society does not have any shareholders. The Society's excess of assets over liabilities is Tier 1 capital and is the reconciliation reserve within the Society's basic own funds. It is essentially accumulated surplus that has not yet been allocated to policies. It forms the working capital of the Society and is available to meet risk and capital requirements, as well as any uncertain additional liabilities that may arise in the future.

The Society has no Tier 2 or Tier 3 capital.

The Society's own funds as at the end of the current and previous reporting period were:

	31 December 2021 £000	31 December 2020 £000
Own funds	30,572	27,809

The increase in own funds is due to total assets increasing by more than the increases in technical provisions and other liabilities. The following table provides the value of assets, technical provisions and other liabilities at the end of the current and previous reporting period:

	31 December 2021 £000	31 December 2020 £000
Value of assets	84,306	77,606
Technical provisions	(51,623)	(48,229)
Other liabilities	(2,110)	(1,568)
Total liabilities	(53,734)	(49,797)
Own funds	**30,572**	**27,809**

The main movements in technical provisions have been caused by:

- a decrease in technical provisions due to increases in risk free rates used to discount future cash-flows
- an increase in technical provisions due to an increase in the expense inflation assumption, and increases in the percentage of premium and sickness and hospitalisation per policy cost expense assumptions, used to calculate the best estimate liabilities
- an increase in the annual discretionary cash benefit per eligible policy assumption
- an increase in the value in force for the unit-linked business due to increases in the value of policy units

Increases in risk free rates is mirrored to some extent by decreases in UK government bond (gilt) values.

An increase in the value of assets backing the unit-linked liabilities was matched by a rise in the value of unit liabilities within the technical provisions.

E1 3 Comparison of own funds and available capital resources within financial statements

There is a material difference between the excess of assets over liabilities for solvency purposes and the available capital resources (fund for future appropriations) within the financial statements. The difference is due to the value in force for the unit-linked liabilities being excluded from the technical provisions in the financial statements. The following table reconciles the fund for future appropriations to the excess of assets over liabilities for solvency purposes:

	31 December 2021 £000	31 December 2020 £000
Fund for future appropriations	29,329	26,584
Unit-linked value in force	1,244	1,224
Own funds	**30,572**	**27,809**

E1 4 Other details on own funds

No basic own funds are subject to any transitional arrangements.

The Society has no ancillary own funds.

No deductions are made from own funds as there are no significant restrictions affecting the availability and transferability of own funds within the Society.

E2 Solvency Capital Requirement and Minimum Capital Requirement

E2 1 Capital requirements

The following table provides both the Society's Solvency Capital Requirement and Minimum Capital Requirement for the current and previous reporting date. The Solvency Capital Requirement is still subject to supervisory assessment for the current reporting date:

	31 December 2021 £000	31 December 2020 £000
Solvency Capital Requirement	14,162	10,416
Minimum Capital Requirement	3,541	3,338

The Society has not made use of simplified calculations for any risk modules or sub-modules of the standard formula. Nor has it made use of undertaking specific parameters for any parameters of the standard formula.

E2 2 Analysis of Solvency Capital Requirement by risk module

The following table provides an analysis of the Solvency Capital Requirement for each risk module for the current and previous reporting date. The table also shows the derivation of the total Solvency Capital Requirement allowing for diversification between risks and for the loss absorbing capacity of technical provisions (allowance for future management actions such as reducing bonus rates and applying market value reductions to surrender values, under insurance and market stress scenarios):

	31 December 2021 £000	**31 December 2020 £000**
Life underwriting risk	1,867	2,076
Health underwriting risk	4,618	4,967
Market risk	20,500	16,728
Counterparty default risk	523	204
Basic Solvency Capital Requirement – before diversification	27,508	23,975
Basic Solvency Capital Requirement – after diversification	22,873	19,374
Loss absorbing capacity of technical provisions	(8,848)	(9,103)
Operational risk	137	145
Solvency Capital Requirement	**14,162**	**10,416**

There has been an increase in the Society's Solvency Capital Requirement during the reporting period. This is mainly due to an increase in the equity and currency risk stress capital requirements within the market risk module. The market value of the Society's equity portfolio has increased during the year. The equity symmetric adjustment used to calculate the equity risk capital requirement has also increased from -0.48% up to 7.09%.

There has also been a decrease in the loss absorbing capacity of technical provisions due to changes in the policy portfolio.

E2 3 Analysis of Minimum Capital Requirement

The Society's Minimum Capital Requirement is a formulaic calculation based on the maximum of an 'absolute floor' (in Euros) and a formulaic calculation based on the Society's Solvency Capital Requirement and technical provisions.

	31 December 2021 £000	31 December 2020 £000
Minimum Capital Requirement$_{(formulaic)}$	3,541	2,601
Minimum Capital Requirement$_{(absolute\ floor)}$	3,126	3,338
Minimum Capital Requirement	**3,541**	**3,338**

Previously, the Society's Minimum Capital Requirement was equal to the absolute floor and so subject to the change in the official Euro exchange rate. Due to the increase in the Society's SCR, the MCR calculated under the formulaic approach is now larger than the absolute floor. Under the formulaic approach the MCR for 31 December 2021 is 25% of the SCR.

E3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Society is not using the duration-based equity risk sub-module for the calculation of its Solvency Capital Requirement.

E4 Differences between the standard formula and any internal model used

The Society only uses the standard formula.

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

The Society complied with regulatory requirements throughout the reporting period.

E6 Any Other Information

No further information is required regarding the capital management of the Society.

F Templates

The following Quantitative Reporting Templates are required for the SFCR and are set out in a separate document.

S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.01.01	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

G Requirement to Produce a Regular Supervisory Report (RSR)

Article 312(1) states that the RSR should be submitted to the Supervisory Authorities at least every three years.

The Society last submitted a report as at 31 December 2016 and would normally have been required to produce a report as at 31 December 2019.

However, the PRA's statement, Covid-19 regulatory reporting amendments, dated 23 March 2020 confirmed that the Society was not required to produce a RSR for year-end 2019.

The next Regular Supervisory Report is therefore required for year-end 2022.

H Board's Responsibility Statement

Approval by the Board of Management of the SFCR and Reporting Templates – Financial Period ended 31 December 2021.

We certify that:

1. The SFCR has been properly prepared in all material respects in accordance with the PRA's rules and SII Regulations, and

2. We are satisfied that
   (a) Throughout the financial year in question, TFS has complied in all material respects with the requirements of the PRA rules and SII Regulations as applicable, and
   (b) It is reasonable to believe that the Society has continued so to comply and will so comply in the future

   By order of the Board

   Ali Ramezankhani
   Chief Executive
   29 March 2022

Appendix 1 – Glossary

APR	Approved Person's Regime
CTF	Child Trust Fund
EU	European Union
FCA	Financial Conduct Authority
FLAS	Forward Looking Assessment of Solvency
FRN	Firm Reference Number
GDPR	General Data Protection Regulation
IDD	Insurance Distribution Directive
ISA	Individual Savings Account
KPIs	Key Performance Indicators
MCR	Minimum Capital Requirement
NED	Non-Executive Director
ORSA	Own Risk and Solvency Assessment
PPFM	Principles and Practice of Financial Management
PRA	Prudential Regulation Authority
RSR	Regular Supervisory Report
SII	Solvency II
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SFM	Standard Formula Model
SM&CR	Senior Managers & Certification Regime
SLT	Similar to life techniques
TFS	Transport Friendly Society Limited

Product Codes

D00	Death Unit
DA	Death – Additional
DH	Half Initial Unit
DI	Initial Death Unit
DM	Minimum Initial Unit
DUHF	Upgrade Half To Full
DUMF	Upgrade Min To Full
E10	Endowment 10 Years
E60	Endowment At 60
E65	Endowment At 65
EB	Revised Endowment
EXS	Spouse Death Payment
H00	Hospitalisation
JA18	Children`s To Age 18
JT10	Children`s 10 Years
P	Provident Unit
PA	Provident Additional
PP	Provident Part Unit
PU	Provident Upgrade
S	Sickness Unit
SD	Deferred Sickness
SN1	Sick Weeks 2 to 6 (version 1)
SN2	Sick Weeks 2 to 13 (version 1)
SN3	Sick Weeks 2 to 26 (version 1)
SP1	Sick Weeks 2 To 6 (version 2)
SP2	Sick Weeks 2 To 13 (version 2)
SP3	Sick Weeks 2 To 26 (version 2)
SR1	Sick Weeks 2 To 6 (version 3)
SR2	Sick Weeks 2 To 13 (version 3)
ISA	ISA
JISA	Junior ISA