The Oddfellows
SINCE 1810
making friends, helping people

Reports & **Financial Statements 2016**

For the Year Ended
31 December 2016

Board of Directors and Advisors

INDEPENDENT ORDER OF ODD FELLOWS
MANCHESTER UNITY FRIENDLY SOCIETY LIMITED

Registered under the Friendly Societies Act 1992

Register No. 223 F

REGISTERED OFFICE:	Oddfellows House 184-186 Deansgate Manchester M3 3WB
BOARD OF DIRECTORS:	
CHAIRMAN:	V P Ashcroft, Grand Master
	A P Luckett, Deputy Grand Master
	M A Winter, Immediate Past Grand Master
	S P Doulton Smith, PGM, Term Director
	A R Cole, PGM, Term Director
	C E Vaughan, PGM, Term Director
	C Tayler, PGM
	W J Henchliff, PPGM
	D Randall, PPGM
	W S Connolly (External Non-Executive Director)
	M R Jackson (External Non-Executive Director)
CHIEF EXECUTIVE AND SECRETARY OF THE ORDER:	C J Nelson, FCCA, FCMA DiploD
INSURANCE DIRECTOR:	S J Code, MBA
APPROPRIATE ACTUARY:	M Green, FIA, Chief Actuary Function, (Willis Towers Watson Limited)
WITH PROFITS ACTUARY:	K Miller, FIA, (Willis Towers Watson Limited)
SOLICITOR:	Hill Dickinson LLP
AUDITOR:	Deloitte LLP
BANKER:	Lloyds Banking Group PLC

The Oddfellows is the trading name of The Independent Order of Odd Fellows Manchester Unity Friendly Society Limited, Incorporated and registered in England and Wales No. 223F. Registered Office Oddfellows House, 184-186 Deansgate, Manchester M3 3WB. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, registration No. 109995

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Overview

In line with previous years, 2016 continued to be yet another challenging year for the Society, both centrally and for all our Branches. As at 31 December 2016 base rates had fallen even lower than the previous eight year low to a new low of 0.25%. Market activity and volatility experienced in 2016 and the end of 2016 showed the FTSE 100 up 14.43% in the year at 7,142.83. The forecasters and economists appear to have the same feelings and are expecting the continued volatility and low interest rate environment to continue certainly throughout 2017 and beyond. This affects everyone, and means that achieving good rates of return on investments remains a challenge. For our Branches, the range of investment opportunities that are made available to them through Unity Office gives them the opportunity to take advantage of the returns being achieved, which are appropriate to the nature of the assets backing those funds. By Unity Office and its Branches maintaining a balanced portfolio across the different asset classes of equities (UK and Global), Fixed Interest (Gilts and Bonds), Property (both direct holdings and through a Fund) and cash, we try to ensure that no Branch or Unity Office investment is overly affected by movements in one asset class, nor indeed, one holding within an asset class.

Solvency II came into force on 1 January 2016 and the year-end saw the Society fulfilling its regulatory obligations under this new regime and the revised reporting that resulted from Solvency II. The Society remains well placed under these regulations to go forward in what will be yet another challenging year.

Although no transfers of engagements took place in 2016, work continued on the integration of the Druids Sheffield Friendly Society and the Society remains open to transfer opportunities and has explored some options during the year but these did not come to fruition.

Membership of the Society in overall terms fell in 2016, with total membership as at 31 December being 319,584 of which 240,113 were CTF members.

In terms of Branch membership, the numbers continued to reduce through deaths and lapses, and by the end of 2016 there were 55,910 Lodge members. With the age of our membership profile it is inevitable that there will be some deaths each year. Recruitment and, equally as importantly, retention, remain a key objective for the Society and all its Branches, as without that, the future is challenging in terms of Branch membership.

As a Society, we use Social Media via Facebook and Twitter www.facebook.com/OddfellowsUK www.twitter.com/oddfellowsuk as vehicles for telling both our membership and the general public about who we are and what we do is critical. During 2016 six training sessions were held around the country on Social Media and as a result the Society now has 40 Branches operating effective and up to date Facebook pages which are being used to interact with their members and show what is happening in their locality. Guidance and support continues to be given to any Branch who wants to set up their own page and make the best use of what Social Media has to offer and given the success of the training in 2016 this will be continued in 2017.

Neither the Society nor its Branches can afford to stand still and development remains a key challenge. I have mentioned previously the "Next Steps" Scheme and whilst those Branches that are developing have different challenges to face, it is great to know that at the end of 2016, 72% of our Branches had decided to and were actively developing. This is an increase from the figure at the end of 2015 of 57.3%. The critical elements of development will vary from Branch to Branch but in general terms will cover membership (both recruitment and retention), increasing name awareness, effective Social delivery which means attractiveness and accessibility of events and promotion of those to the general public, as well as strong delivery of Care and of course PR. There is no one size that fits all as our Branches are all different and have different strengths and weaknesses depending on the resource available to them. Development though is not about them developing on their own but in conjunction with support from Unity Office via a dedicated Branch Development Officer. As well as those Branches that are able to develop there are those that cannot. There are a number of Branches that have chosen to transfer to another Branch so that their chance of success and growth is more secure because they realise that "*doing nothing is not an option*". Those Branches who have not gone down this path of transfer nor are developing are receiving 'Strategic Visits' by Directors to discuss their future and this work will continue into 2017 to help strengthen the future of the Society.

In society generally, there are a number of areas where services are being reduced with a negative impact on the UK population, whether that be in terms of health services, care services or local authority services, I firmly believe that as a Society, we are well placed to deliver to our members and to prospective new members, services and products which will help them in these challenging times. This is our opportunity to make Oddfellows known to all and we should grasp that opportunity with both hands.

Chief Executive's Operational Report

New membership packages will be placed before our 2017 Annual Conference for approval and if accepted will come into effect from 1 January 2018. The fundamental base is about taking our experience of why people join the Oddfellows and fit that to what membership provides in terms of social, care and welfare. It is about making the Membership package as attractive as possible to attract new members into the Society and part of this includes us continuing to review the services and benefits that we offer our members and expansion of the range if it is felt to be of benefit to our existing or potential members. This includes partnerships with third parties and in 2017 there will be a renewed emphasis both on existing partnerships and exploring new opportunities for our Members.

February 2017 saw the launch of our new refreshed and updated website which took a number of months from planning to come to fruition. The look and feel of the website has been updated and finding areas has been simplified. www.oddfellows.co.uk remains the address but hopefully all will agree a much improved version.

In 2016 the Society launched two new products, an investment bond and an Adult ISA. These two products together with others being considered are a new step for the Society, as apart from the Junior ISA launched in 2013, the Society has not launched any new products for over 20 years. This brings a new focus and during 2017 the rebrand of our Insurance business will take place together with the launch of a new "Insurance" website under the new brand but with, of course, links both ways so that members and policyholders can see what the whole Society has to offer.

Summary
I am sure that 2017 will see as many challenges as 2016 but I am excited about seeing how the Society will develop both from a fraternal perspective as well as an Insurance perspective. I will be working with our Branches to ensure that there is growth and continuity which in turn will strengthen the Society. This may, however, result in some changes in some areas which may well be necessary to make the Society stronger. I believe the Society is well placed both fraternally and from a Long Term Business perspective to meet all the challenges head on and drive the Society forward. Now is our time and we must take every opportunity that we can.

Finally, I would like to offer my thanks to the Branch Secretaries, Branch Committees of Management, all our volunteers, the Staff at our Offices in Manchester and Liverpool and all my colleagues on the Board for their hard work, support and enthusiasm during the year.

C J Nelson
Chief Executive Officer
29 March 2017

Strategic Report

This Report has been compiled in line with Section 414c (amended) from the Companies Act which the Financial Reporting Council (FRC) has indicated should be considered best practice.

Business objectives and activities

The Society's aim is to improve the quality of life of its members by meeting their social and welfare needs through a mutual national Branch network and provide a fair return to its policyholders.

In order to achieve this aim, the Society's main objectives are:

- To ensure that the Branch delivery of our core product is of a high standard throughout the UK.
- To expand and rejuvenate the Branch Network, ensuring that there are sufficient Branches within the UK meeting members' expectations providing them with access to our core product.
- To proactively seek incoming Transfers of Engagements from other Friendly Societies thus giving those policyholders access to the range of supportive benefits we offer.
- To ensure the Society remains fully compliant with the requirements of Solvency II.
- To focus recruitment of new members via local promotion of Branches and the services and facilities they offer.
- To ensure that the necessary schemes are in place to assist Branches to retain their membership.
- To increase the number of active members within the Society via Social events and then encouragement to involve them in more local participation.
- To ensure that benefits and services remain attractive to both existing and prospective members, the Society will monitor other schemes and benefits with affinity partners.
- To investigate the Corporate Market with a view to opening up more geographical areas of the country.
- To ensure the Society has in place effective Compliance, Risk, Management, and Governance arrangements.
- To ensure that payments are made to policyholders at the appropriate time and that free assets in the Long Term Business (LTB) funds are distributed in a manner that is fair across policy types and over generations of policyholders.

Throughout 2016 the Society's Board of Directors continued to demonstrate that it has in place the appropriate systems and controls to comply with the needs and requirements of the Financial Conduct Authority's (FCA), Prudential Regulatory Authority (PRA), the Treating Customers Fairly (TCF) regime and EIOPA in respect of Solvency II. This continues to be evidenced by:

- The TCF and Conduct Champion actively promotes and raises the profile of TCF throughout the Society and ensures that the implications for TCF are considered by the Society at all stages during times of reorganisations or strategic changes such as:
  - entry into new markets, mergers, acquisitions or disposals;
  - cost cutting, outsourcing or centralisation; and
  - major new systems.
- The Society has continued to utilise the systems for evidence based recording of the integration of TCF principles into the business culture and working practices.
- Appropriate Management Information (MI) is in place to test whether the Society is treating Customers fairly by delivering the relevant TCF outcomes applicable to the Society.
- The MI indicates that the Society continues consistently to treat Customers fairly and maintains delivery of the required consumer outcomes. Processes are in place which monitor the MI, this enables the right people to take appropriate action as part of "business as usual."
- The timely submission of regulatory returns.

In addition, the Society also supports the provision of convalescent homes and housing associations and the less advantaged members of society by charitable donations to projects perceived to benefit society as a whole.

The Society uses a variety of measures to monitor its objectives and activities. In the main, a Balanced Scorecard approach is used to review progress in the key areas and in addition, management monitor progress of the operational areas of the Strategic Plan on a quarterly basis.

Principal risks and uncertainties
The Society has identified the following primary risk categories which reflect the internal and external risks in the operation of its business and strategy as detailed in the report:

- The Society does not meet its Solvency Capital Requirements;
- Failure to achieve the LTB Business Plan objectives;
- Failure to achieve the Fraternal Strategic Business Plan;
- The Society's reputation is adversely affected;
- Failure to comply with the Annotated Combined Governance Code;
- Non-compliance with legal and regulatory requirements; and
- Failure to achieve the Society's Investment Strategy.

Throughout 2016 the Society did not identify any new primary risks or close any existing primary risks.

Underpinning the primary risks are a number of secondary risks. Both the primary and secondary risks are covered by the Society's suite of Risk Policies within the overall Risk Management Framework.

Whilst these are the principal risks, the Board and Management have in place a number of key internal controls to mitigate the impact of these risks which are measured and reported to the Board and its Committees.

Each primary and secondary risk is allocated a Risk Owner, the body / individual that has designated oversight responsibility to manage a particular risk(s) and who is accountable for:

- ensuring that risk(s) remain within acceptable risk levels, that gaps are identified and that risk responses and control activities are adequate and appropriate; and
- ensuring the timely implementation of risk mitigation recommendations and/or action plans.

The Society operates a priority based risk monitoring and reporting procedure:

- 'High' rated risks will require immediate management attention and will be monitored and reported on a monthly basis or more frequently if required.
- 'Medium and Low' rated risks will be monitored on a quarterly basis or more frequently if required.
- All identified risks will be monitored at least annually or more frequently if required.

There were no material changes to the risk scoring during 2016.

Current activities
Development Planning
The target in 2016 was to get 68% of Branches working on a robust development plan which could be monitored and measured using the SMART acronym. This has been a significant change in culture for some Committees of Management but getting them to agree and actively work on a development plan has led to positive and tangible results.

By the end of 2016, 73% of Branches had developed tailored plans to match their readiness and ability to develop. These development plans have been embraced by the Branches who are at many different levels. Some are working on comprehensive plans which embrace most, if not all, elements of development while others are more modest but represent, nevertheless, planned development.

Adding to the amount of Branches working proactively to develop is the continued determination of the Board to hold underperforming Branches to account. Throughout 2016 'Strategic visits' by Directors has reinforced the message that Branches who are managing decline or refusing to improve that these are no longer attitudes the Society is prepared to tolerate.

Three Branches who had 'signed up' to work intensively on development as part of the Next Steps Scheme concluded their projects this year. All were able to demonstrate improvements on previous performance in:

- the number of new members recruited
- the quality of social programming
- increased event attendance
- improved care delivery at local level
- reduction in lapses
- the quantity of press coverage
- attracting more members to get actively involved

Strategic Report

While some targets were exceeded, others were not and have been integrated into updated and challenging plans which the Branches will work on in the coming year. 'Next Steps' is no longer promoted as a stand-alone scheme as all its principal components are part of the overall strategy for developing Branches in the Society.

Improving Skills and Knowledge
Underpinning the Branches ability to deliver the membership proposition has been a number of training initiatives and inductions to improve the knowledge, expertise and confidence of key volunteers and paid workers within the Branch network. These included:

- ***Care - Weekend School Workshops:*** 'Later Life planning' explored various aspects of planning for older age including wills, power of attorney and the Mental Capacity Act.

- '***Changes in Health and Social Care'***, helped participants understand recent changes, how to access services, make referrals and challenge decisions.

- ***Welfare Visitor Induction/ Refresher Training:*** Six full day training sessions were held around the country attended by participants from 17 Branches. The sessions covered the Welfare Visitor role and boundaries, as well information and case studies on benefits and support available to help members.

- ***Communications Workshops:*** Six workshops took place across the country covering Social media – running a successful Branch Facebook page; Public relations – getting coverage in the local media, and Newsletters – creating engaging content. They were designed for those who are delivering all or any of these activities or intended to become involved in the near future.

- ***Weekend School Workshop:*** 'How to create and deliver a Branch Development Plan'. These sessions included SMART planning principles, case studies, available support and resources.

- ***Development Workshops*** which can be tailored to suit individual Districts and includes a full understanding of all the elements of development. Three Branches attended these workshops in 2016.

- ***Development Inductions*** - throughout 2016, the Branch Development Department has delivered induction programmes to new and existing secretaries, Social Organisers and members of Committees of Management. Topics covered branding and development strategy, Online Events Listing System training, Events Diary and social planning, marketing tools and support.

Branding and Online Development
A significant amount of time and resources has been focussed on the creation of a new website to improve the Society's effectiveness online. This work has also been an important catalyst to revisit the Society's vision and refresh the brand framework, marketing collateral and member communications.

The revised Brand Framework now provides greater clarity to direct and drive more purpose driven strategic and operational decisions, eg central marketing communications work as well as guide the approach of all employees both at Unity Office and in the Branches. Wider than this, it will help to inform strategic direction and decisions for new products and services, and third party partnerships.

The Society's social media presence continues to grow with 40 Branches now administering active and engaging online communities. An audit was also undertaken of the Society's email marketing activity with a view to improving the collecting, storing and use of emails in 2017.

Recruitment
To improve future recruitment performance, research and development has been undertaken to reinvigorate the current approach. This involves identifying and targeting areas for concentrated recruitment activity, refreshing the Refer-a-Friend scheme and quarterly newspaper, Oddfellows Times. All of these new initiatives will be rolled out early 2017.

Friendship Month continues to be the most successful recruitment and brand awareness campaign for the Society, demonstrating year on year improvements and providing numerous recruitment opportunities for Branches across the country.

The National Heart Month is a national awareness event which has been added to the Branch based advertising to increase recruitment and branding opportunities. The successful elements of this collaborative event (held in February) will be tested in a number of Branches in the new year.

Activities outside scope of powers

The Board of Directors considers neither the Society nor its Branches have carried out activities during the year outside the scope of their powers.

Financial review of the year

The financial outcome for the year is detailed in the Income and Expenditure Accounts shown on pages 35 and 36, with the Statement of Other Comprehensive Income being shown on page 37, and the Assets and Liabilities as at 31 December 2016 shown in the Balance Sheet on pages 38 and 39. The Technical Account for Long Term Business on page 35 shows a transfer from the Fund for Future Appropriations of £2.73m compared to a transfer to the Fund for Future Appropriations of £1.461m in 2015. The Non Technical Account shows the income and expenditure arising from the Society's business objectives as outlined on page 36 and produces a deficit of income over expenditure of £1.109m (2015: surplus of £171K).

The total investment return for the Non Technical Account amounted to £17.17m (2015 : £8.19m) of which £16.5m (2015 : £7.5m) was attributed to Branches in the various internally operated unitised funds (See Note 16).

The Balance Sheet gross asset value has increased to £386.9m from £360m in 2015 (restated) which is an overall increase of £26.9m (7.5%).

The year end of 2016 closed with the FTSE 100 valued 7,142, 14.2% up on the close of 2015. The early part of 2017 has seen continued levels of volatility in the market and this is set to continue. The base rate fell to 0.25% in August 2016 from its previous all time low with little expectation of any increase before 2018. The Society continues to monitor its investments on a regular basis in order to assess the impact on the Society of the markets. Expectations are that the previously experienced volatility will continue over the short to medium term.

Liquidity strategy

The current economic climate is showing some signs of improving but it will still be a long haul to more stable times. It is important therefore that we continue to monitor our investments including cash, and maintain our balanced portfolio approach to all our areas of business ensuring that no area is left exposed to changes in any market movements in any one asset class. This approach includes reviewing the spread of such assets, to maximise long term investment returns whilst meeting forecast liquidity needs in the short term. The maturing profile of our assets are matched with our liabilities, and in conjunction with the advice from the Society's Actuary we adapt our investment model according to the needs of our insurance book. For our non insurance activities we are diversified into a number of funds which enable us to spread risk.

Supervision of Branches

The Board of Directors has overall responsibility for the supervision of all Branches in addition to the direct responsibilities of the Branch Committees of Management themselves. The central and local systems of reporting continue to identify areas that require improvements to systems and these are rectified within appropriate time scales.

The above Strategic Report was approved by the Board of Directors and signed on its behalf by:

C J Nelson
Chief Executive Officer
29 March 2017

Board of Directors Report

The Directors present their Annual Report together with the Financial Statements for the year ended 31 December 2016. In producing this Report, the Directors have considered the Annotated Corporate Governance Code (ACGC) and reference is duly made on those areas where the Directors feel that compliance is not appropriate for the Society.

Member relations

The Board of Directors communication strategy for the whole Society aims to fulfil the following objectives:

1. To ensure that relevant information is given to all our *key stakeholders in a timely and appropriate manner.

   This means our communications:
   a) are clear, fair and not misleading;
   b) use plain English;
   c) aim to keep members informed;
   d) provide sufficient information at the right time for key stakeholders to make informed decisions; and
   e) fully utilise all available communication channels (eg email, fax, letter, telephone, website, member magazines, social media).

2. To support open communication between the Society and its key stakeholders, a range of publications and information will be made available on a regular basis – these will include annual statements, circulars, newsletters and other documents on the intranet and website.

3. To continuously monitor our communications to ensure best practice and to undertake an annual review to get feedback from members and policyholders. This will include distribution and analysis of customer surveys.

4. To review staff skills and experience on an annual basis to ensure adequate training is provided. This will mean the Society can continue to achieve its communications objectives.

Underpinning the Society's (Insurance Department's) ongoing communication strategy (as outlined above) are the FCA/PRA's current rules and guidance (Principles **6, 7 and 8) also ***E.1 of the Annotated Corporate Governance Code – see notes below:

*Key stakeholders include Branch Officers, members, policyholders, Board of Directors, Standing Committee members, staff and FCA, PRA and other relevant regulatory bodies.

**Principles 6, 7 & 8: 'A firm must pay due regard to the interests of its customers and treat them fairly'. 'A firm must pay due regard to the information needs of its customers, and communicate information to them in a way which is clear, fair and not misleading'. 'A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client'.

***E.1 The Board as a whole should take responsibility for ensuring that a satisfactory dialogue with the Society's members takes place.

Complaints by Members

The Society aims to deliver the highest standard of service to its members. However, we recognise that there may be occasions where our members believe that our service has fallen below their expectations. In this event, they have recourse to our complaints procedure.

The Society's philosophy is that the effective management of complaints is a key part of treating members fairly and ensuring good member outcomes.

The following values have long been embedded in the Society's culture and procedures:

- The provision of excellent standards of service to our members;
- Treating our members fairly and ensuring that all complaints receive fair, consistent and prompt investigation and resolution; and
- Valuing member feedback with a commitment to review our working practices and procedures to deliver good member outcomes.

Board of Directors Report

The Compliance & Risk Function, the Audit, Risk & Compliance Committee, the Insurance Committee and the Society's TCF and Conduct Risk Champion regularly review the number and type of complaints received. The objective is to:

- ensure that complaints are properly dealt with and that appropriate corrective action has been taken to prevent complaints of the same or similar nature occurring again; and
- ensure that the Society's members are treated fairly.

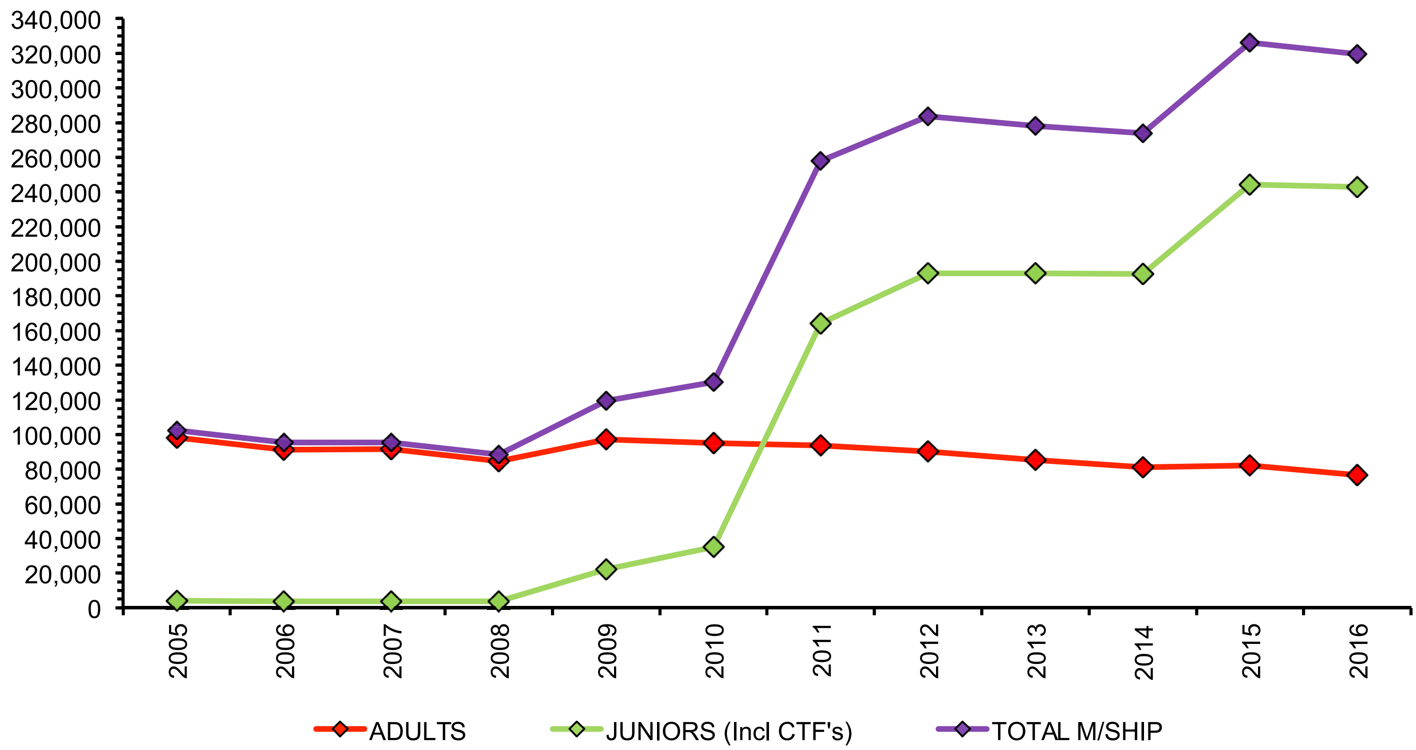
In the unlikely event that a complaint cannot be resolved to the member's satisfaction, the member is made aware of the option to appeal to the Financial Ombudsman Service (FOS).

Over the last three years, the Society has received 49 complaints. Following appropriate investigation, four were upheld and 37 were refuted. Of the 37 refuted complaints, seven members decided to appeal to the Financial Ombudsman Service of which three were upheld in favour of the member. The remaining eight complaints involved sales or advice provided by third party organisations and were referred to those organisations for investigations.

Number of Members

The Society had 319,584 members on 31 December 2016, of which 242,943 were Junior Members (240,113 being Child Trust Fund Members and 189 Junior ISAs).

Total membership (including Policyholders)



Statement of Directors' responsibilities

The Friendly Societies Act 1992 ("the Act") requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Society at the end of the year and of its income and expenditure for that year. In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to assume that the Society will continue in business.

Board of Directors Report

The Directors are responsible for keeping proper accounting records which must show and explain the transactions of the Society and disclose the financial position of the Society with reasonable accuracy at any time, and enable them to ensure that the Financial Statements comply with the Act and the regulations under it. They are also responsible for the systems of internal control, for safeguarding the assets of the Society and hence taking reasonable steps for the prevention and the detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. The Directors responsibility also extends to the ongoing integrity of the Financial Statements contained therein. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

The Board of Directors discussed the issue of the Society being a going concern of at least 12 months after the date of signing the Accounts, and of its longer term viability, at the December 2016 Board meeting. The Board conducted this review using a detailed budget for the forthcoming year (ie. 2017), the Strategic Plan which covers the period 2016 to 2018, the Society's Own Risk and Solvency Assessment (ORSA) and the Medium Term Capital Management Plan which have been prepared in accordance with the requirements of the Solvency II directive. The ORSA document considers the Society's, projected and stressed Balance Sheet (ie. assuming that certain risks the Society faces may happen) and capital requirements. The future liquidity and cash flow requirements were also considered as well as actions that are available to management. The ORSA itself is prepared and approved on an annual basis, and more frequently should any material changes in the Society's risk exposures and/or business strategy occur. The 2017 budget and Strategic Plan are also reviewed and approved by the Board of Directors.

The Directors have determined that the two year period to December 2018 is an appropriate period over which to provide its viability statement. In making their assessment, this period was selected for the following reasons:

- The projected capital under the forward looking assessment of own risks, as prepared within the ORSA, is performed using a look forward period to December 2018;

- The strategy and associated principal risks underpinning the Society are monitored over a forward looking two year period; and

- The level of confidence within the judgments made as part of the forward looking two year assessment is in line with the Society's risk tolerance and business objectives.

The Board also considered the Principal Risks and Uncertainties as described in the Reports and Financial Statements. Based on the results of this analysis, the Board of Directors consider that the Society has adequate resources to continue in business and meet its liabilities as they fall due over the assessment period recognising that future assessments are subject to a level of uncertainty that increases with time and therefore outcomes cannot be guaranteed or predicted with certainty.

Notwithstanding this, the Society has continued to adopt the going concern basis in preparing the Financial Statements.

Corporate Governance

The Board is accountable to the Society's members for the operation of the Society and good governance is fundamental to this responsibility. The principal role of the Board is to focus on the Society's strategy. As the business develops and changes, and as the challenges the Society faces change, the Board has to ensure that there are the necessary resources in place with the relevant competencies, skills and experience. It is also essential that financial and Risk Management procedures and controls are robust and effective. In particular, the Board's role is to provide general direction to the Society and to safeguard the interests of its Members.

Board of Directors Report

The Board's approach to Corporate Governance is influenced by the following matters:

- That the Board is accountable to the Society's Members for the conduct and performance of the business;
- That the interests of Members are at the heart of the Board's decision making;
- That the interests of other parties, such as employees and the communities in which the Society operates, are also taken into account;
- That the Society should be managed in a prudent and efficient manner with effective decision making and robust management of risks that the Society may face; and
- That the effectiveness of the Board is vital to the financial strength and future success of the Society.

The Board is committed to complying with best practice in Corporate Governance and the Society complies with the standards and disclosures required under the provisions of the Associated of Financial Mutuals (AFM) Annotated Corporate Governance Code (ACGC). Under the principle of "comply or explain", the Society is obliged to make explicit disclosure about the relatively small numbers of those parts of the ACGC where we are not compliant. These cover matters which are specific to the Society's circumstances or where it is considered that there is a justifiable reason for a departure from the ACGC, particularly if it is believed that such departure is in the best interests of its members and that the governance of the Society is not compromised.

The Board considers that throughout the period under review, it has applied and complied with the substantial majority of the relevant principles and provisions of the ACGC, the exceptions being as shown below:

Code Provision	Explanation
Did the Non-Executive Directors meet without the Chairman present during the year to appraise the Chairman's performance? Were all such meetings led by the Senior Independent Director? On other such occasions as deemed appropriate, did the Non-Executive Directors, led by the Senior Independent Director, meet without the Chairman present?	The Society's Chairman is normally appointed for one year, but the Senior Independent Director fed back to the Chairman the results of his evaluation by the rest of the Board.
Does the Chairman or an Independent Non-Executive Director chair the Nomination Committee? Did an Independent Non-Executive Director rather than the Chairman chair all meetings of the Nomination Committee (or part of such a meeting) that were dealing with the appointment of a successor to the Chairmanship?	Proportionate to the size and complexity of the Society's business, we do not have a Nomination Committee. The Society's Governance Committee acts as a Nomination Committee in this regard. The Governance Committee elects a Chairman from its own number.
Does the Board have a policy on diversity, including gender, and measurable objectives for implementing the policy? Does this section include a description of the Board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives?	The Society does not operate a gender policy and has no plans to introduce one. Members of the Board are elected on their knowledge, experience and skills irrespective of their gender. The Board is satisfied that the Society's processes for appointments to the Board demonstrate that a formal gender policy is not required. This can be evidenced by the existing and historical make-up of the Board.

Code Provision	Explanation
Did the Nomination Committee prepare a job specification for the appointment of a Chairman, including an assessment of the time commitment expected, recognising the need for availability in the event of crises? Were the Chairman's other significant commitments disclosed to the Board before appointment and included in the annual report? Are changes to such commitments reported to the Board as they arise and included in the next annual report?	The Society's Rules and constitution define the Chairman's role. In common with all Board appointments, the Chairman is subject to the Society's Approved Persons regime, which includes the obligation to disclose any actual or potential conflicts of interests.
Has the evaluation of the Board been externally facilitated at least every three years?	Whilst a formal evaluation is undertaken annually of the performance of the Board, its Committees, and individual Directors, it is not felt appropriate or necessary to have this process externally facilitated, largely because the Society's business and governance arrangements are not considered complex enough to warrant it. However, this will be kept under review.
The ACGC includes a number of references to the Remuneration Committee ensuring that a significant proportion of Executive Directors' remuneration is structured to link rewards to corporate and individual performance and having elements of performance related remuneration in place.	There are no elements of performance related remuneration in place within the Society. Proportionate to the size and complexity of the Society's business, the Board does not consider a performance related bonus scheme is necessary. However, when considering Executive Directors remuneration, corporate and individual performance are taken into account during the formal appraisal of the Executive Directors which is undertaken on an annual basis by the Remuneration Committee, and salary recommendations are subsequently made to the Board.
The ACGC makes reference to the engagement of consultants to assist the Remuneration Committee and advising on the remuneration of Executive Directors.	In 2014, the Society decided to discontinue engaging the services of an external consultancy to advise on Executive Remuneration, having had such an arrangement in place for several years. This decision was taken for a number of reasons: • The relatively simple nature of the Society's Executive remuneration arrangements; • The information provided by the consultancy to benchmark the remuneration of the Society's Executive Directors is in the public domain; and • The cost associated with engaging an external consultancy. However, this will be kept under review.

Board of Directors Report

Code Provision	Explanation
Is the Board satisfied that levels of remuneration for Non-Executive Directors reflect the time commitment and responsibilities of the role?	The Society's Non-Executive Directors are not remunerated and they only receive subsistence allowances and reasonable expenses for attending officially convened meetings.
Has there been responsibility delegated to the Remuneration Committee for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments?	The Remuneration Committee makes recommendations for all arrangements for remuneration to the Board for the Executive Directors. However, the Society's Non-Executive Directors, including the Chairman, are not remunerated, and they only receive subsistence allowances and reasonable expenses for attending officially convened meetings.
Does the Remuneration Committee recommend and monitor the level and structure of remuneration for senior management?	The responsibility for the remuneration of Senior Management rests with the Board who delegate this matter to the CEO.
Does the Board (or where permitted by the constitution of the Society, a Sub-Committee of the Board) determine the remuneration of the Non-Executive Directors within the limits set in the constitution?	The Society's Non-Executive Directors, including the Chairman, are not remunerated, and they only receive subsistence allowances and reasonable expenses for attending officially convened meetings.
The ACGC contains a number of references to the use of proxy voting at an AGM.	The Society does not operate a proxy voting system. It has a deputy system of voting at its Annual Meeting.

Nominations for the Board of Directors
The Board of Directors nominate Executive Directors and external Non-Executive Directors and the Branches nominate Member Non-Executive Directors (MNED's).

The Governance Committee acts as the Nominations Committee in interviewing all new nominated MNED's and is comprised of a Term Director, three MNEDs, one External Non-Executive Director and the Company Secretary. The Society's CEO also attends these interviews.

A resolution is put to members at each Annual General Meeting to appoint the whole Board. The Rules of the Society specifically prohibit canvassing by individuals with a view to them being elected to the Board of Directors. The Curriculum Vitae (CV) of each member of the Board of Directors is printed on the following pages and also in the Agenda Book for the Annual General Meeting (AGM) which is sent to each Deputy at least 20 working days before the start of each AGM.

One of the provisions of the AFM ACGC refers to the Board making a statement about Director's independence. In particular, the provisions of the AFM ACGC require the Board to consider the independence of Directors who have served on the Board for more than 9 years.

To conform to the principle of "comply or explain", the Board believes it is appropriate to make reference to its rationale in this regard for two of its Directors, those being Directors Doulton Smith and Connolly. The Board continues to have the highest regard for the abilities of the individuals concerned in discharging their duties as members of the Board and, of course, from a regulatory perspective is pleased to confirm their on-going fitness and propriety, as indeed it does for all other Directors. Notwithstanding the length of service that the Directors concerned have had as members of the Board, it is considered that the value they add to the Society and its members from the wide experience gained of both the Society and the markets in which it operates far outweighs any concerns about the length of such tenure affecting their independence.

Board of Directors Report

Your Board of Directors

Valerie Ashcroft, BA Hons, Cert Ed
Chairman (Age 69)

Valerie was enrolled into the Society by her father in 1947. When he died in 1954 she became a recipient of the Orphan Gift Fund. She began her activity in the Society in the 1970's, serving in all the Lodge Officer positions on more than one occasion and as Lodge Trustee. She has served as Prov GM on three occasions and has been District Lodge Trustee for 21 years.

Valerie served on the Benevolence Committee for four years with one year as Chairman before being elected to the Board in 2012. She also served on the Southern Group Conference Executive for three years.

In her professional life she was a schoolteacher and latterly a lecturer in Mathematics at a College of Further Education. She has been a fully accredited Methodist Local Preacher for 43 years and has held the position of Property Secretary in her Church for three years, up to May 2012.

Tony Luckett
Deputy Chairman (Age 56)

Tony joined the Society in 1994, after a recommendation from an active Lodge friend. He took an active part from the beginning, joining his wife and two children during the next five months. Nieces and nephews along with a grandchild have also been made members of the Society. Tony became interested in all aspects of his local Branch, and has served all Lodge positions. He took the purple Degree in 1999 and has been Prov GM three times. He has been a District Trustee for 19 years and he was awarded the District Merit Jewel in 2008.

He served on the Midland Group Conference Executive for two years, serving the Office of Vice President in 2009, President in 2010 and Immediate Past President in 2011. During this time he was elected to serve on the Special Arbitrators and the following year the Benevolence Committee, on which he served four years, two of those years elected as Vice Chairman. Tony was elected to Board in May 2012.

Tony is self-employed and has been for over 33 years, and runs his own small building company, employing three people. Tony's Company is a Member of Federation of Master Builders (FMB), as was his father's and grandfather's company's before him, and the Company is registered with Trust Mark and Build Assured (Warranty Builder). He sits on the local Branch of the FMB and is serving as Chairman for the third time. He served from 2010 to 2014 as the Chairman of the Midlands Regional Council for the FMB, and served as the Midlands Regional Vice President 2010 - 2014. In April 2014 the Midland Regional Council along with other restructuring changed its name to Central Area Board and Tony was unanimously elected as its first President in April 2014 and was subsequently re-elected June 2015 and April 2016 for a third term of Office.

Tony also served as a Director, from 2004 to December 2016 of the Manchester Unity Credit Union Ltd, and served as President for six years.

Tony also enjoys a game of darts and dominoes, playing in local pub teams for nearly 40 years in Coventry and surrounding towns and villages.

Maggi Winter
Immediate Past Chairman (Age 72)

Maggi has been a member since 1950 and has been an active Oddfellow since the age of 13 when the local Juvenile Ritual Lodge was opened. She has completed a third term as Prov GM having served more than 30 years on the District Committee of Management, 10 of which as a Trustee. She is a Past President of the East Anglian Group Conference and served as Assistant Secretary for several years.

Maggi served on the Unity Benevolence Committee for 6 years and also the Investigation Committee for a similar length of time and was an Arbitrator for two terms. She has also represented the Society at the NCFS and the AFS before being elected to the Board.

In her private life, she attended a Private Grammar School prior to attending The Norwich School of Art which she left able to teach had she wanted to. Instead she chose to run her own business in Bespoke Bridal and Evening Wear for over 40 years. She also turned her husband's "hobby" of diecast models into a business saying "if you can't beat them join them". During this time, she served on the Committees of both The Guild of Professional Wedding Services (as Treasurer and Vice Chairman) and the Federation of Small Businesses and she was a member of the Chamber of Commerce. She is still a member of the Federation of Small Businesses but the time restraints of being on the Board has meant retirement from the area Committee. She was appointed Treasurer of the Norwich Branch of the National Osteoporosis Society in September 2014 having been a member for several years.

Jane Nelson, FCCA FCMA, Dip IoD
Chief Executive Officer/Secretary of the Order/Executive Director (Age 51)

Jane joined the Society in 1995 as Financial Controller and joined the Board of Directors in May 2000 after being appointed as Secretary of the Order. In October 2007 she became the Society's Finance Director. She was appointed as Chief Executive Officer on 16 July 2012 after being appointed as Acting CEO in March 2012.

Qualifying as an Accountant in 1991, she is a Fellow of both the Association of Chartered Certified Accountants as well as the Chartered Institute of Management Accountants. Prior to joining the Society, Jane worked in a variety of Finance roles in the industrial sector thus gaining a wide range of experiences. She has been a member of the Institute of Directors (IoD) for seven years and during 2011, studied for and took the exams for the Certificate level and Diploma level of the Chartered Director examinations, both of which she passed with distinction.

In 2011, she was also awarded the IoD's Institute prize for outstanding performance in the diploma examinations after achieving the highest examination score in the UK.

She was appointed to the Association of Financial Mutuals (AFM) Board in July 2013, the AFM being the trade body that represents Friendly Societies and Mutual Insurers and has served as its Vice Chair in 2016. She was heavily involved in 2015 in the reforming of the new AFM which is aimed on focussing on the needs, aims and challenges of the small and medium sized Mutuals.

She has been involved with the Manchester Unity Housing Association and the MU Pension Scheme since 1995 and has served as Company Secretary to both these organisations since 1998. She served on the Board and as Treasurer of the Manchester Unity Credit Union from 2000 – 2008 relinquishing the post of Treasurer in September 2012. Within the Society, Jane is an active member of the Stockport Combermere District Lodge serving as Provincial Grand Master (Prov GM) in 2003 and again in 2010, and has served as Trustee of the District since November 2003.

Sue Doulton Smith
Term Director (Age 68)

Sue entered local government employment after 'A' levels and took the ONC in Public Administration working in the Welfare Department which subsequently became Social Services. She was a Cub Scout Leader, a member of the District Service Team and Education Secretary on the local Nalgo Branch as well as serving on the District Education Committee.

Having joined the Bedford Lodge in 1962, Sue became involved in the Lodge and District from the mid 60's and has served on Lodge and District Management Committees, been Chairman of both Lodge and District as well as the Minor Degree Lodge and Provincial Lodge of Past Grands. She was Bedford Lodge Secretary for 33 years and is now a Lodge Trustee and a member of the District Committee of Management. District Meeting, Group Conference and AMC Deputy, she also served on the Group Conference Executive for nine years and was President for one year and Secretary for one year. Elected to the Benevolence Committee for four years, followed by four years on the Investigation Committee, she was Chairman of the latter for one year. Elected to the Board of Directors in 1991, she was Grand Master in 1997/8 and has been a Unity Trustee/Term Director for 19 years.

Sue is married with one grown up married daughter and enjoys watching sport, seeing friends, reading and local history.

Alan Cole, BSc Hons
Term Director (Age 76)

Alan joined the Board as a MNED in 2007, served as Grand Master 2010/11 and was elected as a Trustee in 2012. He is a second generation member, having been enrolled at birth. He first became active when a Juvenile Lodge was formed in 1952, transferring to the Adult Lodge at age 16. He learned the Unity book-keeping system from his parents and subsequently studied and passed the Unity CAMU examination whilst at Southampton University. When he returned home he resumed his activities in the District, becoming a Provincial Grand Master in 1969. He has served virtually every position within his own and neighbouring Lodges and has served in Secretarial posts for over 20 years, culminating in the post of District Secretary until his District became a District Lodge in 2013.

In his professional life he was an electronic design engineer and served for most of his 46 years of employment in the marine application field, where he encountered stringent regulations covering safety and reliability with the various classification bodies, a situation that he finds very similar now in his work on the Board. Now retired, he still runs a small property investment company with his two daughters.

In his younger years, he was an active sportsman, representing both his School and University at football after which he continued with a local Oddfellows team. He now spends time watching his eldest grandson play the game instead.

Charles Vaughan
Term Director (Age 69)

Charles was elected to the Board of Directors at the 2008 AMC. After joining the Society in 1971 he became secretary of the Duke of Norfolk Lodge in the Wigan and Standish District. In 1988 he became Financial Secretary of the Heritage District Lodge, the newly created Financial Lodge. In 2000 he was appointed Provincial Corresponding Secretary of the East Lancashire District Lodge and in 2005 became Prov CS of the newly created South East Lancashire District Lodge after the merger of the Wigan and Standish District and the East Lancashire District. In 1999 he became President of the Lancashire and Associate Districts Group Conference.

Charles retired from HJ Heinz after 34 years' service as a Production Planner after his election to the Society's Board and served on the Audit, Risk and Compliance Committee in his first year. The following two years he was appointed to serve on the Insurance Committee and also the Management Committee of the Manchester Unity Housing Association, a position he still holds. In 2010 Charles was appointed Deputy Grand Master and then served two terms as Grand Master of the Order. In 2014 he was appointed a Term Director and is currently serving as Chairman of the Commercial Board and is a serving member of the Insurance Committee.

Clive Tayler, FFA/FIPA, FFTA, FIPFM, FIAB, MCMI
MNED (Age 71)

Clive was enrolled into to the Society by his grandfather as a Junior Member and following a transfer to the adult Lodge, has held all the Lodge Officer positions on more than one occasion and is currently Noble Grand and a Lodge and District Trustee, having been District Chairman in 1996. He is also an active member of his District's Lodge of Past Grands having been Worthy Master and holds the CAMU qualification.

He has been awarded both Lodge and District Merit Jewels and was a member of the Southern Group Conference Executive Committee for ten years, becoming President in 2008/2009.

Prior to joining the Board in 2010, he spent a year on the Investigation Committee. He has had his own accountancy practice for over 40 years, and has, and still holds, Non-Executive Directorships in various Companies. He is also Company Secretary to several of his client Companies and is a Trustee of an angling club for the disabled, a position he has held for over 20 years.

He is a member of Mensa and has been for many years.

Board of Directors Report

Bill Henchliff
MNED (Age 67)

Bill joined the Society in 1989, serving his Lodge in all positions. He took the Purple Degree in 2000 and has served on the Derby District Committee of Management, becoming Prov GM in 2003 and as a District Trustee for 18 years. Bill was an AMC Deputy for 14 years before election to the Board and has been awarded both Lodge and District Merit Jewels.

He was Midland Group Conference Secretary for 6 years, served on the Executive Committee for 5 years and was elected President in 2008.

Bill has attended the Pride of Leicestershire Lodge of Past Provincial Grand Masters for 12 years and is a Past Worthy Master.

He served on the Unity Special Arbitrators for 3 years, on the Investigation Committee for 1 year and been a Director for 2 years.

Prior to retirement, Bill worked in the Printing Industry for 48 years.

David Alan Randall
MNED (Aged 65)

David attended social functions for a number of years before joining, being enrolled into the Society by his father-in-law in 1992. He attended the local Branch holding various Lodge positions becoming Noble Grand in 2007, Provincial Grand Master in 2011 and a District Trustee in 2008, a position he still holds today. He became Financial Branch Secretary in 2008.

He was a member of East Anglian Group Conference Executive Committee for 7 years becoming President in 2015/2016. He retired from full time employment before standing and being elected to the Board in 2016.

He is a time serviced apprentice carpenter and joiner working in the construction industry for 47 years holding a number of senior project management positions and has run his own Building Management and Safety Company for 10 years. He is a member of the Federation of Small Businesses, and Associate to IOSH (Institution of Occupational Health and Safety).

He was in the Scouts for 18 years and was awarded the Queens Scout award, held the position of Assistant Air Scout Leader for 4 years and then Venture Scout leader for 5 years. He was Secretary and Treasurer of a local Sunday league football team for 18 years.

Stephen Code, MBA
Insurance Director/Executive Director (Age 56)

Steve joined the Board of Directors of the Society in March 2011 as Insurance Director having previously been Chief Executive and Secretary of the Schoolteachers Friendly Society. He has worked in the financial services industry and the Friendly Societies Movement for over 38 years, half of which have been spent in various senior management positions.

He has worked both in the UK and Ireland and his management experience stretches across general management, strategic change, operations, programme management, sales and marketing. Steve achieved a Masters in Business Administration in 1998.

Steve is a Trustee and a member of the Committee of Management of the Mersey District Lodge.

Board of Directors Report

Bill Connolly, ACII
External Non-Executive Director (Age 61)

Bill joined the Board in May, 2007 as an external Non-Executive Director. He is the current Chairman of the Governance and the Remuneration Committees and serves on the Insurance Committee. He also acts as the Society's Treating Customers Fairly (TCF) and Conduct Risk Champion. Bill spent all of his working life at Royal Liver Assurance. He was appointed Assistant Secretary in 1999 and was invited to join the Society's Executive Team at that time.

In 2003 he was appointed as Group Secretary and he also occupied the post of Secretary to all of Royal Liver's Subsidiary Companies and the Pension Trustee Companies. Bill became Royal Liver's Chief Executive in January 2010 until he retired on 30 September 2011 following Royal Liver's transfer of engagements to Royal London.

Bill is a former President of the Insurance Institute of Liverpool and is a member of its Management Council. He has also been involved at a senior level in the Association of Friendly Societies, the Association of Mutual Insurers and the Association of Financial Mutuals.

Martin R Jackson, BA Econ (Hons)
External Non-Executive Director (Age 60)

Martin has a Marketing Commercial and Operations background in industries as diverse as Brewing, Retail, Media, Sports and Finance both in the UK and Internationally.

He has held senior Operational, Sales, Marketing and Board positions with organisations that include Diageo, Allied Domecq, ITV, EMAP, Talksport (UTV), BUNAC, Wales Lacrosse Association, and the UK Cheerleading Association.

Currently running his own Sales and Marketing Consultancy (MRJ Media) he also holds NED and 'Professional Advisor' positions with UKCA Ltd, The English Lacrosse Association and the Welsh Lacrosse Association as well as being a Member of the Institute of Directors.

He gained a BA (Hons) in Economics at Manchester University, a MA in Business Studies at Manchester Metropolitan University and holds a qualification in International Marketing with the Institute of Marketing.

A former International Lacrosse player (having represented both England and Wales) he is a qualified top-level Coach and is currently contracted to Chester University as well as the Welsh National Mens squad.

Board of Directors
During the year to 31 December 2016, seven Board meetings were held. The Board at 31 December 2016 consisted of two Executive Directors, nine Member Elected Non-Executive Directors (MNED) and two External Non- Executive Directors. The size and composition of the Board is kept under review to ensure that there are sufficient skills and experience represented on the Board for the direction of the Society's activities. The Board is of the opinion that its composition is appropriate to the business.

The members of the Board of Directors during the financial year and to the date of this report were:

Non-Executive (MNED)
Valerie Ashcroft (Chairman)
Tony Luckett
Maggi Winter
Sue Doulton Smith
Alan Cole
Charles Vaughan
Clive Tayler
Bill Henchliff
David Randall (Appointed May 2016)
George Lickess (Retired May 2016)

Executive
Jane Nelson
Steve Code

External Non Executive
Bill Connolly
Martin Jackson

Board of Directors Report

Board Attendance

Attendance at 2016 Board Meetings and Committees:

	Main Board		Commercial Board		Fraternal Board		Audit, Risk and Compliance Committee		Governance Committee		Insurance Committee		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Valerie Ashcroft	7	7	6	1+	5	3¤	5	1+	4	1+				
Tony Luckett	7	6♦	6	1	5	5	5	4♦	4	3*				
Maggi Winter	7	7	6	1	5	3*	5	1	4	4*	10	1		
Jane Nelson	7	7	6	6	5	5	5	5+	4	1+	10	8^#		
Sue Doulton Smith	7	7	6	6					4	4	10	10		
Alan Cole	7	7	6	6			5	5			10	5©	1	1
Charles Vaughan	7	7	6	6							10	9♦	1	1*
Clive Tayler	7	6♦	6	2	5	5	5	4♦			10	2	1	¤
Bill Henchliff	7	7			5	5	5	5	4	3*				
David Randall	7	4*			5	3*	5	2*						
Steve Code	7	7							4	1	10	10		
Bill Connolly	7	7							4	4	10	9~	1	1
Martin Jackson	7	7												
George Lickess	7	3¤			5	2¤								

♦ Sickness # Business ^Bereavement ~Holiday

* Newly appointed Director to the Board and/or Committee
¤ Retired from Board or Committee May 2016
© Attended as Chairman of the Audit, Risk and Compliance Committee
+ The Grand Master and Chief Executive Officer are ex-officio on all Committees and meetings attended have been included in the numbers

The Board has a number of Sub Committees and Working Groups that are formed to deal with specialist areas in more detail than would be possible at a Board meeting. Each Committee operates with defined Standing Orders and Terms of Reference. All Terms of Reference are reviewed annually by those Sub Committees and Working Groups and then submitted to the Board for approval.

All members of the Board are encouraged to attend meetings of other Boards and/or Sub Committees to which they are not a member.

Independence

The Society defines that a Non-Executive Director is independent provided that the individual:

- has not been on the Board of Directors for more than nine years; and/or
- is not a member of the Society's Occupational Pension Scheme.

As at 31 December 2016 there were nine Directors including the Chairman classed as independent.

Two MNEDs have served longer than nine years and remain on the Board of Directors because of the skill and experience the individuals offer to the Board. The Board considers that the MNEDs concerned are independent in experience, character and judgement.

MNED Charles Vaughan was appointed the Senior Independent Director for the calendar year 2016. He has been available to members for unresolved concerns during the year.

Determining whether or not there are relationships or circumstances that are likely to affect a Director's judgement or independence is delegated to the Secretary of the Order and Company Secretary, who review the contents of the Related Party Transactions declarations as required by the FRS 102 Section 33, and Annual Fit & Proper Monitoring Form completed by each Director. In addition, Directors are required to declare any interests they may have when discussions take place.

Induction Training and Evaluation of Directors

The Regulators are taking a more stringent approach to the assessment of applicants under the PRA Senior Insurance Manager Regime (SIMR) and the FCA Approved Persons Regime (APR), particularly relating to the applicant's core competencies and capabilities in the following areas:

- Market Knowledge;
- Business Strategy and Model;
- Risk Management and Controls;
- Governance, Oversight and Controls; and
- Regulatory Framework and Requirements.

A skills and knowledge gap analysis for new Board and/or Sub Committee members is covered as part of their induction for new Board and Sub Committee members, in accordance with the Society's Training and Development Scheme.

In accordance with the Society's Training and Development Scheme for the Board, each member of the Board and Sub Committees were evaluated by their peers on an individual basis before the end of 2016. During 2016, each member of the Board has undertaken continuing professional development appropriate for themselves. Full records are kept of the progress of the individual's training which is updated as appropriate. This therefore enables the Society to ensure that the Directors continually update their skills and knowledge required for them to fulfil their roles both on the Board and on Sub Committees.

Election to the Board is followed by a formalised tailored induction process on the Society's business and regulatory environment. All Directors are required to update their skills and knowledge through meetings with the Executive of the Society, its Senior Management and relevant external courses, all of which is fully documented in the Training and Development plan. Any individual training requirements resulting from the evaluation process are documented and the necessary arrangements made.

During their time as a Director each individual is assessed annually by all Directors by way of "Peer Evaluation" which highlights strengths and areas for development which can be appropriately addressed. In the months preceding Chairmanship each Deputy Grand Master (Deputy Chairman) attends a Chairmanship course at the Institute of Directors to hone the skills they have developed during their time on the Board and prepare them for their year as Chairman of the Board.

The Training and Development Scheme ensures that the training, development and knowledge standards are appropriate not only to demonstrate a level equal to the regulatory requirements and obligations, but also appropriate and suitable to meet the needs of Directors and the Society. A key element of the Training and Development Scheme is the requirement for all Directors to undertake the following e-learning modules on at least a biennial basis. Newly appointed Directors also undertake "Introduction to UK Financial Regulations".

- Senior Management Arrangements
- Approved Persons
- TCF & Complaints Handling
- Anti Money Laundering and Counter Terrorism Financing
- Whistleblowing
- Anti Bribery
- Data Protection
- Information Security
- Working Safety

The evaluations of the members of the Board of Directors included team evaluations as well as the individual evaluation by peers. The team evaluation process included the Main Board, Commercial Board, Fraternal Board, Audit, Risk and Compliance Committee and Insurance Committee, whilst the individual assessments were designed to ensure that each member was evaluated across all their duties and responsibilities as a Director of the Society. The results of the evaluations are taken into account when assessing the overall balance, effectiveness, appropriateness and competence of the Board.

The Chairman meets each member of the Board after each evaluation to discuss the development needs of each individual. The evaluation of the Chairman is carried out by the Senior Independent Director. Given that the Chairman of the Board is elected for a one year term only, it is not thought necessary for the Directors to meet annually without the Chairman being present in order to evaluate the Chairman's performance. There were no occasions during 2016 where the Directors met without the presence of the Chairman.

Sub Boards, Committees and Working Groups
Sub Boards, Committees and Working Groups are appointed where necessary with specific delegated responsibilities including, in the case of Sub Boards, the ability to pass resolutions of a non policy nature. The Chief Executive is a member of the Commercial Board, Fraternal Board, Insurance Committee and Membership Working Group and by virtue of her office is ex-officio on all other Committees. The Chairman is by virtue of her office ex officio on all Committees. Those Committees appointed in 2016 were:

Audit, Risk and Compliance Committee:	Tony O'Leary	(Chairman) External Skilled Person
	Alan Cole	(Vice Chairman)
	Tony Luckett	
	Clive Tayler	
	Bill Henchliff	
	David Randall	
	Martin Berry	External Skilled Person

Composition of the ARCC
The members of the Audit, Risk and Compliance Committee (ARCC) as at 31 December 2016 are as stated above.

The ARCC is appointed annually by the Board of Directors and consists of at least three persons who are either Non-Executive Directors who are members of the Society, or persons with relevant financial and audit experience. To these are added external skilled persons to create a skills balance. As a consequence of Regulatory requirements that members need to be independent of operational activities the Compliance & Risk Officer has not been a member of the ARCC since January 2016. Currently the Committee is seeking an additional External Skilled Person with financial and/or audit experience to replace Mr John Farmer, who retired in June 2016.

No person may serve on the ARCC for more than nine years and only members of the Committee have the right to attend meetings. However, other individuals (e.g. Members of the Board of Directors, Chief Executive, Compliance & Risk Officer, Departmental Managers, Branch Internal Auditor and Financial Controller) are invited to attend all or part of any meeting as and when appropriate. Representatives of the External Auditor and Internal Auditor are also invited to attend meetings on a regular basis.

Meetings
The ARCC meets quarterly and otherwise as required.

The ARCC receives written and/or verbal reports from the following:

- CEO;
- Branch Internal Auditor;
- Compliance & Risk Officer;
- Other Senior Management;
- Society's Internal and External Auditors; and
- Society's Actuaries.

A Branch Internal Auditor is employed at Unity Office to undertake the internal audit work at Branches. The outcome of these audits for financial administration and compliance is reported at all meetings of the Committee. The Branch Audit is a rolling function causing regular visits to every financial Branch with the regularity adjusted by the size and financial worth of each Branch.

Four meetings of the ARCC were held during the reported year. Representations from the Internal Auditors were made at each meeting and representatives of the External Auditor attended as required at two of those meetings. The Branch Internal Auditor attended the relevant parts of each meeting.

Responsibilities of the ARCC
The ARCC has responsibilities in the following areas:

- Risk Management and internal Controls and Procedures, including oversight and approval of the Society's processes with regards to the production of the Own Risk Solvency Assessment (ORSA);
- Compliance & Prevention of Financial Crime;
- Financial Reporting;
- Internal Audit;
- External Audit; and
- Whistle blowing.

The overall role of the ARCC is to protect the interests of the members as regards the appropriate management of risk, the integrity of the published Financial Information and the effectiveness of the various audits.

Due to the diverse nature of the Society, there being effectively two separate responsibilities for the LTB and Fraternal Society, the Committee have to address the Compliance requirements in each of these parts from a different perspective, one in responding to the Regulator's requirements and the other in acting as the regulators for the Society's Branches.

In 2016, the Society did not receive any whistleblowing reports.

Risk Management Framework (RMF) and internal control
The Society's RMF is designed to create, protect, and enhance stakeholder value and the Society's viability by managing the principal uncertainties that could prejudice it achieving its objectives.

In having a RMF the Society strives to achieve the following objectives:

- *Oversight:*
  All critical risks have been identified and are being managed and monitored under a holistic approach consistent with the Board's approved Risk Appetite Statements.

- *Ownership and Responsibility:*
  The ownership of risk is assigned to risk owners who are responsible for identifying, evaluating and reporting risk exposures.

- *Assurance:*
  The Board and members have reasonable assurance that risk is being appropriately managed within the defined levels of risk appetite to bring value to the Society.

The RMF includes the strategies, risk appetite statements, policies, tools, processes and reporting procedures necessary to identify, measure, manage, monitor and report on the risks to which the Society is, or could be, exposed.

The RMF operates around the proven 'three lines of defence model' for overseeing its internal control frameworks:

First line of defence: this encompasses the controls the Society has in place to deal within the day-to-day business. The controls are embedded within the Society's business departments' systems and processes to highlight control breakdown, inadequacy of process and unexpected events, and appropriately mitigate risk.

Second line of defence: this encompasses the Society's Sub Committees and key functions that are in place to provide an oversight of the effective operation of the internal control framework. The Society's Sub Committees review the management of risk in relation to the particular risk appetite of the business, as determined by the Board.

Third line of defence: this encompasses the independent assurance and challenge provided by the Society's ARCC and internal and external audit functions, which undertake a programme of risk based audits covering all aspects of both first and second lines of defence, and External Auditors who provide independent challenge of the internal control framework in respect of financial reporting.

This model is widely accepted as best practice and has support from the Regulators.

The Society's Compliance & Risk Officer has the day to day responsibility for the Society's RMF.

The Compliance & Risk Officer provides the ARCC with assurance reports to confirm the adequacy and effectiveness of the Society's compliance and risk management systems and controls, and that they are appropriate and proportionate to the Society's scale, complexity and business model.

The Chairman of ARCC holds the role of the Society's Risk Champion with oversight responsibility for promoting and building a risk awareness culture within the Society.

Financial risk management objectives and policies
The Society's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The source of risk and further details around the management of risks which are faced by the Society are disclosed and discussed in greater detail within note 25 to the Financial Statements.

The use of financial derivatives is governed by the Society's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Society does not use derivative financial instruments for speculative purposes.

Assessment of internal controls
The Society has in place an internal control environment to protect the Society from the material risks which have been identified. Management is responsible for establishing and maintaining adequate internal controls over financial reporting and the ARCC provides oversight for ensuring the effectiveness of these controls.

The ARCC has reviewed the process by which the Society evaluated its control environment. Its work here was driven primarily by the Society's Internal Audit reports on the effectiveness of internal controls and any other operational issues reported.

The ARCC has continued its review of the effectiveness of the Society's systems of risk, governance and internal control commenced last year and continually updates the internal procedures to maintain a consistent low-risk environment.

External Audit
The Unity Office External Audit service is provided by Deloitte LLP (Deloitte). They were appointed as external auditor for the year ended 31 December 2010 following a competitive tender process and have been re-appointed annually since then by the AMC.

In addition to reviewing and monitoring the External Auditor's independence, objectivity and the effectiveness of the audit process, the ARCC has undertaken a review of the External Auditor effectiveness in line with the requirements of the UK Corporate Governance Code. The Committee is satisfied that their non-audit service provision is work that they are best suited to perform, it does not involve the audit of their own firm's work and does not involve them making management decisions for, or acting as advocate for the Society. On this basis there will be a recommendation to the Main Board for the re-appointment of Deloitte for a further term.

It has, however, been brought to our attention that the latest changes to the Auditing Standards means that as a Public Interest Entity, the Society will have to review its auditors in 2020 and change auditors in 2030 at the latest, and this will be progressed.

Independence of External Auditor
The Audit, Risk and Compliance Committee is responsible for monitoring the relationship between the Society and the External Auditor, and as part of this process the Committee considers the External Auditor's effectiveness on an annual basis. There are no contractual obligations restricting the Society's choice of External Auditor. In order to ensure that the Auditor's objectivity and independence are safeguarded the following procedures are in place:

Audit related services
This is work that the External Auditor performs in its capacity as Auditor, where the nature of the work is closely allied to that of the audit of the Reports and Financial Statements. Accordingly, this work is undertaken by the External Auditor unless unusual circumstances apply.

Tax advice
Following the implementation of Solvency II, the Society is a Public Interest Entity. Certain tax advice and compliance services are prohibited under this definition. The tax department of Deloitte LLP is used on tax matters relating to the Society if these services are deemed to have no direct effect on, or are immaterial to, the audited Financial Statements of the Society. Where the advice is deemed to have a direct or material impact on the Financial Statements of the Society, the advice is put out to tender.

Significant Issues related to the Reports & Financial Statements
The Committee's role in monitoring financial reporting issues is fundamental to ensuring that all the Society's stakeholders maintain their trust in its activities and reporting. The External Auditor, Deloitte LLP, is used to help ensure that suitable accounting policies have been implemented and appropriate judgements have been made by management. The key significant risks which we considered during 2016 were as follows:

Area considered	Response of the ARCC
Change in the accounting policy concerning the valuation of the Long Term Business Provision.	The ARCC has understood and challenged the change in the accounting basis for the Long Term Business Provision against the requirements of FRS 102 and FRS 103. In addition, the additional guidance published by the FRC concerning Accounting policies based on the requirements of Solvency II has been reviewed.
Technical provisions assumptions	Representatives from the ARCC received advance copies of the Valuation Assumptions and attended the presentation of this report to the Insurance Committee by the Society's Actuarial Technician and Actuarial Function Holder (AFH). On discussion and challenge of the AFH, the ARCC were satisfied that the assumptions adopted were appropriate to the Society. Refer to note 20.
Integrity of the data used in the reserving process	The information provided to the AFH for inclusion in the reserving process is extracted directly from the Society's own financial information and a Data Report is presented to the Insurance Committee detailing the data quality results and movement analysis. The information above sets out the governance processes and responsibilities of the ARCC including the oversight that the ARCC has over the Society's risk of inaccurate financial reporting.
Pricing of investments	Inaccurate pricing of investments would generate a significant change in the reported results and position of the Society. As noted above, the ARCC monitors Financial Reporting. This includes reviewing the reported results prior to approval and discussion with the Board around significant fluctuations. The ARCC also considers the results of Internal Audit work and External Audit reports in coming to their conclusion.

Internal Audit of Unity Office
The Internal Audit service for Unity Offices (both in Manchester and Liverpool) is provided by Moore and Smalley LLP. This service is responsible for reviewing the Society's internal systems and controls and reports the outcome to each meeting of the ARCC, who continually monitor the planning and progress of this work.

The internal audit plan was agreed by the ARCC following an assessment of the results of the audit work already undertaken. The audit needs analysis was taken into account when developing the internal audit strategy, strategic plan and annual plan of work. All work follows a risk based systems audit approach.

During the year ended 31 December 2016 audit work was conducted across departments within the Offices in Manchester and Liverpool. Each department, where recommendations to changes in their procedure had previously been made, were revisited as and when recommendations became due. Of the Internal Audit recommendations made in previous years, there were recommendations made which were still in the process of being actioned at the end of 2016. The ARCC are reviewing these on a regular basis to ensure that appropriate action is taken. The ARCC are satisfied that there were no material risks to internal controls as a result of the recommendations still outstanding at the end of 2016.

The Society's Internal Audit function has confirmed in their Annual Report to the Committee that they are satisfied that sufficient internal audit work has been undertaken to allow them to draw a reasonable conclusion as to the adequacy and effectiveness of the Society's risk management, and control processes. In their opinion the Society's management, and control processes are adequate to manage its achievement of the Society's objectives.

The ARCC has this year conducted a full review of the requirements for the work of the Internal Audit Function and sought tenders from three firms for the work required. The results were reviewed and debated by the ARCC at its October meeting and concluded that the current providers of the service were still suitable for the Society's needs and consequently a recommendation for the continued appointment of Moore and Smalley LLP with effect from 1 January 2017 was made to the Board and agreed at the December 2016 Board meeting.

Branch Audits
In the same way as the internal audit plan for the ensuing year is agreed by the ARCC, the same process is used for planning the work of the Branch Internal Auditor. A schedule of Branches due for visit is prepared and rationalised so that work in adjacent areas can be conducted where possible to minimise the Branch Auditor spending unnecessary time in travel.

There were 24 Branch audits reported to the ARCC meetings during 2016, with the majority of the visits being completed and recommendations accepted by their Committee of Management. There have been a few cases where re-visits have been undertaken as a follow-up to ensure that where significant changes were required that they have been complied with, but in general the Branch administration in the majority of our Branches is deemed to be consistent and satisfactory.

All Branch audit reports and the responses of their Committee of Management to the Branch Auditors findings are critically reviewed by the ARCC, so that the Committee can be satisfied that both the Branch function and the approach of their Committees, in general, is appropriate and 'fit for purpose'. Where there is any doubt expressed that the Branch administration is in need of further scrutiny then the ARCC are empowered to request the appointment of a deputation to ensure that all assistance necessary can be afforded to the Branches.

It has to be emphasised that Unity Office are the Regulators of all Branches since the Society became incorporated under the 1992 Act. Therefore, a greater degree of scrutiny will continue to appear within the Branch Audits to ensure total compliance of every Branch administration with the requirements of the 1992 Act as well as compliance with the Society's Rules and Procedures.

Summary
The ARCC is empowered to take action at any time if it believes that it is necessary, including reporting to the Main Board and the Annual Movable Conference. There were no exceptions that the Committee consider should have been reported during 2016.

Commercial Board:	Charles Vaughan	(Chairman)
	Jane Nelson	
	Sue Doulton Smith	
	Alan Cole	

The members of the Commercial Board as at 31 December 2016 are as stated above.

The responsibility of the Commercial Board is to pass resolutions of a non-policy nature to ensure that:
- Unity Office delivers a high quality customer service to Branches, members and prospective members;
- Unity Office and Branches plan development and budget accordingly for investment in the future, spending capital when appropriate; and
- the Society's culture and structure encourages member and staff involvement in the running and development of the Society.

In achieving this, the Commercial Board is responsible for the tactical application of strategy and implementation of policy with respect to:

- Finance;
- Investments;
- Legislation;
- Office Administration; and
- Society Rules and Procedures.

The Commercial Board being responsible for the investments of the Society, appoint Investment Managers, with whom representatives of the Commercial Board meet on a quarterly basis to challenge and discuss their performance. The Strategy for the investments of the Society is determined with the benefit of advice from the Actuaries as and when appropriate. In the case of Long Term Business investments, the Insurance Committee and the Actuaries are consulted on the strategic aspects before decisions are made. The role of the Commercial Board is therefore also to act as the Investment Committee. The Commercial Board is also responsible for reviewing of Financial, Investment, Unity Office and Branch risks relating to the Society.

Fraternal Board:	Tony Luckett	(Chairman)
	Jane Nelson	
	Maggi Winter	
	Clive Tayler	
	Bill Henchliff	
	David Randall	

The members of the Fraternal Board as at 31 December 2016 are as stated above.

The Fraternal Board is appointed annually by the Board of Directors and consists of a minimum of four MNEDs and one Executive Director. The Deputy Grand Master of the Order is the Chairman and is appointed at the first meeting following the AMC.

The Chief Executive and Grand Master are members by virtue of their office and have voting rights. A quorum consists of three members, one of which must be the Chief Executive Officer/Secretary of the Order or the Grand Master.

The Fraternal Board has access to the Actuary, Internal and External Auditors, Solicitors and any other advisors approved by the Board of Directors as required.

The Fraternal Board is responsible for the tactical application of strategy and implementation of policy with respect to matters listed below:

- Administration of goods:
- Administration and supervision of Branches including Branch financial statements, Branch Special Rules, amalgamations of Branches and transfers of engagements, transfers of funds, variations of Lodge Additional Benefits;
- Benevolence – including Distress Grants, Educational Awards, H A Andrews Memorial Fund, Legal Aid Scheme; Convalescent Benefit;
- Recruitment and retention;
- Branch delivery of social and care;
- Branch training including Weekend Seminars;
- Public Relations;
- Group Conferences;
- Society’s Publications;
- Traditions of the Society; and
- Oddfellows Brass.

The Fraternal Board is also responsible for Fraternal risks relating to the Society and for the passing of resolutions in furtherance of the aims and directives of the Society’s strategy and in accordance with the policy of the Board of Directors which will receive and approve its minutes.

Governance Committee:	Bill Connolly	(Chairman)
	Sue Doulton Smith	
	Maggi Winter	
	Tony Luckett	
	Bill Henchliff	
	Gary Morley	(Company Secretary)

The members of the Governance Committee as at 31 December 2016 are as stated above.

The Governance Committee is responsible for monitoring the appropriateness of the Society's corporate governance arrangements. In doing so, it needs to take account of the regulatory matters that affect the Society and, where appropriate, makes recommendations based on its deliberations and conclusions to the Board of Directors and/or other Standing Committees.

The Governance Committee has received written and/or verbal reports from the following during the course of 2016:

- The Chief Executive Officer;
- The Compliance and Risk Officer; and
- The Company Secretary.

In 2016, the Governance Committee undertook reviews and reported back on the following matters:

- The oversight and management of governance related risks within the Society's Risk Management Framework;
- The extensive changes brought about by the implementation in March, 2016 of the Prudential Regulatory Authority's Senior Insurance Managers Regime (SIMR) and the Financial Conduct Authority's Approved Persons Regime (APR);
- The Prudential Regulatory Authority's Supervisory Statement issued in March 2016 relating to Corporate Governance: Board Responsibilities;
- The development and establishment of the Society's Governance Map;
- The 2016 year end questionnaire issued by the Association of Financial Mutuals in respect of compliance with the Annotated Corporate Governance Code;
- The annual assessment of the on-going fitness and propriety of the Society's Approved Persons;
- The current induction and training arrangements in place for the members of the Society's Board of Directors;
- The introduction of a series of revised Computer Based Training (CBT) modules appropriate to the Society's scale and current business operations.
- The inclusion of a dedicated Whistleblowing module in the 2016 suite of CBT;
- The structure, size and composition of the Board and the effectiveness of the Society's leadership and governance arrangements;
- The succession planning arrangements in place for all constituencies of the Board (Executive Directors, Member Nominated Non-Executive Directors and External Non-Executive Directors);
- The Directors Leaflet; and
- A number of amendments were made to the Terms of Reference for the Governance Committee.

The Governance Committee acts as the Society's Nominations Committee in respect of Member Nominated Non-Executive Directors. There was a significant change made to the process by which the Board has to satisfy itself about a candidate's fitness and propriety to stand for election to the Board as a Member Nominated Non-Executive Director. Potential candidates who were interested in so doing were invited to receive some training in December 2015 before Branches submitted their nominations for the AMC.

The purpose of the training was to make the individuals concerned aware of the regulatory expectations regarding the role and what they would be committing themselves to by seeking election to the Board.

In March 2016, the Governance Committee interviewed two prospective candidates who sought election to the Board. The Committee confirmed that it was satisfied with the initial fitness and propriety of both individuals to stand for election at the AMC. The Board also nominated the Immediate Past Grand Master, Clive Tayler, for re-election to the Board for an additional year as he is appropriately experienced and qualified and this was considered very important in view of the regulatory requirements that were anticipated to come about as a result of the implementation of the Senior Insurance Managers Regime. Subsequently, Clive Tayler had his appointment confirmed at the AMC at Eastbourne in May 2016.

Insurance Committee:	Sue Doulton Smith	(Chairman)
	Charles Vaughan	
	Jane Nelson	
	Steve Code	
	Bill Connolly	
	Richard Gough	External Skilled Person
	Colin Nugent	External Skilled Person
	Diane Simpson	External Skilled Person

The members of the Insurance Committee as at the 31 December 2016 are as stated above.

The Insurance Committee is accountable to the Board of Directors for monitoring, controlling and directing the business affairs of the Society in relation to the Society's Long Term Business, subject to matters reserved to the Board of Directors or delegated to the Commercial Board by the Board of Directors.

The Insurance Committee reviews and reports back on the following matters:

- Strategy and Management of the Society's Long Term Business (LTB) including:
    - Business Planning and new developments
    - Actuarial Valuation under Solvency II
    - Own Risk and Solvency Assessment (ORSA)
    - Reserves and Allocation of Free Assets
    - Bonus Recommendations
    - Annual expenditure budget for the LTB

- Operational Management of the Long Term Business Funds including:
    - Treating Customers Fairly (TCF)
    - Investment Performance
    - Risk Management relating to the conduct of the Society's Insurance Business

Throughout the year the Committee has received written and/or verbal reports from the Society's Executive Directors, other Sub-Committees, Senior Management, Society's Actuaries and Society's Internal Auditors.

Regulatory Commentary
Solvency II: The Society is required to comply with the European Union Solvency II Directive regulations via the UK regulatory regime which came into effect on 1 January 2016. The Committee has monitored papers and approved various policies, processes and procedures, including the production of the Society's Own Risk and Solvency Assessment (ORSA) and preparation for the revised reporting requirements in 2017 under Pillar 3.

Regulatory Bodies: The Insurance Committee continues to keep a watching brief on the regulatory frameworks. This includes the evolving Solvency II environment referred to above, and the regulatory feedback and consultation papers issued by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The Committee has been actively involved with the exchange of correspondence with the FCA regarding the thematic review on the fair treatment of long-standing customers in the life insurance sector.

Solvency
The Committee continues to monitor the solvency position of the LTB funds on an on-going basis and takes action to strengthen the solvency, through specific management actions, where appropriate.

Transfers of Engagements
The Committee is committed to pursuing further transfers providing they prove to be in the interests of the Society's members and policyholders. A number of potential transfer opportunities have arisen and the Committee has authorised further analysis to be undertaken.

Strategic Development
The Society's membership base is a valuable asset and the Committee believes that there exists an opportunity to increase product penetration through advising members of available new products. During 2016 the Committee approved business cases to develop and launch a Flexible Stocks and Shares Individual Savings Account (ISA) and an Investment Bond and made recommendations to the Board of Directors in this regard. Both of these new products were launched in the latter half of 2016. The Committee is actively involved in considering a new brand strategy and marketing capability for the Society's Long Term Business and will make appropriate recommendations to the Board in due course.

General
All the recommendations made by the Committee for financial provisions, appropriation of surplus, regulatory compliance, bonus rates and new product development were accepted by the Board of Directors.

Membership Working Group:	Jane Nelson	(Chairman)
	Charles Vaughan	
	Bill Henchliff	
	David Randall	
	George Lickess	

The members of the Membership Working Group as at 31 December 2016 are as stated above.

Remuneration Committee:	Bill Connolly	(Chairman)
	Alan Cole	
	Charles Vaughan	

The members of the Remuneration Committee as at 31 December 2016 are as stated above.

The Remuneration Committee is responsible for:

- Determining and agreeing with the Board the framework or broad policy for the remuneration of Executive Directors;
- Determining targets for any performance-related pay schemes operated by the Society; and
- Fulfilling duties as laid down by the Directors' Remuneration Report Regulations 2002.

For the year 2016, the Committee again decided not to use the services of an external consultancy. As reported last year, this is largely because the data previously provided by the consultant engaged by the Society was capable of being collated internally and is also in the public domain. Furthermore, the market conditions in which the remuneration of the Society's Executive Directors was set did not warrant the expenditure that would have been incurred by engaging external support.

However, the main sources of data used to benchmark the remuneration of the Executive Directors were the ones previously obtained via the external consultancy, namely:

- The Croner Rewards Charities Salary Survey
- A Survey of Remuneration packages of its member organisations commissioned by the Association of Financial Mutuals.

The Chief Executive Officer is invited to attend meetings of the Committee to participate in the consideration of the remuneration of the Insurance Director and associated matters but she is excluded from discussions relating to her own remuneration. The Committee then makes recommendations to the Board of Directors regarding the basis of the Executive Directors' remuneration.

This is obviously not required for Member Elected Non-Executive Directors and the External Non-Executive Directors as they receive no remuneration.

Annual performance reviews of the Executive Directors are undertaken by the Remuneration Committee, based on the Executive Directors' objectives derived from the Society's Strategic Plan. Formal appraisals were held with both Directors in this regard.

The Remuneration Committee reviews Executive Directors' remuneration annually. It considers it is in the Members' interests for remuneration packages to be competitive in order to attract, retain and motivate people of the required calibre.

The details shown in the following tables reflect the remuneration arrangements that have been in place for Jane Nelson and Steve Code during 2016.

	Salary	Pension Costs	Taxable Benefits	Total	
				2016	2015
Chief Executive Officer/Secretary of the Order	£179,185	£11,748	£5,908	£196,841	£179,734
Insurance Director	£158,997	£10,486	£8,919	£178,402	£165,499
Total	£338,182	£22,234	£14,827	£375,243	£345,233

Taxable Benefits currently offered are private medical insurance and a company car or car allowance.

The salary figures above include a Cash Allowance to both the Chief Executive Officer/Secretary of the Order and the Insurance Director in lieu of them both leaving the Pension Scheme in March 2016.

The Executive Directors both have notice periods of 12 months.

Pension entitlements

The following figures comply with the relevant requirements set out in the Large and Medium-sized Companies and Groups (Accounts and Report) Regulations 2008 (SI 2008/410), as amended for financial years ending on or after 30 September 2013. The figures are in respect of benefits within the M.U. Pension Scheme.

Position	Accrued pension 31.12.16	Transfer value of accrued pension at 31.12.15	Transfer value of accrued pension at 31.12.16	Pension input amount over 2015 less Director's contributions	Pension input amount over 2016 less Director's contributions
Chief Executive Officer/Secretary of the Order	£63,654	£1,053,648	£1,505,201	£81,607	£28,159
Insurance Director	£7,052	£90,913	£132,210	£23,352	£6,834

Notes

Mrs C J Nelson and Mr S Code both ceased accruing in the Scheme and became deferred pensioners on 31 March 2016.

1. The accrued pensions are the deferred pension amounts which the Directors would be entitled to from normal retirement age based on accrued service prior to the relevant date.
2. The transfer values represent the present value of the accrued deferred pension and associated benefits at the relevant date and have been calculated using a methodology set by the M U Pensions Trustees Limited, in accordance with the Pensions Regulator's guidance and applicable legislation.
3. All accrued pensions and transfer values include the value of the Directors' AVC benefits.
4. The Pension input amount represents the value of the increase in excess of inflation (where inflation is measured as the annual increase in the Consumer Prices Index to the September before the financial year end) of the accrued deferred pension over the period, less Director contributions. The increase in benefits has been calculated using HMRC methodology and then multiplied by a factor of 20 which is in line with our understanding of the Directors' Disclosure regulations.
5. At retirement, Mrs Nelson will receive a deduction to her pension in respect of Annual Allowance tax charges paid on the Director's behalf in a "Scheme Pays" arrangement. The table above makes no allowance for Mrs Nelson's Scheme Pays arrangement.

Board of Directors Report

Statement of Solvency
The Board of Directors considers that the value of the assets of the Society and its Branches at the end of the year, together with future income significantly exceeds future liabilities and operating expenses and is capable of providing adequate income to sustain the reasonable expectations of the members.

The Board of Directors confirms that the Society, at the end of the financial year, held eligible own funds to cover both the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR) as prescribed in the PRA rulebook for Solvency II firms.

Conflicts of Interest
The Society's code of conduct and conflicts of interest policy requires any members of staff, Advisers or Directors to declare any potential or actual conflict of interest in respect of any business matter or transaction which is being considered.

In the event of such a conflict of interest, the individual must disclose to the Society any benefit they may receive from the business matter or transaction concerned. This requirement applies whether or not the Society sets aside the particular business matter or transaction concerned. It is not necessary for the individual concerned to have to account for the benefit if they are allowed to have an interest or duty by the rules of the Society and the interest or duty has been disclosed to and approved by the Board of Directors.

Charitable Donations
The beneficiary of the funding from the H A Andrew's Memorial Fund for three years commencing 2016 is the Plastic Surgery and Burns Research Unit (PSBRU), part of the Centre for Skin Sciences who will undertake vital research into the treatment of non-healing wounds. They will receive an overall donation of £88,000 which will be paid in three instalments.

The centre is a leading facility for research into skin and hair conditions in the UK, and its PSBRU was founded following the fire disaster at Bradford City Football Club in 1985, in which 56 people were killed and 358 injured.

The University of Bradford will be the base for the research entitled 'Exploiting the Hair Follicle as the Preferential Source of Wound Healing Cells in the Human Skin' which will also explore how to improve the treatment of wounds for those with diabetes.

In October 2016, the Grand Master Valerie Ashcroft and the Deputy Grand Master Tony Luckett visited Bradford University to present the first donation of £29,000 to a group of researchers and Directors representing the research unit.

Liability Insurance
The Board of Directors continues to effect Directors and Officers liability insurance on the Directors and executive management as permitted by the Friendly Societies Act 1992.

Each of the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

The above report was approved by the Board of Directors and signed on its behalf by:

C J Nelson
Chief Executive Officer
29 March 2017

Independent Auditor's Report

In our opinion the Financial Statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", of the state of the Society's affairs as at 31 December 2016 and of its loss for the year then ended; and
- have been prepared in accordance with the requirements of the Friendly Society Act 1992.

The Financial Statements comprise the Income and Expenditure Accounts, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Going concern

We have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1a to the Financial Statements and the Directors' statement on the longer-term viability of the Society contained within the Board of Directors Report on page 12.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 9 that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on page 9 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 1a to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Director's explanation on page 9 as to how they have assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Society and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards. We confirm that we are independent of the Society and we have fulfilled our other ethical responsibilities in accordance with those standards

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. The risks have remained consistent with the prior year with the exception of: Going Concern - which is no longer considered a significant risk; and the addition of the Change in technical provision accounting basis - to reflect the new Solvency II rules.

The Audit Committee has requested that while not required under International Standards on Auditing (UK and Ireland), we include in our report any key observations in respect of these assessed risks of material misstatement.

Independent Auditor's Report

Risk	How the scope of our audit responded to the risk
Technical provision assumptions At the year-end the Society carries technical provisions of £89,278k (restated 2015: £72,563k) and are determined to be material both quantitatively and qualitatively. The assessment of the appropriate carrying value of the technical provisions requires management to make significant judgments when setting the underlying assumptions. We have identified the following as being key assumptions to the actuarial reserving process: mortality; persistency; valuation interest rates; and expenses. A third party actuarial consultant is used through this process. These assumptions involve the exercise of significant judgment in considering whether they appropriately reflect the Society's circumstances and experience. We have focussed our key risk work on the expense assumption in the current period. See note 20 for further details, this has been included in the audit committee report.	We have assessed the competence of those involved in the assumption setting process. Such an assessment includes a direct challenge (by the actuarial team looking at the output by key product line) of the underlying working papers underpinning the expense assumption setting process and a challenge of the historical accuracy of modelling when compared with the actual experience. We used actuarial specialists within our audit team to challenge the appropriateness of the expense assumptions input into the technical provision model provided by Willis Towers Watson. We have agreed the actual expense base used in the assumption setting process through to audited current year information to ensure consistency. We have assessed the design and implementation of the internal controls put in place by management to manage the risks associated with the setting of the expense assumptions.
Key observations	We found the assumptions and valuation techniques used in the calculation of the Technical Provisions to be appropriate and reasonable.
Risk	**How the scope of our audit responded to the risk**
Integrity of data used in the financial reporting process As outlined within the Technical provision assumptions risk, the amounts held in relation to Technical Provisions are material to the Society's Financial Statements. The calculation of the technical provisions is dependent on the extraction of source data from underlying policy administration systems. Although ownership of the determination of technical provisions remains with the Society, much of the process is outsourced to a third party actuarial consultant. The transfer of source data between parties and the use of inaccurate and / or incomplete data could lead to a material misstatement of the technical provisions, this has been included in the audit committee report.	We have identified the critical inputs used in the calculation of technical provisions and agree them, on a sample basis, to source data and evidence obtained through the wider audit process to verify the appropriateness of data used in the mode. We have challenged the adjustments made to the underlying data from the policy administration system to ensure they are appropriate by testing the year on year movement in policy numbers. In addition we obtained the reconciliation to the Financial Statements and investigated the nature and validity of reconciling items on a sample basis. We have assessed the design and implementation of the internal controls put in place by management to manage the risks associated with the integrity of data used in the reserving process.
Key observations	We found the data used in the reserving process to be appropriate and reasonable.
Risk	**How the scope of our audit responded to the risk**
Investment propert valuation The Society holds a number of investment properties within the investment property portfolio. The market value of this investment property portfolio at the year-end date is £60.3m (2015: £54.3m). The valuation of these investment properties involve the use of judgment; any error could have a material effect on the Financial Statements and the claim amount on unit linked policies held by policyholders. Although the ownership of the valuation of the property portfolio remains with the Society, the process is outsourced to a third party valuation specialist. Additional information on the investment valuation is provided in note 5 to the Financial Statements, this has been included in the audit committee report.	We have assessed the competence of the independent valuation specialist used by the Society. Our challenge has involved the use of property valuation specialists within our audit team to directly challenge the assumptions used in the valuation process and the rational for any changes in assumptions and fair values. Rational for economic changes in the value was evaluated by reference to external publically available data on relevant property value trends. Rational for changes in individual property values caused by changes in condition, rental income streams or tenancy agreements were challenged and where applicable the impact was recalculated. In addition, we have performed substantive testing on a sample basis to challenge the completeness and accuracy of the portfolio.

Investment propert valuation (Continued from previous page)	We have assessed the design and implementation of the internal controls put in place by management to manage the risks associated with the valuation of the investment properties.
Key observations	We found the value at which investment properties are carried at the year-end date to be appropriate and reasonable.
Risk	**How the scope of our audit responded to the risk**
Change in technical provision accounting basis The valuation basis for the determination of the Technical Provision has been changed in the current year. The change has been made to align the valuation of the Technical Provision with the Solvency II reporting of the Society. The change meets the definition of a change in accounting policy under FRS 102 Section 10, and as such the change has been applied retrospectively. The change in the valuation basis has resulted in the restatement of the prior year Technical Provisions, along with additional note disclosure outlining the background for the change in accounting policy. Refer to note 24 which outlines the impact of this change, this has also been included in the audit committee report.	We have challenged the design and implementation of the control the Society put in place to manage the change in accounting policy by obtaining and reviewing a report produced by management. We have assessed the change in the accounting policy to assess whether this is appropriate under the relevant accounting standard. We have reviewed the additional disclosure made within note 24. We have performed audit procedures around the current and prior year closing Technical Provision. These audit procedures included a validation of the model used by the Society and a challenge of the assumptions underpinning the Technical Provision, on the revised Solvency II basis. This challenge involved the use of actuarial specialists throughout the audit who focussed on assessing the appropriateness of the assumptions. This included the Best Estimate Liability and Risk Margin; which together make up the Technical Provision.
Key observations	We assessed that the change in accounting policy to measure the Long Term Business Provision on a Solvency II basis to be appropriate and to have been satisfactorily disclosed. We found the final methodology used to determine the Long Term Business Provision on the new basis to be appropriate and reasonable and has been applied consistently in each period presented.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 21.These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. We determined materiality for the Society to be £580,000 (2015: £425,000), which is 0.15% of assets. The 2015 materiality was based on 3% of the Fund for Future Appropriations. The reason for the change in basis is that the change in accounting policy for the LTBP resulted in a retrospective application of the reserving basis, which materially impacted the FFA. We have reviewed the valuation basis and determined that a basis of 0.15% of the total assets balance is more suitable.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £29,000 (2015: £21,250), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Opinion on other matters prescribed by the Friendly Societies Act 1992
In our opinion the Report of the Committee of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the Financial Statements for the financial year.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Friendly Society Act 1992 we are required to report to you if, in our opinion:
- proper accounting records have not been kept; or
- the Financial Statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents that we required for our audit.

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Society acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit, Risk and Compliance committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Society's members, as a body, in accordance with Section 73 of the Friendly Society Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Heaton (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester
29 March 2017

Income and Expenditure Accounts

TECHNICAL ACCOUNT: Long Term Business	Note	Years ended 31/12/2016 £'000	31/12/2015 Restated £'000
Earned premiums, net of reinsurance		1,534	1,652
Investment Income	14	10,017	8,564
Unrealised gains /(losses) on linked investments		18,077	(4,073)
Unrealised gains/(losses) and gains on non-linked investments		1,157	(2,277)
Total technical income		29,251	2,214
Gross claims paid		(6,299)	(5,192)
Net claims paid		(6,299)	(5,192)
Gross change in Long-Term Business Provision			
(Increase)/Decrease in non-linked investment contract liabilities		(5,232)	5,502
(Increase) in insurance contract liabilities		(6,108)	(2,047)
Net Change in Long-Term Business Provision		(11,340)	3,455
Gross Changes in technical provision for linked liabilities			
(Increase)/Decrease in linked investment contract liabilities		(15,769)	1,792
(Increase) in insurance Contract liabilities		(607)	(133)
Net change in technical provisions for linked liabilities		(16,376)	1,659
Net operating expenses		(2,205)	(1,996)
Investment expenses and charges		(302)	(343)
Other technical income		3,007	12
Transfer from/(to) Funds for Future Appropriations	13	2,730	(1,461)
Balance on the Long Term Business Technical Account		-	-

Income and Expenditure Accounts

NON TECHNICAL ACCOUNT	Note	Years ended 31/12/2016 £'000	31/12/2015 £'000
Investment income	14	4,900	4,270
Gains on realisation of investments		16,519	4,222
Movement in unrealised (losses) on investments		(4,252)	(307)
Movement in unrealised (losses) on Oddfellows House		(1,021)	-
Annual lodge levy		1,893	1,896
Investment expenses and charges		(243)	(193)
Other income		495	459
Investment return to investing branches	16	(16,546)	(7,510)
Net operating expenses		(2,451)	(2,126)
Non-contractual benefits		(404)	(450)
Pension scheme benefits	23	49	(111)
Transfer to the reserves provided for by the rules and other specific purposes	12	(48)	21
(Deficit) / Excess of income over expenditure	13	(1,109)	171

All the amounts above are in respect of continuing operations.

Statement of other Comprehensive Income

	Note	Years ended 31/12/2016 £'000	31/12/2015 £'000
(Deficit)/surplus on Non Technical Account		(1,109)	171
Reserves provided for by the rules and other specific	12	48	(21)
Pension Scheme actuarial (losses)/gains	23	(4,311)	1,223
Total recognised (losses)/gains for the year		(5,372)	1,373

Balance Sheet

		Years ended	
		31/12/2016	31/12/2015 Restated
ASSETS	**Note**	**£'000**	**£'000**
Investments			
Land and buildings	5	60,420	54,376
Other financial investments			
Shares and other variable yield securities	6	57,904	51,430
Debt and other fixed income securities	7	87,060	76,690
Loans secured by mortgage	8	539	567
Assets held to cover linked liabilities	9	151,074	148,285
Debtors due within one year			
Other debtors	10a	923	1,011
Other assets			
Tangible assets	11	4,852	5,544
Other cash at banks, building societies and in hand		20,149	19,575
Prepayments and accrued income			
Accrued income		3,053	760
Prepayments		921	655
Pension Scheme asset	23	-	1,140
		386,895	360,033

Balance Sheet

LIABILITIES	Note	As at 31/12/2016 £'000	31/12/2015 Restated £'000
Reserves			
Reserves provided for, by the rules and other specific purposes	12	2,338	2,290
Fund for future appropriations	13	7,349	15,497
Technical provisions			
Long term business provision	20c	89,278	72,563
Claims outstanding		796	782
Provision for unearned premiums		90	91
Technical provisions for linked liabilities	20c		
Insurance contracts		2,892	2,332
Investment contracts		143,184	140,365
Liabilities to investing branches		135,085	123,731
Creditors and accruals due within one year	10b	2,289	1,758
Deferred income		472	624
Pension scheme liability	23	3,122	-
		386,895	360,033

These Financial Statements were approved by the Board of Directors on 29 March 2017 and were signed on its behalf by:

C J Nelson
Secretary of the Order

Notes to the Financial Statements

1a ACCOUNTING POLICIES

Basis of accounting

The principal accounting policies are summarised below. They have been applied consistently throughout the year and to the preceding year.

General information and basis of accounting

The Independent Order of Odd Fellows Manchester Unity Friendly Society Limited is a registered Friendly Society under the Friendly Society Act 1992. The address of the registered office is given on page 2. The nature of the Society's operations and its principal activities are set out in the Strategic Report on pages 3 to 6.

The Financial Statements have been prepared under the historical cost conventions, modified to include certain items at fair value, in accordance with Financial Reporting Standards 102 and 103 (FRS 102 and FRS 103) issued by the Financial Reporting Council. The Financial Statements are also drawn up in accordance with the rules set out in Schedule 6, Part III of the Friendly Societies (Accounts and Related Provisions) Regulations 1994 No. 1983.

The functional currency of the Society is considered to be pounds sterling because that is the currency of the primary economic environment in which the Society operates.

In accordance with Section 7, Part II of the Friendly Societies (Accounts and Related Provisions) Regulations 1994, consolidated Financial Statements are not presented since the Board of Directors believe that the results of the subsidiary's operations (Oddfellows Support Services Limited) are not material for the purpose of giving a true and fair view of the Society and its subsidiary as a whole.

Classification of contracts

The prior year Financial Statements were restated for material adjustments relating to the transition from Solvency I to Solvency II in the current year. For more information refer to Note 24.

The Society classifies its products for accounting purposes as insurance or investment. Insurance ontracts are defined as a contract under which one party accepts significant insurance risk. As a general guideline the Society defines a significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits:

- That are likely to be a significant proportion of the total contractual payments; and
- Whose amount or timing is contractually at the discretion of the issuer and that is contractually based on:
    - o The performance of a specified pool of contracts or a specified type of contract;
    - o Realised and/or unrealised investment returns on a specified pool of assets held by the Society; or
    - o The profit or loss of the Society, fund or other entity that issues the contract.

Such contracts are more commonly known as 'with-profit' or as 'participating' contracts. The terms and conditions of these contracts, together with UK regulations, set out the basis for the determination of the amounts on which the additional discretionary benefits are based and within which the Society may exercise its discretion. All with-profit contracts are classified as insurance contracts under the current accounting rules.

Investment contracts are those which carry financial risk, with no significant insurance risk.

Insurance premiums

Premiums received and reinsurance premiums paid relate to insurance and non-participating investment contracts. They are accounted for when due for payment except for recurring single premium in respect of unit-linked business, which are accounted for when the related liabilities are created.

Investment contracts, premiums and claims

Amounts collected on investment contracts, which primarily involve the transfer of financial risk such as long-term savings contracts, are accounted for using deposit accounting, under which the amounts collected, less any initial fees deducted, are credited directly to the Balance Sheet as an adjustment to the liability to the investor.

For claims and benefits paid on investment contracts, amounts are not included in the Income and Expenditure Account but instead deducted from investment contract liabilities in the period to which they relate.

Insurance claims incurred and claims outstanding

All valid claims and benefits notified in respect of 2016 are included in the Financial Statements whether or not they have been settled. All claims notified but not settled as at 31 December 2016 are included within claims outstanding on the Balance Sheet. Claims are stated as arising from either insurance contracts or investment contracts under FRS 103. In addition, the costs of administering the claims paid have been included in the claims incurred figure in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 No. 1983 Schedule 1, Part III.

Investment income

Investment income is included on an accruals basis. Dividends are included by reference to ex dividend dates. Income on fixed interest investments is adjusted for purchased accrued interest.

Realised gains and losses on investments

Realised gains and losses on investments, other than unit trusts held in the Long Term Business Fund, are calculated as the difference between net sales proceeds and the original cost. Realised gains and losses on unit trusts held in the Long Term Business Fund are calculated as the difference between net sales proceeds and the aggregate of additions at cost.

Unrealised gains and losses on investments

Unrealised gains and losses on investments, other than unit trusts held in the Long Term Business Fund, are calculated as the difference between the valuation of investments at the Balance Sheet date and the original cost. Unrealised gains and losses on unit trusts held in the Long Term Business Fund are calculated as the difference between the valuation at the Balance Sheet date and the aggregate of additions at cost and the previous Balance Sheet valuation. All movements in unrealised gains and losses on investments arising in the year are shown in the respective Income and Expenditure accounts.

Leases

Payments under operating leases are charged to the Income and Expenditure accounts equally over the lease term.

Investments

Investments are stated in the Financial Statements at market value (bid price). Information on all valuations is given in notes 5, 6, 7 and 9.

All property owned by the Society is long leasehold and is included under investments on the Balance Sheet at open market value, if not occupied by the Society for its own activities, in accordance with Financial Services and Markets Act 2000 and the Friendly Societies Act 1992 and the regulations made under them.

Owner occupied property

Owner occupied investment property is included under Fixed Assets on the Balance Sheet at fair value. The decrease on book value of owner occupied investment property is recognised in the Income & Expenditure account. Any future increase on book value reverses the decrease in value in the Income & Expenditure account with any surplus being transferred to the revaluation reserve. Properties are professionally revalued at least every three years with any surplus book value being transferred to the revaluation reserve, in accordance with generally recognised methods of valuation. The Board revalues the properties in the intervening years. It is the Society's practice to maintain these assets in a continual state of repair and to make improvements from time to time.

Loans secured by mortgage

Loans secured by mortgage are classed as basic financial instruments under FRS102 and are included at amortised cost.

Fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than owner occupied property, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Motor Vehicles	4 years (after residual value allowance)
Office equipment	4 years
Central office computer equipment	3 years
Branch computer equipment	1 year
Owner occupied property	Nil

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Taxation

As a registered Friendly Society only part of the Long Term Business is subject to corporation tax.No provision in this respect is included for 2016 as interest and capital gains arising during the year are not expected to exceed allowable management expenses.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date using tax rates that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax assets are only recognised when it is considered they are more than likely to be recovered.

Fund valuation

The assets and liabilities of the Society were last valued as part of the Long Term Business annual investigation as at 31 December 2016 pursuant to the Solvency II guidance.

Actuaries' reports on the appropriate assets and liabilities of all long term insurance funds of the Society were last made on 31 December 2016, and copies of these reports may also be inspected at the Registered Office.

Long Term Business provision

The Long Term Business provision is determined by the Society's Appropriate Actuary following the actuarial valuation. It is calculated on a basis to comply with the reporting requirements of the Prudential sourcebook and the Friendly Societies Act 1992. In broad terms the calculation uses a net premium valuation method to assess the amount of mathematical reserves. As such it includes explicit provision for regular bonuses declared at 31 December 2016, and regular bonuses declared as a result of the valuation. Wherever possible, implicit allowance is made for future bonuses by a margin in the valuation rate of interest. No provision is made for terminal bonuses as these are declared at the discretion of the Board.

The cost of any new bonus (declared as a result of the valuation) is shown separately in Note 20. This value has been assessed using the same methodology and assumptions as the calculation of the Long Term Business provision.

Linked Liabilities

For unit-linked business, the provision is calculated as the unit value of the individual accounts held by the Society for each member, plus any additional reserves considered necessary.

Going concern

As reflected on page 12, the Board of Directors has adopted the going concern basis in preparing the Financial Statements.

Cash flow statement

The Society has taken advantage of the exemption for mutual life assurance organisations under FRS102 Section 7 Statement of Cash Flows and has not prepared a cash flow statement for the year.

Fund for Future Appropriations accounting policy

The Fund for Future Appropriations represents all funds, the allocation of which has not yet been determined by the end of the financial year. Any surplus or deficit arising on the Technical Account – Long-Term Business is transferred to or from the Fund on an annual basis.

Related party disclosure

Total income during the year received from Branches in respect of the levy was £1,893k (2015 : £1,896k). Amounts due from Branches at 31 December 2016 in respect of goods and services was £29k (2015 : £104,835). Balances are settled within normal credit terms and there is no provision for doubtful debts related to these amounts. In respect of investments, these are disclosed on the Balance Sheet on page 38.

1b CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Society's accounting policies, which are described in Note 1a, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The more critical areas, where accounting estimates and judgements are made, are set out below.

Classification of long-term contracts

The Society has exercised judgment in its classification of Long-Term Business between insurance and investment contracts, which fall to be accounted for differently in accordance with the policies set out in Note 1 Accounting Policies. Insurance contracts are those where significant risk is transferred to the Society under the contract and judgment is applied in assessing whether the risk so transferred is significant, especially with regard to pension contracts, which are predominantly, but not exclusively, created for investment purposes.

Fair value of financial assets and unit-linked investments

Fair value measurement has been adopted to reduce volatility in reported earnings in the Income and Expenditure Account as the liabilities so determined are measured in a way which is consistent with the fair value of the underlying invested financial assets.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing, knowledgeable parties in an arms-length transaction. Fair values are determined by reference to observed market prices where available and reliable.

Estimates of future benefit payments arising from Long-Term Business insurance contracts

The Society makes estimates of the expected number of deaths for each of the years that it is exposed to risk. These estimates are based on either standard mortality tables; adjusted to reflect the Society's own experience.

The Society makes estimates of voluntary contract termination, investment returns and administration expenses at the inception of Long-Term insurance contracts. These estimates, which are reconsidered annually, form the assumptions used to calculate the liabilities arising from these contracts.

When assessing assumptions relating to investment returns the Society makes estimates of the impact of defaults on the related financial assets. The estimates are reassessed annually. The assumptions used to establish insurance contract liabilities and appropriate sensitivities relating to variations in critical assumptions are disclosed in Note 20b.

Accounting for pension plans

The Society participates in a defined benefit pension scheme based on final pensionable pay. The underlying assets and liabilities of the scheme require an element of judgment in their valuation, with the deficit on the scheme presented within the Balance Sheet. Further details underpinning the valuation of the scheme liabilities are disclosed in Note 23.

2 SUMS DENOMINATED IN FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling at 31 December 2016. Revenue transactions and those relating to the acquisition and realisation of investments including foreign fixed rate short term cash deposits have been translated at rates of exchange ruling at the time of the respective transactions.

3 STAFF COSTS

	2016 £'000	2015 £'000
Gross contracted service salaries	1,746	1,611
Social security costs	183	148
Pension costs	305	338
	2,234	2,097

The average monthly number of employees during the year was as follows:

	2016	2015
Board members	2	2
Clerical	44	46
Printing, production and dispatch	4	4
	50	52

4 AGGREGATE AMOUNT OF BOARD MEMBERS' EMOLUMENTS

	2016 £'000	2015 £'000
Gross salaries	338	246
Pension costs	22	85
Benefits and allowances	15	14
	375	345

Included in the above re emoluments (including benefits and allowances but excluding pension costs) of:

	2016 £'000	2015 £'000
Highest paid member	185	135
Members emoluments:		
£120,001 to £125,000	-	1
£125,001 to £130,000	-	-
£130,001 to £135,000	-	1
£165,001 to £170,000	1	-
£185,000 to £190,000	1	-

5 LAND AND BUILDINGS

	Occupied properties £'000	Investment properties £'000	2016 £'000	2015 £'000
Valuation as at 1 January	85	54,291	54,376	34,693
Additions at cost	-	4,289	4,289	-
Transfer of engagements	-	-	-	14,293
Disposal proceeds	-	(2,139)	(2,139)	-
Realised gain	-	1,609	1,609	-
Movement in unrealised gains and losses	-	2,285	2,285	5,390
Valuation as at 31 December	85	60,335	60,420	54,376

Property owned by the Society for sponsorship activities was last valued at 31 December 2016 by Keningtons LLP, Chartered Surveyors of 9-13 George Street, London, W1U 3QH. The Directors have considered this valuation and consider it to remain appropriate.

Property owned and occupied by the Society as valued at 31 December 2016 by CB Richard Ellis Limited, Chartered Surveyors of The Chancery, Spring Gardens, Manchester, M2 1EW. The Directors have considered this valuation and consider it to remain appropriate.

Freehold and leasehold investment properties were valued at 31 December 2016 by CB Richard Ellis Limited, Chartered Surveyors of The Chancery, Spring Gardens, Manchester, M2 1EW. The Directors have considered this valuation and consider it to remain appropriate.

Valuation on property transferred in from the Schoolteachers Friendly Society was last valued at 31 December 2014 by Chris Johnson FRICS of Smith & Sons, Hamilton Square, Birkenhead, Wirral, CH4 15BN. The Directors have considered this valuation and consider it to remain appropriate.

Valuation on property transferred from the Druids Friendly Society was last valued at 31 December 2016 by Handley Gibson of Scott Hall House, Sheepscar Street North, Leeds LS7 3AF. The Directors have considered this valuation and consider it to remain appropriate.

The valuations are based on open market value in accordance with the provisions of the RICS Appraisal and Valuation Manual. No allowances have been made for the costs of realisation. In order for the accounts to show a true and fair view it is appropriate not to provide for depreciation on land and buildings.

6 SHARES AND OTHER VARIABLE YIELD SECURITIES

	Listed Equities	
	2016 £'000	2015 £'000
Valuation as at 1 January	51,430	48,468
Additions at cost	31,021	16,704
Transfer for engagements	-	4,395
Disposal proceeds	(30,217)	(15,754)
Realised gains/(losses)	7,231	(170)
Movement in unrealised (losses)	(1,561)	(2,213)
Valuation as at 31 December	57,904	51,430

Listed equities, (quoted on the London Stock Exchange) were valued at 31 December 2016 by Brewin Dolphin Limited of 12 Smithfield Street, London, EC1A 9BD, Investec Wealth & Investment Limited of 2 Gresham Street, London, EC2V 7QN, Legal & General Investment Management of 1 Coleman Street, London, EC2R 5AA, Fidelity International of 25 Cannon Street, London EC4M 5TA and Vestra Wealth LLP of 14 Cornhill, London EC3V 3NR.

7 DEBT AND OTHER FIXED INCOME SECURITIES

	United Kingdom Government Bonds £'000	Non-Government Bonds £'000	2016 £'000	2015 £'000
Valuation as at 1 January	20,293	56,397	76,690	75,774
Additions at cost	45,011	30,270	75,281	24,550
Transfer of engagements	-	-	-	3,190
Disposal proceeds	(19,172)	(49,890)	(69,062)	(24,836)
Realised gains	784	8,825	9,609	1,133
Movement in unrealised (losses)	(2,569)	(2,889)	(5,458)	(3,121)
Valuation as at 31 December	44,347	42,713	87,060	76,690

Listed bonds were valued as at 31 December 2016 by Investec Wealth & Investment Limited of 2 Gresham Street, London, EC2V 7QN and Vestra Wealth LLP of 14 Cornhill, London EC3V 3NR.

8 LOANS SECURED BY MORTGAGE

	2016 £'000	2015 £'000
Outstanding as at 1 January	567	580
Advances	24	1
Transfer of engagements	-	39
Repayments	(54)	(55)
Interest earned	2	2
Outstanding as at 31 December	539	567

9 ASSETS HELD TO COVER LINKED LIABILITIES

	Cash at Bank & Building Society £'000	Unit Trusts £'000	Equities £'000	Total £'000
Ideal Fund	950	-	5,567	6,517
Nottingham Fund	-	37,851	-	37,851
Schoolteacher's Fund	-	80,710	-	80,710
Druids Fund	-	22,955	-	22,955
Ordinary Assurance Fund	-	-	-	-
Equity Fund	-	573	-	573
Fixed Interest Fund	-	347	-	347
Money Fund	300	-	-	300
Pension Deposit Fund	-	-	-	-
UK Index Fund	-	668	-	668
Growth Fund	-	1,153	-	1,153
Valuation as at 31 December 2016	1,250	144,257	5,567	151,074
Valuation as at 31 December 2015	18,135	125,007	5,143	148,285

Linked business investments were valued as at 31 December 2016 in accordance with the provisions of the Prudential Sourcebook.

Unrealised gains and losses on linked business investments are dealt with in the Long Term Business Technical Account.

Assets invested exceed the technical provision for linked liabilities by £6,325k (2015 restated : £5,588k).

10 DEBTORS AND CREDITORS

10a OTHER DEBTORS

	2016 £'000	2015 £'000
Trade debtors	922	989
Tax to be recovered	1	22
Valuation as at 31 December	923	1,011

10b CREDITORS AND ACCRUALS

	2016 £'000	2015 £'000
Trade creditors	76	145
Other creditors and accruals	2,213	1,613
Valuation as at 31 December	2,289	1,758

11 TANGIBLE ASSETS

	Office & Computer Equipment £'000	Owner Occupied Premises £'000	New Premises £'000	Motor Vehicles £'000	Total £'000
Cost:					
1 January 2016	1,311	5,191	41	88	6,631
Additions	550	-	-	-	550
Disposals	(26)	-	-	-	(26)
Unrealised Loss	-	(1,021)	-	-	(1,021)
31 December 2016	1,835	4,170	41	88	6,134
Depreciation:					
1 January 2016	1,030	-	16	41	1,087
Charge	190	-	11	20	221
Disposals	(26)	-	-	-	(26)
31 December 2016	1,194	-	27	61	1,282
Net Book Value:					
31 December 2016	641	4,170	14	27	4,852
31 December 2015	281	5,191	25	47	5,544

12 RESERVES PROVIDED FOR BY THE RULES AND OTHER SPECIFIC PURPOSES

The reserves comprise those funds with specific purposes as laid down in the rules of the Society.

Movement in the year:	2016 £'000	2015 £'000
Balance at 1 January	2,290	2,311
Transfer to Non Technical Account	48	(21)
Balance at 31 December	2,338	2,290

13 FUND FOR FUTURE APPROPRIATIONS

The fund for future appropriations comprises all funds, the allocation of which had not been determined by 31 December 2016.

Movement in year:

	2016 £'000	2015 Restated £'000
Balance at 1 January	15,497	12,636
Transfer (to)/from Long Term Business Technical Account	(2,730)	1,461
Deficit on Non Technical Account	(1,109)	171
Net Pension Scheme actuarial losses	(4,311)	1,223
Other	2	6
Balance at 31 December	7,349	15,497

The balance at the accounting date arises as follows:

	2016 £'000	2015 Restated £'000
Technical Account: Long Term Business	5,608	8,338
Non Technical Account	1,741	7,159
Balance as at 31 December	7,349	15,497

14 INVESTMENT INCOME

	2016 £'000	2015 £'000
Technical account: Long Term Business:		
Investment Property	784	500
Shares and other variable yield securities	4,694	3,498
Debt and other fixed income securities	1,641	1,556
Bank and building society interest	566	858
Mortgages	2	3
Capital Return	47	-
Other	134	12
	7,868	6,427
Gain on Realisation of Investments	2,149	2,137
	10,017	8,564
Non Technical Account:		
Land & buildings	2,589	2,063
Shares and other variable yield securities	1,167	1,136
Debt and other fixed income securities	1,041	919
Bank and building society interest	94	142
Branch loan interest	9	10
	4,900	4,270

15 LONG TERM BUSINESS - CHANGE IN OTHER TECHNICAL PROVISIONS

	2016 £'000	2015 Restated £'000
Continuing Long Term Business (Note 20c)	20,094	37,109

16 INVESTMENT RETURN TO INVESTING BRANCHES

	2016 £'000	2015 £'000
Investment income	4,555	3,888
Gains on realisation of investments	16,089	3,449
Movement in unrealised gains on investments	(4,098)	173
	16,546	7,510

17 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Total minimum lease payments payable under non-cancellable operating leases were in respect of leases expiring:

	2016 £'000	2015 £'000
Land and buildings	1	6
Other:	56	71
	57	77

18 AUDITOR'S REMUNERATION

	2016 £'000	2015 £'000
Audit related assurance services	177	168
Other assurance services	37	28
Non-audit fees - Taxation	22	23
Total (exclusive of Value Added Tax)	236	219

19 APPROPRIATE ACTUARY / CHIEF ACTUARY

The Society has requested the Appropriate Actuary to furnish to it the particulars specified in Section 77 of the Friendly Societies Act 1992 and the particulars furnished pursuant to the request are identified below:

(a) The Appropriate Actuary / Chief Actuary of the Society was Mr David Addison, FFA, of Willis Towers Watson between
1 January 2016 and 27 June 2016, and Mr Michael Green, FIA, of Willis Towers Watson between 27 June 2016 and 31 December 2016. Neither Mr Addison or Mr Green is a member of the Society.

(b) Mr Addison and Mr Green had no other pecuniary interest in any transaction between the actuary and the Society subsisting at any time during the year save their interests in respect of the amounts disclosed in (c) below.

(c) Both Mr Addison and Mr Green were employees of Willis Towers Watson during the period of their appointments. The only remuneration was the fees for professional services paid to Willis Towers Watson for the services provided by the firm, and the amount payable in this respect amounted to £473,427 exclusive of Value Added Tax. No other benefits were paid.

(d) Mr Addison and Mr Green did not receive, nor will receive any other pecuniary benefit.

20 LONG TERM BUSINESS

(a) Capital Statement

The following summarises the capital resources and requirements of the Independent Order of Odd Fellows Manchester Unity Friendly Society Limited as determined for UK regulatory purposes.

Available capital resources

The life insurance business is made up of five funds, the MU Long Term Business Fund ("MU Fund"), the Ideal Fund, the Nottingham Fund, the Schoolteachers Fund and the Druids Fund. The figures shown reflect the capital resources within the combined life insurance business.

	Total life insurance £'000	Other activities £'000	Total £'000
31 December 2016	5,608	1,741	7,349
31 December 2015	8,338	7,159	15,497

Movement in capital resources	Total Life insurance £'000
Total available capital resources at 1 January 2016	8,338
Change in assets	
Premiums less claims and expenses	(22,157)
Investment income	9,133
Realised and unrealised losses on investments	20,062
Set-up Non-Profit Fund	10,325
Total change in assets	17,364
Change in liabilities	
Change in provision for linked liabilities	3,379
Change in long term business provision	6,390
Set-up Non-Profit Fund	10,325
Total change in liabilities	20,094
Total available capital resources at 31 December 2016	5,608

Analysis of liabilities at 31 December 2016	Total Life insurance £'000
With-profit liabilities	57,593
Non-profit business	31,685
Unit-linked	146,076
Total provisions included in the Balance Sheet	235,354

Analysis of liabilities at 31 December 2015 (restated)	Total Life insurance £'000
With-profit liabilities	58,168
Non-profit business	14,396
Unit-linked	142,697
Total provisions included in the Balance Sheet	215,260

The basis for setting the technical provisions is included in note 20b to the Financial Statements.

Management of risks in the life insurance business
The Society ensures that management of the Long Term Business is appropriate and proportionate for a directive society.

To accomplish this the Society will continue to ensure that:
- sufficient assets are set aside to meet Long Term Business liabilities;
- the strategy for the distribution of any free assets within the Long Term Business is appropriate for the business concerned, and in particular, the discretionary allocation of bonuses is decided by the Board;
- liquid investments are sufficient to meet benefit payments;
- workflow and resources are planned to ensure that Long Term Business can be administered in a proper manner; and
- due regard is paid to risks that might impact on how the Long Term Business is managed.

In implementing these measures, the Society adheres to the PRA principles, rules and guidance applicable to Long Term Business to ensure that the requirement and expectations of customers are met and that they are treated fairly.

Regulatory solvency position

In line with Solvency II requirements the Society calculates it's solvency capital requirement (SCR) using Standard Formula

As at 31 December 2016 the Society's estimated SCR and corresponding eligible own funds were as follows:

	Unaudited 2016
Eligible Own Funds	£278.4m
SCR	£67.6m
Coverage (unrounded)	412%

Note, the SCR is an estimate and is unaudited at present, this will be finalised and audited ahead of the Solvency II return which will be submitted by the deadline of 19 May 2017.

Sensitivities of the capital position

The capital position is sensitive to changes in market conditions, which may affect the value of assets and/or liabilities. It is also sensitive to assumptions and experience relating to mortality, expenses and persistency, and to a lesser extent morbidity.

Management of insurance risk

The Society's management of insurance risk is a critical aspect of its business. The primary insurance activity carried out by the Society comprises the assumption of the risk of loss from persons that are directly subject to the risk. Such risks in general relate to life, accident, health and financial perils that may arise from an insurable event. As such, the Society is exposed to the uncertainty surrounding the timing and severity of claims under the related contracts. The principal risk is that the frequency and severity of claims is adverse to that expected. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. Insured events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. The risk under assurance policies is partly naturally hedged by risks under annuity policies where the exposure is to the risk of longevity.

The main insurance risks can be summarised as follows:

- Mortality – the risk that the Society's experience of life assurance policyholders is different from that expected. For life assurance the risk is that more policyholders die than expected;
- Morbidity – the risk that more of the Society's health insurance policyholders fall ill or become incapacitated than expected;
- Persistency – the risk that policies do not remain in force and are for any reason lapsed, made paid-up, surrendered or transferred prior to maturity or expiry. For policies without guarantees, the risk is generally that fewer policies remain in force than expected. For those with guarantees, the risk is generally that more remain in force than expected;
- Annuitant longevity – the risk that the annuitant lives longer than assumed in the pricing and reserving basis used; and
- Expenses – the risk that actual expenses are higher than those expected.

In addition, it is necessary for the Society to make decisions which ensure an appropriate accumulation of assets relative to liabilities. These decisions include the allocation of investments between classes, the setting of policyholder bonus rates and the setting of surrender terms.

The primary responsibility for managing insurance risk falls to the Insurance Committee. This Committee has responsibility for the setting of policy and for monitoring the levels of risk arising from mortality, morbidity, persistency and expenses. The Committee also considers the Society's reinsurance coverage.

The management of insurance risk and information around sensitivity analysis is disclosed further within note 20 Long Term business.

Concentration risk

The Society has historically written a diverse mix of business across a diverse group of people and has no material concentrations of risk by product type. However, as the Society has written substantially all of their business in the UK, results are sensitive to demographic and economic changes arising in the UK. Concentrations of insurance risk are considered by the Insurance Committee to ensure that the risk is within the Society's overall risk appetite.

The Society seeks to mitigate the risk of excess concentrations of risk through the use of reinsurance, portfolio analysis and risk limits.

The key risks to the Society's life insurance business are market risks, insurance risks and expense risks, particularly the inflation of expenses. The investment performance, expenses and other risks to the life insurance business are monitored regularly by the Main Board, or delegated to the Commercial Board or Insurance Committee as appropriate.

In the event of an adverse situation arising, the Society would take action to reduce the impact. These actions may include:

- reducing the rates of terminal bonus and/or reversionary bonuses;
- immediate sale of higher risk assets; and
- reducing overheads (to the extent possible without affecting the operation of the life assurance business).

(b) Provision

The principal assumptions used in the calculation of the long term business provision in 2016 were as follows:

Notes to the Financial Statements

Class of Business		Mortality tables
UIEF, Ex-UIRF and MSA		
UIEF		
WP annuities		100% IMA92C10/IFA92 - 3
Annuities in payment		100% IMA92C10/IFA92 - 3
Ex – Philanthropic	Non profit With profit	70% AM/FC00
Other UIEF	Non profit	80% AM/FC00
Ex-UIRF		
Fifty Plus		100% MU 1970
Other UIRF		Value of payment offered
Ideal Fund: **Life and Pensions (non - linked)**		
Tax exempt	Non profit With profit	70% AM/FC00
Taxable	Non profit With profit	70% AM/FC00
Pensions term assurance		100% AM/FC00
Life and Pensions (unit - linked)		
Life plans		100% AM/FC00
Sovereign bonds		100% AM/FC00
Pension plans		100% AM/FC00
Sickness		
All		60% AM/FC00
With Profit Sub Fund		
All		70% AM/FC00
Nottingham Fund: **Life and Pensions (non - linked)**		
With Profit Tax Exempt		115% AM/FC00 (70% whole of life)
With Profit Taxable		115% AM/FC00 (70% whole of life)
Non Profit Tax Exempt		115% AM/FC00 (70% whole of life)
Non Profit Taxable		115% AM/FC00 (70% whole of life)
ISA Bonds and Accumulating With Profit policies		115% AM/FC00 (70% whole of life)
5 Year Bond		115% AM/FC00 (70% whole of life)
Annuities		50% IML92/IFL92 Rated down 3 yrs
Cremation		115% AM/FC00
50 plus plan		90% AM/FC00
Funeral plans		150% AM/FC00
Term assurance / Mortgage protection		100% TM/FC00

Schoolteachers:

Sickness Income Plan	100% AM/FC00
Tax Exempt Investment Plan	100% AM/FC00
Child Trust Fund	n/a
Sickness	n/a

The method of the calculation of the long term business provision is described in the accounting policy note.

Druids:

Child Trust Fund	55% ELT16
Lancashire and Cheshire	100% PML92
	100% PA90 (f) rated down 10 yrs
Free Gardners	91% ELT15
Other non-profit	70% AM/FC00
With-profit	70% AM/FC00
Unitised with-profit	70% AM/FC00
With-profit (6% RB)	70% AM/FC00
With-profit (4% RB)	70% AM/FC00
Non-Profit Fund	70% AM/FC00
Guaranteed Investment Bond	90% AM/FC00

(c) Movements in the technical provision (Gross of Reinsurance)

	2016 £'000	2015 Restated £'000
Balance at 1 January		
Long Term Business provision	72,563	53,064
Provisions for linked liabilities	142,697	125,087
	215,260	178,151
Changes in technical provisions	20,094	37,109
	235,354	215,260
Balance at 31 December		
Long Term Business provision	89,278	72,563
Provisions for linked liabilities	146,076	142,697
	235,354	215,260

(d) Assets

The total amount of assets representing the Long Term Business fund valued in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 at 31 December 2016 were £241.1m (2015 : 223.6m).

21 RELATED PARTY DISCLOSURES

The Society is controlled by its members through an Annual Moveable Conference of Deputies. The Board of Directors governs the affairs of the Society between each conference. The Society is a related party to the following:

MU Pension Scheme
MU Pension Trustees Limited
MU Housing Association Limited
Friends of the Manchester Unity Housing Association Limited
Manchester Unity Credit Union Limited
Ideal Insurance (Holdings) Limited
Ideal Insurance Company Limited

In every case members of the Society's Board of Directors including the Chief Executive have substantial control or influence by their involvement in the management structure of each organisation.

The Society operates disbursement accounts with the concerns as appropriate. In addition, the Society provides financial support and sponsorship to the Manchester Unity Credit Union Limited in respect of direct overhead costs, which in 2016 totaled £14k (2015: £16k).

22 CONTINGENT LIABILITIES

The Society's General Rule 77D contains provisions to underwrite liabilities and guarantee performance of all Branches.

The Board of Directors is not aware of any such potential liabilities arising at 31 December 2016 (2015 : £Nil).

23 PENSION SCHEME BENEFITS

The funds of the Scheme are actuarially valued by Willis Towers Watson Limited every three years. The most recent full valuation was carried out at 31 March 2015.

Total employer contributions in the accounting period ended 31 December 2016 were £430k (2015: £444k). The employer contribution rate remained at 32.7% for all contributing members of the Scheme throughout 2016.

The Balance Sheet surplus for the Scheme changed significantly, moving from a surplus of £1,140,000 to a deficit of £3,122,000 over the accounting period. While Scheme assets have performed fairly well over the period, the actuarial value of Scheme liabilities has increased significantly over the year to £24,368,000 (compared with £18,743,000 at the end of 2015). This is mainly due a decrease in the discount rate.

The cost recognised in the Income & Expenditure Account is lower than the equivalent figure last year (£381,000 compared with £555,000 in 2015). This is mainly due to a decrease in the service cost as a result of the change in financial conditions over 2016.

The results are particularly sensitive to the key assumptions, such as the discount rate, level of pensionable salary growth, level of price inflation and mortality. With the exception of the mortality assumption, which has remained unchanged, all of the financial assumptions have led to an increase in the end of year liabilities. It should be noted that the results and position shown have been calculated by reference to investment market conditions at 31 December 2016. Considerable volatility in these figures is possible from year to year if market returns and yields should differ materially in future years from those assumed. In addition, future actuarial measurements may differ significantly from the measurements presented in this report due to:

- experience differing from that anticipated by the economic or demographic assumptions,
- changes in economic or demographic assumptions,
- increases or decreases expected as part of the natural operation of the methodology used for these measurements,
- changes in the Scheme provisions or applicable law, and
- significant events since the previous actuarial valuation.

The assumptions selected for this valuation generally reflect long-term average expectations. If overall future experience is less favourable than assumed, the relative level of costs determined in this valuation will be likely to increase in future valuations.

The projections are based on an update of a preceding actuarial valuation (as at 31 March 2015), thereby introducing an element of approximation relative to the result of a hypothetical full actuarial valuation at at 31 December 2016.

Society provisions and assumptions

The benefits have been valued in accordance with the provisions of the Scheme's Trust Deed and Rules dated 26 February 1998, and subsequent deeds of amendment. It is our understanding that there were no significant changes in benefit structure of the Scheme, or the method by which these are valued over the last year.

The Society revalues most of members' deferred pensions between their date of leaving and date of retirement in line with inflation in accordance with statutory requirements. Consumer Price Index ("CPI") is the effective indexation for deferred pension increases and has been used as the basis for the pension increases in deferment in producing these FRS 102 disclosures.

FRS 102 Disclosures

Under FRS 102, a surplus can be recognised to the extent that it can offset contributions for future service, or where it forms part of a potential refund of surplus.

Mortality
The mortality tables used for both males and females is SAPS 2 “All” tables (S2PXA) based on members’ years of birth projected in line with CMI 2014 projections from 2007 with a 1.5% pa long term trend rate.

Expected lifetime
The expected lifetime of a participant who is age 65 and the expected lifetime (from age 65) of a participant who will be age 65 in 15 years are shown in years below based on the above mortality tables.

Age	Males	Females
65 in 2016	22.7	24.8
65 in 15 years	24.3	26.5

Income & Expenditure

	2016 £’000	2015 £’000
Effect of employee service in the current period	336	420
Net interest on net defined asset	(53)	(11)
Defined benefit cost recognised in Income & Expenditure	283	409
Administration costs incurred during the period	98	146
Employer contribution	(430)	(444)
Other costs	-	-
Cost recognised in Income & Expenditure	(49)	111

Other Comprehensive Income (OCI)

	2016 £’000	2015 £’000
Actuarial (gain)/loss arising during period	5,324	(1,031)
Return on plan assets (greater) than discount rate	(1,013)	(192)
Remeasurement effects recognised in OCI	4,311	(1,223)

Total Defined Benefit Cost

	2016 £’000	2015 £’000
Cost recognised in Income & Expenditure	381	555
Remeasurement effects recognised in OCI	(4,311)	(1,223)
Total defined benefit cost	4,692	(668)

Assumptions Used to Determine Defined Benefit Cost

	2016	2015
Discount rate	3.75%	3.60%
Price inflation (RPI)	3.25%	3.20%
Price Inflation (CPI)	2.25%	2.20%
Long-term rate of return on assets	3.75%	3.60%
Rate of salary increase	4.25%	5.70%
Pension increases for in-payment benefits:		
• in respect of pensions accrued prior to 6 April 1997 (in excess of GMP)	nil	nil
• in respect of pensions accrued prior to 1 April 2006 and after 5 April 1997	3.00%	3.20%
• in respect of pensions accrued after 31 March 2006	1.95%	2.40%
Pension increases for deferred benefits	2.25%	2.20%

[1]These beginning of year assumptions were used to calculate the defined benefit cost recognised through Income & Expenditure. Rates are expressed on an annual basis.

Development of Net Balance Sheet Position	2016 £'000	2015 £'000
Defined benefit obligation (DBO)	(24,368)	(18,743)
Fair value of assets (FVA)	21,246	19,883
Defined benefit (deficit)/surplus	(3,122)	1,140

Reconciliation to the Balance Sheet		
Net defined benefit asset at end of prior period	1,140	28
Effect of employee service in the current period	(336)	(420)
Net interest on net defined benefit asset	53	11
Remeasurement effects recognised in OCI	(4,311)	1,223
Employer contributions	430	444
Administration costs incurred during the period	(98)	(146)
Net defined benefit (deficit)/surplus at end of current period	(3,122)	1,140

Assumptions and Dates Used for Measurements		
Discount rate	2.50%	3.75%
Price inflation (RPI)	3.50%	3.25%
Price Inflation (CPI)	2.50%	2.25%
Long-term rate of return on assets	2.50%	3.75%
Rate of salary increase	4.50%	4.25%
Pension increases for in-payment benefits:		
• in respect of excess pensions accrued prior to 6 April 1997 (in excess of GMP)	nil	nil
• in respect of excess pensions accrued prior to 1 April 2006 and after 5 April 1997	3.15%	3.00%
• in respect of pensions accrued after 31 March 2006	2.00%	1.95%
Pension increases for deferred benefits	2.50%	2.25%

Change in Defined Benefit Obligation (DBO)		
DBO at end of prior period	18,743	19,110
Effect of employee service in the current period	336	420
Interest cost on the DBO	687	678
Remeasurement of the DBO	5,324	(1,031)
Scheme participants' contributions	107	113
Benefits paid from Scheme assets	(829)	(547)
DBO at end of current period	24,368	18,743

Change in Scheme Assets

Sheet Position	2016 £'000	2015 £'000
Fair value of assets at end of prior period	19,883	19,138
Interest income on Scheme assets	740	689
Return on plan assets greater than discount rate	1013	192
Employer contributions	430	444
Scheme participants' contributions	107	113
Benefits paid	(829)	(547)
Administrative costs paid	(98)	(146)
Fair value of assets at end of current period	21,246	19,883

Scheme Asset Information

	Target Allocation Range	Allocation Percentage 31/12/16	Allocation Percentage 31/12/15
Equity securities	50.0%	44.1%	45.8%
Debt securities	40.0%	36.0%	34.3%
Real estate/property	10.0%	9.7%	9.3%
Cash	0.0%	2.1%	3.5%
Other	0.0%	8.1%	7.1%
Total	100.0%	100.0%	100.0%
Fair value of Society assets (£'000)		£21,246	£19,883

24 EXPLANATION OF THE CHANGE IN ACCOUNTING POLICY FOR THE LONG TERM BUSINESS PROVISION

In the current period, the Society has made a voluntary change in accounting policy under FRS 102 Section 10. The change in accounting policy has arisen through the implementation of Solvency II regulations on 1 January 2016. As a result of the transition to the new regulatory environment, a new valuation methodology for the technical provisions of the Society was implemented. This new technical provision valuation consists of a best estimate liability amount plus a risk margin, which represents the amount which an undertaking would require to take on the obligations of the Society. Together, the best estimate liability and risk margin amount are referred to as the Long term business provision of the Society.

The Society has applied the new accounting policy as the Directors believe this provides more reliable and relevant information to the members of the Society and to the end user of the Annual Report. In addition, the alignment of the valuation basis for the Long term business provision with the Solvency II regulations better reflects the way in which the Society is managed.

The table below presents the impact of the change in the valuation basis of the Long term business provision, and the associated impact on the Fund for Future Appropriations for the year ended 31 December 2015. The impact of the change in accounting policy has not been shown for the year ended 31 December 2016 as the previous valuation basis has not been maintained in the current period, and it would be impracticable to do so.

Reconciliation to Long term business provision

	As at 31/12/2015 £'000
Long term business provision reported previously under previous valuation methodology	62,379
Adjustment to Long term business provision due to change to align with Solvency II	
Valuation principles	10,184
Restated Long term business provision	72,563

Reconciliation to Long term business provision	As at 31/12/2015 £'000
Fund for Future Appropriations reported previously under previous valuation methodology	21,053
Impact arising from the change in the valuation basis of the Long term business provision	(5,556)
Restated Fund for Future Appropriations	15,497

Reconciliation to Technical provisions for linked liabilities	As at 31/12/2015 £'000
Technical provisions for linked liabilities reported previously under previous valuation methodology	
Insurance contracts	3,498
Investment contracts	143,949
	147,447
Impact arising from the change in the valuation basis of the Long term business provision	
Insurance contracts	(1,166)
Investment contracts	(3,584)
Restated Technical provisions for linked liabilities	
Insurance contracts	2,332
Investment contracts	140,365
	142,697

Reconciliation to Technical account	As at 31/12/2015 £'000
Transfer to Fund for Future Appropriations reported previously under previous valuation methodology	5,205
Impact arising from the change in the valuation basis of the Long term business provision	(3,744)
Restated transfer to Fund for Future appropriations	1,461

25 FINANCIAL INSTITUTION DISCLOSURE

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. The tables below show the determination of fair value according to a three-level valuation hierarchy. Fair values are generally determined at prices quoted in active markets (level 1). However, where such information is not available, the Society applied valuation techniques to measure such instruments. These valuation techniques make use of market observable data for all significant inputs where possible (level 2). Where inputs for the assets or liabilities are not based on observable market data (that is unobservable), fair values are classified as level 3. There are no non-recurring fair value measurements as at 31 December 2015 and 2016.

Fair value measurement at 31 December 2016				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets	-	-	-	-
Shares and other variable yield securities	57,904	-	-	57,904
Debt and other fixed income securities	87,060	-	-	87,060
Assets held to cover linked liabilities	151,074	-	-	151,074
Investment properties	-	-	60,421	60,421
Owner occupied property	-	-	4,170	4,170
Total	296,038	-	64,591	360,629
Financial liability	-	-	-	-
Investment contracts at fair value through profit and loss	-	143,184	-	143,184
Total	-	143,184	-	143,184

Fair value measurement at 31 December 2015 restated				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets	-	-	-	-
Shares and other variable yield securities	51,430	-	-	51,430
Debt and other fixed income securities	76,690	-	-	76,690
Assets held to cover linked liabilities	148,285	-	-	148,285
Investment properties	-	-	54,376	54,376
Owner occupied property	-	-	5,191	5,191
Total	276,405	-	59,567	335,972
Financial liability	-	-	-	-
Investment contracts at fair value through profit and loss	-	140,365	-	140,365
Total	-	140,365	-	140,365

The majority of the Society's instruments are valued based on quoted market information or observable market data. Owner occupied and investment properties are stated at their revalued amount, as assessed by qualified external valuers in line with the Society's policy. further details can be found on page 44

The investment contract liabilities in level 2 of the valuation hierarchy represent the fair value of linked and non-linked liabilities valued using established actuarial techniques utilising market observable data for all significant inputs, such as investment yields. There have been no transfers between levels 1,2 and 3 in 2016.

Notes to the Financial Statements

Management of financial risk

The risk management strategy forms an integral part of ensuring that risks are managed on alignment with the Society's objectives and business strategy and to maintain the financial stability of our policyholders, our reputation, employees and assets. Further detail on corporate governance structure and the impact of current market conditions are provided in the Strategic Report on pages 6 to 9.

The key financial risks faced by the Society are as follows:

- Market risk;
- Insurance risk;
- Credit risk;
- Operational risk; and
- Liquidity risk.

Market risk

The Society manages its market risks within asset liability matching (ALM) frameworks that have been developed to reduce the degree to which asset and liability values diverge when investment markets change. The following table presents an analysis of the Balance Sheet for each distinct category of assets and liabilities which are referred to in this Note:

31 December 2016	With-profit business	Non-profit business	Unit-linked	Other	Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Land and buildings	8,976	4,764	-	46,680	60,420
Shares and other variable yield securities	8,368	4,441	149,824	45,095	207,728
Debt and other fixed income securities	34,763	18,450	-	33,847	87,060
Loans secured by mortgage	54	-	-	485	539
Other debtors	1	-	-	922	923
Tangible assets	-	-	-	4,852	4,852
Cash at bank, building society and in hand	5,758	3,040	1,250	11,351	21,399
Other assets	(336)			4,310	3,974
Total assets	57,584	30,695	151,074	147,542	386,895
Liabilities					
Reserves provided for, by the rules and other specific purposes	-	-	-	2,338	2,338
Insurance contract provision	43,053	21,360	2,892	-	67,305
Investment contract provision	14,540	10,325	143,184	-	168,049
Claims outstanding	796	-	-	-	796
Provision for unearned premiums	-	-	-	90	90
Other liabilities	-	-	-	148,317	148,317
Total liabilities	58,389	31,685	146,076	150,745	386,895

31 December 2015	With-profit business	Non-profit business	Unit-linked	Other	Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Land and buildings	15,540	1,214	-	37,622	54,376
Shares and other variable yield securities	11,640	1,536	130,150	38,254	181,580
Debt and other fixed income securities	26,099	13,985	-	36,606	76,690
Loans secured by mortgage	58	-	-	509	567
Other debtors	48	-	-	963	1,011
Tangible assets	-	-	-	5,544	5,544
Cash at bank, building society and in hand	6,225	607	18,135	12,743	37,710
Other assets	(1,654)	-	-	4,210	2,555
Total assets	57,956	17,341	148,285	136,451	360,033
Liabilities					
Reserves provided for, by the rules and other specific purposes	-	-	-	2,289	2,289
Insurance contract provision	33,184	12,689	10,820	-	56,693
Investment contract provision	13,455	-	139,571	-	153,026
Claims outstanding		-	-	-	
Provision for unearned premiums	-	-	-	90	90
Other liabilities	-	-	-		
Total liabilities	47,421	12,689	150,391	149,648	

Asset price risk

Equity risk is the risk that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices, other than those arising from interest rate risks. Those changes may be caused by factors specific to the asset or liability, or its issuer, or by factors affecting all similar assets or liabilities.

The Society's exposure to this risk arises principally from its holdings in equities and investment properties. The Board sets the Society's investment policy and strategy. Day to day responsibility for implementation is delegated to the Society's investment management with monitoring procedures in place.

The investment management agreement in place between the Society and the Investment Manager specifies the limits for holdings in certain asset categories. Asset allocation and performance benchmarks are set, which ensure that each fund has an appropriate mix of assets and is not over or under-exposed to a particular category or specific investment. The Society's Commercial Board monitor the actual asset allocation and performance against the benchmark.

A sensitivity analysis to changes in the market prices of equities and property is included in Sensitivity below.

Liquidity

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due and is managed by forecasting cash requirements and by adjusting investment management strategies to meet those requirements. Liquidity risk is generally mitigated by holding sufficient investments which are readily marketable in sufficiently short timeframes to allow the settlement of liabilities as they fall due. The Society's substantial holdings of money market assets also serve to reduce liquidity risk. The table below represents our best estimate of the undiscounted claim profile arising from the in force contracts. The claim profile allows for full and partial surrenders, regular withdrawals, death claims and retirements as well as maturities. All assumptions on expected rates are consistent with our valuation assumptions.

31 December 2016						
Carrying values and cash flows arising from:	0-5 years	5-10 years	10-15 years	15-20 years	>20 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non-linked liabilities	35,784	16,981	8,155	5,127	8,840	74,888
Unit-linked liabilities	31,942	71,825	49,054	1,493	1,470	155,786
Total	67,726	88,807	57,210	6,621	10,311	230,674

The maturity analysis for unit-linked insurance and investment contracts presents all the liabilities as they fall due in the earliest period in the table because they are repayable or transferrable on demand.

Interest rate

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary. For the Society, interest rate risk arises from holding assets and liabilities – actual or notional – with different maturity or re-pricing dates, creating exposure to changes in the level of interest rates, whether real or notional. It mainly arises from the Society's investments in debt and fixed income securities, which are exposed to changes in interest rates.

Exposure to interest rate risk is monitored using scenario testing, stress testing and asset and liability duration control.

The Society manages interest rate risk using performance benchmarks with appropriate durations. A sensitivity analysis to interest rate risk is included in section below.

Sensitivity

The impacts on the Society's results from sensitivities are detailed in the tables overleaf.

All sensitivities consider the change in Solvency II Own Funds. It is assumed that the Risk Margin and liabilities relating to Future Discretionary Benefits are unchanged from the base position under all of the sensitivities considered. Approximations have been made in the derivation of some of the figures backing these sensitivities at 31 December 2015. Specifically it is assumed that for unit linked non-linked reserves, the increase in equity and property values would lead to an equal and opposite change in Own Funds to the decrease sensitivity.

The 2016 sensitivities include the impact on the Non-Profit fund which was set up over 2016. As such this is not included within the 2015 sensitivities.

The Expense sensitivity considers a ± 10% change in the expense assumption alongside a ± 1% change in expense inflation. It is assumed that the decrease sensitivity would lead to an equal and opposite change in Own Funds compared to the increase sensitivity.

The equity price sensitivity considers the changes in prices of UK and other type 1 equities as defined under Solvency II. This is a change in equity prices of ± 39% plus the symmetric adjustment of the equity capital charge as published by EIOPA.

On 31 December 2016, the symmetric adjustment was -1.44% such that the type 1 equity sensitivity shown is ± 37.56% in equity prices.

On 31 December 2015, the symmetric adjustment was -2.24% such that the type 1 equity sensitivity shown is ± 36.76% in equity prices.

The interest rate sensitivities shown are based on the Solvency II Standard Formula interest rate stresses which are expressed as a duration dependent multiplicative factor applied to the base curve.

This stress is not applied symmetrically which results in a more onerous increase sensitivity (compared to the decrease sensitivity) when interest rates are low.

The property value sensitivity considers a ± 25% change in property values.

31 December 2016	Expenses		Equity prices		Interest rates		Property values	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Change in LTB Own Funds	(5,946)	5,946	10,969	(10,423)	1,357	(459)	3,807	(3,807)

31 December 2015	Expenses		Equity prices		Interest rates		Property values	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Change in LTB Own Funds	(4,770)	4,770	9,786	(9,786)	1,407	(1,032)	3,894	(3,894)

Credit risk

The Society has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Society is exposed to credit risk are:

- Counterparty risk with respect to debt securities and cash deposits;
- Reinsurers' share of insurance liabilities;
- Amounts deposited with reinsurers in relation to investment contracts;
- Amounts due from reinsurers in respect of claims already paid; and
- Insurance and other receivables.

In addition, there will be exposures to individual policyholders, on amounts due on insurance contracts. These are tightly controlled, with contracts being terminated or benefits amended if amounts owed are outstanding for more than a specified period of time, so that there is no significant risk to the results of the Society.

The Society structures the levels of credit risk taken in by placing limits on their exposure to a single counterparty, or group of counterparties. Such risks are subject to at least an annual review, whole watch lists are maintained for exposures requiring additional review.

Although the Society holds a significant proportion of financial assets in debt securities, the risk of default on these is mitigated to the extent that any losses arising in respect of unit-linked assets backing the insurance and investment contracts which the Society issue, would effectively be passed on to the policyholders and investors through the unit-linked funds backing the insurance and investment contracts.

The following table presents the assets of the Society which are subject to credit risk and reconciliation to the balance sheet carrying value of each item:

31 December 2016	Amounts not subject to credit risk	Amounts subject to credit risk	Balance Sheet carrying value
	£'000	£'000	£'000
Shares and other variable yield securities	-	57,904	57,904
Debt and other fixed income securities	-	87,060	87,060
Assets held to cover linked liabilities	151,074	-	151,074
Loans secured by mortgage	-	539	539
Cash at banks, building societies and in hand	-	20,149	20,149
Total	151,074	165,652	316,726

31 December 2015	Amounts not subject to credit risk	Amounts subject to credit risk	Balance Sheet carrying value
	£'000	£'000	£'000
Shares and other variable yield securities	-	51,430	51,430
Debt and other fixed income securities	-	76,690	76,690
Assets held to cover linked liabilities	148,285	-	148,285
Loans secured by mortgage	-	567	567
Cash at banks, building societies and in hand	-	19,575	19,575
Pension Scheme asset	-	1,140	1,140
Total	148,285	149,402	297,687

The amounts presented above as not being subject to credit risk, represent unit-linked assets where the risk is borne by the holders of unit-linked insurance and investment contracts, except for (i) reinsurers' share of insurers' contract provisions and (ii) amounts deposited with reinsurers in respect of investment contracts.

The Society's exposure to credit risk is summarised as:

Credit rating 31 December 2016	AAA	AA	A	Below A	Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	-	-	-	-	57,904	57,904
Debt and other fixed income securities	3,257	48,620	14,553	20,630	-	87,060
Assets held to cover linked liabilities	-	-	1,250	-	149,824	151,074
Loans secured by mortgage	-	-	-	-	539	539
Cash at banks, building societies and in hand	-	312	12,226	-	7,611	20,149
Total	3,257	48,932	28,029	20,630	215,878	316,727

Credit rating 31 December 2015	AAA	AA	A	Below A	Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	-	-	-	-	51,430	51,430
Debt and other fixed income securities	2,791	48,637	9,756	15,506	-	76,690
Assets held to cover linked liabilities	-	-	-	1,303	146,982	148,285
Loans secured by mortgage	-	-	-	-	567	567
Cash at banks, building societies and in hand	-	-	10,732	-	8,843	19,575
Pension Scheme asset	-	-	-	-	1,140	1,140
Total	2,791	48,637	20,488	16,809	208,962	208,962

No credit limits were exceeded during the year ended 31 December 2016.