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ODDfELLOWS SINCE 1810
making friends, helping people

Reports & Financial Statements 2019

For the Year Ended
31 December 2019



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)

D A Randall, Grand Master

D R Ogden, PPGM, Deputy Grand Master

W J Henchcliff, Immediate Past Grand Master

A P Lockett, PGM

B F Needham, PPGM

C Nugent (External Non-Executive Director)

J R Gough (External Non-Executive Director)

D Webster (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



I am pleased to present my second and final Report as Chairman of the Board. This is due to the fact that I will be stepping down from that role following the 2020 AMC. My appointment was authorised by the Society's Regulators, following the approval of the revised structure of the Society's Board at the 2018 AMC, on the basis that I would be in post for no longer than two years as the Society's Chairman. This was predicated on the grounds that I had already served as a Non-Executive Director for a number of years and that did not meet the accepted timescale criteria normally associated with the Regulators assessment of independence for being a member of a Board. It is genuinely difficult to sustain a contrary argument and so my tenure as Chairman has reached a natural conclusion. I have been proud to be Chairman in that time and I have every confidence that my proposed successor, David Webster, will prove to be an asset to the Society and our Members.

The governance changes brought about by the AMC's decision in 2018 have been brought into effect and, as I said in last year's report, the transition has been achieved relatively easily. The new Board and Committee structures have become embedded and no issues of any significance have arisen. It is believed that we have maintained the Society's traditional values that are so highly regarded by everyone associated with "The Oddfellows" within the revised governance arrangements.

The principal aspects of my role as Chairman are to help 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 2019 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, to retain our members and to recruit new ones. The Chief Executive Officer has been the driving force behind working closely with Branches in making some significant improvements in the development of Branches. There has been some minor consolidation of the Branch network but this has always come about following detailed discussions with the Branches concerned and their determination to rise to the challenge to survive and prosper. The impetus will be maintained, under the leadership of the Chief Executive Officer throughout 2020, with the support of the Branch Development Department.

There have been some outstanding successes in the recruitment of new Members during 2019. The numbers of new members in the year have well beaten the figures for 2018 and, in fact, have seen the highest number of new members recruited since 2007. In 2019, 1,398 new members were recruited, which is some 27% higher than 2018.

This is demonstrable evidence of how much can be achieved by everyone pulling together for the benefit of the Society. The Directors were delighted by the Friendship Month initiative and also the success of the First Steps campaign in Spring 2019. The participation of Branches in promoting and hosting events has been a major contributory factor to the success here and the Directors really appreciate the time and effort that has been put in by so many.

Fraternal Strategic Plan

The current Strategic period commenced at the start of 2019 and runs through 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. Our strap line is 'Making Friends, Helping People'. One of the things that has resonated with me ever since I joined the Board is just how much we live and breathe that strap line. Oddfellows rally around their fellow Members, particularly in times of crisis and despair such as losing a partner and the loneliness that often follows. This is real friendship and help and it is impossible to put a monetary value on it.

Chairman's Report

Long Term Business

The Unity Mutual Brand, which was launched in March 2018 continues to gather momentum. Some of the key attributes that are associated with the Brand are those words I have heard so regularly in the Society - friendliness, honesty, integrity and trustworthy. The Society was built on generations of trust and this is at the heart of the brand, providing simple savings and investments under the new Brand to help members and their families plan for the future.

A range of competitive products is available to meet those needs and research is currently being undertaken to launch new products and to assess the appropriateness of alternative distribution channels. The Brand is supported by a dedicated Unity Mutual website and new business applications and premium payments can be made on line. It is important to emphasise that Unity Mutual is not a separate Company – it is just a trading name of the Oddfellows.

On the Transfers of Engagements front, dialogue has taken place with a number of organisations during the latter part of 2019 and will continue during 2020. Such matters have to be conducted on a private and confidential basis. Hopefully, we will be able to conclude these discussions and attain a positive outcome during the second half of 2020.

Investments

The prolonged negotiations about Brexit made for another year of stock market volatility. 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 only has a small number of policyholders who have moved outside of the UK. Consequently, we are not significantly affected by Brexit but we followed the negotiations with interest. It is anticipated that there will continue to be fluctuations in the stock market, particularly in the short term. It is hoped that this will not persist as the terms of the Brexit situation become more clear and, as stated in the preceding paragraph, the Society is well placed to contend with short term volatility.

Culture

Part of my responsibilities as Chairman include leading the development of the Society's culture by the Board. This sits happily with me as I have always considered the ethos and values associated with Oddfellows to be so important. 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.

I would like to close by extending my appreciation to my Board and Sub-Board colleagues, the Society's Staff and all Branches for all of their usual diligence, hard work and professionalism. All of us within the Society strive 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
15 May 2020

Chief Executive's Operational Report



Overview

2019 was a year of success for the Society and serves to ensure a firm foundation for the future. It is very pleasing to report that 1,398 new Oddfellows members joined the Society in 2019, an increase of 27% on 2018, and the highest number recruited in the last nine years. In terms of Unity Mutual, the Society saw new premium income of £2.8m across 561 new policies, an increase of 342% on 2018, which, when taken together with transfers of CTF accounts to Junior ISA Accounts, meant a total of 934 policies totalling £4.23m.

As a Society we continued to successfully meet the challenges we faced, both centrally and importantly to us, in our Branches. The challenges, as we know come in all shapes and sizes but for the Society the key ones are recruitment and retention, developing our Branches, managing our insurance business branded under Unity Mutual and ensuring that we meet all expectations in respect of regulation. At the end of 2018 new regulations came in in respect of the Senior Managers and Certification Regime (SM&CR), which was part of the UK Regulators' drive to improve culture, governance and accountability within financial services firms. It aims to deter misconduct by improving individual accountability and awareness of conduct issues across firms. In 2019 there was a further development to this where firms were expected to appoint a senior manager with prescribed responsibility for managing risks from climate change, and the Society complied and notified the Regulators by the deadline of 15 October 2019.

The base rate continued at 0.75% throughout 2019 and, of course, with the result of the general election in December 2019, the implications of Brexit should be clearer to all over the next few months. In terms of investment markets, there does continue to be some volatility and there are no signs of this changing any time soon, however, stock selection remains very important in any asset class and our Investment Managers select any investments on our behalf based on a wealth of knowledge of the business into which they propose to invest our funds. We continue to monitor the investment positions ensuring that we have a balanced portfolio so that any movements in markets have as minimal effect as possible.

Maintaining a balanced portfolio of investments is something the Directors have urged Branches to do for some years and is the reason why such a diverse offering of centrally managed assets exist for investment by those Branches. The seven Funds allow Branches to have exposure in a controlled way to Equities – both UK and global, Fixed Interest – both gilts and Corporate Bonds, Property and cash deposits. At the end of 2019 the total invested by Branches totalled to £140.55m compared to £129.37m at the end of 2018. Branches regularly review their investments with support from Unity Office as required to ensure that their requirements for both Capital Growth and Income are in line 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 fourth ORSA (Own Risk and Solvency Assessment) report was agreed at the December 2019 Main Board Meeting after the Commercial Board had agreed it at their meeting in August. 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.

At our Conference in May 2019, we were delighted to welcome two newly elected Non-Executive Directors – Sister Barbara Needham who was elected as a Member Non-Executive Director and David Webster who was elected as an External Non-Executive Director with a view to him taking on the role of Chairman of the Board following the 2020 AMC. The new structure of governance is fully embedded and works really well. The matters reserved for the Board, the Sub Boards and the Committees are all documented in the relevant Terms of Reference and those areas, together with the Directors serving on them are listed in the Director's Report.

Membership of the Society in overall terms fell slightly in 2019 with total membership as at 31 December being 308,456 (2018 : 311,413) of which 237,893 were CTF members. Fraternal Membership as at the end of 2019 totalled 49,113 which was a reduction of 3.8% when compared to 2018, of which 1,506 were due to deaths. However, in terms of the membership packages which are open saw a net increase in 2019 after deaths and lapses of 70, which is a real positive step into growing Oddfellowship.

Chief Executive's Operational Report

Under whichever of the two fraternal packages that are currently open (Standard or Benefit), each member is entitled to a 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 (Benefits package only);
- 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.

The work done by Branches to achieve the great results of 2019 is to be congratulated as it is their efforts, coupled with the efforts of my team at Unity Office, that have resulted in the successes seen in 2019. I truly believe we have a great basis on which to grow.

On Thursday 1 August 2019, I was privileged to join the Grand Master and other colleagues to unveil a new memorial at the National Arboretum, Staffordshire, to honour the tens of thousands of Society members who fought and lost their lives in combat. More than 70 Oddfellow members came together from across the country to remember the fallen with a special ceremony and to officially mark the monument's place within the UK's largest site of remembrance. The polished blue granite memorial stands approximately six feet tall and was funded by a donation of over £11,000 from 62 of our Branches. Despite the years that have passed, our memorial stands as testament to how we, as a Society, still feel incredibly indebted to those members who served and who continue to serve our country.

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 2019 with both basic and masterclasses being held and these will continue in 2020. At the end of 2019 there were 73 Branches who had their own Facebook pages, 62 of which were active. These Branches are encouraged to interact with members, show what is happening in their area and build their social communities.

The Society's website, continues to attract people both to the site and to the Society and via Google Analytics we are able to monitor performance against a number of key indicators. Although there are several areas still to be developed on the website, in 2019 the priority was to support recruitment campaigns, the objective being to drive more traffic to the site, increase engagement and generate more enquiries. Digital advertising and refreshed web content were both developed in order to achieve this.

Chief Executive's Operational Report

Set out below are some results in relation to increasing traffic and engagement comparing 2018 to 2019.

Increase audience size

Traffic to the site:

Users - an increase of 27.39% (115,168 vs 90,406)

New Visitors - an increase of 27.50% (113,483 vs 89,004)

Traffic by channels:

Organic searches - an increase of 19.58% (42,615 vs 35,636)

Paid searches - an increase of 45.21% (29,513 vs 20,324)

Direct - an increase of 8.85% (27,463 vs 25,230)

Increase online engagement

Searches:

Total event searches - an increase of 63.59% (134,080 vs 81,963)

Unique event searches - an increase of 52.01% (19,158 vs 29,122)

Total Branch searches - an increase of 9.40% (30,109 vs 27,522)

Unique Branch searches - an increase of 42.86% (19,088 vs 13,361)

The development and growth of our Society is key to our future success and that specifically includes our national network of Branches. The Directors continue to work with those few Branches who are struggling to develop 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 and support continues to be available for them. It is a delight to see the Branches that have had some astounding successes in 2019 and it demonstrates that perseverance and determination will bring results providing the future is invested in. 40 Branches recruited 15 or more new members in 2019 compared to 23 in the previous year, with two of those recruiting over 50 new members each.

The campaign that we ran in Spring 2019 was a significant success in terms of name awareness and also leading to a huge increase in enquiries. Within the space of just four weeks, over 400 calls came in from people who had been bereaved and needing someone to talk to. The care and compassion shown to those people by the Unity Office staff who took the calls was outstanding. Whilst a number of people stated they were not yet ready to join an organisation, the positive experience they had of the Society will last in their minds for when they or their friends are ready to join. As you will see from later in the Director's Report, the focus of the campaign for 2020 will be newly retired people, and, as in 2019, we will use our member's real stories to communicate what they got out of joining such a great Society as ours.

The film, produced in late 2018 was launched early in 2019 and since then three short edits of the film focussing on Social, Care & History have been launched. By the end of 2019 there had been 8,462 views on Facebook and YouTube and 2,996 views of the shortened edits. Work will continue on this in 2020 using the Society's "Making a Difference" award winners to promote the Society again through film.

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 difficult times. We have a challenge and that challenge is one that I am sure we will rise to - our opportunity to promote the values of the Oddfellows and we will grasp that opportunity with both hands.

Chief Executive's Operational Report

As mentioned earlier in my report, 2019 also saw some positive new developments in respect of our Long Term Business under our brand of Unity Mutual. For the first time in a number of years, a distribution team was introduced early in 2019 and this enabled pro active communication with policyholders coming up to maturity in order to obtain reinvestment. With a fully functional end to end website, customers can now transact on it, complete application forms for policies, make additional contributions and view the value of their policy. There will, of course, be further development work which will continue throughout 2020. In September 2020, the first of the Society's Child Trust Fund Account holders reach the age of 18 and, therefore, from early 2020 contact will be made, initially with the parents or guardian but then later with the individual in respect of their options at aged 18. To facilitate this, development work is ongoing to ensure that Unity Mutual has a Customer Relationship Management (CRM) system in place that allows for ongoing communications in the most appropriate way.

The products currently open for new business are:

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

Looking at specific successes in 2019, the work done by the Distribution team saw 373 CTF accounts transfer to Junior ISA's as a result of being contacted by Unity Mutual and, in addition, 561 new policies were sold, together generating new premium income in 2019 of £4.23m plus premium income of existing business of £3.03m taking the total premium income in 2019 to £7.26m compared to £4.66m in 2018, an increase of 55%.

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 2019, the Society remains open to inward transfers of engagements.

Summary

2020, I am sure will bring as many challenges to us as a Society as previous years but I think that both across our fraternal and insurance business we are well placed to meet those challenges head on and be stronger as a result.

I am excited by our future as I truly believe that as a Society with a strap line of "*Making Friends and Helping People*" and "*Family Friendly Finance*" we are best placed to really make a difference in people's lives and I see the future as being very positive. I, along with my Director colleagues, 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 heartfelt 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 for their continued hard work, passion, support and enthusiasm during the year.



C J Nelson
Chief Executive Office
15 May 2020

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 products.
- 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 all regulatory requirements.
- 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 2019 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's regulated business operations 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.

Strategic Report

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 Long Term Business (LTB) Business Plan objectives;
- Failure to achieve the Fraternal Strategic Business Plan;
- Failure to achieve the Society's Investment Strategy;
- Failure to comply with the AFM Corporate Governance Code;
- Non-compliance with legal and regulatory requirements; and
- The Society's reputation is adversely affected.

Throughout 2019 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 2019 the Society added one new secondary risk to the Society's Risk Register, which was:

- Failure to manage climate risk.

Whilst these are the principal risks, the Directors 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 2019 there were no material changes made to overall risk scores.

The financial and operational impacts of the COVID-19 pandemic are emerging at a pace. The Society has in place a number of measures that are ensuring that the business continues to operate fully with all staff working from home. The Society has kept the Regulators informed of its actions and has received no challenges at this date. We are closely monitoring the situation and will continue to do so. The key aspects being monitored and which are more fully disclosed in Note 27 to these Accounts are:

- Solvency
- Liquidity
- Governance
- Operations
- Regulatory requirement.

Climate Change Risk Strategy

The Society acknowledges climate change as a matter of scientific fact. Climate change presents a risk to the Society as a whole, as well as specific financial risk which may result in damage to some of its objectives. In response, the Society is assessing the steps it has already implemented in terms of physical and transitional risks and what further steps it can take to mitigate these risks, as well as measures it can undertake to reduce the overall impact the Society has on climate change.

Strategic Report

The PRA & FCA Senior Managers & Certification Regime (SM&CR) requires the Society to allocate the 'Responsibility for managing financial risks from climate change' (Prescribed Responsibility) to a member of its Senior Management Team. The Society's Board agreed that this Prescribed Responsibility should rest with the CEO which was done within the required regulatory timeframe of 15 October 2019.

Long-term value creation for all stakeholders

Introduction

The Society was established in 1810 and continues to provide discretionary care, social and welfare benefits to its fraternal members and a range of regulated savings and investment products to its long term insurance business members. It has two operational offices based in Manchester and Liverpool and has a network of some 121 Branches as at 31 December 2019, throughout the United Kingdom.

Promoting the Society

The Society's Directors, led by the Chairman and the Chief Executive Officer/Secretary of the Order, promote the culture, ethos and values of the Society and its mutuality for the benefit of its 308,456 members.

The Directors engage with the members in a variety of ways, including regional group conferences, weekend seminars and specific information imparting briefings (such as to prepare for the Society's incorporation in 2013 and prior to the Annual Movable Conference's consideration of the Society's corporate governance arrangements and the revised structure of its Board in 2018). Most importantly, member engagement is actively encouraged through the medium of the Society's Annual Movable Conference (AMC). This is a three day event that also includes the statutory business ordinarily to be dealt with at an Annual General Meeting. The AMC in 2019 was attended by some 236 voting Deputies who are deputed by their Branches to attend, debate and vote upon the various business matters which are included on the three day business Agenda.

One of the Society's Directors is appointed as its Treating Customers Fairly (TCF) and Conduct Risk Champion and this role involves close liaison with the Society's management and staff to ensure that the principles of TCF and Conduct Risk are adhered to as a matter of form throughout the Society's regulated business operations. There is also a Senior Independent Director appointed annually to whom anyone within the Society can raise matters about which they may have concerns.

Employee Engagement

The Society has 53 staff at the end of 2019 based in its two operational offices in Manchester and Liverpool. Regular meetings are held between staff and their line managers, and the Society's management team meet with the Society's two Executive Directors on a regular basis. Formal performance appraisals are conducted annually for all of the Society's employees. Quarterly climate/culture surveys are undertaken and all employees are encouraged to participate. Any matters arising are reviewed and followed up as appropriate.

Community Engagement

The Society supports many local and national charities and makes significant donations via its Branch network. In 2019, the amount of donations to Charitable causes across the UK totalled £155,000. It also sponsors various organisations through its operational office in Manchester. The H A Andrews Memorial Fund was set up in 1971 to honour a remarkable Society Secretary, Herbert Arthur Andrews. The Fund's focus is on providing financial support over a two or three year period to a UK project or organisation involved in, or conducting, medical research. The research must focus on improving society's understanding, diagnosis or cures for diseases, mental and physical disorders, or any other conditions which adversely affect the quality of human life. To the end of 2019, £934,470 had been donated to various causes supporting medical research into illness such as Parkinson's, Prostate Cancer, Macular Degeneration etc.

Suppliers

The Society will only deal with suppliers who demonstrably match our commitment to treating its customers fairly. Due diligence is rigorously undertaken to ensure that this is the case prior to any contracts being signed and ongoing monitoring is routinely carried out to ensure that it continues throughout the duration of the engagement.

Strategic Report

Current activities

Planned Development

Benjamin Franklin, one of the founding fathers of the USA, is credited as saying, “*If you fail to plan, you are planning to fail.*” This is a principle central to our ambition to strengthen and grow the Branch network. Having made great strides embedding development plans at a District level, we expanded our target to include all Branches. This, of course, has been much more challenging but the Directors are determined to make sure the concept and practice of planning for development is fully integrated into the day-to-day mind-set of Branch committee members.

The results for 2019 are promising with 70% of Branches now dealing with their development in a more systematic way. This means Committees of Management are better able to prioritise and work on areas of their business that need the most attention. They have a stronger sense of ownership and greater pride and confidence when they can share in the success their efforts bring. Ultimately, we want all Branches to work on SMART plans and, in 2020 we will be concentrating our efforts to ensure all Branches are developing with a SMART development plan.

For the 9% of Branches that are not developing, the Directors continue to take a proactive role in providing whatever guidance and support they need. The intervention of the Directors has had a significant impact on Branches who may be ‘stuck’ or resistant to change.

Although development plans are individual to each Branch, there are a number of common elements that affect them all – one being member involvement. Getting enough members to take on officer roles, sit on Committees of Management or look out for members in need is essential to the survival of every Branch. Members getting more involved in what goes on in their Branch also has a profound and positive effect on member retention. The two main areas of work aimed at improving member involvement continued through 2019 as outlined below:

Managing and recruiting volunteers

- Volunteers, in all their guises, are the backbone of the Society. They run the Branches and make the difference to the everyday experiences of being a member – both positively and negatively. To make sure we successfully recruit new volunteers and look after them in the best way possible, we are putting in place guidelines, training and reference material designed to make the volunteer experience inside the Oddfellows more valued and effective.
- As a result of ongoing consultation with Branches and an external specialist, *Reward and Recognition Guidelines* and a *Volunteer Leaflet* have been created to add to the *Volunteer Policy* and *Role Descriptions* already drafted. The next phase of implementation is to use this material to change hearts and minds in the Branches. They all deal with volunteers in different ways so it is not a one size fits all approach. Although they all will receive the same information and training, some will need more support than others. Training and educating our key stakeholders will proceed throughout 2020 and into 2021.

Oddfellows Academy

- ‘Oddfellows Academy’ is a project looking at the whole process of member progression in the Society. The objective is to improve succession planning so it is more accessible and transparent and to be able to provide members with a clear choice of ceremonial and non-ceremonial pathways. We also want to celebrate and preserve our traditions and more will be done to educate members in an effort to overcome some of the prejudices that exist through lack of knowledge and understanding. Eventually we hope this strategy will encourage and enable more members to take active roles in their Branch and ‘Oddfellowship’.
- The Working Group, which includes Directors, members and Unity Office staff, was expanded during the year to reflect more diverse opinions. Two meetings were held in Manchester and London to discuss and progress various strands of work. Topics include progression pathways, updating literature, training, quality of delivery, values and the concept of being ‘special not secret’. Work will continue on this throughout 2020.

Strategic Report

Improving skills and knowledge

It is important that our paid and volunteer Branch 'workforce' are kept up to date with the latest regulations and best professional practise. A key way this is delivered is through the March and September Weekend Seminar Workshops. As always, we look to keep content and presentations fresh and relevant and are always receptive to feedback from members. To this end we tested a new idea in 2019 and included a dedicated afternoon session just for Social Organisers and Branch Development Officers. We also introduced a special 'demonstration social event' on the Saturday evening to give members some inspiration for their own Branch activities. Feedback from those attending was very positive and these ideas will be developed further for 2020.

The complete list of workshops delivered in 2019 was as follows:

- Fostering love of the Oddfellows – building brand advocacy.
- Creating magical moments on the membership journey.
- Tackling member involvement – dedicated session for Social Organisers.
- Unity Mutual and Products - an overview of the savings and investment products available.
- Role of a Member Nominated Non-Executive Director (MNED) - given the change in the Society's Governance Structure as agreed at the 2018 AMC, this workshop aimed to provide high level summary of what the role of being an MNED involves.
- Dealing with warm leads through role play - practical guide to enquiry conversion.
- Volunteer reward and recognition.
- Member Benefits – helping members get more out of membership.
- Making the most of the Refer a Friend Scheme.
- Keep members and Welfare Visitors safe – covering safe recruitment and support of Welfare Visitors, safeguarding issues and vulnerable members.

In addition to the Weekend workshops, other bespoke training was delivered specifically to support Branch social media development. Beginners and Masterclass Facebook workshops were also held in both Manchester and London during the year.

Brand, PR and Digital Development

Building the Oddfellows brand is an integral part of our ongoing strategy and permeates all levels of our business. A number of special projects were initiated to support this area of work:

1. Making a Difference Awards

A new member recognition scheme, the 'Making a Difference awards' came to fruition in 2019. It brings to life the best of the Society's brand values and helps us publicly celebrate the many members that demonstrate those values. At the AMC in May, four members from across the country received the first Making a Difference awards from each of the following categories; *Enriching lives socially, Giving something back, Working in the spirit of mutuality and Offering a helping hand.*

The new Scheme is designed to be more inclusive as it encourages members at every level of the Society to nominate another for recognition. It also fully engages Branch Committees of Management in the selection process before final winners are chosen by the Fraternal Board. Along with their specially engraved awards, the winners' stories are shared with the membership and general public across a range of on and offline communication channels.

2. 'Everyone's Welcome' film

An Oddfellows promotional film was professionally created and went live early 2019. This upbeat film depicts a group of diverse members getting together for a social event during which they talk enthusiastically about all the great things they get from being a member. The film was shared internally with members and made available for Branches to use for local presentations. It has also been incorporated across Oddfellows website and promoted widely through social media posts.

In addition to this, three 30 second shorts focussed on Care, Social and History were created from the film footage and used in Facebook advertising during Friendship Month. By the end of 2019, views of the film on Facebook and Youtube totalled 8,462 and 2,996 for the film shorts. In 2020, the plan is to create another promotional film, this time focussed on member involvement using winners from the Making a Difference awards.

Strategic Report

3. *End loneliness - thought leadership project*

Corporate brand development has centred on building a 'voice' for the Oddfellows within the end loneliness debate by developing a profile with influential individuals and organisations. Through its Branch social activities, the Society already has a proven track record of helping both existing and prospective members who are lonely.

A number of business meetings were initiated between the Society's CEO and representatives from the Campaign to End Loneliness, Age UK and Silver Line during the year. Work is ongoing with more opinion formers and organisations being contacted during 2020.

4. *Developing the Active Travel Club proposition*

Although travel is one of our 'five reasons to join' it has struggled to gain any traction with members despite research telling us travel has strong appeal in our target market. Internal and external research during 2019 helped to create a stronger focus for the Oddfellows travel proposition. The holiday offering will be expanded in 2020 to include escorted short city breaks but the major change will be in the way the travel package is marketed. To do this, the Society has engaged an external marketing company that has extensive experience of promoting travel and working with the 50+ market.

Digital

Our use of digital channels to communicate is growing. In some ways this parallels the increased digital engagement within our existing and prospective membership. It is still the case that our target market is the fastest growth area in the digital landscape. Facebook remains the primary social media channel for the Society with levels of engagement on OddfellowsUK page consistently high – several times this year we beat our own targets. An alternative metric was introduced in the latter part of the year to better monitor organic engagement with the page.

A growing number of Branches are able to make effective use of Facebook as an online extension of their social communities. To date there are 73 Branch Facebook pages and the first annual audit of them was carried out in 2019. Branch pages were evaluated and assigned one of four categories: 'excellent', 'good', 'basic' and 'requires attention'. Over the coming year all the Branches that administer their own Facebook page will be encouraged to make improvements. Member administrators will have access to training workshops, webinars and reference material on Oddsplace.

E-marketing

The performance of our email marketing has remained consistently good with click through rates mostly between 25-40 and open rates 40-50 – both targets considered good by industry standards. Email acquisition is still a challenge and Branches are regularly encouraged to keep their members' email information up to date so members can receive the latest Oddfellows news and information. There are currently 5,640 active member subscribers but this only represents around 12.5% of Standard and Benefit members so there is still work to be done on improving our e-marketing capabilities. Non-member subscribers has increased from 2,707 at the beginning of the year to 5,277 providing the Society with a great opportunity to share the benefits of membership over the coming year.

Website - www.oddfellows.co.uk

The website continues to be an attractive 'shop window' to the Society and keeping it populated with engaging content is key to its ongoing health. Several initiatives were introduced this year that had a significant impact on audience size, levels of engagement and numbers of enquiries. These included the introduction of downloadable content like, '*The Big Fact Factsheet*' and '*What to expect at an Oddfellows event*' as well as more site mentions of '*Request your free information pack*'. The performance of the website has been mixed against established KPIs but the most positive results reflect the focus of work undertaken during 2019. The biggest increases relate to traffic to the website (new visitors increased by 27.50%) and online engagement (event searches increased by 63.59% and Branch searches by 42.86%).

A number of technical upgrades and site developments were undertaken during the year to improve performance. These included site speed, online sales process for Young Oddfellows and promotion of Refer a Friend. Other areas of content and functionality will continue to be developed in the coming year.

Strategic Report

Partnerships – future of third party arrangements

Research undertaken late 2018 and early 2019 has helped to develop our third party strategy and tactics. The research feedback was positive about our existing benefits package with respondents feeling it represented value for money. Rather than focus on adding benefits, the consensus was that we needed to improve the way we market our existing ones.

There will also be more emphasis in 2020 on developing partnerships that present recruitment opportunities. To this end, the Society is currently nurturing relationships with U3A and Yours magazine.

During 2019, we collaborated with 'Yours' magazine on two events at Warner Leisure hotels resulting in 45 new members – more joint events are planned for 2020.

Recruitment

To maintain and strengthen our Branch network we need to achieve two objectives, the first to cover deaths and lapses, and the second to recruit in sufficient numbers to grow membership. To achieve these objectives we set ourselves the ambitious target of recruiting 2,000 new members. Although we did not reach this figure, recruitment is climbing – last year was an increase of 27% compared to 2018 with 1,398 new members and a positive net recruitment percentage of 0.51%. Our recruitment tactics are always being developed as we learn from experience and others in the industry. The changes last year included using internal research to target prospects increasing digital advertising, testing several new advertising approaches, changing our ad messages and sending a direct mail to a segment of our members. More details of this combined approach is as follows:

1. National print and digital advertising (Facebook, Pay Per Click (PPC) and remarketing)

National print and digital advertising ran throughout 2019 as part of a mixed media approach that included testing online remarketing ads and publication inserts. We also increased the use of advertorials in the best performing publications, refreshed messages for PPC ads, boosted Facebook posts and tested inserts in a number of new titles.

Historically inserts have performed well for the Society and a mix of product dispatch, subscriber mailings and magazines were chosen to test the insert and 45 new members were recruited. Insert advertising will be repeated next year with a refreshed design and new messages to increase our return and reduce the cost per member.

Facebook ads, boosted posts, retargeted and PPC advertising all performed extremely well for the spring and autumn recruitment campaigns, successfully driving traffic to the website and generating enquiries. Digital advertising will continue through 2020 as it is low cost and able to target prospects very effectively.

2. Spring campaign

The spring recruitment campaign, entitled '*Oddly enough*', was targeted at prospective members who were looking to socialise again after losing a partner. The approach was selected following internal research into what life events trigger membership to the Oddfellows.

The campaign was delivered through a combination of print advertising, website content, digital advertising, social media and PR. Although the core activity of the campaign ran for four weeks, the website '*First Steps*' page is still live along with re-runs of the PPC ads which continue to be viewed and stimulate significant enquiries. To date 93 new members have been recruited and as '*Oddly enough*' continues to be promoted, the results will be monitored and reported in 2020.

Along with '*losing a partner*', the other top triggers identified in the research were '*retirement*' and '*relocating*'. Based on this, the next campaign will focus on prospective members in retirement looking to make new social connections or get more involved in their local community.

3. Friendship Month (FM)

2019 saw the 10th anniversary of Friendship Month, and a marked improvement in results across the board with enquiries increasing by 767%, recruitment by 44% and recruitment through Refer a Friend by 8%.

73% of Branches responding to a post Friendship Month survey felt the campaign was an effective recruitment tool. Levels of engagement from Branches improved with all the Districts getting involved at some level and 92 Branches (86%) holding at least one event compared with 79 the previous year.

Strategic Report

The campaign was supported with Branch based marketing packs, national and targeted Branch print advertising, PR, digital advertising, dedicated website and social media content. In addition to the positive increase in recruitment, there was a 24% reduction in the cost per member which last year stood at £110.58 vs £145.41 in 2018. Our goal ultimately is to reach a cost per member of £80.

4. Refer a Friend (RAF)

Recruitment through the RAF Scheme accounts for approximately 60% of new members made for the Society so it's an important focus for recruitment activity. The strategy in 2019 was to concentrate our tactics in three areas, to refresh the messaging, targeting influencers in formal roles such as Social Organisers, and targeting members that had never referred someone before.

Content and design was refreshed for marketing literature, ads and website. There were also a number of direct mail campaigns – the first to Social Organisers, Secretaries and Welfare Visitors, and second to all the Standard and Benefit Members that had not as yet referred anyone for membership of the Society.

5. Conversion

Recruitment activity in 2019 very successfully drove up enquiries to 2,265 which is an increase of 226% but conversion remains low at 13.6%. To look at why this is the case and find ways to improve results, a joint working group was set up between staff members from Membership Services and Branch Development departments. The priority for the group has been to interrogate the enquiry journey and identify areas where improvements can be made. Several actions have already been taken including consultation with Branches about creating a Branch Conversion Toolbox. In Q4, additional help was provided by external specialists, Creative Futures, who held an intensive one-day workshop with key members of the working group to map out every aspect of the enquiry to new member journey. From this a number of priorities and tasks will be actioned during 2020.

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 55 and 56, with the Statement of Other Comprehensive Income being shown on Page 57, and the Assets and Liabilities as at 31 December 2019 shown in the Balance Sheet on Pages 53 and 54. The Technical Account for Long Term Business on Page 55 shows a transfer to the Fund for Future Appropriations of £1m compared to a transfer from the Fund for Future Appropriations of £3.57m in 2018. The Non Technical Account shows the income and expenditure arising from the Society's business objectives as outlined on Page 56 and produces a deficit of income over expenditure of £1m (2018: surplus of £1.35m). Whilst in 2019 Investment income increased and net operating expenses decreased from 2018, the total investment return to investing Branches increased significantly due to their share of the unrealised gains on investments, which in turn led to an overall deficit of income over expenditure in 2019.

The total investment return (including realised and unrealised gains and losses) for the Non Technical Account amounted to £14.29m (2018: £741k) of which £13.82m (2018: (£2.52m)) was attributed to Branches in the various internally operated unitised funds (See Note 19).

The Non Technical Account shows a movement in unrealised gains of £9.30m (2018: loss £14.20m) and the Technical Account shows a movement in unrealised gains of £21.49m (2018: loss £25.37m).

The movement in gains on investments in 2019 resulted in a Balance Sheet gross asset value which has increased to £448.45m from £407.26m in 2018 and is an overall increase of £41.19m (10.11%), the key driver being the increase in asset valuations as at 31 December 2019.

During the 2019 audit, it came to light that due to the pricing of the unit linked investments held with Fidelity, that the unit price as at 31 December included accrued income. This, therefore, meant that in previous years the income accrued in these investments was double counted, albeit that transaction reversed at the start of the following year. The treatment as at 31 December 2019 is correct and the numbers for 2018 have been restated accordingly. The impact of this is shown in Note 9 to these Accounts.

Strategic Report

Brexit has dominated 2019 with the resulting uncertainty over the outcome. The markets have reacted according to the decisions which have been made during the year with the growth in the economy remaining volatile during 2019.

The Bank of England base rate held at 0.75% from August 2018 until March 2020, when it was reduced to 0.25%, the lowest rate in UK history, only to be further reduced on 19 March to 0.10%. Further movements are yet to be determined due to the consequences of Brexit and the potential global impact on the world economy of the Coronavirus.

The level of employment has remained high and the jobs market remained strong during 2019. The result of the general election in December 2019 has led to a Conservative Party majority, but uncertainty over trade deals remain. The transition period for Brexit will continue to 31 December 2020.

Non adjusting events after the Balance Sheet Date

2020 has begun with the spread of a new strain of the Coronavirus (COVID-19), with confirmed cases in more than 50 countries. The virus has caused disruptions to businesses and economic activity which has precipitated substantial daily fluctuations in interest rates and global stock markets. There remains significant uncertainty in the weeks and months to come. We are monitoring the situation and have made preparations to ensure we are able to operate effectively, and any impact on the Society's Solvency Capital Ratio (SCR) which, as at 31 December 2019, stood at 401% (unaudited), continues to be monitored on an ongoing basis.

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 overly 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 the Fraternal Board then work with those Branches to ensure the necessary improvements are made.

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



C J Nelson
Chief Executive Officer
15 May 2020

Directors' Report

The Directors present their Annual Report together with the Financial Statements for the year ended 31 December 2019. In producing this Report, the Directors have considered the AFM Corporate Governance Code which now operates on an 'Apply and Explain' basis.

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, 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 Society's intranet and websites.
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 ***Principle 6 of the AFM Corporate Governance Code – see notes below:

*Key stakeholders include Branch Officers, Members, policyholders, Directors, Sub Board and Committee Members, staff and the 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'.

*** Principle 6: Directors should foster effective stakeholder relationships aligned to the Society's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

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.

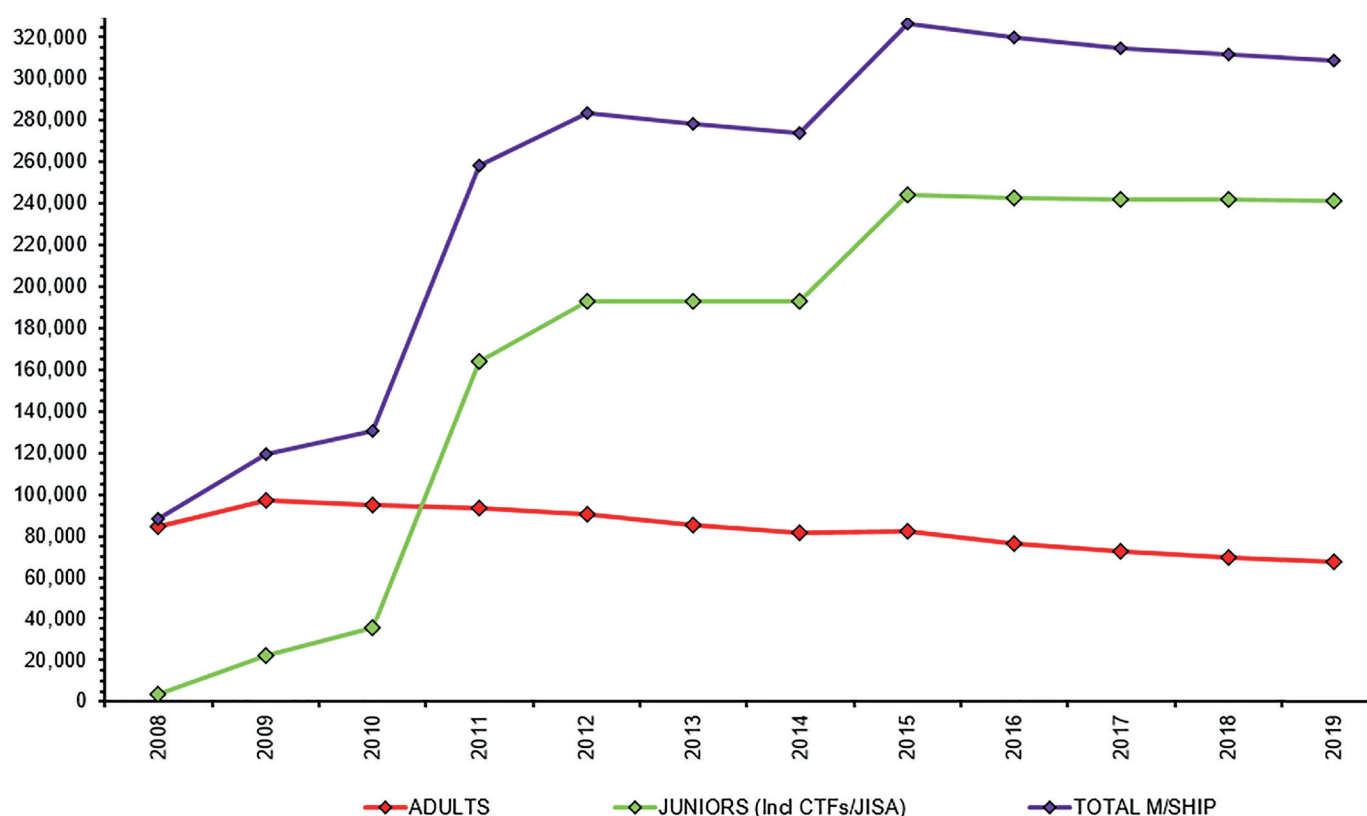
In the unlikely event that a complaint cannot be resolved to the member's satisfaction, the member is made aware of the option to appeal to the Financial Ombudsman Service (FOS).

Over the last three years, the Society has received 18 regulated business complaints. Following appropriate investigation, 12 were upheld, six refuted and none remain outstanding. Of the six refuted complaints, two members decided to appeal to the Financial Ombudsman Service of which none were upheld in favour of the member.

Number of Members

The Society had 308,456 members on 31 December 2019, of which 240,876 were Junior Members (237,893 being Child Trust Fund Members and 759 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.

Directors' Report

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

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

Going Concern and Viability Statement

The Board discussed the issue of the Society being a going concern of at least 12 months after the date of signing the Accounts, and of its longer term viability, at the December 2019 Main Board meeting. The Board conducted this review using a detailed budget for the forthcoming year (ie 2020), the 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 2020 budget and Strategic Plan are also reviewed and approved by the Board.

The Board have determined that the two year period to December 2021 is an appropriate period over which to provide its viability statement. In making its 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 2021;
- 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 on the Reports and Financial Statements. Based on the results of this analysis, the Board considers 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.

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.

Directors' Report

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

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

The Board is committed to complying with best practice in Corporate Governance and for the year ended 31 December 2019 the Society complied with the principles required under the provisions of the Association of Financial Mutuals (AFM) Corporate Governance Code. This is the first year of reporting under the new Code which is based on six fundamental principles, and, unlike the previous Code where the Society was required to "Comply or Explain", this new code is based on the requirement to "Apply and Explain".

The Board considers that throughout the period under review, it has applied all the principles and provisions of the AFM Corporate Governance Code.

This new corporate governance reporting requirement will apply to all members of the AFM for financial years starting on or after 1 January 2019. We have set out below how the Principles have been applied over the past year.

Principle 1 – Purpose and leadership

Purpose

The Oddfellows was founded in 1810 to look after its member's welfare at a time where there was no national provision. The fundamental principles and ethos of the Society in 1810 remain today where the Society aims to improve the quality of life of its members by meeting their social and welfare needs through a mutual, national Branch network as well as providing a fair return to its policyholders on their savings and investments. In 2018 the Society's Long Term Business was rebranded under Unity Mutual – "Family Friendly Finance" and that, together with the Oddfellows strapline of "Making Friends, Helping People" really demonstrate the guiding framework to which we operate.

Values and Culture

The objectives and activities (as listed on Page 7) demonstrate how as a Society we ensure we deliver what we aim to deliver, always having the needs of our members at the forefront of our minds.

Strategy

Unlike most other Societies, the Oddfellows has two distinct elements to its business, with the Fraternal Business as well as the Long Term Insurance Business, and it is the strategy for both these elements that make the Society what it is today.

In terms of the Oddfellows brand, the Society aims to be the lifestyle membership of choice for the over 50's by helping its members get more out of life with a compelling range of social, care and financial support, delivered through a thriving national Branch network.

For the Unity Mutual brand, the Society aims to be the mutual insurer of choice, offering a range of financial products helping families get the most out of their savings and investments now and for the generations to come.

Principle 2 – Board Composition

A biography for each Director can be found on Pages 23 to 27 of this report and also on the website www.oddfellows.co.uk.

Chair

The Society has a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Society are effectively maintained. The Chairman plays a pivotal role in creating the conditions for overall Board and individual Director effectiveness.

Directors' Report

Size and Structure

In 2018, the Society reviewed its governance arrangements and, as a result elected 11 Directors at its 2019 Annual Movable Conference. Of these, eight serve on the Main Board, which is comprised of the Chairman, Chief Executive, Insurance Director, three Member Nominated Non-Executive Directors and two independent Non-Executive Directors. The Society's governance structure includes two Sub Boards – the Commercial Board and the Fraternal Board, each of which deal with all the aspects relating to the Long Term Business and the Fraternal Business respectively. Each of the 11 Directors elected in 2019 serve on at least one of these Sub Boards and the list of who serves on which can be found on Page 28. A Skilled Person was also co-opted onto the Commercial Board. The Independent Non-Executive Directors are wholly independent in that they have no material business or relationships with the Society that might influence their independence or judgement.

The size and composition of the Main Board and the Sub Boards is felt to be appropriate and proportionate to the scale and complexity of the Society's business.

The Society adopted a Diversity Policy in 2018 which demonstrates that the Society is committed to:

- promoting equality in the workplace, which the Society believes is good management practice and makes sound business sense;
- creating a working environment that promotes dignity and respect for all and one that is free of bullying, harassment and unlawful discrimination; and
- regularly reviewing all our employment practices and procedures to ensure that we meet the expectations of our Regulatory bodies in respect of diversity at all levels in the business.

The Society informs all staff of their obligation to comply with the Diversity Policy and their responsibility to promote fairness in the workplace.

The Directors have equal voting rights when making decisions, except the Chairman, who has a casting vote. All Directors have access to the advice and services of the Secretary of the Order and the Company Secretary and may, if they wish, take professional advice at the Society's expense.

Balance and Diversity

The duties of the Directors are executed partially through the two Sub Boards and Committees. In addition, in 2019, the Audit, Risk & Compliance Committee (ARCC) and the Commercial Board also have co-opted Skilled Persons as part of their composition where each of those individuals brings specific skills and knowledge to the relevant Committee. The composition and remit of each of the Sub Boards and Committee are noted on Pages 30 to 41. All Non-Executive Directors are expected to challenge the Executive and influence the decision making process.

Effectiveness

There is an induction programme for all new Directors which is tailored to their specific experience and knowledge and which provides access to all parts of the business. In addition the Society undertakes regular individual and collective skills and knowledge gap analysis to ensure that we have the requisite individual and collective competencies taking into account the Society's strategy and objectives. All Directors are required to update their skills and knowledge through meetings with the Executive, Senior Managements and relevant external courses, all of which is fully documented in the Training and Development Plan. The Training and Development Plan also includes the requirement for Directors to undertake Computer Based Training (CBT) modules each year, the details of which are included in Page 30. In accordance with the Training and Development Scheme each Director and Skilled Person is evaluated annually by their peers on an individual basis, a process which highlights strengths and areas for development. Each Director also evaluates annually the Boards and Committees on which they serve. The Society has not undertaken an externally facilitated evaluation of the Directors and Skilled Persons, however, this is a matter that is kept under regular review.

Directors' Report

Principle 3 – Director Responsibilities Accountability

Accountability

Good governance supports open and fair business, ensures that the Society has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by the individuals, Sub Boards and Committees with the most appropriate and relevant knowledge and industry experience. Each Director has a clear understanding of their accountability and responsibilities. The Main Board has a programme of three principal meetings every year, with the Commercial and Fraternal Boards meeting usually having eight or nine and six meetings every year respectively. The Directors' attendance at meetings of the Board, Sub Boards and Committees is shown on Page 28. The key strategic areas of focus in 2019 are included in the Strategic Report on Pages 7 to 15.

Directors disclose any conflicts of interest as and when appropriate which are then recorded in the minutes of the respective meeting and managed appropriately.

Committees

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 the Sub Boards, the Governance Committee and is ex-officio on all other Committees. The Grand Master is a member of the Main Board and the Fraternal Board and is ex-officio on all other Committees. Each Committee and Sub Board has its own Terms of Reference and the responsibilities of each of those Committees and the two Sub Boards are set out on Pages 30 to 41.

The Board delegates authority for day-to-day management of the Society to the Executive (Chief Executive Officer and the Insurance Director).

Integrity of information

The Board, Sub Boards and Committees receive regular and timely information on all key aspects of the business under their remit including strategy, key operational matters, financial performance, risk management, and health and safety, all supported by Key Performance Indicators (KPIs) wherever possible.

Financial information is externally audited by Deloitte LLP on an annual basis. The Internal Audit function of reviewing the Financial and systems controls is undertaken by the external company MHA Moore and Smalley, who report on a quarterly basis to the Audit Risk and Compliance Committee.

Principle 4 – Opportunities and Risk

The Board seeks out opportunities whilst mitigating risk.

Opportunities

The Society's long term strategic objectives and activities are included on Page 7. The Board seeks out opportunities whilst managing the risks associated with those opportunities and in particular has seen successes from continued Branch Development, the update to the membership packages, together with the launch of new LTB products and the development of the Unity Mutual brand. Where opportunities are considered, the Sub Boards initially review the business cases which, once approved, are then submitted to the Main Board for final approval and sign off.

Risk

The Audit, Risk & Compliance Committee's role 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. The Society's Risk Management Framework (RMF) operates around the proven industry standard "three lines of defence model" for overseeing its internal control frameworks. This is designed to create, protect and enhance value of the Society's viability.

Each of the Society's primary and secondary risks are monitored and reviewed on a regular basis, each risk having a Risk Owner attached to it who is either an Executive Director or Senior Manager. Each risk also has a position of Governing Responsibility which rests with the Main Board, Sub Board or a Committee with the ARCC having overall responsibility for all risks within the business.

Regular reviews of the risk register are undertaken by the Board/Sub Board or Committee with governing responsibility, with the ARCC and the relevant appropriate body also undertaking a more detailed review of each primary and secondary risk.

Directors' Report

The Society's systems and controls are designed to manage, rather than to entirely eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against a risk materialising (see ARCC report on Pages 30-34).

Responsibilities

The Society has developed a Business Operating Model (BoM) which encapsulates its operating rules, processes, best practice standards and delegated authorities. It is the fundamental platform to the internal control framework.

In managing the risks facing the Society, the Board, Sub Boards and Committees are able to protect the integrity and long-term sustainability of all its business, to meet its strategic objectives and to create value for its members.

Principle 5 – Remuneration

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

The Remuneration Committee has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the remuneration strategy for the Executive and Non-Executive Directors. The Committee did not use the services of an external consultancy during 2019, largely because the data provided by the consultant previously engaged by the Society is capable of being collated internally as it is in the public domain. In setting and benchmarking remuneration for the Executive and Non-Executive Directors, comparisons are made to the remuneration packages applicable in other Friendly Societies which are considered to be the closest competitors to the Society.

The Society is an equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit.

Principle 6 – Stakeholders

The Board believes that good corporate governance and effective communication are essential on a day-to-day basis to deliver our purpose and to protect the Society's brands, reputation and relationships with all its stakeholders including members, policyholders, employees, suppliers and the local communities in which we work.

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

Employees

The CEO ensures that the Society's values, strategy and culture align and are communicated consistently to the workforce - for example through regular meetings with the Management Team, one to one meetings with Managers and Heads of Departments and regular Staff meetings. Together with the work undertaken on culture, which includes an annual staff culture survey and quarterly climate surveys that all staff have the opportunity to complete, this ensures that all staff and management have good access in terms of information and providing feedback.

In 2019, the Society undertook a consultation with both members and potential members of the Society's occupational Defined Benefit Pension Scheme, with a view to closing the Scheme to future members. Following that consultation, there will be changes to the future service accrual rates with effect from 1 April 2020 and no new members will be admitted to the Scheme after that date. For those employees in the Society who have not joined the Scheme, they will be offered the opportunity to join a Defined Contribution Scheme. All employees have been notified of all the changes.

The community and the environment

The Board is committed to Environmental, Social and Governance (ESG) in terms of how it operates and is mindful of the effect of Climate change. Work will continue on these areas in 2020 and beyond.

Directors' Report

Owners

The Society is proud of its mutual status. Promoting the benefits of membership of the Society ensuring that all stakeholders are kept abreast of developments and being accountable to our members are fundamental to parts of our governance arrangements. At the Society's Annual Movable Conference (AMC) held in May 2019 there were 236 voting Deputies representing the Society's 124 Branches together with 103 visitors. The AMC continues to be an excellent way of ensuring the Society's members are not only informed about developments in the Society but also have the opportunity to debate and discuss and vote on matters. In addition the Society has, for a number of years now, run two weekend training events for members, at which in 2019, 93 members attended to learn more about the developments within the Society. Generally during any one year, there are a number of other opportunities where members can receive further training and information about the Society and some examples of these are given on Pages 11 and 12.

Customers

Treating Customers Fairly (TCF) has always been part of the history and ethos of the Society and the TCF and Conduct Risk Champion monitors and reports annually to the Board on this matter. The Society has appointed a Senior Independent Director (SID) who also acts as the Whistleblowing Champion, and is someone to whom staff and members alike can raise concerns.

Suppliers and business partners

The Society's website (www.oddfellows.co.uk), intranet and social media channels provide extensive and up-to-date news on ongoing developments.

Nominations for Directors

The Sub Boards nominate Executive Directors and Non-Executive Directors and the Branches nominate Member Non-Executive Directors (MNEDs).

The Governance Committee acts as the Nominations Committee in interviewing all new nominated MNEDs and is comprised of two MNEDs, the CEO, the Chairman of the Board and the Company Secretary. There were no new nominations received from Branches in respect of MNEDs for election at the 2020 AMC by the latest date for receipt of 30 November 2019.

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 AMC which is sent to each Deputy at least 20 working days before the start of each AMC.

One of the provisions of the AFM Corporate Governance Code refers to the Board making a statement about the independence of Directors. In particular, the provisions require the Board to consider the independence of any Directors who may have served on the Board for more than nine years.

Only one of the Society's Directors has served on the Board for more than nine years and that is Bill Connolly. Following the restructure of the Society's Board which was approved at the 2018 AMC, Bill was appointed as the Chairman of the Board and, subject to his annual election at the AMC, with the agreement of the Society's Regulators, he was to undertake that role for a period of two years. His term of office as Chairman will expire at the conclusion of the 2020 AMC.

Directors

David Alan Randall

Grand Master (Aged 68)



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.

Directors' Report

He was a member of East Anglian Group Conference Executive Committee for seven years becoming its President in 2015/2016. He retired from work before standing and being elected to the Board in 2016 and was elected Grand Master in 2019.

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 an 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.

David R Ogden

Deputy Grand Master (Age 70)



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 as Provincial Grand Master in 1978. He has served on the District Committee of Management for 23 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 12 years as Honorary Auditor. He has 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. He was elected Deputy Grand Master at the 2019 AMC in his home town of Southport.

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.

Bill Henchcliff

Immediate Past Grand Master (Age 70)



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 19 years. Bill was an AMC Deputy for 14 years before election to the Board and has been awarded both the 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 16 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 has been a Director for six years, becoming Deputy Grand Master in May 2017, Grand Master in May 2018 and Immediate Past Grand Master in May 2019.

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

Directors' Report

Jane Nelson, FCCA FCMA, Dip IoD

Chief Executive Officer/Secretary of the Order/Executive Director (Age 54)



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 nine 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 from January 2016. At the AFM Conference and AGM held on 14 October 2019, she was elected as Chair of the AFM Board. 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.

Jane is a keen reader and traveller and enjoys spending time with her family including her grandchildren when time allows.

Tony Luckett

MNED (Age 59)



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 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 the Board in May 2012, and was elected Grand Master of the Order at the 2017 AMC. He was elected Chairman of the Remuneration Committee in 2018 and Senior Independent Director (SID) in June 2019.

Tony is self-employed and has been for over 36 years, and runs his own small building company, employing three people. Tony's Company is a Member of the Federation of Master Builders (FMB), as was his fathers and grandfather's companies before him and is 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 in June 2015 and April 2016 for a third term of office, and is now serving his second term as Past President.

Directors' Report

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, becoming Chairman in 2019.

Barbara Needham

MNED (Age 67)



Barbara joined the Society in 1973 when she married Peter, a third generation Oddfellow. She was then a member of the Good Samaritan Lodge in Goole. Her father-in-law was Secretary at that time and Barbara took this job over in 1996, a position she held until the formation of the Vale of York District Lodge in 1998. She had previously been the Secretary of four different Lodges in the District from 1981, and saw them successfully amalgamate into the Good Samaritan Lodge. She is now the Assistant Secretary of the Vale of York District Lodge, and as well as being the administrator of grants etc., assists in the preparation of the Accounts for the Auditor, and runs a variety of clubs and activities for the District Lodge.

She took her Purple Degree in 1980 and was Prov GM of the former York and Scarborough District in 1983, 1984 and again of the District Lodge in 2015. She has served on the District Committee of Management for 38 years. Barbara has served on the Group Conference Executive for nine years, four of them as Secretary, a position she still holds. She has also been AMC Secretary twice at Scarborough.

Outside of Oddfellows, Barbara is a retired Head Teacher of an Infant School having been in teaching all her working life. She has a variety of qualifications in education (including National Professional Qualification for Headship) and was responsible for running the school including budgets, policies, allocating resources and staff effectively for the benefit of 130 pupils. She enjoys photography, the outdoors, sailing on the yacht she owns with her husband, and socialising with her family and friends.

Stephen Code, MBA

Insurance Director/Executive Director (Age 59)



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 42 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 64)



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, a position which will come to an end in June 2020. 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.

Directors' Report

Richard Gough

External Non-Executive Director (Age 68)



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 65)



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.

David Webster

External Non- Executive Director (Age 60)



David became a Director of the Society in May 2019 with the view of becoming Chairman of the Board in June 2020.

He has spent most of his career in the mutual building society sector, latterly as CEO of Hanley Economic Building Society for 14 years until 2016 when he chose a career switch to become CEO of Douglas Macmillan Hospice. His current job is to lead the strategic development of one of UK's largest charitable hospice's, caring for 3,000 patients each year, requiring annual funding £13 million, with a staff of 330 and 960 volunteers.

David is former Honorary Treasurer at Keele University, a former Chairman of the Building Societies Association and in 2011 he was awarded an Honorary Doctorate by Staffordshire University.

Directors

During the year to 31 December 2019, three Board meetings were held. As at 31 December 2019, there were 11 Directors; two Executive Directors, five Member Elected Non-Executive Directors (MNED) and four 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 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. In accordance with the Society's Rules, each of the Sub Boards appoints up to five of its number to sit on the Board. The list below identifies which Directors sit on which Board/Sub Board.

Directors' Report

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)

David Randall >*
David Ogden >*+
Bill Henchcliff *
Tony Luckett >*+
Barbara Needham *
Charles Vaughan (Retired May 2019)

Executive

Jane Nelson >*+
Steve Code >+

External Non-Executive

Bill Connolly (Chairman) >+
Richard Gough +
Colin Nugent >+
David Webster >+

>Board +Commercial Board *Fraternal Board

Board Attendance

Attendance at 2019 Board and Committee Meetings:

	Main Board		Commercial Board		Fraternal Board		Audit, Risk and Compliance Committee		Governance Committee		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
David Randall	3	2*			6	6	4	4	3	1		
David Ogden	3	3	8	7 ~	6	6			3	3	2	2
Bill Henchcliff	3	1 □			6	6						
Tony Luckett	3	3	8	8	6	6	4	4	3	2*	2	2
Jane Nelson	3	3	8	8	6	6	4	2 ~#	3	3		
Barbara Needham					6	4*	4	2*	3	2*		
Steve Code	3	3	8	8	6	2						
Bill Connolly	3	3	8	7 ~	6	1			3	3	2	2
Richard Gough			8	8								
Colin Nugent	3	3	8	7 ~			4	4				
David Webster	3	3*	8	3 #♦*								
Charles Vaughan	3	1 □			6	3 □	4	2			2	1 □

♦ Sickness # Business ~Holiday

* Newly appointed Director to the Board and/or Committee

□ Retired from Board or Committee May 2019

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

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

Directors' Report

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 2019, eight Directors were classed as independent.

As mentioned earlier, one External NED has served longer than nine years and remains as a Director because of the skills and experience the individual has to offer to the Society. The Board considers that the individual is independent in experience, character and judgement.

Former MNED Charles Vaughan was the Senior Independent Director from January to the conclusion of the 2019 AMC after which MNED Tony Luckett was appointed to the role. Both MNEDs have 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 2019, a process which highlights strengths and areas for development, which can be appropriately addressed. During 2019, 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, Governance Committee 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 2019 where the Directors met without the presence of the Chairman.

Directors' Report

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
- Conduct Risk
- Data Protection (GDPR)
- Information Security
- Senior Manager & Certification Regime (SM&CR)
- Working Safely
- Whistleblowing

Sub Boards and Committees

Sub Boards and Committees 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, both Sub Boards, the Governance Committee 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 and by virtue of his office is ex-officio on all other Committees.

Those Sub Boards and Committees in existence in 2019 were:

Audit, Risk and Compliance Committee:	Colin Nugent	(Chairman) (Ext Non-Executive Director)
	David Randall	
	Tony Lockett	
	Barbara Needham	
	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 2019 are as stated above.

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.

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.

Directors' Report

Four meetings of the ARCC were held during 2019. 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 2019, 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.

Directors' Report

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, as documented in the RMF and Internal Control section of this report on Page 31. Improvements continue to be made to internal controls as raised by the Internal or External Auditors. 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. Due to Accounting Regulations, the External Auditors must be reviewed every ten years. As a result of this, an External Audit Review and tender process was commenced in September 2019 and the result of the tender will be reported to the AMC. In addition, as previously reported, in accordance with the Auditing Standards, the Society, as a Public Interest Entity will also have to change Auditors in 2030 at the latest, and this will be progressed as time progresses.

As well as 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.

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 from David Heaton to Adam Addis. 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.

Directors' Report

Tax advice

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 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 2019.

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 2019 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.

Directors' Report

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 2019 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 only three recommendations made which were still in the process of being actioned at the end of 2019. 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 2019.

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

The members of the Commercial Board as at 31 December 2019 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.

Directors' Report

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 Long Term Business (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, Investments, 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 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 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;

Directors' Report

- consider With Profits customer communications, such as annual reports, bonus statements, product literature and reports to With Profits policyholders;
- consider and assess 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 LTB 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). In 2019, the With-Profit policies within the Nottingham fund were converted to Non-Profit and the whole Fund was transferred to the Non-Profit fund by 31 December. Investigations have been ongoing and will continue into 2020 on the options for the UIEF Fund.

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 with effect from 1 January 2019. Individuals at Zenith took 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 inward 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.

General

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

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 Board which receive and accept its minutes.

Fraternal Board: David Randall (Chairman)
Jane Nelson
David Ogden
Bill Henchcliff
Tony Lockett
Barbara Needham

The members of the Fraternal Board as at 31 December 2019 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;
 - Emergency benevolence Grants;
 - Educational and Apprenticeship Awards;
 - 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;
- 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 have been 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 57 Branch internal audits carried out in 2019, all of which were reported to the Fraternal Board meetings during 2019. 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 2019 there were no cases where re-visits were considered necessary, but some chasing up of actions and/or recommendations was required in a number of instances. There were no occasions in 2019 where a Deputation had to be appointed as a result of an Internal Audit visit. In general, the Branch administration in the majority of our Branches is deemed to be consistent and satisfactory.

All Branch audit reports and the responses of 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'.

Directors' Report

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.

Unity Office have been 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	
	Tony Lockett	
	Barbara Needham	
	Bill Connolly	(External Non-Executive Director)
	Gary Morley	(Company Secretary)

The members of the Governance Committee as at 31 December 2019 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 2019:

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

The governance changes brought about by the AMC's decision in 2018 were brought into effect and the Governance Committee is pleased to confirm that the new structure has been successfully embedded with the new Board, Sub Boards and Committees continuing to be effective and dealing with the matters reserved for them. It is considered that we have maintained the Society's traditional culture and values that are so highly regarded by everyone associated with Oddfellows within the revised governance arrangements.

The Governance Committee undertook reviews and reported back on the following matters during 2019:

- 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 the Senior Managers & Certification Regime;
- Review and update of the Director's Handbook;
- Changes to the Association of Financial Mutuals (AFM) Corporate Governance Code (CGC), from a "comply and explain" to a "apply and explain" across six key Principles;
- Completion of year end AFM CGC 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 Regulated Persons;
- Review and update of the 'Becoming a Director of the Oddfellows' Booklet; and
- The Terms of Reference for the Sub Boards and Committees, including confidentiality.

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 as a Member Nominated Non-Executive Director (MNED), potential candidates were invited to receive training prior to Branches submitting their nominations. The training covered the aspects for both the fraternal and regulatory expectations in respect of the role of a Director of an Incorporated Friendly Society.

Directors' Report

Whilst no new MNED nominations were received for the 2020 AMC, it is pleasing to report that three people attended the training in October 2019.

Remuneration Committee: Tony Lockett (Chairman)
Bill Connolly
David Ogden

The members of the Remuneration Committee as at 31 December 2019 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 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 2019, 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:

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

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 the CEO is excluded from discussions relating to her own remuneration. The Committee then makes recommendations to the Non-Executive Directors 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 2019.

	Salary	Cash Allowance in lieu of pension	Taxable Benefits	Total	
				2019	2018
Chief Executive Officer/ Secretary of the Order	£159,163	£44,872	£9,515	£213,550	£207,236
Insurance Director	£140,330	£39,525	£9,599	£189,454	£186,295
Total	£299,493	£84,397	£19,114	£403,004	£393,531

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.

Directors' Report

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 31.12.19 (per annum)	Transfer value of accrued pension at 31.12.18	Transfer value of accrued pension at 31.12.19	Pension input amount over 2018 less Director's contributions	Pension input amount over 2019 less Director's contributions
Chief Executive Officer/Secretary of the Order	£68,313	£1,687,246	£1,885,060	Nil	Nil
Insurance Director	£7,568	£149,311	£162,982	Nil	Nil

Notes

- Mrs C J Nelson and Mr S Code both ceased accruing benefits in the Pension 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 Guaranteed Minimum Pension (GMPs). However, the transfer values at 31 December 2019 do include such allowance, following the judgement in the Lloyds case.
- 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

As reported to the 2019 AMC, the fee based structure for the Society's External and Member Elected Non-Executive Directors for June 2019 to May 2020 is as detailed below:

- A base fee of £3,620 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 £4,160 pa is to be paid to the Chairman of the Main Board.
- An additional fee of £1,040 pa is to be paid to the Chairmen of the Commercial and Fraternal Boards.
- An additional fee of £1,040 pa is to be paid to the Chairmen of the Audit, Risk & Compliance and the Governance Committees.
- An additional fee of £520 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.

Directors' Report

The details in the following table show the remuneration arrangements that have been in place for the Non- Executive Directors and reflect the remuneration for the year ended 31 December 2019:

Name	Total Remuneration	
	2019	1 June to 31 December 2018
Bill Connolly (Chairman)	7,663	4,375
David Randall	4,177	2,042
David Ogden	4,593	2,542
Bill Henchcliff	3,987	2,625
Tony Luckett	4,385	2,333
Barbara Needham	2,112	-
Richard Gough	5,105	2,917
Colin Nugent	4,593	2,625
David Webster	2,112	-
Charles Vaughan	1,667	2,333

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, regulatory Conduct Rules 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

H A Andrews and the Lupus Trust

Following the AMC in May, the Society is committed for the next three years to supporting the Lupus Trust to a total of £85,000. The research project explores why the immune system in lupus patients becomes overactive, and how the processes may be reversed.

In October, David Randall (GM), Jane Nelson (CEO) and members of the Ware Lodge who had nominated the research project, visited the Lupus Trust based at Guy's Hospital, London and presented a cheque for the first instalment of £28,000.

Members were taken on a tour of the Trust's Louise Coote Lupus Unit to learn more about the charity, its research and meet the team they would be supporting. The project will be led by Professors Jo Spencer and David D'Cruz and will specifically look into the mechanisms underlying the loss of B-cell tolerance in lupus. A new researcher, PhD student Bekki Velounias, also joins the team to further its progress.

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 2019, 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 Main Board and signed on its behalf by:



C J Nelson
Chief Executive Officer
15 May 2020

Independent Auditor's Report

Report on the audit of the Financial Statements

1. Opinion

In our opinion the Financial Statements of The Independent Order of Oddfellows Manchester Unity Friendly Society Limited (the 'Society'):

- give a true and fair view of the state of the Society's affairs as at 31 December 2019 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 requirements of the Friendly Societies Act 1992.

We have audited the Financial Statements which comprise:

- the Income and Expenditure accounts;
- the Statement of Comprehensive Income;
- the Balance Sheet; and
- the related notes 1 to 13 and 14b to 27, excluding the capital disclosure 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).

2. 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.

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">• Expense assumptions used in the Technical Provision calculation;• Completeness and accuracy of policyholder data used in the Technical Provision calculation;• Investment property valuation in relation to the Druids portfolio; and• Covid-19 subsequent event. <p>We have identified a new key audit matter in the year for Covid-19 and this has been explained below in the <i>Significant changes in our approach</i> section. All other key audit matters identified within this report are the same as those included in the prior year.</p>
Materiality	<p>The materiality that we used in the current year was £680k (2018: £650k) which was determined on the basis of 0.15% of the total assets at 31 December 2019 (2018: 0.15% of total assets at 30 September 2018).</p>
Scoping	<p>Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.</p>
Significant changes in our approach	<p>We have updated our risk assessment for the impact of Covid-19 and focus our audit effort over the appropriateness of the post balance sheet event disclosures.</p>

Independent Auditor's Report

4. Conclusions relating to going concern, principal risks and viability statement

<p>4.1 Going concern</p> <p>We have reviewed 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.</p>	<p>Going concern is the basis of preparation of the Financial Statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the Financial Statements.</p> <p>We confirm that we have nothing material to report, add or draw attention to in respect of these matters.</p>
<p>4.2 Principal risks and viability statement</p> <p>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:</p> <ul style="list-style-type: none">• the disclosures on Page 8 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;• the Directors' confirmation on Page 18 that they have carried out a robust assessment of the principal and emerging risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity; or• the Directors' explanation on Page 18 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.	<p>Viability means the ability of the Society to continue over the time horizon considered appropriate by the Directors.</p> <p>We confirm that we have nothing material to report, add or draw attention to in respect of these matters.</p>

5. 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.

Independent Auditor's Report

5.1 Expense Assumptions Used In The Technical Provision Calculation

Key audit matter description	<p>The Technical Provision balance is the largest liability on the Balance Sheet, held at £258.4m in 2019 (2018: £227.6m restated. Refer to Note 9 for details of the restatement). Significant judgment is required in the setting of assumptions that underpin the Technical Provision valuation and we note that the Society appoint an actuarial consultant to assist in the determination of the 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. This risk is also considered to be a fraud risk.</p> <p>The accounting policy disclosure for the Technical Provision 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 33.</p>
How the scope of our audit responded to the key audit matter	<ul style="list-style-type: none">• We have gained an understanding of the relevant internal controls put in place by management to manage the risks associated with setting the expense assumptions.• We have assessed the competency of the external actuarial consultant.• We have obtained the per policy expense assumptions, as split by fund and product group.• We have used actuarial specialists within our audit team to help challenge the appropriateness of the expense assumptions input into the Technical Provision model provided by the external actuarial consultant and as part of this work we have reviewed the adjustments to total expenses and the calculation of the per policy expenses.• We have also performed a retrospective comparison of the 2019 actual expenses to the 2019 budget and a comparison of the on-going expenses included in the actuarial model and the 2020 budget to check the completeness and accuracy of the expenses assumptions.• We have agreed the actual expense base used in the assumption setting process through to the audited current year information to validate consistency.
Key observations	<p>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 Provision calculation were appropriate.</p>

Independent Auditor's Report

5.2 Completeness and accuracy of policyholder data used in the technical provision calculation

Key audit matter description	<p>The Society extracts data from a number of different platforms before passing this to the external actuarial consultant 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 Provision. 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. This risk is also considered to be a fraud risk.</p> <p>The accounting policy disclosure for the Technical Provision 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 33.</p>
How the scope of our audit responded to the key audit matter	<ul style="list-style-type: none"> • We have gained an understanding of the relevant controls in place around the preparation, maintenance and integrity of the actuarial data extracts. • We have gained an understanding of the relevant controls in place around the data input into the policyholder insurance systems. • We have engaged our IT specialists to assist in gaining an understanding of the relevant controls over data security including access privileges and change management on the policyholder insurance systems. • We have reconciled the number of policyholders included in the 2019 data extract to the 2018 audited data and tested a sample of the policyholder movements to supporting documentation to check the data is complete and accurate. • We have reconciled the total policy count in the data extract provided to the external actuarial consultant to the totals included in the external actuarial consultant's portal which has been used in the Technical Provision calculation. • We have tested a sample of policyholders from the data extract provided to the external actuarial consultant back to the details held on the policyholder systems and back to source documentation to test the completeness and accuracy of the data used in the actuarial models.
Key observations	<p>We conclude the completeness and accuracy of the policyholder data used in the Technical Provision is appropriate.</p>

5.3 Investment property valuation in relation to the druids portfolio

Key audit matter description	<p>The total value of the Druids investment property portfolio in 2019 is £12.8m (2018: £12.8m). Although the responsibility for the valuation of the property portfolio remains with the Society, the process is outsourced to a third party valuation specialist who are registered with RICS (The Royal Institution of Chartered Surveyors). The valuation report provided to management is 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 and historically the valuation report received by the Society 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 in line with market practice whether through error or deliberate management bias. This risk is also considered to be a fraud risk.</p> <p>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 33.</p>
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Independent Auditor's Report

How the scope of our audit responded to the key audit matter	<ul style="list-style-type: none"> • We have gained an understanding of the relevant 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 specialist. • We have reconciled the fair value of the investment properties through to the external valuation report provided at the year-end date. • We engaged property valuation specialists within Deloitte to assess the work of the external valuation specialist and challenge the assumptions and methodologies used in the valuation process using published information sources to assess whether they are within a reasonable range. As part of this work we have also assessed the valuation report for compliance with the RICS Red Book. • We have performed substantive testing on the portfolio to test the completeness and accuracy of the information used by the property valuation specialist.
Key observations	<p>We conclude the valuation, including its assumptions and methodology, was appropriate.</p>

5.4 Covid-19 subsequent event

Key audit matter description	<p>As disclosed in Note 27, subsequent to the Balance Sheet date a global pandemic of a new strain of Coronavirus ("Covid-19", "the virus") has emerged. The virus, and responses taken by organisations and governments to manage its spread in markets to which the company is exposed, have led to increased volatility and economic disruption. Management judge the matter to be a non-adjusting event in accordance with accounting standards, since it is indicative of conditions that arose after the reporting period. It is therefore not reflected in the measurement of assets and liabilities at the Balance Sheet date. In response to Covid-19, management has made updates to its Financial Statements to disclose Covid-19 as a subsequent event, and has assessed the impact on going concern. To support this management performed actions to assess the financial and operational impacts of Covid-19 up to the date of approval of the financial statements. Key actions comprise:</p> <ul style="list-style-type: none"> • Operational resilience assessment and assessment of the Society's ability to continue to serve members and comply with conduct regulations; and • Monitoring of the Society's solvency and liquidity position to ensure that appropriate action can be taken if required. <p>The assessment of the impact of Covid-19 on the Society requires management judgement and consideration of a range of factors. Having considered the results of the activities described above, Management believe the Society continue to be a going concern due to having a stable solvency position and appropriate plans to manage liquidity and market risks. The Society has made disclosures to reflect the results of its assessment in the Strategic Report, and Note 27 Non adjusting Events after the Balance Sheet date.</p>
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Independent Auditor's Report

How the scope of our audit responded to the key audit matter	<p>We evaluated Management's approach to assessing the impact of Covid-19 on the Society and its Financial Statement disclosures by performing the following procedures:</p> <ul style="list-style-type: none"> • Evaluated Management's stress and scenario testing and challenged Management's key assumptions, assessing the consistency with other available information and our understanding of the business; • Evaluated Management's assessment of the risks facing the Society including liquidity risk and operational matters; • Made inquiries of senior management in relation to their assessment of the impacts of Covid-19 on the Society, including further steps the Society will take in case economic and other factors deteriorate further; • Inspected correspondence between the Society and its regulators related to the Society's response to the emergence of Covid-19; and • Assessed the disclosures made by Management in the Financial Statements against applicable accounting standards, assessed Management's judgement that Covid-19 is a non-adjusting event and evaluated the consistency of the disclosures with our knowledge of the Society.
Key observations	<p>Based on the procedures described above, we agree with Management's judgements and consider the disclosure of the potential impact of Covid-19 in the Financial Statements to be appropriate.</p>

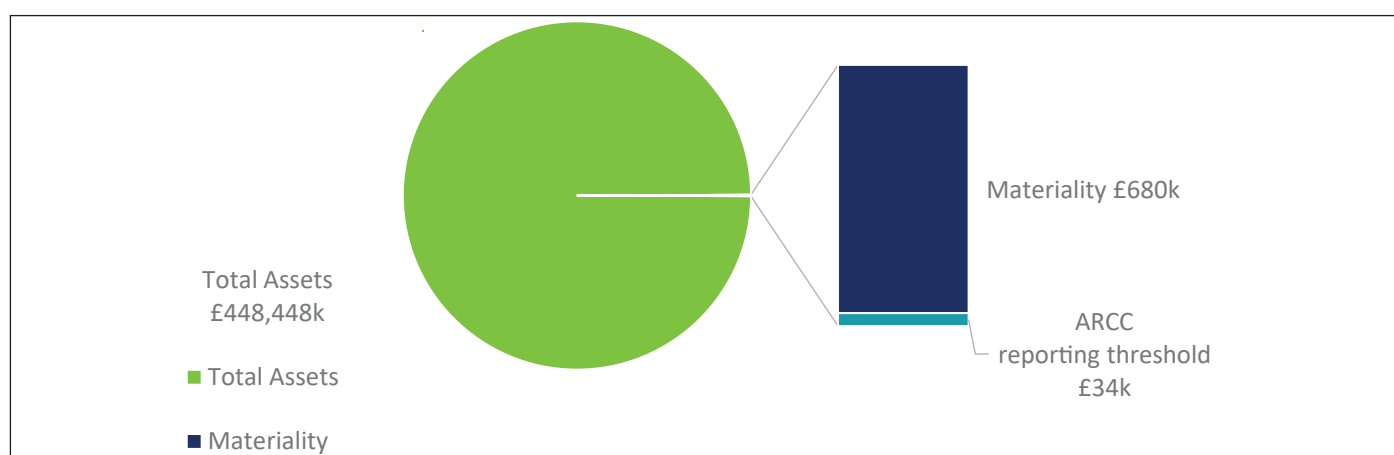
6. Our application of materiality

6.1 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:

Materiality	£680k (2018: £650k)
Basis for determining materiality	0.15% of total assets at 31 December 2019 (2018: 0.15% of total assets at 30 September 2018)
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.



Independent Auditor's Report

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality we considered the quality of the control environment and our ability to rely on controls and the level of current and prior period misstatements.

6.3 Error reporting threshold

We agreed with the ARCC that we would report to the ARCC all audit differences in excess of £34k (2018: £32k), 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.

7. An overview of the scope of our audit

7.1 Scoping

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.

8. 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 audit committee does not appropriately address matters communicated by us to the ARCC.

We have nothing to report in respect of these matters.

9. 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.

Independent Auditor's Report

10. 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 and non-compliance with laws and regulations 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.

11. 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.

11.1 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Society's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the ARCC about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Society's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, actuarial, IT, valuations and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: 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 investment property portfolio. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Society operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the Friendly Societies Act 1992, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Society's ability to operate or to avoid a material penalty. These included consideration of Prudential Regulation Authority ("PRA") regulations, and Financial Conduct Authority ("FCA") regulations as well as the Society's regulatory solvency requirements.

Independent Auditor's Report

11.2 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 related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- 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.

Report on other legal and regulatory requirements

12. 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.

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.

13. Matters on which we are required to report by exception

13.1 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
- the Society's Financial Statements are not in agreement with the accounting records and returns;
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

Independent Auditor's Report

14. Other matters

14.1 Auditor tenure

Following the recommendation of the ARCC, we were appointed by the Annual Moveable Conference (AMC) 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 10 years, covering the years ending 31 December 2010 to 31 December 2019.

14.2 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).

15. 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
15 May 2020

Balance Sheet

		As at	
		31/12/2019	31/12/2018
ASSETS	Note	£'000	Restated £'000
Investments			
Land and buildings	5	76,076	80,219
Other financial investments			
Shares and other variable yield securities	6	63,858	56,243
Debt and other fixed income securities	7	102,423	91,692
Loans secured by mortgage	8	292	337
Assets held to cover linked liabilities	9	179,801	152,457
Debtors due within one year			
Other debtors	10	600	630
Other assets			
Tangible assets	11	4,963	4,784
Other cash at banks, building societies and in hand		18,398	18,617
Prepayments and accrued income			
Accrued income		1,494	1,579
Prepayments		543	699
		<u>448,448</u>	<u>407,257</u>

Balance Sheet

LIABILITIES	Note	As at	
		31/12/2019 £'000	31/12/2018 Restated £'000
Reserves			
Reserves provided for, by the rules and other specific purposes	12	2,468	2,360
Fund for future appropriations	13	20,994	21,595
Technical provisions			
Long term business provision	14	85,400	83,140
Claims outstanding		799	803
Provision for unearned premiums		-	2
Technical provisions for linked liabilities	14		
Insurance contracts		2,032	1,780
Investment contracts		171,012	142,705
Liabilities to investing branches		140,546	129,366
Creditors and accruals due within one year	15	3,161	4,319
Creditors, amounts falling due after more than one year	15	19,000	19,000
Deferred income		965	871
Pension scheme liability	16	2,071	1,316
		<u>448,448</u>	<u>407,257</u>

These Financial Statements of the Independent Order Fellows Manchester Unity Friendly Society Ltd. Registered number 223 F were approved by the Main Board on 15 May 2020 and were signed on its behalf by:



C J Nelson
Chief Executive Officer/Secretary of the Order

Income and Expenditure Accounts

		Years ended	
		31/12/2019	31/12/2018
		£'000	Restated £'000
TECHNICAL ACCOUNT: Long Term Business	Note		
Earned premiums, net of reinsurance		1,100	1,220
Investment Income	17	14,275	8,866
Unrealised gains/(losses) on linked investments		18,498	(20,490)
Unrealised gains/(losses) on non-linked investments		2,990	(3,574)
Total technical income		35,763	(15,198)
Claims paid		(3,972)	(5,422)
Gross change in Long-Term Business Provision			
Decrease in non-linked investment contract liabilities		(15,167)	(466)
Increase in insurance contract liabilities		14,850	661
Net Change in Long-Term Business Provision		(317)	195
Gross Changes in technical provision for linked liabilities			
(Increase)/Decrease in linked investment contract liabilities		(27,437)	17,775
(Increase)/Decrease in insurance contract liabilities		(247)	692
Net change in technical provisions for linked liabilities		(27,684)	18,468
Operating expenses		(2,358)	(2,389)
Investment expenses and charges		(257)	(256)
Tax	18	(370)	168
Other technical (expenses)/income		(897)	1
Transfer (to)/from Funds for Future Appropriations	13	(1,008)	3,213
Balance on the Long Term Business Technical Account		-	-

Income and Expenditure Accounts

NON TECHNICAL ACCOUNT	Note	Years ended	
		31/12/2019 £'000	31/12/2018 £'000
Investment income	17	6,235	5,630
(Losses)/gains on realisation of investments		(898)	9,674
Movement in unrealised gains/(losses) on investments		9,296	(14,198)
Annual lodge levy		2,153	2,187
Investment expenses and charges		(341)	(365)
Other income		118	110
Investment return to investing branches	19	(13,818)	2,523
Net operating expenses		(3,113)	(3,346)
Non-contractual benefits		(377)	(363)
Pension scheme benefits	16	(151)	(491)
Transfer to the reserves provided for by the rules and other specific purposes	12	(108)	(7)
Excess of income over expenditure	13	<u>(1,004)</u>	<u>1,354</u>

All the amounts above are in respect of continuing operations.

Statement of other Comprehensive Income

	Note	Years ended	
		31/12/2019 £'000	31/12/2018 £'000
(Deficit)/Surplus on Non Technical Account		(1,004)	1,354
Reserves provided for by the rules and other specific	12	108	7
Pension Scheme actuarial gains	16	(604)	1,154
Total comprehensive income for the year		<u>(1,500)</u>	<u>2,515</u>

Notes to the Financial Statements

1a ACCOUNTING POLICIES

Basis of accounting

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

General information and basis of accounting

The Independent Order of Odd Fellows Manchester Unity Friendly Society Limited is a registered Friendly Society under the Friendly 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 7 to 15.

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 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.

The prior year Financial Statements were restated for material adjustments relating to the pricing of unit linked investments held with Fidelity. For more information refer to Note 9.

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:
 - o the performance of a specified pool of contracts or a specified type of contract;
 - o realised and/or unrealised investment returns on a specified pool of assets held by the Society; or
 - o the profit or loss of the Society, fund or other entity that issues the contract.

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

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

Insurance premiums

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

Notes to the Financial Statements

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 2019 are included in the Financial Statements whether or not they have been settled. All claims notified but not settled as at 31 December 2019 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. An adjustment to unrealised gains and losses is included for any occurring income as at 31 December which is also included in the 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 fair value. 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.

Notes to the Financial Statements

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 been included for 2019.

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 2019 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 2019, and copies of these reports may also be inspected at the Registered Office.

Notes to the Financial Statements

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 2019, 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.

Non-linked insurance contracts that have been designated as investment contracts are measured at fair value. The Society has elected to take the fair value option to measure non-linked insurance contracts that have been designated as investment contracts at fair value as the contracts managed, and whose performance is evaluated, are on a fair value basis.

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. The Directors have also considered any financial implications and impact on the Society and its Report and Financial Statements as a result of the COVID-19 pandemic.

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 £2,153k (2018: £2,187k). Amounts due from Branches at 31 December 2019 in respect of goods and services was £32k (2018: £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 53.

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.

Notes to the Financial Statements

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately 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 2019. 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

	2019 £'000	2018 £'000
Gross contracted service salaries	1,976	1,850
Social security costs	208	197
Pension costs	350	302
	<u>2,534</u>	<u>2,349</u>

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

	2019	2018
Directors	11	10
Clerical	49	47
Printing, production and dispatch	4	4
	<u>64</u>	<u>61</u>

4 AGGREGATE AMOUNT OF DIRECTORS' EMOLUMENTS

	2019 £'000	2018 £'000
Gross salaries	340	310
Cash in lieu of pension contributions	84	88
Benefits and allowances	19	17
	<u>443</u>	<u>415</u>

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

	2019 £'000	2018 £'000
Highest paid Director	<u>214</u>	<u>207</u>
Directors emoluments:		
Up to £10,000	10	8
£170,000 to £180,000	-	-
£180,000 to £190,000	1	1
£190,000 to £200,000	-	-
£200,000 to £210,000	-	1
£210,000 to £220,000	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. The figures included in 2019 cover a twelve month period.

Notes to the Financial Statements

5 LAND AND BUILDINGS

	Occupied properties	Investment properties	2019 £'000	2018 £'000
	£'000	£'000		
Valuation as at 1 January	85	80,134	80,219	74,937
Additions at cost	-	107	107	13,138
Disposals	-	(1,914)	(1,914)	(8,728)
Realised (loss) / gain	-	(463)	(463)	6,977
Movement in unrealised (losses)	30	(1,903)	(1,873)	(6,105)
Valuation as at 31 December	<u>115</u>	<u>75,961</u>	<u>76,076</u>	<u>80,219</u>

Freehold and leasehold investment properties were valued at 31 December 2019 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 2019 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 2019 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	
	2019 £'000	2018 £'000
Valuation as at 1 January	56,243	60,075
Additions at cost	13,466	11,819
Disposals	(15,645)	(10,703)
Realised gains	638	2,024
Movement in unrealised gains/(losses)	9,156	(6,972)
Valuation as at 31 December	<u>63,858</u>	<u>56,243</u>

Listed equities, (quoted on the London Stock Exchange) were valued at 31 December 2019 by Close Brothers Asset Management of 55 Grosvenor Street, Mayfair, London W1K 3HY, Investec Wealth & Investment Limited of 30 Gresham Street, London EC2V 7QN, Fidelity International of 25 Cannon Street, London EC4M 5TA and LGT Wealth LLP of 14 Cornhill, London EC3V 3NR.

Notes to the Financial Statements

7 DEBT AND OTHER FIXED INCOME SECURITIES

	United Kingdom Government Bonds £'000	Non-Government Bonds £'000	2019 £'000	2018 £'000
Valuation as at 1 January	45,025	46,667	91,692	94,912
Additions at cost	10,371	12,117	22,488	24,706
Disposals	(8,654)	(7,756)	(16,410)	(24,455)
Realised gains / (losses)	(21)	(18)	(39)	(32)
Movement in unrealised (losses)	1,963	2,729	4,692	(3,439)
Valuation as at 31 December	<u>48,684</u>	<u>53,739</u>	<u>102,423</u>	<u>91,692</u>

Listed bonds were valued as at 31 December 2019 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

	2019 £'000	2018 £'000
Outstanding as at 1 January	337	453
Repayments	(48)	(120)
Interest earned	3	4
Outstanding as at 31 December	<u>292</u>	<u>337</u>

9 ASSETS HELD TO COVER LINKED LIABILITIES

	Cash at Bank & Building Society £'000	Unit Trusts £'000	Equities £'000	Total £'000
Non Profit Fund	500	6,233	-	6,733
Nottingham Fund	-	44,490	-	44,490
Schoolteacher's Fund	-	95,594	-	95,594
Druids Fund	-	27,164	-	27,164
Equity Fund	-	2,066	-	2,066
Corporate Bond Fund	-	369	-	369
Money Fund	250	-	-	250
UK Index Fund	-	3,135	-	3,135
Valuation as at 31 December 2019	<u>750</u>	<u>179,051</u>	<u>-</u>	<u>179,801</u>
Valuation as at 31 December 2018	<u>1,105</u>	<u>145,836</u>	<u>5,516</u>	<u>152,457</u>

Linked business investments were valued as at 31 December 2019 in accordance with the provisions of the Prudential Sourcebook.

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

Assets invested exceed the technical provision for linked liabilities by £6,757k (2018: £7,979k).

Notes to the Financial Statements

Prior Year Restatement

Overstatement of accrued income and the Long Term Business provision

During the 2019 audit it came to light that, due to the pricing of the unit linked investments held with Fidelity, the unit price as at 31 December included accrued income. This, therefore meant that in previous years the income accrued in these investments was double counted, albeit that transaction reversed at the start of the following year. This then meant that the surplus assets and therefore the long term business provision was overstated. The treatment as at 31 December 2019 has been corrected.

Overstatement of the technical provisions for linked liabilities

During the 2019 audit it was noted that there was a mechanical modelling error in the technical provisions calculation around the data processing within the UIEF fund which led to an overstatement of the technical provisions for linked liabilities disclosed in the 2018 Reports and Financial Statements. This has been corrected in the model used to derive the technical provisions for linked liabilities disclosed in the 2019 Reports and Financial Statements.

Misclassification between the split of the change in LTB provision between insurance and investment contract liabilities

During the 2019 audit it was noted that there was a classification error between the net change in the LTBP split between insurance and investment contract liabilities disclosed in the Technical Account due to a transposition error when calculating the change in provision to be disclosed using the Balance Sheet LTBP figures. This has been corrected in the 2019 Reports and Financial Statements.

The aggregated changes to the relevant line items in the comparative figures disclosed in the 2019 Reports and Financial Statements are noted below:

Income and Expenditure Accounts	2018 disclosure £'000	Accrued income Restatement £'000	Modelling error Restatement £'000	Classification Restatement £'000	Restated 2018 disclosure £'000
Long Term Business Provision					
Decrease in non-linked investment contract liabilities	356	133	-	(955)	(466)
(Increase) in insurance contract liabilities	(643)	349	-	955	661
Technical Provisions for linked liabilities					
Decrease in linked investment contract liabilities	17,342	3	430	-	17,775
Decrease in insurance contract liabilities	686	-	6	-	692
Unrealised gains/losses on linked investments	(19,818)	(672)	-	-	(20,490)
Transfer (to)/from FFA	3,462	187	(436)	-	3,213

Impact on the 2018 opening FFA	2018 disclosure £'000	Accrued income Restatement £'000	Modelling error Restatement £'000	Restated 2018 disclosure £'000
FFA Balance at 1 January	22,655	(355)	-	22,300

The decrease of £355k on the 2018 opening FFA is made up of a £1,304k decrease in unrealised gains on linked investments and a decrease of £949k in technical provisions prior to 2018.

Notes to the Financial Statements

Balance Sheet	2018 disclosure £'000	Accrued income Restatement £'000	Modelling error Restatement £'000	Restated 2018 disclosure £'000
Technical Provisions for linked liabilities				
Insurance contracts	1,786	-	(6)	1,780
Investment contracts	143,142	(7)	(430)	142,705
Technical Provisions				
LTBP	84,567	(1,427)	-	83,140
Accrued income	3,555	(1,976)	-	1,579
FFA	21,701	(542)	436	21,595

10 DEBTORS

	2019 £'000	2018 £'000
Trade debtors	600	462
Tax to be recovered	-	168
	<u>600</u>	<u>630</u>

11 TANGIBLE ASSETS

	Office & Computer Equipment £'000	Owner Occupied Premises £'000	Motor Vehicles £'000	Total £'000
Cost:				
1 January 2019	2,197	4,211	62	6,470
Additions	137	310	-	447
Disposals	(41)	-	(-)	(41)
31 December 2019	<u>2,293</u>	<u>4,521</u>	<u>62</u>	<u>6,876</u>
Depreciation:				
1 January 2019	1,631	41	14	1,686
Charge	255	-	13	268
Disposals	(41)	-	-	(41)
31 December 2019	<u>1,845</u>	<u>41</u>	<u>27</u>	<u>1,913</u>
Net Book Value:				
31 December 2019	448	4,480	35	4,963
31 December 2018	<u>566</u>	<u>4,170</u>	<u>48</u>	<u>4,784</u>

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 2019. All Valuers used to value the Society's property which is occupied by the Society are independent of the Society.

Notes to the Financial Statements

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:	2019 £'000	2018 £'000
Balance at 1 January	2,360	2,353
Transfer from Non Technical Account	108	7
Balance at 31 December	2,468	2,360

13 FUND FOR FUTURE APPROPRIATIONS

The fund for future appropriations comprises all funds, the allocation of which had not been determined by 31 December 2019

Movement in year:	2019 £'000	2018 Restated £'000
Balance at 1 January	21,594	22,300
Transfer from/(to) Long Term Business Technical Account	1,008	(3,213)
(Deficit)/Surplus on Non Technical Account	(1,004)	1,354
Net Pension Scheme actuarial (loss)/gains	(604)	1,154
Balance at 31 December	20,994	21,595

The balance at the accounting date arises as follows:

	2019 £'000	2018 £'000
Technical Account: Long Term Business	5,428	4,420
Non Technical Account	15,566	17,175
Balance as at 31 December	20,994	21,595

14 LONG TERM BUSINESS

(a) Capital Statement (unaudited)

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 four funds, the MU Long Term Business Fund ("MU 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 Restated £'000
31 December 2019	5,428	15,566	20,994
31 December 2018	4,420	17,175	21,595

Notes to the Financial Statements

Movement in capital resources	Total Life insurance £'000
Total available capital resources at 1 January 2019	4,420
<i>Change in assets</i>	
Premiums less claims and expenses	(3,943)
Investment income	11,659
Realised and unrealised losses on investments	24,111
Total change in assets	31,827
<i>Change in liabilities</i>	
Change in provision for linked liabilities	(28,560)
Change in long term business provision	(2,259)
Total change in liabilities	(30,819)
Total available capital resources at 31 December 2019	5,428

Analysis of liabilities at 31 December 2019	Total Life insurance £'000
With-profit liabilities	44,392
Non-profit insurance business	30,151
Non-profit investment contracts	10,857
Unit-linked	173,044
Total provisions included in the Balance Sheet	258,444

Analysis of liabilities at 31 December 2018	Total Life insurance Restated £'000
With-profit liabilities	48,266
Non-profit insurance business	23,840
Non-profit investment contracts	11,034
Unit-linked	144,485
Total provisions included in the Balance Sheet	227,625

Non-profit investment contracts are measured at fair value through profit and loss using established actuarial techniques utilising market observable data.

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.

Notes to the Financial Statements

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 its Solvency Capital Requirement (SCR) using Standard Formula. All disclosures in respect of Solvency II are unaudited.

As at 31 December 2019 the Society's estimated SCR and corresponding eligible own funds were as follows:

	Unaudited 2019
Eligible Own Funds	£304.82m
SCR	£76.07m
Coverage (unrounded)	401%

Note, the SCR is an estimate and is unaudited. The Solvency II return will be submitted by the revised Regulatory deadline (due to COVID-19) of 1 June 2020.

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.

Notes to the Financial Statements

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).

Notes to the Financial Statements

(b) Provision

The principal assumptions used in the calculation of the long term business provision in 2019 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	60% AM/FC00
Non Profit Fund	
All policies	60% AM/FC00
Nottingham Fund:	
Annuities	70% IML/IFL922 - 3 years
Non Profit policies	10% AM/FC00
All other policies	60% AM/FC00
Schoolteachers:	
All policies	60% AM/FC00
Druids:	
Lancashire & Cheshire	70% IML/IFL922 - 3 years
All other policies	60% 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)

	2019	2018
	£'000	Restated £'000
Balance at 1 January		
Long Term Business provision	83,140	83,292
Provisions for linked liabilities	144,485	162,013
Changes in technical provisions	30,819	(17,679)
	<u>258,444</u>	<u>227,625</u>
Balance at 31 December		
Long Term Business provision	85,400	83,140
Provisions for linked liabilities	173,044	144,485
	<u>258,444</u>	<u>227,625</u>

Within the changes in technical provisions is a £177k decrease (2018: £117k increase) in the non-profit investment contract provision.

(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 2019 were £267m (2018: £234m).

Notes to the Financial Statements

15 CREDITORS AND ACCRUALS

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade creditors	58	197
Other creditors and accruals	2,821	4,022
Tax Creditor	282	100
	<u>3,161</u>	<u>4,319</u>
Amounts falling due after more than one year	<u>19,000</u>	<u>19,000</u>

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. The Scheme is a Final Salary Defined Benefit Pension Scheme regulated by The Pensions Regulator. The Scheme expects to pay out pensions over the next 70-80 years and the average duration of those cash flows is approximately 18 years.

Total employer contributions in the accounting period ended 31 December 2019 were £522k (2018: £458k). The employer contribution rate was 32.7% up to 31 March 2019, after which, based on the results of the triennial valuation as at March 2018, the rate increased to 34.8% with effect from 1 April 2019. During the remainder of 2019, the Board considered the future of the Society's Occupational Pension Scheme and after due consultation, the Scheme will be closed to new entrants with effect from 1 April 2020.

The contribution rate will reduce from 1 April 2020 to 31.5% which means in the year 2020, total employer contributions received will be in the region of £530k.

The Balance Sheet position for the Scheme has worsened slightly, with the deficit increasing from £1.3m to £2.0m over the accounting period. Although the performance of the Scheme assets was higher than expected, this has been offset by the actuarial value of Scheme liabilities increasing over the year to £25.9m (compared with £22.3m at the end of 2018). This has resulted in a lower funding position overall. The increase in the Scheme liabilities is mainly due to a significant decrease in the corporate bond yields underlying the discount rate. The liability value includes an allowance for the impact of GMP equalisation, in line with what was calculated in 2018 ie a 1% loading on the liabilities as at 31 December 2019.

It should be noted that the results and position shown have been calculated by reference to investment market conditions at 31 December 2019. 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 the valuation. 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/or
- 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.

Notes to the Financial Statements

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. There were no significant changes in benefit structure of the Scheme, or the method by which these are valued over the accounting 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

The calculations carried out by the Society's Advisor have been undertaken using the accounting information of the Scheme as at 31 December 2019 and have been based on the participant information used in the valuation as at 31 March 2018.

Census Date

31/03/2018

Active Participants

Number	54
Average Annual Pensionable Salary	£25,800

Participants with Deferred Benefits

Number	34
Average Annual Deferred Benefits at census date	£4,800

Participants Receiving Benefits

Number	74
Average Annual Benefits in Payment at census date	£7,800

Mortality

As last year, 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.

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	22.9	25.1
65 in 15 years	24.1	26.4

Income & Expenditure

	2019 £'000	2018 £'000
Effect of employee service in the current period	488	515
Net interest on net defined liability	26	41
Past service cost - impact of GMP equalisation	-	221
Defined benefit cost recognised in Income & Expenditure	514	777
Administration costs incurred during the period	159	172
Employer contribution	(522)	(458)
Cost recognised in Income & Expenditure	151	491
Other Comprehensive Income (OCI)		
Actuarial loss/(gain) arising during period	3,119	(2,505)
Return on plan assets (greater)/less than discount rate	(2,515)	1,351
Remeasurement effects recognised in OCI	604	(1,154)
Total Defined Benefit Cost		
Cost recognised in Income & Expenditure	673	949
Remeasurement effects recognised in OCI	604	(1,154)
Total defined benefit cost	(1,277)	(205)

Notes to the Financial Statements

Assumptions Used to Determine Defined Benefit Cost

	2019	2018
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 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%	3.10%
• in respect of pensions accrued after 31 March 2006	2.00%	2.00%
Pension increases for deferred benefits	2.40%	2.40%

¹These 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

	2019 £'000	2018 £'000
Defined benefit obligation (DBO)	(25,961)	(22,366)
Fair value of assets (FVA)	23,890	21,050
Defined benefit deficit	(2,071)	(1,316)

Reconciliation to the Balance Sheet

Net defined benefit liability at end of prior period	(1,316)	(1,979)
Effect of employee service in the current period	(488)	(515)
Net interest on net defined benefit liability	(26)	(41)
Remeasurement effects recognised in OCI	(604)	1,154
Past service cost - impact of GMP equalisation	-	(221)
Employer contributions	522	458
Administration costs incurred during the period	(159)	(172)
Net defined benefit liability at end of current period	(2,071)	(1,316)

Assumptions and Dates Used for Measurements

Discount rate	1.85%	2.65%
Price inflation (RPI)	3.20%	3.40%
Price Inflation (CPI)	2.35%	2.40%
Long-term rate of return on assets	1.85%	2.65%
Rate of salary increase	4.20%	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	2.95%	3.10%
• in respect of pensions accrued after 31 March 2006	1.95%	2.00%
Pension increases for deferred benefits	2.35%	2.40%

Change in Defined Benefit Obligation (DBO)

DBO at end of prior period	22,366	24,047
Effect of employee service in the current period	488	515
Interest cost on the DBO	583	570
Remeasurement of the DBO	3,119	(2,505)
Past service cost - impact of GMP equalisation	-	221
Scheme participants' contributions	145	113
Benefits paid from Scheme assets	(740)	(595)
DBO at end of current period	25,961	22,366

Notes to the Financial Statements

Change in Scheme Assets

	2019 £'000	2018 £'000
Fair value of assets at end of prior period	21,050	22,068
Interest income on Scheme assets	557	529
Return on plan assets greater/(less) than discount rate	2,515	(1,351)
Employer contributions	522	458
Scheme participants' contributions	145	113
Benefits paid	(740)	(595)
Administrative costs paid	(159)	(172)
	<u>23,890</u>	<u>21,050</u>
Fair value of assets at end of current period		

Scheme Asset Information

	Target Allocation Range	Allocation Percentage 31/12/19	Allocation Percentage 31/12/18
Equity securities	50.0%	45.6%	40.6%
Debt securities	40.0%	34.6%	36.3%
Real estate/property	10.0%	3.1%	8.2%
Cash	0.0%	4.9%	4.4%
Other*	0.0%	11.8%	10.5%
Total	100.0%	100.0%	100.0%
Fair value of Society assets (£'000)		£23,890	£21,050
*Includes Diversified Collective Investments			

17 INVESTMENT INCOME

	2019 £'000	2018 £'000
Technical account: Long Term Business:		
Investment Property	623	607
Shares and other variable yield securities	8,918	5,395
Debt and other fixed income securities	2,059	2,056
Bank and building society interest	6	19
Mortgages	-	1
Capital Return	47	47
Other	6	7
	<u>11,659</u>	<u>8,132</u>
Gain on Realisation of Investments	<u>2,615</u>	<u>734</u>
	<u>14,274</u>	<u>8,866</u>
Non Technical Account:		
Land & buildings	3,343	2,917
Shares and other variable yield securities	1,757	1,578
Debt and other fixed income securities	1,016	1,005
Bank and building society interest	113	122
Branch loan interest	6	8
	<u>6,235</u>	<u>5,630</u>

Notes to the Financial Statements

18 TAXATION

(a) Analysis of the tax charge for the year is	2019 £'000	2018 £'000
Corporation tax		
Current year policyholder tax charge	271	-
Policyholder tax (credit) on loss carry backs	-	(34)
Prior year policyholder charge/(credit)	34	(48)
Deferred tax		
Timing differences, origination and reversal	80	(85)
Prior year charge/(credit)	(15)	
Total tax charge/(credit)	370	(168)

The tax charge for the group is £370k (2018: credit of £168k).

The applicable UK corporation tax rate is 19% for the subsidiaries (2018: 19%), due to the reduction of the UK corporation tax rate from 20% to 19% which was effective from 1 April 2017.

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% (2018: 20%).

At 31 December 2019, the group did not hold any provisions for uncertain tax positions.

(b) Reconciliation of total tax charge	Society 2019 £'000	Society 2018 £'000
(Deficit)/surplus of income over expenditure before tax	(1,004)	1,904
Tax on result	(191)	381
Factors affecting tax charge:		
Accounting (deficit) not subject to policyholder tax	191	(381)
Items taxed on a different basis	370	(168)
Total tax charge for the year	370	(168)

(c) Analysis of deferred tax asset	Society 2019 £'000	Society 2018 £'000
Fixed Asset Timing differences	(2)	(2)
Deferred tax provision on unrealised gains	(10)	(21)
Losses recognised	-	76
Total recognised deferred tax (provision)/asset	(12)	53
Unrecognised deferred tax assets	-	-
Total tax charge for the year	(12)	53

Notes to the Financial Statements

(d) Movement in recognised deferred tax asset/(provision)	Society 2019 £'000	Society 2018 £'000
Provision at start of the period	53	(32)
Deferred tax (charge) / credit to Technical Account – Long-term business	(65)	85
Deferred tax charge to Non-Technical Account	-	-
Provision at end of the period	(12)	53

Taxation services are provided by PwC LLP and their remuneration for services in 2019 was £21k excluding VAT (2018 : £21k).

19 INVESTMENT RETURN TO INVESTING BRANCHES

	2019 £'000	2018 £'000
Investment income	(5,166)	(4,742)
Loss/(gains) on realisation of investments	1,332	(6,292)
Movement in unrealised (gains)/loss on investments	(9,984)	13,557
	<u>(13,818)</u>	<u>2,523</u>

20 LONG TERM BUSINESS - CHANGE IN OTHER TECHNICAL PROVISIONS

	2019 £'000	2018 Restated £'000
Continuing Long Term Business (Note 14)	<u>30,819</u>	<u>(17,679)</u>

21 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

	2019 £'000	2018 £'000
Land and buildings: Within one year	2	2
Other: Within one year	-	17
Other: Between one to five years	7	-
	<u>9</u>	<u>19</u>

Other financial commitments payable within one year not provided for in the accounts amounted to £28k (2018: £24k).

22 AUDITOR'S REMUNERATION

	2019 £'000	2018 £'000
Audit related assurance services	207	205
Other assurance services	-	-
Total (exclusive of Value Added Tax)	<u>207</u>	<u>205</u>

Notes to the Financial Statements

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 2019 and 31 December 2019, was Mr Scott Robinson FIA, of Zenith Actuarial Limited. Mr Robinson is not a member of the Society.
- (b) Mr Robinson 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 Robinson was an employee of Zenith Actuarial Limited during the period of his appointment. The only remuneration was the fees for professional services paid to Zenith Actuarial Limited for the services provided by the firm, and the amount payable in this respect amounted to £272,800 exclusive of Value Added Tax. No other benefits were paid.
- (d) Mr Robinson 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
Manchester Unity Housing Association 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 2019 totalled £16k (2018: £16k).

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 2019 (2018: £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 2018 and 2019.

Notes to the Financial Statements

Fair value measurement at 31 December 2019				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Shares and other variable yield securities	63,858	-	-	63,858
Debt and other fixed income securities	102,423	-	-	102,423
Assets held to cover linked liabilities	179,801	-	-	179,801
Investment properties	-	-	76,076	76,076
Owner occupied property	-	-	4,480	4,480
Total	346,082	-	80,556	426,638
Financial liability				
Investment contracts at fair value through profit and loss	-	181,869	-	181,869
Total	-	181,869	-	181,869

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	-	153,740	-	153,740
Total	-	153,740	-	153,740

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 Pages 59 and 60.

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 2019.

Notes to the Financial Statements

Management of financial risk

The risk management strategy forms an integral part of ensuring that risks are managed on alignment with the Society's objectives and business strategy and to maintain the financial stability of our policyholders, our reputation, employees and assets. Further detail on corporate governance structure and the impact of current market conditions are provided in the Strategic Report on Pages 7 to 15.

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 2019	With-profit business	Non-profit business	Unit-linked	Other	Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Land and buildings	6,680	6,142	-	63,255	76,077
Shares and other variable yield securities	2,796	2,572	178,683	58,490	242,541
Debt and other fixed income securities	33,515	30,825	369	38,084	102,793
Loans secured by mortgage	2	2	-	289	293
Other debtors	-	-	-	600	600
Tangible assets	-	-	-	4,964	4,964
Cash at bank, building society and in hand	1,495	1,376	749	15,528	19,148
Other assets	441	405	-	1,186	2,032
Total assets	44,929	41,322	179,801	182,396	448,448
Liabilities					
Reserves provided for, by the rules and other specific purposes	-	-	-	2,469	2,469
Insurance contract provision	14,241	30,151	2,032	-	46,424
Investment contract provision	30,150	10,857	171,012	-	212,019
Claims outstanding	799	-	-	-	799
Other liabilities	-	-	-	186,737	186,737
Total liabilities	45,190	41,008	173,044	189,206	448,448

Notes to the Financial Statements

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	151,352	48,656	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	692	490	-	1,096	2,278
Total assets	48,776	33,186	152,457	172,838	407,257
Liabilities					
Reserves provided for, by the rules and other specific purposes	-	-	-	2,360	2,360
Insurance contract provision	35,466	23,840	1,781	-	61,087
Investment contract provision	12,799	11,034	142,706	-	166,538
Claims outstanding	801	-	-	-	802
Provision for unearned premiums	-	-	-	2	2
Other liabilities	-	-	-	176,468	176,468
Total liabilities	49,068	34,874	144,486	178,831	407,257

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.

Notes to the Financial Statements

31 December 2019						
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	24,752	12,537	7,710	6,350	16,172	67,521
Unit-linked liabilities	59,909	102,827	983	539	1,345	165,603
Non-profit Investment contracts	10,055	0	0	0	0	10,055
Total	94,716	115,364	8,693	6,889	17,517	243,179

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	24,902	13,338	7,482	5,838	13,868	65,428
Unit-linked liabilities	44,455	100,561	2,260	1,189	1,813	150,278
Non-profit Investment contracts	8,445	0	0	0	0	8,445
Total	77,802	113,899	9,742	7,027	15,681	224,151

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 $\pm 10\%$ change in the expense assumption alongside a $\pm 1\%$ 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 $\pm 38.92\%$. 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.

Notes to the Financial Statements

The property value sensitivity considers a $\pm 25\%$ 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 2019	Expenses		Equity prices		Interest rates		Property values	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Change in LTB Own Funds	(6,144)	6,144	7,432	(7,432)	1,586	(552)	3,244	(3,244)

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)

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.

Notes to the Financial Statements

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 2019			
	Amounts not subject to credit risk	Amounts subject to credit risk	Balance Sheet carrying value
	£'000	£'000	£'000
Shares and other variable yield securities	-	63,858	63,858
Debt and other fixed income securities	-	102,423	102,423
Assets held to cover linked liabilities	179,801	-	179,801
Loans secured by mortgage	-	292	292
Cash at banks, building societies and in hand	-	18,398	18,398
Total	179,801	184,971	364,772

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

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 2019.

Notes to the Financial Statements

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

Credit rating						
31 December 2019						
	AAA	AA	A	Below A	Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	-	-	-	-	63,858	63,858
Debt and other fixed income securities	282	49,448	8,251	14,015	30,427	102,423
Assets held to cover linked liabilities	-	-	750	-	179,051	179,801
Loans secured by mortgage	-	-	-	-	292	292
Cash at banks, building societies and in hand	-	438	15,069	47	2,844	18,398
Total	282	49,886	24,070	14,062	276,472	364,772

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	152,475
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

No credit limits were exceeded during the year ended 31 December 2019.

27 NON ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

2020 has begun with the spread of a new strain of the Coronavirus (COVID-19), with confirmed cases in more than 50 countries. The virus has caused disruptions to businesses and economic activity which has precipitated substantial daily fluctuations in interest rates and global stock markets. There remains significant uncertainty in the weeks and months to come. We are monitoring the situation and have made preparations to ensure we are able to operate effectively, and any impact on the Society's Solvency Capital Ratio (SCR) which, as at 31 December 2019, stood at 401% (unaudited), continues to be monitored on an ongoing basis.

Given the inherent uncertainties, it is not practicable to determine the impact of COVID-19 on the Society's financial performance or to provide any detailed quantitative estimate of the impact.

As noted earlier in the Accounts in the Strategic Report on Page 8, the Society has in place a number of measures that are ensuring that the business continues to operate fully with all staff working from home. We are continuing to closely monitor the situation we all find ourselves in, particularly in respect of:

Solvency

The movement in financial markets has resulted in a reduction in the asset values in our business, including our Long Term Business (LTB). However, due to the Society's overall solvency position, we have been able to maintain our long term investment strategy. This has meant that we have not been a forced seller of investments, particularly equity investments. We are actively considering our solvency position to ensure we take appropriate actions if this is needed. During Q1 2020 we have not experienced any change to claims activity, either from surrenders, withdrawals, sickness claims or deaths and this too continues to be monitored. The level of solvency remains within the Society's risk appetite.

Notes to the Financial Statements

Liquidity

In relation to our regulated business within LTB, the LTB investments are held in liquid and marketable assets where investments could be accessed at very short notice. This includes cash held at major banks, Gilts, investment grade corporate bonds, equities listed in UK (and constituents of major stock indices), and for unit-linked business a large holding in a UK tracker fund with Fidelity where prices (and liquidity) are available daily. The exception to this is a portfolio of residential property (in Yorkshire) that the Society inherited as part of its acquisition of the Druids Friendly Society. This portfolio amounts to circa £13m (out of overall LTB assets of £264m). The Society has been actively managing the diversification of the portfolio by allowing other LTB funds to take partial investment in the fund. At YE19 this was £11m by Druids fund and £2m by the Non-Profit Fund. Given the other investments in each Fund, and the investments of the LTB overall, the illiquidity of this portfolio does not create any material concern.

Governance and operations

The Society set up a Coronavirus Working Group consisting of the CEO, Insurance Director, Compliance & Risk Officer and HR & Office Manager, with both formal and informal reporting being provided to the Society's Audit, Risk & Compliance Committee (ARCC) and Main Board on the steps being taken to manage and mitigate the risks resulting from the coronavirus pandemic.

Operational Resilience: Following the Government lockdown announcement at 8.30pm on 23 March, all of the Society's staff were successfully transitioned to be able to work from home by close of business on the 24 March.

Meeting other regulatory obligations

The Society has also implemented a Lessons Learnt & Issues Log, to ensure we are able to learn from this situation, and where necessary react promptly to any matters / issues that arise.

Taking into account the Society's scale and complexity we are comfortable that we have taken appropriate and proportionate actions to mitigate the risks posed by the coronavirus pandemic, and will continue to do so going forward to ensure the Society is able to meet its customer and regulatory obligations.

