the Oddfellows SINCE 1810
making friends, helping people

Reports & **Financial Statements 2018**

For the Year Ended
31 December 2018

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
DIRECTORS:	
CHAIRMAN:	W S Connolly (External Non-Executive Director)
	W J Henchliff, Grand Master
	D A Randall, PPGM, Deputy Grand Master
	A P Luckett, Immediate Past Grand Master
	C E Vaughan, PGM
	D R Ogden, PPGM
	C Nugent (External Non-Executive Director)
	J R Gough (External Non- Executive Director)
CHIEF EXECUTIVE AND SECRETARY OF THE ORDER:	C J Nelson, FCCA, FCMA, DiploD
INSURANCE DIRECTOR:	S J Code, MBA
CHIEF ACTUARY:	S A Robinson FIA, Chief Actuary Function, (Zenith Actuarial Limited)
WITH PROFITS ACTUARY:	G A Pennington, FIA, (Zenith Actuarial Limited)
SOLICITOR:	Hill Dickinson LLP
EXTERNAL AUDITOR:	Deloitte LLP
TAX:	PricewaterhouseCoopers 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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Chairman's Report

Following the approval of the 2018 Annual Movable Conference (AMC) in respect of the revised structure of the Society's Board, I am pleased to present my first Report as Chairman of the Board.

The governance changes brought about by the AMC's decision have been brought into effect and the transition has been achieved relatively easily. It is worth emphasising again that the Society's Grand Master will chair the AMC at Southport in May 2019 and indeed future AMCs. This was a fundamental element of the Board's proposals, intended to maintain one of the traditions that is so highly regarded by everyone associated with the Oddfellows.

The ethos and values of the Society are very important to me and part of my responsibilities as Chairman include leading the development of the Society's culture by the Board. The Society has a long and proud history of treating its customers fairly and our Members have been and always will be at the heart of everything we do. That culture is also important to our Staff and they are respectful, responsive and supportive in all of their day-to-day work with the Society's Members and Branches and, moreover, with each other. It is very much part of the Society's DNA and I will look to ensure that it continues to be so.

The other principal aspects of my role as Chairman are in helping to set the Society's Strategy for both its Fraternal and Long Term Insurance business, leading the Board in the delivery of its Strategic objectives, ensuring that there is an appropriately robust Risk Management Framework in place, and safeguarding the Society's Members by adhering to the highest standards of corporate governance.

The Chief Executive's Operational Report provides details of the Society's performance in 2018 so I have confined my Report to highlighting some developments that have taken place over the course of the year.

Branch Development

It is vital to the success of the Society that its Branches continue to develop and grow. It is testimony to how much work has been undertaken by so many over the last few years that there are now only 4% of Branches which are not actively developing. There has been some minor consolidation of the Branch network in that time but this has always come about following detailed discussions with the Branches concerned and their determination to survive and grow. Work will continue in this regard, under the CEO's leadership, in 2019 with the support of the Branch Development Department of Unity Office.

There have been some notable successes in the recruitment of new members during 2018, with one Branch having secured more than 60 and over 10 Branches have each recruited more than 20 new members.

Fraternal Strategic Plan

The current Strategic period ran for three years from 2016 to 2018 and, in December 2018, the Main Board approved the Strategic Plan for 2019 to the end of 2021. The Society's mission remains *'to improve the quality of life of its members by meeting their social and welfare needs through a mutual, national Branch network'*. The Society's membership packages offer excellent value for money in helping to fulfil that mission statement.

Long Term Business (LTB)

After an extensive research campaign, the Unity Mutual Brand was launched in March 2018 which is supported by a dedicated Unity Mutual website. New business applications and premium payments can now be made on line.

The Society's Lifetime Individual Savings Account (LISA) was launched with a range of competitive features in November 2018. The product is aimed mainly at customers who want to save towards the purchase of a first home and, of course, it comes with the benefit of the Government making a contribution of 25% of customer payments into the customer's Account.

Chairman's Report

Investments
2018 was another year of stock market volatility, impacted of course by the Brexit negotiations. However, the Society's policy of having an appropriately diverse balance of its investment portfolio has resulted in bonuses to policyholders being maintained and, in some instances, increased. Capital constraints on the former Nottingham Friendly Society Fund is the one exception and it has again not been possible to allocate any reversionary bonus.

The Society is not significantly affected by Brexit as we do not have many policyholders who have moved outside of the UK. A watching eye is being kept upon the situation and the outcome is awaited with interest. It is anticipated that there will continue to be fluctuations in the stock market, however it is to be hoped that this will not persist over the longer term as the Brexit situation is finally resolved and, as stated in the preceding paragraph, the Society is well placed to contend with short term volatility.

Actuarial Support
After very careful consideration of a number of firms who participated in a tender process for the provision of actuarial support to the Society, it was decided not to re-appoint Willis Towers Watson. This was not an easy decision as the Society's relationship with that organisation went back over 140 years from the days when Reuben Watson was the Society's Grand Master. I would like to place on record the Society's thanks to Willis Towers Watson for the expert professional advice that was provided to the Society during that time.

The newly appointed firm, with effect from 1 January 2019, is Zenith Actuarial Limited whose founder and CEO is Scott Robinson. He was formerly employed by Willis Towers Watson and, whilst working for that firm, he served as the Appointed Actuary to the Society from October 2009 to May 2015. I hope that the Society enjoys a long and successful relationship with Scott in the coming years. Scott has a wealth of knowledge about the Society from the number of years he has been involved with the Oddfellows and in February 2016 through to July 2018 he also undertook some project work for the Society's LTB.

I would like to close by expressing my thanks to my Board and Sub-Board colleagues, the Society's staff and all Branches for their continued dedication, hard work and professionalism. We all share a common goal to provide our Members with a range of social, care and welfare support and savings and investment products that meet their financial needs.

W S Connolly
Chairman
28 March 2019

Chief Executive's Operational Report

Overview

I am pleased to report that once again, in 2018, the Society continued to successfully meet the challenges we faced, both centrally and importantly in our Branches. The challenges come in all shapes and sizes but for the Society the key ones are recruitment and retention, developing our Branches, managing our LTB book which included, in 2018, the launch of the new Unity Mutual Brand and website, as well as the launch of a new product, Regulation and, of course, Brexit.

In terms of interest rates, the Bank of England raised the base rate on 2 August 2018 to 0.75%, the highest it has been since March 2009. The impact of the issues surrounding Brexit continued throughout 2018 with the end of the year seeing all asset classes falling in value. The volatility in the Society's investments is set to continue in 2019 whilst the outcome of the Brexit negotiations comes to a conclusion. There is a feeling that once the outcome is actually known, that the effect on UK investments could well see a positive move but, of course, that will depend on the decision made. As a business we need to continue to monitor the positions and ensure that our investments are as well placed as possible so as not to be too detrimentally affected by movements. By maintaining a spread of investments across various asset classes will hopefully ensure that any movements will be minimal for us as a Society.

Maintaining a balanced portfolio of investments relates as much to our Branches as it does to centrally managed assets. The offering of seven Funds being available to our Branches throughout 2018 and allowing them exposure across Equities – both UK and global, Fixed Interest – both gilts and Corporate Bonds, Property and cash goes a long way to support Branches in this regard. 2018 saw further investments by the Branches as they reviewed their requirements for both Capital Growth and Income in order to meet the requirements pertinent to them as a Branch.

The regulatory environment of Solvency II is fully embedded into our business and the Society's third ORSA (Own Risk and Solvency Assessment) report was agreed at the December 2018 Main Board Meeting. The ORSA reflects the effect on the Society's solvency using real life scenarios in terms of business decisions that are likely to be considered over the coming years.

2018 also saw a change in the governance structure of the Society which was agreed at our AMC (Annual Moveable Conference) in May 2018. With effect from 2018, the Conference Deputies elect Directors who are then appointed to the Commercial or Fraternal Boards based on their knowledge, skills and experience. From each of those Sub Boards, four of their number currently sit on the Main Board. The Grand Master, in their year of Office shall always be one of the Directors to sit on the Main Board. This restructure also saw the Society remunerating the Non-Executive Directors, at a reasonable level that is appropriate for the Society. In addition, with effect from June 2018, the Society had an independent Chairman of the Board, which initially has been Bill Connolly, who has served on the Board since 2007 as an External Non-Executive Director. In the eyes of the Regulator, Bill is no longer classed as independent, but they agreed it would be appropriate for him to be our first independent Chairman for a couple of years. The search for Bill's successor commenced in late 2018 and by the AMC in May 2019, there will be a Board nomination for a new Director to be elected with a view to him taking on the role of Board Chairman following the 2020 AMC.

Membership of the Society in overall terms fell slightly in 2018 with total membership as at 31 December being 311,413, of which 238,884 were CTF members. Fraternal Membership as at the end of 2018 totalled 51,045, a reduction of 4.6% over the end of 2017, with deaths accounting for 3.02%. 2018 saw the launch of the two alternative membership products, one with discretionary dental and optical benefits and one without, but both still having the wide range of benefits associated with membership of the Society:

- Accidental Death benefit;
- Advice Line support including Care & Welfare helpline;
- Benevolence;
- Care and support both locally and nationally;
- Convalescence & Care Benefits;
- Dedicated Citizens Advice lines;
- Discretionary dental and optical benefits;
- Educational Awards and Apprenticeship awards;
- Emergency cash grants;
- Legal Aid;
- On line Archives;
- Orphan Gift Fund;
- Social Events throughout the Branch network;
- Third party discounts and offers;
- Travel Club.

Chief Executive's Operational Report

The number of new members recruited in 2018 totalled 1,100 – the highest number since 2011 and of those new members, 50% opted for the benefits package and 50% for the standard package. In terms of renewals though, that is harder to quantify as some members did not make a decision and as such were defaulted to the standard package. Throughout 2019, however, if a member wishes to choose the benefits package after being defaulted, they can do so subject to them paying the appropriate level of fee. The nature of our membership in terms of age does mean we will see a number of deaths each year, but the fact that the number of new members has increased and the outlook for 2019 is positive does hopefully mean we can at least get closer to matching the deaths and lapses with the number of new members recruited.

We continue to use Social Media via Facebook (www.facebook.com/OddfellowsUK) and Twitter (www.twitter.com/Oddfellowsuk) as vehicles for telling both our membership and the general public about who we are and what we do. Further training on Social Media was held in 2018 with both basic and masterclasses being held and these will continue into 2019. At the end of 2018 there were 63 Branches who had their own Facebook pages, each branded and being used to interact with their members and show what is happening in their area.

The Society's website which was rebranded and refreshed in 2017, continues to attract people both to the site and to the Society and via Google Analytics we are able to monitor performance in various aspects of the website. The website is constantly updated and refreshed with news and articles both of general interest and also specific to the Society. Set out below are some key statistics in relation to the website comparing the period February to December 2017 with the same period for 2018.

Users	- an increase of 13.82% (81,596 vs 71,686)
New Users	- an increase of 11.97% (79,435 vs 70,944)
Sessions	- an increase of 12.73% (106,477 vs 94,450)

The development and growth of our Society is key to our future success and that specifically includes our national network of Branches. As at the end of 2018 there were only 4% of Branches not developing. We are continuing to work with these Branches to see what can be achieved and what the best outcome is for them, whether that be development as a standalone Branch or a transfer to another Branch. Support continues to be available for those Branches to ensure the best outcome. Those Branches who are developing are seeing the results of their endeavours with recruitment and active members increasing. 2018 saw one Branch recruiting 65 members and justly winning one of the Society's recruitment awards. There were 12 Branches who each recruited 20 or more new members in 2018 and 45 Branches whose net recruitment after lapses was still positive.

Communicating to the general public about who we are and what we do is key and there will be a focus on this aspect in 2019, particularly around the "End Loneliness" campaign. To aid this, in November 2018 we filmed a promotional video to demonstrate what the Society is all about. The film will be launched in early 2019 and will be available on the website and will be shared with Branches so they too can use it. The film footage will be overlaid with stories of Members' experiences and the film will be able to be spliced into smaller segments to use as well as the whole film to promote the Society.

We continue to live in a time where there are continuing cut backs in services and increased public awareness of loneliness being such a massive issue in the UK. It is organisations like ours, therefore, that have such a role to play within society at large to support members both in terms of services and also those critical areas of being welcoming and friendly to try and address and support those people who are lonely without that "neighbourly" friend. I truly 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.

2018 also saw the exciting launch of our new brand for all our insurance business – Unity Mutual and the launch of the new website in March 2018. By having two websites – one fraternal and one for our insurance business, we are able to show our offering on a wider scale. There are of course links between the two websites which allows policyholders to see what else we can offer them as a Society and vice versa in terms of our members seeing what products we have. The look and feel of the Unity Mutual website is closely linked to that of the fraternal website and is fully transactional allowing people to purchase their product on line. Having this electronic facility in this day and age is critical to the success of any firm.

Chief Executive's Operational Report

In November 2018 we launched a new product the Lifetime ISA for first time buyers and the take up has been really positive with 28 being purchased by the end of 2018, 18 of which were applications that were received via the website. The outlook for 2019 is looking very positive with the early signs showing a good level of sales of new products and premium income across our key products:

- Lifetime ISA;
- Junior ISA;
- Flexible ISA;
- Guaranteed Investment Bond;
- Tax Exempt Savings plan;
- Sickness plans.

We will continue to look to launch new products, either developed by ourselves or through white labelling of third party products. The ongoing challenges of managing a book of insurance business remain the same and action continues to be taken wherever appropriate. Achieving a balance between policyholders' reasonable expectations, expense management and maintaining the required solvency capital requirements is a key part of how we operate our insurance business and although no transfers of engagements took place in 2018, the Society remains open to inward transfers of engagements.

Summary

If recent years are anything to go by, I am sure that 2019 will see as many challenges as previous years. I am excited by our future as I truly believe we are best placed to really make a difference in people's lives and with both our fraternal offering and that of Unity Mutual I see the future as being very positive. I will continue to work with our Branches to ensure that there is growth and continuity which in turn will strengthen the Society. 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 Director colleagues on the Board for their hard work, support and enthusiasm during the year.

C J Nelson
Chief Executive Officer
28 March 2019

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 offer a range of financial products, through the Unity Mutual brand which are aimed at helping policyholders and their families get the most out of their savings and investments.
- 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 LTB funds are distributed in a manner that is fair across policy types and policyholders reasonable expectations.

Throughout 2018 the Society's 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 the European Insurance and Occupational Pensions Authority (EIOPA) in respect of Solvency II. This continues to be evidenced by:

- The TCF and Conduct Risk 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 Management Information (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 2018 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.

In 2018 the Society added two new secondary risks to the Society's Risk Register. These were:

- Loss of EU passports for UK financial services providers under Brexit; and
- Failure to implement an effective culture across the Society's operations

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, Sub Board and Committees.

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

- ensuring that risk(s) remain within acceptable risk levels, and 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.

In 2018 there were no material changes made to overall risk scores.

Current activities

Development Planning

It is still the case that what underpins the Branch development strategy is getting Branch Committees of Management to take greater ownership and responsibility for their Branch development and growth. They do this by creating, managing and monitoring their own SMART Development plans. Progress in 2018 has been positive - at District/ District Lodge level in 2018 78% were developing with a SMART plan and 17% developing without a plan. This strategy rolling forward has now been expanded to include all Branches across the country.

Across the Branch network, there needs to be a more pragmatic business approach to Branch development, one in which we all work together to make sure Branches have the essential building blocks in place to make their Branch successful. One of those important building blocks is 'member involvement' and two strands of work paying particular attention to this were further developed during 2018.

Member involvement – developing policy and processes

- The first piece of work is to make recruiting and managing our volunteers a more robust and transparent process – after all, volunteers are at the heart of what makes our Society what it is. The challenge, however, is not to make any volunteer guidelines too prescriptive. Branches need better structure, support and guidance, but not in a way that will alienate them and the many members who love volunteering informally. Continued consultation with Branches will help to develop our approach at the right level. A draft Volunteer Agreement and Volunteer Role Descriptions will be shared with a selection of Branches early in 2019 to get feedback before any scheme is rolled out to Branches.

- The second project, entitled Oddfellows Academy, focusses on how volunteers can get more involved in formal management/Officer roles. The project also explores ceremonial traditions and the role it plays in member involvement. Two Weekend Seminar workshops in 2018 presented these topics in more detail and feedback from these was shared with the Fraternal Board. Oddfellows Academy is now being progressed by a Working Group that includes Directors, Unity staff and selected active Branch members.

Social events promotion – making processes more efficient

Critical to the success of our social proposition is the quality of promotion to both internal and external audiences. To assist this, the Online Events Listing (OEL) system underwent some reconstruction in 2018 and new features were added during the year making it more efficient and easier to navigate. OEL is a web-based platform that enables Branches to post event information directly onto the Oddfellows website.

The process of ordering promotional posters and flyers from Unity Office is also being streamlined with the introduction of template designs being available on Oddspace. Extra design layouts will be added during 2019 enabling Branches to customise and place orders directly with the design team.

Improving skills and knowledge

Weekend Seminar Workshops and other bespoke training is delivered annually to help paid and volunteer Branch staff exchange ideas, share best practice, learn new skills and expand their knowledge. In 2018 the following workshops took place at Weekend Schools, bespoke training days and Group Conferences.

Weekend Seminar workshops:

- An update on changes in property legislation and regulation;
- Bringing our brand personalities to life;
- Care Benefit – how it works and what we can do.
- Convalescence Benefit – rules of the benefit and options available; and
- Cybercrime security: Fraud and Scams;
- How to make the most of a recruitment campaign;
- How to support Social Organisers and Development Officers;
- Oddfellows Academy – history and traditions communicated more effectively;
- Understanding Branch Accounts;

Manchester and London Communication workshops:

- Facebook training for beginners
- Facebook masterclasses

Midland Group Conference

- Benefits of Membership

Brand, PR and Digital Development

One key part of the membership proposition is the Active Travel Club (ATC) but monitoring over the last 24 months has highlighted a lack of engagement and take up from the membership. Research to determine how best to improve the ATC offering was carried out at the end of 2018. The analysed results will be used to broaden ATC's appeal to both existing and potential members in 2019.

Brand development, at a more corporate level, is being pursued through a 'thought leadership' project based around the national 'End Loneliness' campaign. This is an opportunity to profile the Society by engaging with influencers, opinion formers and decision makers in this arena. The Society is focussed on using the CEO to build a profile and voice in the 'End Loneliness' space, adding our viewpoint to the debate and gaining appropriate media coverage. This work is being progressed in the coming year with the help of Intelligent Conversation, an external specialist PR agency.

Loneliness is an issue impacting people across the UK – their health, wellbeing and communities. Key life changes such as retirement, bereavement and moving home can trigger adverse effects on people's lives. Through its friendship advocacy and social events, the Society is well placed to help reduce or prevent loneliness happening in these and other instances.

Facebook focus

Currently the most important social media focus is Facebook engagement – this is, in part, an online extension of the personal friendships built up in the Branches through social activities. The Society exceeded its engagement targets on a number of occasions throughout 2018 demonstrating our growing confidence in posting quality, targeted content where it counts. By the end of the year, 63 Branches had their own Facebook page, however, there remains an ongoing need to provide training and support to help them make the most of their online presence.

E-marketing

Emails sharing news and information about the benefits of membership go regularly to over 6,000 members. Member engagement is positive with high open and click through rates (CLR) and low unsubscribes. The challenge ahead is to increase the reach of these emails by acquiring more 'opt in' member emails. A Branch pilot project was initiated to help improve member email acquisition and if successful, similar initiatives will be rolled out to other Branches in 2019.

Website

Overall, the Society's website performance is positive and is measured against a number of Key Performance Indicators that are monitored on a regular basis. The Homepage, Events, Benefits, Social Benefits and Branch Finder pages are the most frequently visited by new users, so these pages will be first scrutinised for ongoing improvements in 2019.

Other development work includes reviewing and refining the Refer a Friend user experience and online messaging, as well as integrating with the database to show a Member's status on the reward levels. Greater focus will also be needed on Search Engine Optimisation strategies, traffic-attracting posts on Facebook and Twitter and promoting online renewals in member literature.

Live content

Filming took place in November 2018 for an Oddfellows promotional video. The film featured 19 diverse members coming together to enjoy an afternoon tea party with friends. Footage will be overlaid with stories of Members' experiences of the Oddfellows. The video will be used as advertising on social media channels, as well as on YouTube and at www.oddfellows.co.uk It will also be shared with Branches for screening at local events and through an all member and non-member email. Its release date is early 2019.

Partnerships

This year partnership work focussed on:

1. ***Promoting third party products and services*** – in addition to monthly e-marketing to subscribed members, a bespoke leaflet highlighting all the third party benefits was created. Members receive this leaflet as part of their renewal pack directly from Branches at events or in other general member correspondence.

2. ***Monitoring and managing existing relationships*** – the relationship with Sutton Seeds continued to be challenging throughout the year and take up of their products from the membership was low. The Directors therefore, decided to cease the relationship with them at the end of 2018.

   To evaluate the current suite of third party benefits, a number of research initiatives have commenced. The first is quantitative research through the online Membership Satisfaction Survey emailed to 5,658 members asking how likely it is that they would use our third party products and services. The other is qualitative research – done through an organised non-member focus group. Results from both projects will be reported in the first quarter of 2019.

3. ***Developing partnerships with organisations able to provide recruitment opportunities*** – The most significant project in 2018 was the collaboration with Yours magazine at their annual Festive Live Party held at Warner Leisure Hotel, Gunton Hall in November. The exposure for the Society both in the magazine and at the event was extensive and nine new members were recruited. This relationship will be built on in 2019 along with improvements to the way the Society can promote and sell membership at the event.

Recruitment
New members recruited increased from 1,070 in 2017 to 1,100 in 2018. Tactics adopted to try and increase recruitment included the following:

1. ***National print and Facebook advertising***
   Working with One Marketing and a specialist media buyer, a 12 month programme of adverts was placed in a selection of national print titles relevant to the Society's target market along with supporting Facebook ads. Different messages were tested – each relating to an aspect of the membership proposition with a strong call to action, either driving traffic to the website or stimulating direct enquiries. Advertorials and advertisements that focussed on the social offering stimulated the best responses and will be repeated in 2019. Although there was a significant uplift in website traffic and enquiries – 776 as opposed to 345 in 2017, these did not convert into new members in sufficient numbers. Ways to improve on Branch conversion will be one of the priorities in the coming year.

2. ***Healthy Heart campaign***
   The concept, run for the 2nd year in conjunction with the British Heart Foundation (BHF), was expanded in 2018 to include more Branches. Although the campaign raised valuable funds for the BHF and helped to raise awareness of the Society, it underperformed in terms of recruiting new members. Therefore, this collaboration will not be pursued in 2019. Instead, an alternative campaign aligned to our 'End Loneliness' thought leadership work is in the process of being developed for Spring 2019.

3. ***Friendship Month***
   Friendship Month continues to work well as a recruitment tool to raise brand awareness. The mix of fresh graphics, early promotion and enhanced national advertising helped to improve new member recruitment for 2018 – 264 compared to 223 last year. Friendship Month will be celebrating its 10th anniversary in 2019 providing the Society with an opportunity to enhance the campaign to a wider audience.

4. ***Refer a Friend***
   Response to the new Scheme has been favourable with two members reaching Gold and one of those achieving Platinum status by the end of 2018. However, overall the Scheme recruited less new members than the year before. Increasing the number of members referring at least one new member will be one of the priorities for 2019. Work this year has focussed on refreshing the look and messaging of existing promotional material.

Activities outside scope of powers
The Board 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 45 and 46, with the Statement of Other Comprehensive Income being shown on page 47, and the Assets and Liabilities as at 31 December 2018 shown in the Balance Sheet on pages 43 and 44. The Technical Account for Long Term Business on page 45 shows a transfer from the Fund for Future Appropriations of £3.46m compared to a transfer to the Fund for Future Appropriations of £2.38m in 2017. The Non Technical Account shows the income and expenditure arising from the Society's business objectives as outlined on page 46 and produces a surplus of income over expenditure of £1.35m (2017: surplus of £11.49m).

The total investment return for the Non Technical Account amounted to £6.41m (2017 : £12.57m) of which a decrease of £2.56m (2017: decrease of £2.16m) was attributed to Branches in the various internally operated unitised funds (See Note 19).

The Non Technical Account shows a movement in unrealised loss of £14.20m (2017: gain of £5.96m) and the Technical Account shows a movement in unrealised loss of £23.39m (2017: gain of £14.03m).

The movement in losses on investments in 2018 had resulted in a Balance Sheet gross asset value which has decreased to £409.23m from £430.38m in 2017 and is an overall decrease of £21.15m (4.9%), the key driver being the decrease in asset valuations as at 31 December 2018.

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 Directors have 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 Main Board and signed on its behalf by:

C J Nelson
Chief Executive Officer
28 March 2019

Directors' Report

The Directors present their Annual Report together with the Financial Statements for the year ended 31 December 2018. 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's 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 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 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, Directors, Sub Board and 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.

Directors’ Report

The Compliance & Risk Function, the Audit, Risk & Compliance Committee, the Commercial Board 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.

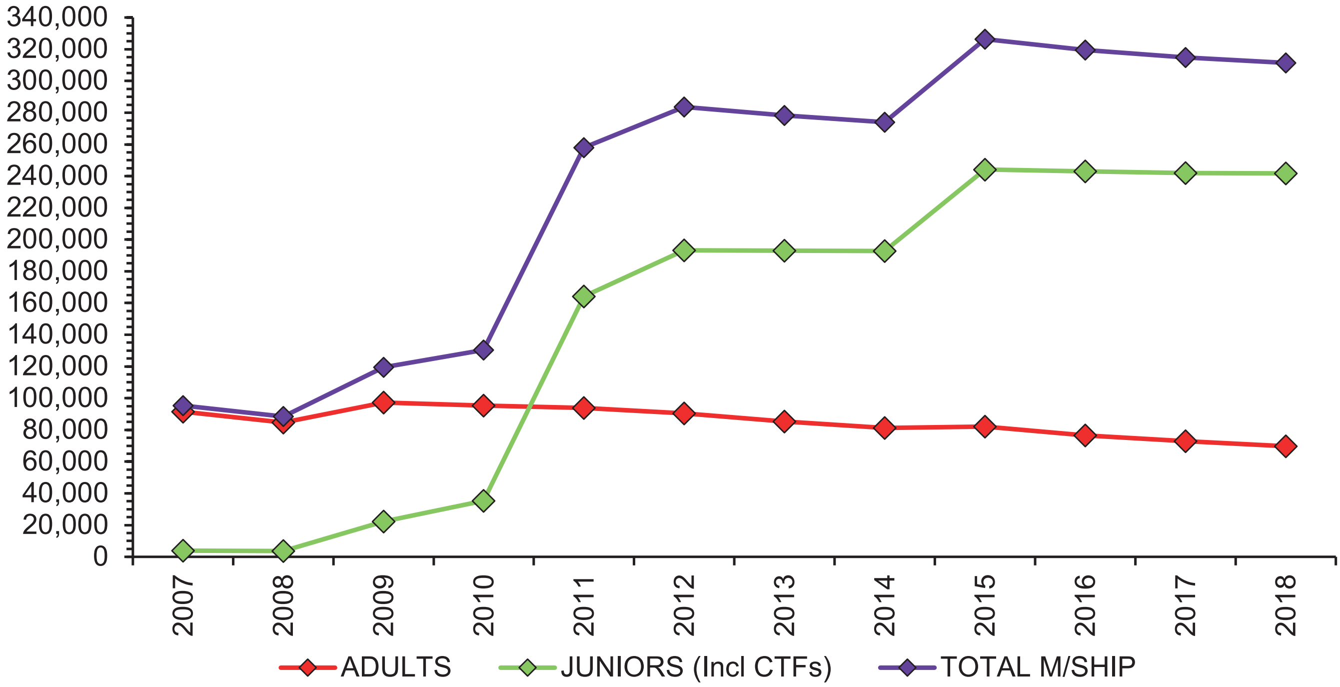
In the unlikely event that a complaint cannot be resolved to the member’s satisfaction, the member is made aware of the option to appeal to the Financial Ombudsman Service (FOS).

Over the last three years, the Society has received 34 regulated business complaints. Following appropriate investigation, 11 were upheld, 22 refuted and one remains outstanding. Of the 22 refuted complaints, six members decided to appeal to the Financial Ombudsman Service of which two were upheld in favour of the member. The remaining four complaints were found in favour of the Society.

Number of Members

The Society had 311,413 members on 31 December 2018, of which 241,682 were Junior Members (238,884 being Child Trust Fund Members and 301 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.

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.

Directors' Report

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 and Viability Statement

The Main Board discussed the issue of the Society being a going concern for at least 12 months after the date of signing the Accounts, and of its longer term viability, at its December 2018 meeting. The Board conducted this review using the detailed budget for the forthcoming year (ie 2019), the 2019 Strategic Plan which covers the three year period of 2019 to 2021, 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 2019 Budget and ongoing Strategic Plan are also reviewed and approved by the Main Board.

The Directors have determined that the two year period to December 2020 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 2020;
- 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.

The Board, in determining the Going Concern principle, also continues to evaluate and consider the potential implications in respect of Brexit, paying particular attention to market impacts. Given that the Society trades within the UK, it is envisaged that market impacts will be the main item resulting from the UK leaving the EU that will impact on the Society. At the time of signing these Accounts, there is still little detail in terms of the exit strategy, but the markets have already for some time been volatile due to the continued uncertainty of the Brexit deal. The Society will continue to monitor the situation and deal with any resulting impacts throughout 2019.

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 knowledge, 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.

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.

Directors' Report

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 Association of Financial Mutuals (AFM) Annotated Corporate Governance Code (ACGC). The ACGC does not demand compliance with each and every aspect covered by its provisions. However, the Society is obliged to make explicit disclosure about the relatively small numbers of those parts of the ACGC where we are not compliant under the principle of "comply or explain". These disclosures 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 a departure is in the best interests of its Members and that the governance of the Society is not compromised.

The Society adopted a Diversity Policy in 2018 which is available on the Society's intranet.

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 Senior Independent Director feeds back to the Chairman the results of his evaluation by the rest of the Board. The Chairman does meet with the Non-Executive Directors without the Executives present. However, the Non-Executive Directors have not met without the Chairman to appraise his performance.
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 Main Board, Sub Boards, 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 that are stretching and rigorously applied to give the Executive Directors keen incentives to perform at the highest levels in the best interests of the Society's Members.	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 Main Board.

Code Provision	Explanation
Does the Remuneration Committee recommend and monitor the level and structure of remuneration for senior management?	The responsibility for the remuneration of Senior Management rest with the Main Board who delegate this matter to the CEO.
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 General Meeting (AMC).

Nominations for Directors

The Sub Boards nominate Executive Directors and 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 two MNEDs, the CEO, the Chairman of the Board and the Company Secretary.

A resolution is put to the Members' representatives (Deputies) at each Annual General Meeting (AMC) to appoint the Society's Directors. The Curriculum Vitae (CV) of each Director 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 nine 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 Vaughan 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.

Directors

Bill Henchliff
Grand Master (Age 69)

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 Provincial Grand Master 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 six years, served on the Executive Committee for five years and became its President in 2008.

Bill has attended the Pride of Leicestershire Lodge of Past Provincial Grand Masters for 15 years and is a Past Worthy Master.

He served as a Unity Special Arbitrator for three years, on the Investigation Committee for one year and been a Director for four years, becoming Deputy Grand Master in May 2017 and Grand Master in May 2018.

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

David Alan Randall
Deputy Grand Master (Aged 67)

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

David became Financial Branch Secretary in 2008 of the Gipping Branch in Stowmarket, a post he still holds.

He was a member of East Anglian Group Conference Executive Committee for seven years becoming President in 2015/2016. He retired from work before standing and being elected to the Board in 2016 and was elected Deputy Grand Master in 2018.

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 ran his own Building Management and Safety company for 10 years. He is a past member of the Federation of Small Businesses, and Associate to the Institution of Occupational Safety and Health (IOSH).

David was in the Scouts for 18 years and was awarded the Queens Scout award in 1969. He held the position of Assistant Air Scout Leader for four years and then Venture Scout leader for five years.

He was Secretary and Treasurer of a local Sunday league football team for 18 years.

Tony Luckett
Immediate Past Grand Master (Age 58)

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 his grandson have also been made members of the Society. Tony became interested in all aspects of his local Branch, and he has served all Lodge positions. He took the purple Degree in 1999 and has been Provincial Grand Master three times. He has been a District Trustee since 1997 and he was awarded the District Merit Jewel in 2008.

He has served on the Midland Group Conference Executive for two years; serving the Offices of Vice President in 2009 and President in 2010. During this time, he was elected to serve as a Unity Special Arbitrator and the following year was elected to the Benevolence Committee, on which he served four years, two of those years as Vice Chairman. Tony was elected to Board in May 2012, and appointed Immediate Past Grand Master of the Order at the 2018 AMC.

Tony is self-employed and has been for over 35 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 fathers and grandfather's companies before him, registered with Trust Mark and Build Assured (Warranty Builder). He sits as the local Branch Chairman of the FMB for the third time, 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, and is now serving his second term as Past President.

He has also served as a Director from 2004-2016 of the Manchester Unity Credit Union Ltd, and served, as its President for six years. During 2018, he was elected a Director of Oddfellows Support Services Ltd and as a Trustee of the M U Pension Scheme.

Jane Nelson, FCCA FCMA, Dip IoD
Chief Executive Officer/Secretary of the Order/Executive Director (Age 53)

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 eight 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 since January 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.

Outside of the Society, Jane is also a Trustee of Stalybridge Celtic Foundation Trust, which seeks to work with the local community at all levels and all abilities.

Charles Vaughan
Term Director (Age 71)

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 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. He is currently a member of the Main Board and the Fraternal Board and is a serving member of the Audit, Risk and Compliance Committee.

David R Ogden
MNED (Age 69)

David was enrolled into his District's Juvenile Lodge at birth and subsequently initiated into the Loyal Fleetwood Lodge No 1992 on 30 November 1965. He passed through the Chairs of the Lodge and then the District; serving has Provincial Grand Master in 1978. He has served on the District Committee of Management for 22 years, 15 of them as a Trustee.

He holds the CAMU qualification, and served on the LADGC Executive for 11 years, seven of them as Secretary, and subsequently 11 years as Honorary Auditor. He served six years on the Investigation Committee, four of them as Chairman. Prior to his election to the Board of Directors in 2017, he was a Unity Special Arbitrator.

Outside of Oddfellows he was a Divisional Superintendent in the St John Ambulance, and a Regional Group Chairman of the British Junior Chamber.

David worked in domestic banking for 26 years prior to taking voluntary redundancy. He then worked for his local authority in European projects prior to moving to the role of Business Support Manager in the Youth Offending Team on its inception in 2000. David is now retired and enjoys spending time with his wife, two children and six grandchildren.

Stephen Code, MBA
Insurance Director/Executive Director (Age 58)

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 40 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 was Provincial Grand Master in 2017/18 and is a Trustee of the Mersey District Lodge.

Bill Connolly, ACII
Chairman of the Board (Age 63)

Bill joined the Board in May 2007 as an external Non-Executive Director. As part of the revised governance arrangements that were agreed at the 2018 AMC, he was appointed as Chairman of the Board. He also serves on the Commercial Board, the Governance Committee and the Remuneration Committee, having chaired the latter two Committees prior to the changes brought about at the 2018 AMC.

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.

Whilst working for Royal Liver, Bill was involved at a senior level in the Association of Friendly Societies, the Association of Mutual Insurers and the Association of Financial Mutuals. He is also a former President of the Insurance Institute of Liverpool.

Richard Gough
External Non-Executive Director (Age 67)

Richard joined the Insurance Committee, which at the time was the overseeing body for the Society's Long Term Business Fund, in January 2010 as an External Skilled Person / Specialist Adviser following the transfer of engagements from the Nottingham Friendly Society in December 2009. He was appointed as an External Non-Executive Director and Chairman of the Commercial Board upon the restructuring of the Society's Governance arrangements in May 2018. He is also the Society's Treating Customers Fairly (TCF) and Conduct Risk Champion, a role which he took on with effect from January 2018.

Prior to joining the Society, Richard held various roles within the friendly society movement, including both Executive and Non-Executive Director, Company Secretary and Compliance positions. He was a Chartered Secretary by profession and also held professional qualifications in the computer industry. For 20 years he was a Magistrate on the Leicester Bench.

Colin Nugent, ACII
External Non-Executive Director (Age 64)

Colin joined the Board in May 2018 as an External Non-Executive Director. He is the current Chairman of the Audit, Risk and Compliance Committee. He had previously served on the former Insurance Committee of the Society from 2011 through to 2018.

Most of his professional life was with Royal Liver Assurance over a 34 year period. Commencing in the Secretariat, Colin's later roles included Group Secretary, Customer Services Director and Director of Retail Operations (UK).

He also operated as an independent Financial Services Consultant for three years.

His final role at Royal Liver was in an interim position as Deputy Chief Executive for the year prior to the transfer of Royal Liver's business to Royal London.

Colin has served on a number of Insurance Industry forums, both in the UK and the ROI.

Directors
During the year to 31 December 2018, five Main Board meetings were held. As at 31 December 2018, there were 10 Directors; two Executive Directors, five Member Elected Non-Executive Directors (MNED) and three 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. In 2018, the Society's Annual Meeting agreed a change in the governance of the Society. As a result, the structure changed to a Main Board on which eight of the Directors currently serve and two Sub Boards - Commercial Board and Fraternal Board - each dealing with the two distinct areas of the business. The list below identifies which Directors sit on which Board.

The Board is of the opinion that its composition is appropriate to the business.

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

Non-Executive (MNED)
Bill Henchliff **>***
David Randall*
Tony Luckett **>*+**
Charles Vaughan **>***
David R Ogden **>*+**
Valerie Ashcroft (Retired May 2018)
Sue Doulton Smith (Retired May 2018)

Executive
Jane Nelson **>*+**
Steve Code **>+**

External Non Executive
Bill Connolly (Chairman)**>+**
Richard Gough **+**
Colin Nugent **>+**

>Main Board ***+Commercial Board*** ****Fraternal Board***

Board Attendance

Attendance at 2018 Board, Sub Board and Committee Meetings:

	Main Board		Commercial Board		Fraternal Board		Audit, Risk and Compliance Committee		Governance Committee		Insurance Committee (January-May)		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 Attend
Bill Henchliff	5	5			5	4#	4	2¤	4	1¤				
David Randall	5	4¤	7	2	5	5	4	4	4	3*				
Tony Luckett	5	5	7	6*+	5	3.5*♦	4	2*			3	1+	1	1*
Jane Nelson	5	5	7	7	5	5	4	3#+	4	3#	3	2#		
Charles Vaughan	5	5	7	2¤	5	3*	4	4			3	2~	1	1
David Ogden	5	5	7	7	5	3*			4	4			1	1*
Steve Code	5	5	7	5*							3	3		
Bill Connolly	5	4.5^	7	5*	5	1			4	4	3	3	1	1
Richard Gough	5	1	7	5*							3	2♦		
Colin Nugent	5	3*	7	5*			4	2*			3	3		
Sue Doulton Smith	5	3¤	7	2¤					4	1¤	3	1¤		
Valerie Ashcroft	5	3¤			5	2¤			4	1¤			1	¤

♦Sickness #Business ^Bereavement ~Holiday

*** Newly appointed Director to the Board and/or Committee**
¤ Retired from Board or Committee May 2018
+ 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 or Sub 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 Main Board for approval.

All Directors are encouraged to attend meetings of other Boards and Sub Boards to which they are not a member.

Following the governance restructure agreed at the 2018 AMC in Llandudno, Directors are elected at the AMC and are then allocated to serve on one or both of the two Sub Boards – the Commercial Board and/or the Fraternal Board. Each of those Sub Boards appoints four of its number to sit on the Society's Main Board.

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

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

As at 31 December 2018 there were six Directors classed as independent.

One MNED and one External NED have served longer than nine years and remain as Directors because of the skills and experience the individuals have to offer to the Society. The Board considers that the two individuals are independent in experience, character and judgement.

MNED Charles Vaughan was appointed the Senior Independent Director for the calendar year 2018. 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/FCA Senior Managers & Certification Regime (SM&CR), particularly relating to the applicant's core competencies and capabilities in the following areas:

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

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

In accordance with that Scheme, each member of the Board, Sub Boards and Committees were evaluated by their peers on an individual basis before the end of 2018, a process which highlights strengths and areas for development, which can be appropriately addressed. During 2018, each member of the Board, Sub Boards and Committees undertook 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 on the Board, Sub Boards and Committees.

Election as a Director 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.

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

The Chairman meets each Director and Skilled Person after each evaluation to discuss the development needs of each individual. The evaluation of the Chairman is carried out by the Senior Independent Director. There were no occasions during 2018 where the Directors met without the presence of the Chairman.

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 and Skilled Persons to undertake the following e-learning modules on at least a biennial basis. Newly appointed Directors also undertake "Introduction to UK Financial Regulations".

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

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 Main Board and Sub Boards, Governance Committee and Membership Working Group and by virtue of her office is ex-officio on all other Committees. The Grand Master is a member of the Main Board and Fraternal Board by virtue of his office and is ex-officio on all other Committees.

Those Sub Boards and Committees in existence in 2018 were:

Audit, Risk and Compliance Committee:	Colin Nugent	(Chairman) (Ext Non Executive Director)
	David Randall	
	Tony Luckett	
	Charles Vaughan	
	Clive Tayler	(External Skilled Person)
	Martin Berry	(External Skilled Person)
	Gavin Hughes	(External Skilled Person)

Composition of the ARCC

The members of the Audit, Risk and Compliance Committee (ARCC) as at 31 December 2018 are as stated above.

Following the introduction of the revised governance structure approved by the AMC 2018, the Main Board appointed Colin Nugent to the role of ARCC Chairman. This appointment was approved by the ARCC.

The ARCC is appointed annually by the Main Board and consists of at least five persons who are either Non-Executive Directors who are members of the Society, or persons with relevant Regulatory, Risk, Financial and Audit experience. In the second half of 2018 the ARCC appointed Gavin Hughes to the ARCC as an External Skilled Person, who brings Actuarial, Financial and Risk experience to the ARCC.

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. Directors, Chief Executive, Compliance & Risk Officer, Departmental Managers, 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 not less frequently than four times a year.

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

- CEO;
- Compliance & Risk Officer;
- Head of IT;
- Other Senior Management;
- Society's Internal and External Auditors; and
- Society's Actuaries.

Four meetings of the ARCC were held during 2018. Representations from the Internal Auditors were made at each meeting and representatives of the External Auditor attended as required at two of those meetings.

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

- Compliance & Prevention of Financial Crime;
- External Audit;
- Financial Reporting;
- Internal Audit;
- 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) and Solvency Financial Condition Report (SFCR); 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.

In 2018, 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 Main 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 Main 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 with 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 Boards, 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 Boards and Committees review the management of risk in relation to the particular risk appetite of the business, as determined by the Main Board.

Third line of defence: this encompasses the independent assurance and challenge provided by the Society's ARCC and Internal Audit function, which undertake a programme of risk based audits covering all aspects of both first and second lines of defence.

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

The External Auditors provide independent challenge of the internal control framework in respect of financial reporting.

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 Society's Head of IT provides the ARCC with assurance reports with regards the adequacy and effectiveness of the Society's cyber security 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 26 in these Financial Statements.

The use of financial derivatives is governed by the Society's policies approved by the Main Board, 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 continues to review the effectiveness of the Society's systems of risk, governance and internal control and updates the internal procedures to maintain a 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 undertakes a review of the External Auditor effectiveness in line with the requirements of the UK Corporate Governance Code. On this basis there will be a recommendation to the Main Board for the re-appointment of Deloitte for a further term.

As previously reported, in accordance with the Auditing Standards the Society, as a Public Interest Entity will have to review its Auditors in 2020 and change Auditors in 2030 at the latest, and this will be progressed accordingly.

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 Partner rotation:* In line with the requirements of the Auditing Standards, the Audit Partner was previously rotated in 2017. The Partner can perform the role for a period of five years.
- *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

As previously reported, following the implementation of Solvency II, the Society is a Public Interest Entity and as such certain tax advice and compliance services are prohibited under this definition as the tax advice is now deemed to have a direct or material impact on the Financial Statements. Regulations require the Society to obtain tax advice and compliance services from a firm separate from the auditing firm. As a result, in late 2017, PwC LLP were appointed as the Society's Tax Advisors and remain in position as at the end of 2018.

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 2018 were as follows:

Code Provision	Explanation
Technical provisions assumptions	The ARCC received copies of the Commercial Board minutes regarding the Valuation Assumptions presentations and reports to the Commercial Board by the Society's Actuarial Technician, Chief and With Profits Actuaries. The ARCC were satisfied that the assumptions adopted were appropriate to the Society. Refer to Note 14.
Integrity of the data used in the reserving process	The information provided to the Chief and With Profits Actuaries for inclusion in the reserving process is extracted directly from the Society's own financial information and a Data Report is presented to the Commercial Board 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 Main Board around significant fluctuations. The ARCC also considers the results of Internal Audit work and External Audit reports in coming to their conclusion.

The ARCC reviewed the *Reports & Financial Statements* and appropriately challenged management as to whether they had sufficiently addressed the Financial Reporting Council (FRC) areas of focus. In particular the disclosures of Critical Judgements, Estimates and Pensions.

Internal Audit of Unity Office
The Internal Audit service for Unity Offices (both in Manchester and Liverpool) is provided by MHA Moore and Smalley. 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 2018 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 2018. 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 2018.

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.

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 2018.

Commercial Board:	Richard Gough	(Chairman) (Ext Non-Executive Director)
	Jane Nelson	
	Steve Code	
	Tony Luckett	
	David Ogden	
	Bill Connolly	(Ext Non-Executive Director)
	Colin Nugent	(Ext Non-Executive Director)
	Diane Simpson	(External Skilled Person)

The members of the Commercial Board as at 31 December 2018 are as stated above.

Following the governance restructure agreed at the AMC in 2018, Directors are elected at the AMC and then are allocated to one of the two Sub Boards. Those appointed to the Commercial Board are confirmed by resolution of the Main Board.

The Commercial Board consists of at least seven including the Chairman of the Commercial Board, the Chief Executive Officer, the Insurance Director, the Chairman of the Board, one External NED and two Member Elected NED's. The Commercial Board appoints its own Chairman at the first meeting after the AMC.

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

As a result of the restructure the Commercial Board is now responsible for all matters previously handled by the Insurance Committee together with the previous responsibilities of the Commercial Board in respect of Unity Office investments and any strategic matters in respect of the Office premises in Manchester and Liverpool.

The Commercial Board is responsible for the tactical application of strategy and implementation of policy with regards to:

- Strategy and Management of the Society's LTB including:
    - Actuarial Valuation under Solvency II;
    - Annual expenditure budget for the LTB;
    - Bonus Recommendations;
    - Business Planning and new developments;
    - Own Risk and Solvency Assessment (ORSA);
    - Regulatory Supervisory Report (RSR);
    - Reserves and Allocation of Free Assets; and
    - Solvency and Financial Condition Report (SFCR).
    - Operational Management of the LTB including
    - Investment Performance.
    - Treating Customers Fairly (TCF);
    - Reviewing the effectiveness of the Society's policies, including oversight of the following Risk Management Framework (RMF) policies:
        - Asset & Liability Management;
        - Concentration Risk;
        - Data;
        - Investment Risk;
        - Liquidity Risk;
        - Market Risk;
        - ORSA/SFCR;
        - Reinsurance Risk;
        - Reserving; and
        - Underwriting Risk.

- Risk Management including overseeing risk in relation to the particular risk appetite statements to the business of the Commercial Board which includes Financial, Investment, LTB and Unity Office risks relating to the Society;

- Compliance and prevention of financial crime including review of the systems and processes by which compliance issues are identified and managed in addition to receiving reports on prevention, detection and investigation of fraudulent activity, financial crime or misconduct within or against the Society in relation to the Society's business; and

- Finance including determining the asset strategy of both Unity Funds and LTB, the latter of which is determined in consultation with the Society's Chief Actuary.

The Commercial Board also acts as the Society's With-Profits Advisory Arrangement and is accountable to the Main Board for monitoring, controlling and directing the business affairs of the Society in relation to the Society's LTB, subject to matters reserved for the Main Board. In carrying out the role of the Society's With-Profits Advisory Arrangement, it shall;

- assess whether the LTB with profits funds are managed in accordance with the Principles & Practices of Financial Management ("PPFM") as detailed in the PPFM;
- assess whether the Society is complying with the principles and practices set out in the PPFM;
- assess whether the Society is addressing the rights and interests of its With Profits policyholders compared with other stakeholders in a way that is consistent with treating customers fairly;
- provide advice and guidance on any other issues that With Profits policyholders might reasonably expect the Advisory Arrangement to be involved in;
- identify surplus and excess surplus and the merits of distribution/retention;
- consider how bonus rates, smoothing and, if relevant, market value reductions have been calculated and applied;
- assess the fair outcomes for policyholders taking into account any relevant historical provisions detailed in any relevant instrument of transfer;
- consider the relative interests of policyholders with and without guarantees;

- consider With Profits customer communications, such as annual reports, bonus statements, product literature and reports to With Profits policyholders;
- consider and asses any significant changes to the risk/investment profile of the funds;
- assess any future new product developments, supported by the With Profits assets and its impacts on the surplus of the funds;
- assess the impact of any planned management actions;
- assess management information, including any policyholder complaints;
- assess and consider the appropriateness of the costs and expenses incurred in running the funds;
- review and update the Society's Run-Off Plan; and
- assess the performance of the With Profits Actuary at least annually.

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

Regulatory Bodies: The Commercial Board continues to keep a watching brief on the regulatory frameworks. This includes the evolving Solvency II environment, and the regulatory feedback and consultation papers issued by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The successful cessation of the Ideal Fund was achieved in December 2017. As a result more investigations have been ongoing and will continue into 2019 on the options for the UIEF and Nottingham Funds.

Solvency
The Commercial Board 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.

Monitoring costs of LTB is critical and as part of that, a tender process was undertaken in 2018 in respect of the Actuarial Services Provider. The result of that process was that Zenith Actuarial Ltd were appointed. During the latter part of 2018 the exercise of on boarding was undertaken with the relevant individuals of Zenith taking over the roles of Chief Actuary and With Profits Actuary with effect from 1 January 2019.

Transfer of Engagements
The Commercial Board is committed to pursuing further transfers providing they prove to be in the interests of the Society's members and policyholders.

Strategic Development
The Society's membership base is a valuable asset and the Commercial Board believes that there exists an opportunity to increase product penetration through cross-selling new products. In November 2018 the Society launched a Lifetime ISA product and going forward, under the new LTB brand of Unity Mutual, it aims to consider other products that are seen to be appropriate for the Society.

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

The Commercial Board is also responsible for commercial risks relating to the Society and for the passing of resolutions in furtherance of the aims and directives of the Society's LTB strategy and in accordance with the policy of the Main Board which will receive and approve its minutes.

Fraternal Board:	Bill Henchliff	(Chairman)
	Jane Nelson	
	David Randall	
	Tony Luckett	
	Charles Vaughan	
	David Ogden	

The members of the Fraternal Board as at 31 December 2018 are as stated above.

Following the governance restructure agreed at the AMC in 2018, Directors are elected at the AMC and then are allocated to one of the two sub Boards. Those appointed to the Fraternal Board are confirmed by resolution of the Main Board.

Directors’ Report

The Fraternal Board consists of at least six Directors including the Grand Master, the Deputy Grand Master, the Chief Executive Officer/Secretary of the Order, the Immediate Past Grand Master and two Member Elected Non-Executive Directors. The Grand Master of the Order is the Chairman and is appointed at the first Fraternal Board meeting following the AMC.

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

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

- Appointment of Deputations;
- Administration of goods;
- Administration and supervision of Branches including:
    - Amalgamations of Branches and transfers of engagements;
    - Branch Financial Statements;
    - Branch Internal Audits;
    - Branch investments;
    - Branch Special Rules;
    - Oddfellows Halls;
    - Transfers of funds; and
    - Variations of Lodge Benefits.
- Benevolence including:
    - Convalescent benefit;
    - Distress Grants;
    - Educational and Apprenticeship;
    - H A Andrews Memorial Fund; and
    - Legal Aid Scheme.
- Branch delivery of social and care;
- Branch training including Weekend Seminars;
- Group Conferences;
- Management of relationships with third parties;
- Meritorious Service Jewels;
- Making a Difference Awards;
- Oddfellows Brass;
- Public Relations;
- Recruitment and retention;
- Risk Management;
- Rules and Procedures;
- Society’s Publications; and
- Traditions of the Society.

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 Fraternal Board. With effect from the start of 2018, the Branch Internal Audits are carried out on a rolling basis, to ensure all Branches are internally audited every two years. 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. The new process introduced in 2018 also includes some pre work being requested from Branch Secretaries to ensure a more efficient and effective programme of internal audit visits.

There were 38 Branch internal audits to the end of November 2018, all of which were reported to the Fraternal Board meetings during 2018. In the majority of cases any recommendations as a result of the Internal Audit were accepted and actioned by the relevant Branch Committee of Management. In 2018 there were no cases where re visits were considered necessary, but some chasing up of actions and/or recommendations was required in a few instances. In two instances a Deputation was appointed as little progress had been seen in those Branches since their last audit three years ago. In general, the Branch administration in the majority of our Branches is deemed to be consistent and satisfactory.

Directors' Report

All Branch audit reports and the responses of the Committee of Management to the recommendations of the Branch Internal Auditor are critically reviewed by the Fraternal Board, so that they 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 Fraternal Board are empowered to appoint 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 in January 2013. 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.

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 Main Board which will receive and approve its minutes.

Governance Committee:	David Ogden	(Chairman)
	Jane Nelson	
	David Randall	
	Bill Connolly	(External Non-Executive Director)
	Gary Morley	(Company Secretary)

The members of the Governance Committee as at 31 December 2018 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, Sub Boards and Committees.

The Governance Committee has received written and/or verbal reports from the following during the course of 2018:

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

By far the most significant work of the Governance Committee during 2018 has been the review of the composition and structure of the Society's Board and its effectiveness.

A series of workshops were delivered in January/February 2018 to give all Branches the chance to consider the proposed changes. The finalised and formal mechanisms necessary to bring the revised structure of the Board into place, together with the requisite Rule and Procedure amendments were presented and passed by the 2018 AMC.

The Governance Committee undertook reviews and reported back on the following matters during 2018:

- The oversight and management of governance related risks within the Society's Risk Management Framework;
- The various matters that came about from the Prudential Regulatory Authority and the Financial Conduct Authority with regards to the implementation of the Senior Managers & Certification Regime;
- Director's Handbook;
- The 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;
- Oversight of the Society's Succession Planning arrangements for key personnel;
- 'Becoming a Director of the Oddfellows' Booklet; and
- Terms of Reference for the Sub Boards and Committees.

The Governance Committee acts as the Society's Nominations Committee in respect of Member Nominated Non-Executive Directors. As part of 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 were invited to receive training prior to Branches submitting their nominations.

Whilst no MNED nominations were received for the 2018 AMC, it is pleasing to report that seven people attended the training in October 2018 and subsequently two valid nominations were received. These nominees were interviewed in February 2019.

Membership Working Group:	Jane Nelson	(Chairman)
	Charles Vaughan	
	David Randall	

The members of the Membership Working Group as at 31 December 2018 are as stated above.

Remuneration Committee:	Tony Luckett	(Chairman)
	Charles Vaughan	
	David Ogden	
	Bill Connolly	(External Non-Executive Director)

The members of the Remuneration Committee as at 31 December 2018 are as stated above.

The Main Board delegates responsibility of overseeing the design, implementation and maintenance of the Remuneration Policy for the Executive Directors and Non-Executive Directors to the Remuneration Committee.

The Remuneration Committee is responsible for:

- reviewing the framework or broad policy for the remuneration of Executive Directors and Non-Executive Directors and submitting it to the Main Board for approval;
- 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 2018, the Committee again decided not to use the services of an external consultancy. As reported previously, this is largely because the data provided by the consultant engaged by the Society is 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.

The main sources of data used to benchmark the remuneration of the Executive Directors were:

- A Survey of Remuneration packages of its member organisations commissioned by the Association of Financial Mutuals; and
- The published Reports and Accounts for those Societies considered to be the closest comparators to the Society.

The Croner Rewards Charities Salary Survey was not published in time to be used but this has less relevance to the Society now than it did some years ago.

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 Main Board regarding the basis of the Executive Directors' 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 the Chief Executive Officer and the Insurance Director during 2018.

	Salary	Cash Allowance in lieu of pension	Taxable Benefits	Total	
				2018	2017
Chief Executive Officer/Secretary of the Order	£152,895	£46,805	£7,536	£207,236	£196,803
Insurance Director	£135,451	£41,426	£9,418	£186,295	£177,517
Total	£288,346	£88,231	£16,954	£393,531	£374,320

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

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 31.12.18 (per annum)	Transfer value of accrued pension at 31.12.17	Transfer value of accrued pension at 31.12.18	Pension input amount over 2017 less Director's contributions	Pension input amount over 2018 less Director's contributions
Chief Executive Officer/Secretary of the Order	£67,177	£1,621,097	£1,687,246	Nil	Nil
Insurance Director	£7,435	£143,422	£149,311	Nil	Nil

Notes

- Mrs C J Nelson and Mr S Code both ceased accruing in the Scheme and became deferred pensioners on 31 March 2016.
- 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.
- 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 M U Pension Trustees Limited, in accordance with the Pensions Regulator's guidance and applicable legislation.
- The deferred pension and transfer value figures make no allowance for any future adjustment which may be required in relation to the equalisation of GMPs.
- All accrued pensions and transfer values include the value of the Directors' AVC benefits, where applicable.
- 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.
- At retirement Mrs Nelson will receive a deduction to her pension in respect of the Annual Allowance tax charges paid on her behalf via the "Scheme Pays" arrangement. The table above makes no allowance for Mrs Nelson's Scheme Pays arrangement.

External and Member Elected Non-Executive Directors

At the 2018 AMC, the revised structure of the Society's Board, its Sub Boards and Committees was approved, which included the removal of the former subsistence allowance paid to External and Member Elected Non-Executive Directors. It has been replaced by a fee-based structure, as detailed below:

- A base fee of £3,500 pa is to be paid to all Non-Executive Directors who sit on the Main Board, the Commercial Board or the Fraternal Board.
- An additional fee of £4,000 pa is to be paid to the Chairman of the Main Board.
- An additional fee of £1,000 pa is to be paid to the Chairmen of the Commercial and Fraternal Boards.
- An additional fee of £1,000 pa is to be paid to the Chairmen of the Audit, Risk & Compliance and the Governance Committees.
- An additional fee of £500 pa is to be paid to the Chairman of the Remuneration Committee, the Senior Independent Director and the Society's TCF & Conduct Risk Champion.

These fees will be reviewed on an annual basis, the outcome of which will be reported to the next Annual Movable Conference in the same way as is done for Executive remuneration.

The details in the following table show the remuneration arrangements that have been in place for the Non-Executive Directors and reflect the remuneration from 1 June to 31 December 2018:

	Total Remuneration	
Name	**2018**	**2017**
Bill Connolly (Chairman)	4,375	-
Bill Henchliff	2,625	-
David Randall	2,042	-
Tony Luckett	2,333	-
Charles Vaughan	2,333	-
David Ogden	2,542	-
Richard Gough	2,917	-
Colin Nugent	2,625	-

Notes

- External and Member Elected Non-Executive Directors are paid through PAYE. This does not mean that they are employed by the Society. Contracts for Services are in place for the NEDs under the revised structure.
- The Society does not pay any pension contributions for the NEDs under the revised structure.

Statement of Solvency

The Main Board 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 Main Board 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 and/or Sub Board.

Directors’ Report

Charitable Donations
2018 marked the conclusion of a three-year funding partnership with Bradford’s Plastic Surgery and Burns Research Unit (PSBRU) at the University of Bradford with a final cheque presentation of £29,000. Grand Master Bill Henchliff, CEO Jane Nelson and members from Bradford District Lodge visited the laboratory and learnt about the project’s latest findings as well as being thanked for the Society’s support.

The money directly supported the Unit’s delivery of a potentially life-changing project into hard-to-heal wounds and burns. It helped the research team grow fibroblast cells found in human hair follicles, and through new technologies investigate their importance in the wound healing process – paying particular attention to diabetic patients where the healing process is compromised.

Dr Stephen Sikkink, Experimental Officer of the University of Bradford’s Centre for Skin Sciences, said: “*We’d like to thank the Oddfellows for their support in funding our research project. We’re at the stage where we can now utilise new technologies, which could help us provide valuable insight into why the wound healing process in diabetic patients is impaired*”.

The project received a total donation of £88,000 over three years.

With that project finished, a proposal will be made to the 2019 AMC for a medical research project to benefit from the support of the H A Andrews Memorial Fund.

Holdings in Subsidiaries
The Society holds 100% of the Ordinary Share Capital issued by Oddfellows Support Services Limited, an entity incorporated in the United Kingdom and whose registered address is Oddfellows House, 184-186 Deansgate, Manchester, M3 3WB.

Liability Insurance
The Society 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.

Statement of Disclosure of Information to Auditor
Each of the persons who is a Director at the date of this report confirms that, so far as each of them is aware, there is no information relevant to the audit of the Society’s Financial Statements for the year ended 31 December 2018, of which the Auditor is unaware. Each Director has taken all steps that he/she ought to have taken in his/her duty as a Director to make himself/herself aware of any relevant audit information and to establish that the Society’s Auditor is aware of that information.

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

C J Nelson
Chief Executive Officer
28 March 2019

In our opinion the Financial Statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2018 and of the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the Friendly Societies Act 1992.

We have audited the financial statements which comprise:

- the income and expenditure accounts;
- the statement of other comprehensive income;
- the balance sheet; and
- the related Notes 1 to 26 excluding the capital disclosures in Note 14 calculated in accordance with the Solvency II regime which are marked as unaudited.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Expense assumptions used in the Technical Provision calculation; • Completeness and accuracy of policyholder data used in the Technical Provision calculation; and • Investment property valuation in relation to the Druids portfolio. • There have been no new key audit matters identified in the year. All key audit matters identified within this report are the same as those included in the prior year.
Materiality	The materiality that we used in the current year was £650k (2017: £600k) which was determined on the basis of 0.15% of the total assets balance at 30 September 2018 (2017: 0.15% of the total assets balance at 30 September 2017). We reassessed materiality using the total assets balance at 31 December 2018 and deemed it appropriate.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' Report and 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.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Society's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on page 7 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 14 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; or
- the Directors' explanation on page 14 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Expense assumptions used in Technical Provision calculation

Risk	How the scope of our audit responded to the risk
The Technical Provisions balance is the largest liability on the Balance Sheet, held at £229.5m in 2018 (2017: £246.3m). Significant judgment is required in the setting of assumptions that underpin the Technical Provision valuation and we note that in the period the Society has appointed a new external actuarial consultant to assist in the determination of the actuarial Technical Provision. We identified a key audit matter in relation to the future expense assumption used given the level of focus on the Society expense base from the members; the use of an inappropriate assumption, whether through error or deliberate management bias, could result in a material misstatement particularly because of the high sensitivity of the provision to this assumption. The accounting policy disclosure for the Technical Provisions is set out in Note 1a and the financial disclosures are set out in Note 14. This has been included in the ARCC report on page 26.	• We have assessed the design and implementation of the key internal controls put in place by management to manage the risks associated with setting the expense assumptions. • We have assessed the competency of the new external actuarial consultant. • We have obtained the per policy expense assumptions, as split by fund and product group. The expense assumption is based on the budgeted 2018 expenditure, which is compared to the 2017 actual expenses, with adjustments for known changes. • We have used actuarial experts within our audit team to challenge the appropriateness of the expense assumptions input into the Technical Provision model provided by the external actuarial consultant. As part of this work we have reviewed the adjustments to total expenses and the calculation of the per policy expenses. • We have agreed the actual expense base used in the assumption setting process through to audited current year information to validate consistency.

Key observations	We noted the approach to setting the policy expense assumptions was consistent with the prior year and in line with market practice. We found the expense assumptions used in the Technical Provisions calculation is appropriate.
Risk	**How the scope of our audit responded to the risk**
Completeness and accuracy of policyholder data used in the Technical Provision calculation The Society extracts data from a number of different platforms before passing this to external valuation actuaries for processing through the actuarial models. We identified a key audit matter in relation to the completeness and accuracy of data used in the calculation given the quantum of the Technical Provisions. The use of incomplete or inaccurate data, whether through error or deliberate manipulation, could result in a material misstatement because the data extracted from the underlying platforms is integral to the material accuracy of the calculation at the year-end date. The accounting policy disclosure for the Technical Provisions is set out in Note 1a and the financial disclosures are set out in Note 14. This has been included in the ARCC report on page 26.	• We have assessed the design and implementation of key controls in place to test the integrity of the data in the extraction process. • We have tested the operating effectiveness of key controls in place over the policyholder data input process. • We have engaged IT specialists to test the operating effectiveness of the key controls around data security including access privileges and change management to the different platforms. • We have reconciled the number of policyholders included in the 2018 data used in the actuarial models to the 2017 audited data and tested a sample of the policyholder movements to supporting documentation to check the data is complete and accurate. • We have tested a sample of policyholders included in the data extract to the different platforms and source documentation where possible to test the completeness and accuracy of the data used in the actuarial models.
Key observations	We found the data used to be appropriate and reasonable.
Risk	**How the scope of our audit responded to the risk**
Investment Property Valuation in relation to the Druids portfolio The value of the investment properties in the Druids portfolio in 2018 is £12.8m (2017: £13.1m). Although the responsibility for the valuation of property portfolios remains with the Society, the process is outsourced to third party valuation specialists who are registered with RICS (The Royal Institution of Chartered Surveyors). The valuation reports provided to management are expected to comply with the RICS Red Book requirements in order to enable management to have a sufficiently detailed understanding of the valuation methodology applied, and therefore assess its appropriateness. We identified a key audit matter relating to the assumptions and valuation methodology underpinning the Druids portfolio valuation, given that these are highly subjective in nature; also the valuation report received by the Society in respect of this portfolio was not fully Red Book compliant. This increases the likelihood of an incorrect valuation being used, as a result of the assumptions and valuation methodology not being clear or potentially not in line with market practice. The accounting policy disclosure for the investment properties is set out in Note 1a and the financial disclosures are set out in Note 5. This has been included in the ARCC report on page 26.	• We have assessed the design and implementation of the key internal controls put in place by management to manage the risks associated with the valuation of the investment property portfolio. • We have assessed the competency of the third party valuation specialists. • We have reconciled the fair value of the investment properties through to the external valuation reports provided at the year-end date. • We engaged property valuation experts within Deloitte to assess the work of the external valuation specialists and challenge the assumptions and methodologies used in the valuation process using published information sources to assess whether they are within a reasonable range. • We have performed substantive testing on the portfolio to test the completeness and accuracy of the information used by the property valuation specialists.

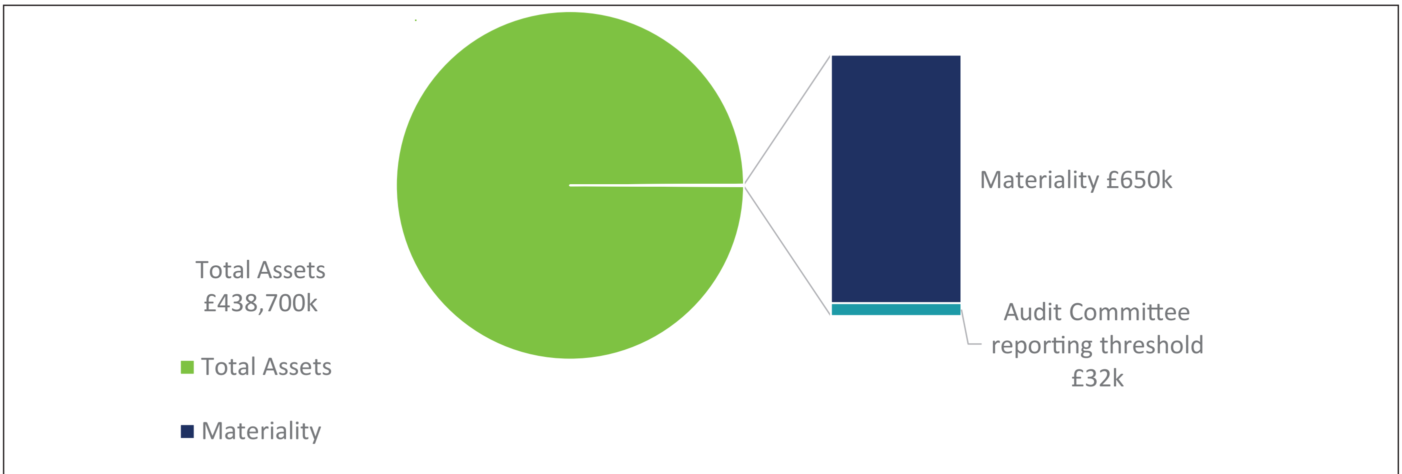
Key observations	We found that the valuation in relation to the Druids portfolio, including its assumptions and methodology, was appropriate. We recommended to management that they continue to engage their external valuation specialist to report to them in compliance with the RICS Red Book requirements for future periods to better enable them to discharge their oversight responsibilities over the valuation process.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Society financial statements
Materiality	£650k (2017: £600k)
Basis for determining materiality	0.15% of September 2018 Total Assets (2017: 0.15% of September 2017 Total Assets
Rationale for the benchmark applied	Total assets is deemed an appropriate benchmark as it is the financial measure most relevant to the users of the financial statements.



We agreed with the ARCC that we would report to the Committee all audit differences in excess of £32k (2017: £30k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the ARCC 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. The audit procedures designed to respond to the risks of material misstatement were performed directly by the audit team based in Manchester.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Society's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *ARCC reporting* – the section describing the work of the ARCC does not appropriately address matters communicated by us to the ARCC.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the ARCC, including obtaining and reviewing supporting documentation, concerning the Society's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including valuations and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: Expense assumptions and the completeness and accuracy of membership data used in the technical provisions calculation and valuation techniques used in the Druids investment property portfolio; and
- obtaining an understanding of the legal and regulatory framework that the Society operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Society. The key laws and regulations we considered in this context included the Friendly Societies Act 1992, pensions legislation and tax legislation. In addition, compliance with Prudential Regulation Authority regulations, Financial Conduct Authority regulations and terms of the Society's regulatory solvency requirements were fundamental to the Society's ability to continue as a going concern.
-

Audit response to risks identified

As a result of performing the above, we identified expense assumptions used in the technical provision calculation; completeness and accuracy of policyholder data used in the technical provision calculation; and investment property valuation in relation to the Druids portfolio as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the ARCC and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the PRA and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor’s Report

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Friendly Societies Act 1992
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors’ report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors’ report.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- 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 require for our audit.

We have nothing to report in respect of these matters.

Other matters
Auditor tenure
Following the recommendation of the ARCC, we were appointed at the Annual Moveable Conference (AMC) in 2010 to audit the financial statements for the year ending 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 December 2010 to 31 December 2018.

Consistency of the audit report with the additional report to the ARCC
Our audit opinion is consistent with the additional report to the *ARCC* we are required to provide in accordance with ISAs (UK).

Use of our report
This report is made solely to the Society’s members, as a body, in accordance with section 73 of the Friendly Societies 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.

Adam Addis (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
28 March 2019

Balance Sheet

ASSETS	Note	As at 31/12/2018 £'000	As at 31/12/2017 £'000
Investments			
Land and buildings	5	80,219	74,937
Other financial investments			
Shares and other variable yield securities	6	56,243	60,075
Debt and other fixed income securities	7	91,692	94,912
Loans secured by mortgage	8	337	453
Assets held to cover linked liabilities	9	152,457	169,365
Debtors due within one year			
Other debtors	10	630	1,073
Other assets			
Tangible assets	11	4,784	4,830
Other cash at banks, building societies and in hand		18,617	21,098
Prepayments and accrued income			
Accrued income		3,555	2,810
Prepayments		699	830
		409,233	430,383

Balance Sheet

LIABILITIES	Note	As at 31/12/2018 £'000	31/12/2017 £'000
Reserves			
Reserves provided for, by the rules and other specific purposes	12	2,360	2,353
Fund for future appropriations	13	21,701	22,655
Technical provisions			
Long term business provision	14	84,567	84,242
Claims outstanding		803	915
Provision for unearned premiums		2	88
Technical provisions for linked liabilities	14		
Insurance contracts		1,786	2,467
Investment contracts		143,142	159,544
Liabilities to investing branches		129,366	136,449
Creditors and accruals due within one year	15	4,319	2,656
Creditors, amounts falling due after more than one year	15	19,000	16,000
Deferred income		871	1,035
Pension scheme liability	16	1,316	1,979
		409,233	430,383

These Financial Statements of the Independent Order Fellows Manchester Unity Friendly Society Ltd. Registered number 223 F were approved by the Main Board on 27 March 2019 and were signed on its behalf by:

C J Nelson
Chief Executive Officer/Secretary of the Order
28 March 2019

Income and Expenditure Accounts

TECHNICAL ACCOUNT: Long Term Business	Note	Years ended 31/12/2018 £'000	31/12/2017 £'000
Earned premiums, net of reinsurance		1,220	1,342
Investment Income	17	8,866	9,670
Unrealised (losses)/gains on linked investments		(19,818)	15,379
Unrealised (losses) on non-linked investments		(3,574)	(1,354)
Total technical income		(14,526)	23,695
Claims paid		(5,442)	(4,948)
Gross change in Long-Term Business Provision			
Decrease in non-linked investment contract liabilities		356	2,147
(Increase)/Decrease in insurance contract liabilities		(643)	3,373
Net Change in Long-Term Business Provision		(287)	5,520
Gross Changes in technical provision for linked liabilities			
Decrease/(Increase) in linked investment contract liabilities		17,342	(16,887)
Decrease in insurance contract liabilities		687	419
Net change in technical provisions for linked liabilities		18,029	(16,468)
Operating expenses		(2,389)	(2,163)
Investment expenses and charges		(256)	(271)
Tax	18	168	(239)
Other technical income/(expenses)		1	(4,087)
Transfer from/(to) Funds for Future Appropriations	13	3,462	(2,381)
Balance on the Long Term Business Technical Account		-	-

Income and Expenditure Accounts

NON TECHNICAL ACCOUNT	Note	Years ended 31/12/2018 £'000	 31/12/2017 £'000
Investment income	17	5,630	4,812
Gains on realisation of investments		9,674	128
Movement in unrealised (losses)/gains on investments		(14,198)	5,964
Annual lodge levy		2,187	2,003
Investment expenses and charges		(365)	(360)
Other income		110	418
Investment return to investing branches	19	2,523	2,158
Net operating expenses		(3,346)	(2,868)
Non-contractual benefits		(363)	(459)
Pension scheme benefits	16	(491)	(291)
Transfer to the reserves provided for by the rules and other specific purposes	12	(7)	(15)
Excess of income over expenditure	13	1,354	11,490

All the amounts above are in respect of continuing operations.

Statement of other Comprehensive Income

	Note	Years ended 31/12/2018 £'000	31/12/2017 £'000
Surplus on Non Technical Account		1,904	11,490
Reserves provided for by the rules and other specific	12	7	15
Pension Scheme actuarial gains	16	1,154	1,434
Total comprehensive income for the year		3,065	12,939

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 Societies Act 1992. The Society is an incorporated Friendly Society in the UK whose registered office is 184-186 Deansgate, Manchester M3 3WB. The nature of the Society's operations and its principal activities are set out in the Strategic Report on pages 6 to 11.

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 Society classifies its products for accounting purposes as insurance or investment. Insurance contracts 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:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the Society; or
  - 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 2018 are included in the Financial Statements whether or not they have been settled. All claims notified but not settled as at 31 December 2018 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 the Friendly Societies Act 1992 and the regulations made under them.

Owner occupied property

Owner occupied 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 Directors revalue 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 or 5 years dependent on expected useful life
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. Provision for tax has not been included for 2018 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 2018 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 2018, 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 Chief 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 2018, 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.

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

The Board has considered in detail the Society's forecast performance, its capital and liquidity resource requirements and any potential implications resulting from Brexit. On this basis the Board has a reasonable expectation that the Society has sufficient capital and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. Accordingly the Board has adopted the going concern basis in preparing these accounts. The Strategic Report provides further details of the Society's going concern assessment. Brexit has also been considered within the preparation of the financial statements and is determined to not have any material impact on the financial statements as a whole.

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

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 £2,187k (2017: £2,003k). Amounts due from Branches at 31 December 2018 in respect of goods and services was £29k (2017: £29k). 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 43.

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.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with seperately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

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 1a 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.

Key Source of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. These include the values of investments.

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 - see Notes 5,6 and 7.

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 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 14.

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 16.

2 SUMS DENOMINATED IN FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling at 31 December 2018. 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.

Notes to the Financial Statements

3 STAFF COSTS

	2018 £'000	2017 £'000
Gross contracted service salaries	1,850	1,776
Social security costs	197	194
Pension costs	302	295
	2,349	2,265

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

	2018	2017
Directors	10	2
Clerical	47	45
Printing, production and dispatch	4	4
	61	51

4 AGGREGATE AMOUNT OF DIRECTORS' EMOLUMENTS

	2018 £'000	2017 £'000
Gross salaries	310	274
Cash in lieu of pension contributions	88	84
Benefits and allowances	17	16
	415	374

Included in the above re emoluments (including benefits and allowances) of:

	2018 £'000	2017 £'000
Highest paid Director	207	197
Directors emoluments:		
Up to £5,000	8	-
£170,000 to £180,000	-	1
£180,000 to £190,000	1	-
£190,000 to £200,000	-	1
£200,000 to £210,000	1	-

The Non-Executive Directors received remuneration with effect from 1 June 2018 and as such the figures included in 2018 cover a seven month period.

5 LAND AND BUILDINGS

	Occupied properties £'000	Investment properties £'000	2018 £'000	2017 £'000
Valuation as at 1 January	85	74,852	74,937	60,420
Additions at cost	-	13,138	13,138	15,522
Disposals	-	(8,728)	(8,728)	(2,444)
Realised gain/(loss)		6,977	6,977	(67)
Movement in unrealised (losses)/gains	-	(6,105)	(6,105)	1,506
Valuation as at 31 December	85	80,134	80,219	74,937

Freehold and leasehold investment properties were valued at 31 December 2018 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.

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.

Valuation on property transferred from the Druids Friendly Society was last valued at 31 December 2018 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.

All Valuers used to value the Society's Property are all independent of the Society.

6 SHARES AND OTHER VARIABLE YIELD SECURITIES

	Listed Equities 2018 £'000	Listed Equities 2017 £'000
Valuation as at 1 January	60,075	57,904
Additions at cost	11,819	14,371
Disposals	(10,703)	(18,192)
Realised gains	2,024	2,843
Movement in unrealised (losses)/gains	(6,972)	3,149
Valuation as at 31 December	56,243	60,075

Listed equities, (quoted on the London Stock Exchange) were valued at 31 December 2018 by Brewin Dolphin Limited of 12 Smithfield Street, London, EC1A 9BD, Investec Wealth & Investment Limited of 30 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 LGT Wealth LLP of 14 Cornhill, London EC3V 3NR.

7 DEBT AND OTHER FIXED INCOME SECURITIES

	United Kingdom Government Bonds £'000	Non-Government Bonds £'000	2018 £'000	2017 £'000
Valuation as at 1 January	46,831	48,081	94,912	87,060
Additions at cost	12,560	12,146	24,706	24,556
Disposals	(13,530)	(10,925)	(24,455)	(16,926)
Realised (losses) / gains	3	(35)	(32)	283
Movement in unrealised (losses)	(839)	(2,600)	(3,439)	(61)
Valuation as at 31 December	45,025	46,667	91,692	94,912

Listed bonds were valued as at 31 December 2018 by Investec Wealth & Investment Limited of 30 Gresham Street, London, EC2V 7QN and LGT Wealth LLP of 14 Cornhill, London EC3V 3NR.

8 LOANS SECURED BY MORTGAGE

	2018 £'000	2017 £'000
Outstanding as at 1 January	453	539
Advances	-	10
Repayments	(120)	(98)
Interest earned	4	2
Outstanding as at 31 December	337	453

9 ASSETS HELD TO COVER LINKED LIABILITIES

	Cash at Bank & Building Society £'000	Unit Trusts £'000	Equities £'000	Total £'000
Non Profit Fund	802	-	5,516	6,318
Nottingham Fund	-	37,993	-	37,993
Schoolteacher's Fund	-	81,526	-	81,526
Druids Fund	-	23,162	-	23,162
Equity Fund	-	589	-	589
Fixed Interest Fund	-	335	-	335
Money Fund	303	-	-	303
UK Index Fund	-	1,137	-	1,137
Growth Fund	-	1,094	-	1,094
Valuation as at 31 December 2018	1,105	145,836	5,516	152,457
Valuation as at 31 December 2017	1,151	161,939	6,275	169,365

Linked business investments were valued as at 31 December 2018 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 £7,529k (2017: £7,354k).

10 DEBTORS

	2018 £'000	2017 £'000
Trade debtors	462	990
Tax to be recovered	168	83
	630	1,073

11 TANGIBLE ASSETS

	Office & Computer Equipment £'000	Owner Occupied Premises £'000	Motor Vehicles £'000	Total £'000
Cost:				
1 January 2018	1,975	4,211	59	6,245
Additions	255	-	37	292
Disposals	(33)	-	(34)	(67)
31 December 2018	2,197	4,211	62	6,470
Depreciation:				
1 January 2018	1,346	37	32	1,415
Charge	318	4	13	335
Disposals	(33)	-	(31)	(64)
31 December 2018	1,631	41	14	1,686
Net Book Value:				
31 December 2018	566	4,170	48	4,784
31 December 2017	629	4,174	27	4,830

Properties owned and occupied by the Society are revalued every three years. If the properties were included in the Society's Accounts at cost then the results would be:

- Manchester Office £5,021,068
- Liverpool Office £230,000 – based on the value as at the date of transfer of the Schoolteachers Friendly Society

The properties in Manchester and Liverpool were last valued at 31 December 2016. All Valuers used to value the Society's property which is occupied by the Society are independent of the Society.

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:	2018 £'000	2017 £'000
Balance at 1 January	2,353	2,338
Transfer from Non Technical Account	7	15
Balance at 31 December	2,360	2,353

13 FUND FOR FUTURE APPROPRIATIONS

The fund for future appropriations comprises all funds, the allocation of which had not been determined by 31 December 2018.

Movement in year:

	2018 £'000	2017 £'000
Balance at 1 January	22,655	7,349
Transfer (to) / from Long Term Business Technical Account	(3,462)	2,381
Surplus on Non Technical Account	1,354	11,490
Net Pension Scheme actuarial gains	1,154	1,434
Other	-	1
Balance at 31 December	21,701	22,655

The balance at the accounting date arises as follows:

	2018 £'000	2017 £'000
Technical Account: Long Term Business	4,527	7,989
Non Technical Account	17,174	14,666
Balance as at 31 December	21,701	22,655

14 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 Nottingham Fund, the Schoolteachers Fund, the Druids Fund and the Non Profit 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 2018	4,527	17,174	21,701
31 December 2017	7,989	14,666	22,655

Movement in capital resources	Total Life insurance £'000
Total available capital resources at 1 January 2018	7,989
Change in assets	
Premiums less claims and expenses	(5,694)
Investment income	8,132
Realised and unrealised losses on investments	10,858
Total change in assets	13,296
Change in liabilities	
Change in provision for linked liabilities	(17,083)
Change in long term business provision	325
Total change in liabilities	(16,758)
Total available capital resources at 31 December 2018	4,527

Analysis of liabilities at 31 December 2018	Total Life insurance £'000
With-profit liabilities	49,693
Non-profit business	34,874
Unit-linked	144,928
Total provisions included in the Balance Sheet	229,495

Analysis of liabilities at 31 December 2017	Total Life insurance £'000
With-profit liabilities	49,405
Non-profit business	34,837
Unit-linked	162,011
Total provisions included in the Balance Sheet	246,253

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. All disclosures in respect of Solvency II are unaudited.

As at 31 December 2018 the Society's estimated SCR and corresponding eligible own funds were as follows:

	Unaudited 2018
Eligible Own Funds	£314.15m
SCR	£90.99m
Coverage (unrounded)	345%

Note, the SCR is an estimate and is unaudited. The Solvency II return which will be submitted by the deadline of 22 April 2019.

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 Commercial Board. The Commercial Board has responsibility for the setting of policy and for monitoring the levels of risk arising from mortality, morbidity, persistency and expenses. The Commercial Board also considers the Society's reinsurance coverage.

The management of insurance risk and information around sensitivity analysis is disclosed further within this Note.

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 Commercial Board 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 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 2018 were as follows:

Class of Business	Mortality tables
UIEF, Ex-UIRF and MSA	
UIEF FUND	
Annuities	70% IML/IFL922 - 3 years
MULIND	10% AM/FC00
PMCS	10% AM/FC00
All other policies	70% AM/FC00
Non Profit Fund	
All policies	70% AM/FC00
Nottingham Fund:	
Annuities	70% IML/IFL922 - 3 years
Non Profit policies	10% AM/FC00
All other policies	70% AM/FC00
Schoolteachers:	
All policies	70% AM/FC00
Druids:	
Lancashire & Cheshire	70% IML/IFL922 - 3 years
All other policies	70% AM/FC00

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

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

	2018 £'000	2017 £'000
Balance at 1 January		
Long Term Business provision	84,242	89,278
Provisions for linked liabilities	162,011	146,076
	246,253	235,354
Changes in technical provisions	(16,758)	10,899
	229,495	246,253
Balance at 31 December		
Long Term Business provision	84,567	84,242
Provisions for linked liabilities	144,928	162,011
	229,495	246,253

(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 2018 were £234.0m (2017: £254.3m).

15 CREDITORS AND ACCRUALS

	2018 £'000	2017 £'000
Amounts falling due within one year		
Trade creditors	197	86
Other creditors and accruals	4,022	2,258
Tax Creditor	100	312
	4,319	2,656
Amounts falling due after more than one year	19,000	16,000

16 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 2018.

Total employer contributions in the accounting period ended 31 December 2018 were £458k (2017: £441k). The employer contribution rate remained at 32.7% for all contributing members of the Scheme throughout 2018.

The Balance Sheet position for the Scheme has improved slightly, with the deficit reducing from £1,979k to £1,316k over the accounting period. Although the performance of the Scheme assets was weaker than expected, this has been offset by the actuarial value of Scheme liabilities decreasing significantly over the year to £22,366K (2017: £24,047). This has resulted in an overall improved funding position. The fall in the Scheme liabilities is mainly due to an increase in the discount rate, as well as allowing for member experience captured as part of the 31 March 2018 actuarial valuation.

In October 2018, the High Court ruled that the equalisation of benefits between males and females arising from the accrual of GMP after 17 May 1990 is required. From discussions with the Society we understand that the impact of GMP equalisation should be recognised as a 2018 P&L item (specifically, a past service cost adjustment) and as such, this is the approach taken in the following disclosures. The estimated impact of GMP equalisation to the Scheme liabilities as at 31 December 2018 is an increase of around £0.2m (that is, 1% of the Scheme liabilities). This is the primary reason the cost recognised in the Income & Expenditure Account is higher than the equivalent figure last year (£949k compared with £732k in 2017).

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. The combined change in financial and demographic assumptions have led to a net decrease in the end of year liabilities. Following the 31 March 2018 valuation, the mortality assumption has changed in line with the new neutral estimate assumption, as has been the practice in previous years. Additionally, we have allowed for membership experience captured as part of the valuation. This accounts for around £1,200K in the actuarial gain on the DBO, which can be attributed to better inflationary ncreases than expected, as well as a few individuals with high liabilities in the Scheme either leaving active membership or transferring out of the Scheme.

It should be noted that the results and position shown have been calculated by reference to investment market conditions at 31 December 2018. 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 2018), thereby introducing an element of approximation relative to the result of a hypothetical full actuarial valuation at the census date.

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 91% and 88% respectively SAPS 2 "All" tables (S2PXA) based on members' years of birth projected in line with CMI 2017 projections from 2007 with a 1.5% pa long term trend rate.This assumption has been updated from the 2017 year end and in isolation decreases the accounting liability by around £0.3m.

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 2018	22.8	25.0
65 in 15 years	24.0	26.4

Income & Expenditure	2018 £'000	2017 £'000
Effect of employee service in the current period	515	557
Net interest on net defined asset	41	71
Past service cost - impact of GMP equalisation	221	-
Defined benefit cost recognised in Income & Expenditure	777	628
Administration costs incurred during the period	172	104
Employer contribution	(458)	(441)
Cost recognised in Income & Expenditure	491	291
Other Comprehensive Income (OCI)		
Actuarial (gain)/loss arising during period	(2,505)	249
Return on plan assets less/(greater) than discount rate	1,351	(1,683)
Remeasurement effects recognised in OCI	(1,154)	(1,434)
Total Defined Benefit Cost		
Cost recognised in Income & Expenditure	949	732
Remeasurement effects recognised in OCI	(1,154)	(1,434)
Total defined benefit cost	(205)	(702)

Assumptions Used to Determine Defined Benefit Cost	2018	2017
Discount rate	2.40%	2.50%
Price inflation (RPI)	3.40%	3.50%
Price Inflation (CPI)	2.40%	2.50%
Long-term rate of return on assets	2.40%	2.50%
Rate of salary increase	4.40%	4.50%
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	3.10%	3.15%
• in respect of pensions accrued after 31 March 2006	2.00%	2.00%
Pension increases for deferred benefits	2.40%	2.05%

[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	2018 £'000	2017 £'000
Defined benefit obligation (DBO)	(22,366)	(24,047)
Fair value of assets (FVA)	21,050	22,068
Defined benefit deficit	(1,316)	(1,979)

Reconciliation to the Balance Sheet	2018 £'000	2017 £'000
Net defined benefit asset at end of prior period	(1,979)	(3,122)
Effect of employee service in the current period	(515)	(557)
Net interest on net defined benefit asset	(41)	(71)
Remeasurement effects recognised in OCI	1,154	1,434
Past service cost - impact of GMP equalisation	(221)	-
Employer contributions	458	441
Administration costs incurred during the period	(172)	(104)
Net defined benefit (deficit) at end of current period	(1,316)	(1,979)

Assumptions and Dates Used for Measurements	2018	2017
Discount rate	2.65%	2.40%
Price inflation (RPI)	3.40%	3.40%
Price Inflation (CPI)	2.40%	2.40%
Long-term rate of return on assets	2.65%	2.40%
Rate of salary increase	4.40%	4.40%
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	3.10%	3.10%
• in respect of pensions accrued after 31 March 2006	2.00%	2.00%
Pension increases for deferred benefits	2.40%	2.40%

Change in Defined Benefit Obligation (DBO)	2018 £'000	2017 £'000
DBO at end of prior period	24,047	24,368
Effect of employee service in the current period	515	557
Interest cost on the DBO	570	586
Remeasurement of the DBO	(2,505)	249
Past service cost - impact of GMP equalisation	221	-
Scheme participants' contributions	113	108
Benefits paid from Scheme assets	(595)	(1,821)
DBO at end of current period	22,366	24,047

Change in Scheme Assets

	2018 £'000	2017 £'000
Fair value of assets at end of prior period	22,068	21,246
Interest income on Scheme assets	529	515
Return on plan assets (less)/greater than discount rate	(1,351)	1,683
Employer contributions	458	441
Scheme participants' contributions	113	108
Benefits paid	(595)	(1,821)
Administrative costs paid	(172)	(104)
Fair value of assets at end of current period	21,050	22,068

Scheme Asset Information

	Target Allocation Range	Allocation Percentage 31/12/18	Allocation Percentage 31/12/17
Equity securities	50.0%	40.6%	41.2%
Debt securities	40.0%	36.3%	35.3%
Real estate/property	10.0%	8.2%	11.5%
Cash	0.0%	4.4%	1.4%
Other	0.0%	10.5%	10.6%
Total	100.0%	100.0%	100.0%
Fair value of Society assets (£'000)		£21,050	£22,068

17 INVESTMENT INCOME

	2018 £'000	2017 £'000
Technical account: Long Term Business:		
Investment Property	607	665
Shares and other variable yield securities	5,395	4,151
Debt and other fixed income securities	2,056	1,999
Bank and building society interest	19	23
Mortgages	1	3
Capital Return	47	47
Other	7	7
	8,132	6,895
Gain on Realisation of Investments	734	2,775
	8,866	9,670
Non Technical Account:		
Land & buildings	2,917	2,387
Shares and other variable yield securities	1,578	1,476
Debt and other fixed income securities	1,005	930
Bank and building society interest	122	12
Branch loan interest	8	7
	5,630	4,812

18 TAXATION

(a) Analysis of the tax charge for the year is	2018 £'000	2017 £'000
Corporation tax		
Current year policyhoder tax charge	-	207
Policyholder tax charge/(credit) on loss carry backs	(34)	-
Prior year policyholder credit	(48)	-
Deferred tax		
Timing differences, origination and reversal	(85)	32
Total tax credit/(charge)	(168)	239

The tax credit for the group is £168k (2017: charge of £239k).

The applicable UK corporation tax rate is 19% for the subsidiaries (2017: 19.25%), due to the reduction of the UK corporation tax rate from 20% to 19% which was effective from 1 April 2017.

The Finance Bill 2016 substantively enacted on 6 September 2016 included legislation reducing the UK corporate tax rate to 17% from 1 April 2020.

The Society primarily writes tax exempt business, with a small proportion of taxable business. The UK rate of income tax applicable to this business is 20% (2017: 20%).

At 31 December 2018, the group did not hold any provisions for uncertain tax positions.

(b) Reconciliation of total tax charge	Society 2018 £'000	Society 2017 £'000
Excess of income over expenditure before tax	1,904	11,490
Tax on result	381	207
Factors affecting tax charge:		
Accounting (deficit) not subject to policyholder tax	(381)	(207)
Items taxed on a different basis	(168)	239
Total tax charge for the year	(168)	239

(c) Analysis of deferred tax asset	Society 2018 £'000	Society 2017 £'000
Fixed Asset Timing differences	(2)	1
Deferred tax provision on unrealised gains	(21)	(33)
Losses recognised	76	-
Total recognised deferred tax asset/(provision)	53	(32)
Unrecognised deferred tax assets/(provision)	-	-
Total tax charge for the year	53	(32)

(d) Movement in recognised deferred tax asset/(provision)	Society 2018 £'000	Society 2017 £'000
Provision at start of the period	(32)	-
Deferred tax credit / (charge) to Technical Account – Long-term business	85	(32)
Provision at end of the period	53	(32)

19 INVESTMENT RETURN TO INVESTING BRANCHES

	2018 £'000	2017 £'000
Investment income	(4,742)	(4,274)
(Gains)/losses on realisation of investments	(6,292)	2,981
Movement in unrealised losses on investments	13,557	3,451
	2,523	2,158

20 LONG TERM BUSINESS - CHANGE IN OTHER TECHNICAL PROVISIONS

	2018 £'000	2017 £'000
Continuing Long Term Business (Note 14)	(16,758)	10,899

21 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

	2018 £'000	2017 £'000
Land and buildings: Within one year	2	2
Other: Within one year	17	-
Other: Between one to five years	-	26
	19	28

Other financial commitments payable witihin one year not provided for in the accounts amounted to £24k (2017: £30k).

22 AUDITOR'S AND TAXATION REMUNERATION

	2018 £'000	2017 £'000
Audit related assurance services	205	188
Other assurance services	-	51
Total (exclusive of Value Added Tax)	205	239

TAXATION REMUNERATION

	2018 £'000	2017 £'000
Taxation services are now provided by PwC LLP	21	21

23 CHIEF ACTUARY

The Society has requested the Chief 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 Chief Actuary of the Society, between 1 January 2018 and 31 December 2018, was Mr Michael Green, FIA, of Willis Towers Watson Limited. Mr Green is not a member of the Society.

(b) 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) Mr Green was an employee of Willis Towers Watson during the period of his appointment. 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 £462,278 exclusive of Value Added Tax. No other benefits were paid.

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

24 RELATED PARTY DISCLOSURES

The Society is controlled by its members through an Annual Movable Conference of Deputies. The Board 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

In every case members of the Society's 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 2018 totalled £16k (2017: £17k).

25 CONTINGENT LIABILITIES

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

The Directors are not aware of any such potential liabilities arising at 31 December 2018 (2017: £Nil).

26 FINANCIAL INSTRUMENTS

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 over the page 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 2017 and 2018.

Notes to the Financial Statements

Fair value measurement at 31 December 2018				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Shares and other variable yield securities	56,243	-	-	56,243
Debt and other fixed income securities	91,692	-	-	91,692
Assets held to cover linked liabilities	152,457	-	-	152,457
Investment properties	-	-	80,219	80,219
Owner occupied property	-	-	4,170	4,170
Total	300,392	-	84,389	384,781
Financial liability				
Investment contracts at fair value through profit and loss	-	143,142	-	143,142
Total	-	143,142	-	143,142

Fair value measurement at 31 December 2017				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Shares and other variable yield securities	60,075	-	-	60,075
Debt and other fixed income securities	94,912	-	-	94,912
Assets held to cover linked liabilities	169,365	-	-	169,365
Investment properties	-	-	74,937	74,937
Owner occupied property	-	-	4,170	4,170
Total	324,352	-	79,107	403,459
Financial liability				
Investment contracts at fair value through profit and loss	-	159,544	-	159,544
Total	-	159,544	-	159,544

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 54.

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 2018.

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 11.

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 2018	With-profit business	Non-profit business	Unit-linked	Other	Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Land and buildings	7,625	5,184	-	67,410	80,219
Shares and other variable yield securities	4,516	3,071	151,351	48,657	207,595
Debt and other fixed income securities	33,699	22,914	-	35,079	91,692
Loans secured by mortgage	2	2	-	333	337
Other debtors	-	-	-	630	630
Tangible assets	-	-	-	4,784	4,784
Cash at bank, building society and in hand	2,242	1,525	1,105	14,850	19,722
Other assets	1,880	1,278	-	1,096	4,254
Total assets	49,964	33,974	152,456	172,839	409,233
Liabilities					
Reserves provided for, by the rules and other specific purposes	-	-	-	2,360	2,360
Insurance contract provision	36,495	23,840	1,786	-	62,121
Investment contract provision	13,196	10,134	143,143	-	166,473
Claims outstanding	802	-	-	-	802
Provision for unearned premiums	-	-	-	2	2
Other liabilities	-	-	-	177,475	177,475
Total liabilities	50,493	33,974	144,929	180,387	409,233

31 December 2017	With-profit business	Non-profit business	Unit-linked	Other	Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Land and buildings	10,594	2,478	-	61,865	74,937
Shares and other variable yield securities	5,567	2,394	168,214	52,114	228,289
Debt and other fixed income securities	28,278	29,946	-	36,688	94,912
Loans secured by mortgage	39	10	-	404	453
Other debtors	-	-	-	1,073	1,073
Tangible assets	-	-	-	4,830	4,830
Cash at bank, building society and in hand	2,805	1,933	1,151	16,360	22,249
Other assets	1,689	667	-	1,284	3,640
Total assets	48,972	37,428	169,365	174,618	430,383
Liabilities					
Reserves provided for, by the rules and other specific purposes	-	-	-	2,354	2,354
Insurance contract provision	43,442	17,212	2,467	-	63,121
Investment contract provision	12,671	10,917	159,544	-	183,132
Claims outstanding	915	-	-	-	915
Provision for unearned premiums	-	-	-	88	88
Other liabilities	-	-	-	180,773	180,773
Total liabilities	57,028	28,129	162,011	183,215	430,383

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 2018						
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	33,347	13,338	7,482	5,838	13,868	73,873
Unit-linked liabilities	44,455	100,561	2,260	1,188	1,813	150,277
Total	77,802	113,899	9,742	7,026	15,681	224,150

31 December 2017						
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	35,496	16,086	8,027	5,533	8,968	74,110
Unit-linked liabilities	47,682	95,342	29,340	1,439	1,195	174,998
Total	83,178	111,428	37,367	6,972	10,163	249,108

Cashflows shown include claims, premiums and expenses for all guaranteed benefits considered on Solvency II basis. Cashflows relating to future discretionary benefits are excluded.

All cashflows assume best estimate assumptions and investment return based on the Solvency II risk free curve prescribed by EIOPA.

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

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.

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

The equity price sensitivity considers the changes in prices of UK and other equities as defined under Solvency II. This is a change in equity prices of ± 32.7%. It is assumed that the increase in equity price sensitivity would lead to an equal and opposite change in Own Funds compared to the decrease in sensitivity.

The property value sensitivity considers a ± 25% change in property values. It is assumed that the increase in property values sensitivity would lead to an equal and opposite change in own funds compared to the decrease in sensitivity.

31 December 2018	Expenses		Equity prices		Interest rates		Property values	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Change in LTB Own Funds	(5,468)	5,468	6,899	(6,899)	1,243	(645)	3,245	(3,245)

31 December 2017	Expenses		Equity prices		Interest rates		Property values	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Change in LTB Own Funds	(5,341)	5,341	10,312	(10,075)	760	(338)	3,510	(3,510)

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 2018	Amounts not subject to credit risk	Amounts subject to credit risk	Balance Sheet carrying value
	£'000	£'000	£'000
Shares and other variable yield securities	-	56,243	56,243
Debt and other fixed income securities	-	91,692	91,692
Assets held to cover linked liabilities	152,457	-	152,457
Loans secured by mortgage	-	337	337
Cash at banks, building societies and in hand	-	18,617	18,617
Total	152,457	166,889	319,346

31 December 2017	Amounts not subject to credit risk	Amounts subject to credit risk	Balance Sheet carrying value
	£'000	£'000	£'000
Shares and other variable yield securities	-	60,075	60,075
Debt and other fixed income securities	-	94,912	94,912
Assets held to cover linked liabilities	169,365	-	169,365
Loans secured by mortgage	-	453	453
Cash at banks, building societies and in hand	-	21,098	21,098
Total	169,365	176,538	345,903

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 amounts in the table above represent the maximum exposure to credit risk as at 31 December 2018.

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

Credit rating						
31 December 2018						
	AAA	**AA**	**A**	**Below A**	**Unrated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Shares and other variable yield securities	-	-	-	-	56,243	56,243
Debt and other fixed income securities	519	45,700	6,634	13,279	25,560	91,692
Assets held to cover linked liabilities	-	-	1,105	-	151,352	152,457
Loans secured by mortgage	-	-	-	-	337	337
Cash at banks, building societies and in hand	-	178	15,145	72	3,222	18,617
Total	519	45,878	22,884	13,351	236,714	319,346

Credit rating						
31 December 2017						
	AAA	**AA**	**A**	**Below A**	**Unrated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Shares and other variable yield securities	-	-	-	-	60,075	60,075
Debt and other fixed income securities	2,093	48,252	7,804	10,429	26,334	94,912
Assets held to cover linked liabilities	-	-	1,151	-	168,214	169,365
Loans secured by mortgage	-	-	-	-	453	453
Cash at banks, building societies and in hand	-	462	18,217	77	2,342	21,098
Total	2,093	48,714	27,172	10,506	257,418	345,903

No credit limits were exceeded during the year ended 31 December 2018.