

# Reports & Financial Statements 2020

For the Year Ended  
**31 December 2020**



# Purpose



*"We help people to forge lasting friendships, creating communities of members bonded by friendship, care and charitable support. We do this because good friends make the good times better and hard times easier."*



*'Our purpose is to help members forge lasting friendships and offer support in times of need through social events, care and charitable support.'*



*'We help our members get more out of life through friendship, social events, care and charitable support.'*



*"To deliver financial peace of mind and security to our members in our chosen product range."*

# Directors and Advisors

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## INDEPENDENT ORDER OF ODD FELLOWS MANCHESTER UNITY FRIENDLY SOCIETY LIMITED

Registered under the Friendly Societies Act 1992

Register No. 223F

<b>REGISTERED OFFICE:</b>	Oddfellows House 184-186 Deansgate Manchester M3 3WB
<b>DIRECTORS:</b>	
<b>CHAIRMAN:</b>	D Webster, 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  W S Connolly, External Non-Executive Director  C Nugent, External Non-Executive Director  J R Gough, External Non-Executive Director
<b>CHIEF EXECUTIVE AND SECRETARY OF THE ORDER:</b>	C J Nelson, FCCA, FCMA, DiploD
<b>INSURANCE DIRECTOR:</b>	S J Code, MBA
<b>CHIEF ACTUARY:</b>	S A Robinson FIA, Chief Actuary Function, (Zenith Actuarial Limited)
<b>WITH PROFITS ACTUARY:</b>	G A Pennington, FIA, (Zenith Actuarial Limited)
<b>SOLICITOR:</b>	Hill Dickinson LLP
<b>EXTERNAL AUDITOR:</b>	Deloitte LLP
<b>TAX:</b>	PricewaterhouseCoopers LLP
<b>BANKER:</b>	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 delighted to present my first Report as Chairman of the Board, having been elected to the role in July 2020, and to reflect on the achievements of the Society during a year of unprecedented turmoil, as a consequence of the global pandemic.

At the beginning of 2020 few people would have predicted the impact of Coronavirus (Covid-19) on every dimension of our lives. As citizens of the UK, the restrictions on our cherished freedoms have been severe and the ramifications will be with us for many years to come.

The UK economy is predicted by the Bank of England to shrink by 13% in 2020, the largest downturn in over 300 years. Consequently, the Government's Covid-19 rescue package has pushed our national debt to the highest levels since the early 1960s when Britain was still grappling with its post-war liabilities. Public sector net debt now exceeds 100% of our Gross Domestic Product and, according to the Institute of Fiscal Studies, the Government will need to find £40 billion in spending cuts and tax rises to repair the public purse.

Of course, alongside these financial scars, the human cost of Covid-19 has been colossal and heart breaking, with our NHS and social care providers in the eye of the storm throughout 2020. The sacrifices and selflessness of key workers has inspired us and humbled us.

In the midst of such seismic shifts in our economic and social landscape it would be foolish to suggest that it was "business as usual" for the Oddfellows this year, however, as the Chief Executive's Operational Report spotlights, our successes have been many and tangible and our progress on strategic goals has been extremely creditable. We have demonstrated that during a period of national crisis, the core values of the Oddfellows have provided a platform for us to thrive and to extend our impact, enabling our staff, our Branches and our members to unite with characteristic resilience and creativity, so that our communities received the support, care and friendship so badly needed during 2020. Our strap-line "Making Friends, Helping People" has rarely carried more resonance.

In short, the culture at the Oddfellows has been the cornerstone of our success in 2020. Of course, that much used word "culture" leads many organisations to claim that they are "customer centric" but in reality such claims are easier to declare than to prove. However, in a mutual Friendly Society such as ours, treating customers and members with fairness and care is part of our DNA and, when blended with a determination to place our Members at the centre of our decision making and our priorities, then a springboard can emerge on which even the toughest of years can yield success stories. As Chairman of the Board, I have a responsibility to help lead the development of our culture at the Oddfellows and 2020 has given me ample evidence that our culture makes a real difference to peoples' lives, as well as distinguishing us in a congested marketplace with severe headwinds.

As a lubricant for our organisational culture, the Oddfellows takes great pride in our internal and external communications. Clearly, Covid-19 and the subsequent lockdowns posed significant challenges in keeping in touch with our key stakeholders but our determination to stay connected prevailed and our Marketing and Communications team supported Branches and Unity Office in ensuring that information to Members was appropriate and timely, using blogs, social media posts, circulars and emails highlighting the support available. Also, the word "Zoom" entered our lexicon as a verb (like "Google") and video-conferencing became a simple, viable means of group communications to such an extent that meetings of the Board, Fraternal Board, Commercial Board, Governance Committee and Audit and Compliance Committee adapted swiftly to a Zoom framework as did many Branches, ensuring that our excellence in communications and in governance standards remained intact throughout 2020. Incidentally, if you bought shares in Zoom in October 2019 and sold them a year later you would have made a profit of 735%!

To conclude, as Chairman of the Board my role is centred on framing the Society's strategy for both the Fraternal and Long Term Business (LTB), by leading the Board in delivering those strategic goals whilst fostering the highest standards of risk management, compliance and governance. Achieving these aims is made much easier in an organisation where we all have a shared belief in our purpose. During 2020, the Oddfellows has faced the fiercest of storms and not only withstood the test, but grown in stature throughout, because the core values of the Society are resilient and embedded. Moreover, the Oddfellows combined the roots and traditions of a mutual with the zest of a contemporary organisation, capable of handling change and adopting fresh methods in achieving our aims.

# Chairman's Report

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In closing, I would like to express my sincere thanks to my Board colleagues for their superb support, commitment and good humour during my inaugural year as Chairman, and to all the staff and all our Branches for a truly exceptional level of professionalism and compassion in 2020.

A handwritten signature in black ink, appearing to read 'D Webster', with a long horizontal flourish extending to the right.

**D Webster**  
**Chairman**  
**1 April 2021**



# Chief Executive's Operational Report



## Overview

2020 was, without doubt, a challenging year for everyone with the impact of the Covid-19 pandemic affecting the world in so many ways and the UK was no exception. The country went into lockdown on 23 March 2020 and the Society's Offices in Manchester and Liverpool were closed on Tuesday 24 March. It is testament to the skills and planning of the Society's IT Department that all 52 staff were fully and effectively working from home from 9 am on 25 March. The fact that the transition was so smooth is something for the Society to be immensely proud of as stories of other organisations that couldn't accept phone calls for a month or more or deal with emails were not unusual.

Initially, I was planning to open the Offices at the start of August, but at the end of July, Greater Manchester was placed into Tier 3 and whilst the Office could have opened, I felt it was unfair to expect staff to travel on public transport in such a challenging environment. Manchester stayed in Tier 3 and of course we then went into another lockdown in November and again in January. At the date of writing this report, we are still in that national lockdown but hopefully, with the roll out of

the vaccinations then it will not be too long before we can start to return to the Office in Manchester which will initially be on a 50/50 basis. Some staff chose to go into the Office more regularly, particularly the Print, Design and Post Departments and their efforts are commended for helping us all to continue effectively working from home.

The Liverpool Office did manage to open in August (as Liverpool was Tier 2) and the staff based there commenced their return to the Office and remained so through to the lockdown in January where it was then restricted to just one of them in the Office at any one time.

Who of us actually knew what Zoom was at the start of 2020 – not many I am guessing. But now it is part of our everyday lives and has been since March last year. In terms of the Board, Sub Board and Committee meetings, then as you can see from the table included later in the Accounts, all meetings carried on regardless, in a mixture of physical meetings (socially distanced), some by Conference Call but the majority held by Zoom and for us, as a Society, it worked really well.

We also knew early on that the pandemic was going to have a big impact on our members, so with effect from 24 March, any new member who joined the Society, together with anyone who enquired about membership was sent a personal handwritten card from myself as CEO together with a puzzle book and pencil. I must say I didn't realise at the time how much that would really mean to people, and the many many emails and cards and messages we got as a result was heart-warming and also in some cases, very emotional when people shared with us what a difference that had made to their lives.

In addition, during 2020, we asked all Branches to send out two letters to all their members – the first one at the end of March "Are you ok?" which was aimed at informing members that we were still all operating as business as usual and were still there at the end of the phone if they needed us. For Branches who were unable to send these out for whatever reason, then the team in Manchester did it for them, ensuring that all members received the same message. The second letter was sent just before Christmas and entitled "Friendship and Support" and, again, was sent to remind members of the key contacts for their Branch and the services available centrally. Branches, throughout 2020 took the opportunity of sending regular communications to all their members including puzzle books, boredom busters, bookmarks, pens etc.

In terms of member recruitment for 2020, although the year started off well with recruitment in the first three months of 2020 being 10% more than that achieved in 2019, the impact of Covid was going to have an effect. Face-to-face social events had to be stopped and, given that socials is one of the main reason people join, then the number joining fell when compared to the same period in 2019. That said though, members did still join and the level of enquiries remained high. By the end of 2020 we had recruited 844 new members (1,398 in 2019) and had 2,095 enquiries (2,537 in 2019). The recruitment campaign that ran in Q4 generated a very healthy number of enquiries – 834 people compared to 611 over the same quarter in 2019.

Throughout 2020, communication was the cornerstone to maintaining business and staff morale and, from the beginning of the pandemic, all channels were used to keep key staff and members as informed and supported as possible. It was a collaborative effort across Unity Office involving myself and the Unity Office teams and included everything from my weekly informal updates to all staff and regular Branch emails, to personal letters to members and



# Chief Executive's Operational Report

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everything in between. This has not just been important from a business perspective, it also (in an unconscious way) truly demonstrated some of the caring brand values that are what being part of Oddfellows is all about.

The pandemic and subsequent lockdown accelerated our need to get savvy online and many Branch Social Organisers and Secretaries stepped up to meet this new challenge. Training and support, resources and even online Q & A sessions were provided for them by Unity Office to help them find ways of continuing business online, whether that was holding Committee meetings or organising social events.

At the beginning of April we started with just a couple of Social Organisers experimenting and delivering quizzes and coffee mornings via Facebook Live and Zoom. By the end of 2020 we had 100 online events being organised every month as well as the distribution of a national What's On listing that many Branches across the country contributed to. This was truly a remarkable achievement and it is thanks to all involved at Unity Office and the Branches that the impact of our on-line offering has been so successful. Social Organisers and members alike have shared how rewarding and liberating this experience has been – being able to stay socially connected has meant, for some, the difference between feeling isolated and not.

Of course, not all Branches or all members have either wanted to or been able to use digital devices to help them stay connected this year. Alongside the positive effects of utilising online as a new communication tool, it has also highlighted some gaps in our provision which the Society will be looking to address in 2021.

Another benefit of delivering services online in 2020 was the introduction of Open Days. These were organised as an alternative to the usual face-to-face taster events available to people who enquire. They were also a very effective conduit to engage interested people who wanted to know more about Oddfellows as a consequence of the recruitment campaigns we ran towards the end of 2020. By the end of the year nine Open Days had been organised which ran from the 1st week in April to mid-December. They were very successful in terms of level of interaction and conversion rates (on average 52% of attendees ending up joining).

Looking ahead, getting online has (and will continue to be) a game changer for the Society. It allows us to continue to provide quality social events that can support recruitment campaigns and give members alternative options across the country.

Online social events enable the Society to expand its social proposition and get more members involved, for example, those nervous about going out on dark nights, with limited transport options or no-one to go with. Helping Branches to make more of the online opportunities will be something we will be developing into 2021 – some of that will be focussed on expanding a programme of 'national' events that we jointly facilitate centrally.

Open Days will also continue throughout 2021 but we will also introduce 'New Member' events to provide a social context for new members to get to know more about what membership can offer them. We will also deliver more online training to key workers in the Branches alongside established face-to-face delivery. This will enable us to utilise our existing resources a lot more effectively - potentially reaching more Branch key workers.

The social side of being part of the Oddfellows is an important part, but equally so is the Care and Welfare service that is offered to our members both from Unity Office and from the Branches and what is frequently referred to as the jewel in the crown. The way in which this service has continued throughout 2020 is a testament to all concerned and has again demonstrated that Oddfellows do whatever is needed to provide excellent service to their members, irrespective of what external factors are affecting us.

In terms of some key achievements in 2020, the Society's Care and Welfare Helpline and Citizens Advice Line maintained consistent service throughout the pandemic, dealing with a similar number of calls to previous years and responding to the diverse and sometimes complex needs of members during Covid. The Care and Welfare Helpline had 771 cases (1,678 contacts) with the Citizens Advice Line having 4,378 contacts. In addition, Citizens Advice gained £245,780 for our Members.

Although the Convalescence Home Benefit was severely impacted by the pandemic, with the Homes usually used having to close their doors, the Care Benefit assisted our members throughout, mainly through one of our partners, Home Instead, and often at a time of great need. We are sad to see that, as a result of the pandemic, the Convalescent Home at Dawlish, which had been one of the main Homes used by our members over many years, decided to close for good as a result of the effect of the pandemic. Whilst the other Homes we use in the main are planning to reopen when the restrictions allow, we were pleased to help and support three of the main Homes used

# Chief Executive's Operational Report

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with a donation of £5,000 each towards the end of the year in an effort to help them financially. Hopefully, 2021 will see the Homes reopen fully and the use of them by our Members fully restored.

In many Branches, the work of keeping in touch with members was transformed during Covid, with stronger relationships formed with members and relevant support given. The number of Care Contacts in 2020 was almost three times that of the previous year – over 51,000 in 2020 compared with 16,429 in 2019. An amazing achievement.

Branches and Welfare Visitors were supported throughout the Pandemic with timely and reliable information – six Briefings were issued on various aspects of supporting members in the first four months of Covid, as well as three standard Branch Care and Welfare newsletters and Quick Guides when conditions were more settled.

In the last two months of the year two national Care and Welfare Zoom sessions for Welfare Visitors to share experience and give peer support were successfully piloted with 62 and 42 Welfare Visitors respectively in attendance. This sets a good foundation for these to continue to develop in 2021 to share best practice with Welfare Visitors and to offer mutual support.

In an effort to protect our members, during 2020 we developed an Adult Safeguarding Policy, which was approved at the end of 2020, and following which, accompanying resources were developed and shared with Branches as the first stage of ensuring that safeguarding awareness and knowledge are embedded throughout the Society. This work will carry on into 2021 as a Child Safeguarding policy, already being worked on, will be rolled out.

The Society is proud of the support and training it offers to Branches and Members alike and a key part of that is two Weekend Seminars held in March and September of each year. In 2020 the March seminar was held and was hugely successful with a dedicated afternoon session held for Welfare Visitors (for the first time) and one for Social Organisers. Unfortunately the Seminar in September had to be cancelled but is planned to be held in September 2021 to ensure those Members who could not attend the March one can benefit from the training provided.

Another important part of the Society's year is the Annual Movable Conference, or as we call it, the AMC which is effectively the Society's AGM and includes usually around 250 Deputies democratically debating and voting on key issues over three business days. Usually we also have around 100 – 150 visitors too. Obviously in 2020, we had to cancel the event and we held an electronic AGM by Zoom on 1 September which was very successful and had 171 Deputies taking part. Given the ongoing restrictions in place, we have already cancelled the planned AMC for May 2021 and instead, three or four sessions of about two hours will be held on Zoom to ensure all the business of the AMC can be completed.

In terms of our Long Term Business (LTB), 2020 saw another year of growth with 1,157 new policies sold compared to 942 in 2019 and new premium income generated of £7.8m compared to £4.23m in 2019.

During 2020 Unity Mutual, for the first time, achieved new business sales through multi-distribution channels which included direct through the website and over the telephone and through introducers and intermediaries.

The Unity Mutual brand achieved good press coverage during 2020 as a result of the publication of the findings of research which we commissioned into the changing spending and savings habits of the over 50s, as a result of lessons learned from the Covid pandemic, and from another piece of research we commissioned amongst 16-17 years olds on what they will be doing with their maturing child trust funds.

The products we are currently actively promoting for new business are:

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

# Chief Executive's Operational Report

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The Guaranteed Investment Bond and the Lifetime ISA both proved to be very popular throughout 2020 due to their competitiveness and transparency and we will continue to look to launch new competitive 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. Another key focus for us is seeking inward transfers of engagements and in November 2019 we started discussions with the Board of the Kingston Unity Friendly Society (KUFS) in respect of a transfer to the Oddfellows. Throughout 2020, work continued on this and we were delighted that, following Regulatory approval, KUFS transferred into the Society on 1 February 2021 and became part of the Oddfellows family, bringing with it 98,642 members and assets of £111m.

## Summary

I am sure we are all hoping that 2021 will see some return to normality for everyone but I am sure will still bring with it challenges. The efforts put in during 2020 by everyone involved in the Society, whether at Branches, the staff in both of the Offices in Manchester and Liverpool and my colleague Directors has been truly amazing given the effects of the pandemic. For me, 2020 has absolutely demonstrated that Oddfellows do exactly what we say we will do, and we can still do that, albeit in some different ways, no matter what situation we find ourselves in and everyone should be very proud of what we achieved as a Society in 2020.

I remain excited about 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 sincere and 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**  
**1 April 2021**

# Strategic Report

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## 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; and
- 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 2020, the Society's Directors continued to demonstrate that they have in place the appropriate systems and controls to comply with the needs and requirements of the Financial Conduct Authority's (FCA), the Prudential Regulatory Authority (PRA), and the Treating Customers Fairly (TCF) regime. 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

An overview of the principal risks identified by the Society, which reflect the internal and external risks in the operation of its business and strategy are detailed in the report are listed below in order of potential impact on the Society:



Risk	Risk movement over 2020	Management and mitigation
<b>Solvency Risk</b>  <i>This is the risk that the Society fails to meet its Solvency Capital Requirement</i>	↑	<p>The overarching aim of the Society is to maintain sufficient capital to demonstrate that the Long Term Business (LTB) is able to meet its Capital Requirements on a stand alone basis.</p> <p>In managing this risk, the solvency position is:</p> <ul style="list-style-type: none"><li>• monitored by the Insurance Director, the Insurance Operations Manager and Chief Actuary and reported to the Society's Commercial Board on a quarterly basis. The Commercial Board will agree any actions as required;</li><li>• assessed by the Commercial Board through the annual Strategic Planning and Own Risk Solvency Assessment (ORSA) three years in advance; and</li><li>• assessed by the Society's Chief Actuary and With Profits Actuary through the annual Solvency Valuation and Own Risk Solvency Assessment (ORSA) Report on an annual basis.</li></ul> <p>In addition, if required, there is the potential to draw on Fraternal assets to support the solvency of the LTB Funds.</p> <p>At the start of 2020, the Chief Actuary reported a reduction in the solvency of the LTB funds, as a result of Covid-19. The solvency of the LTB funds has been closely monitored by the Board and the Commercial Board and appropriate action taken. The solvency of the LTB funds has steadily improved throughout 2020 and will continue to be closely monitored throughout 2021.</p>

# Strategic Report

Risk	Risk movement over 2020	Management and mitigation
<b>Fraternal Strategy</b>  <i>This is the risk that the Society fails to achieve its Fraternal Strategic Plan</i>		<p>The Fraternal Board holds oversight responsibility for the application and achievement of the Fraternal Strategy. The Fraternal Strategy is managed through various processes, procedures and controls, including:</p> <ul style="list-style-type: none"> <li>• The Fraternal Strategic Plan is approved by the Society's Board;</li> <li>• Quarterly Fraternal Strategic Reports detailing progress against the plan are reviewed by the Board;</li> <li>• Progress against key performance measurements is reported to the Fraternal Board on a quarterly basis. The Fraternal Board will agree actions as required; and</li> <li>• The Branch Internal Audit Function undertakes audits of Branch financial administration and compliance. The findings are reported to the Fraternal Board. It is the responsibility of the Fraternal Board to oversee the implementation of any recommendations.</li> </ul> <p>As a direct consequence of Covid-19, it was not possible to complete all planned audits during 2020 and those Branches with outstanding audits will be prioritised in 2021.</p>
<b>Long Term Business (LTB) Strategy</b>  <i>This is the risk that the Society fails to achieve its Long Term Business (LTB) Business Plan objectives</i>		<p>The Commercial Board holds oversight responsibility for the LTB strategy. The LTB strategy includes the following elements:</p> <ul style="list-style-type: none"> <li>• existing business;</li> <li>• transfers of engagement;</li> <li>• new business; and</li> <li>• regulatory compliance.</li> </ul> <p>The Commercial Board has documented processes, procedures and controls in place to monitor the achievement of the LTB strategy and a range of management actions it can take to mitigate this risk, including:</p> <ul style="list-style-type: none"> <li>• The Annual LTB Business Plan approved by the Society's Board and the Commercial Board;</li> <li>• Monthly LTB Balanced Scorecard reports are produced and submitted to the Commercial Board detailing the progress against the LTB Business Plan and KPI's; and</li> <li>• The Internal Audit Function undertake risk based audits of the Society's LTB operations and provide reports to the Commercial Board and the Audit, Risk and Compliance Committee. It is the responsibility of the Insurance Director to oversee the implementation of any recommendations.</li> </ul>





# Strategic Report

Risk	Risk movement over 2020	Management and mitigation
<p><b>Reputational risk</b></p> <p><i>This is the risk that the Society's reputation is adversely affected</i></p>		<p>Oversight responsibility for the reputation of the Society is held by the Board. The Society has no tolerance for risks which may lead to its reputation or brand being tarnished unnecessarily or anything that is inconsistent with its values, standards and ethics. To manage this risk, the Society maintains:</p> <ul style="list-style-type: none"> <li>• Documented policies, procedures and controls in place which are regularly reviewed by the Compliance and Risk Function and reported to the Board and audited by the Internal Audit Function;</li> <li>• An effective risk management framework including a risk register, risk appetite statements and risk policies across the Society which are regularly reviewed to monitor and manage risk;</li> <li>• The Audit, Risk and Compliance Committee (ARCC) and Commercial Board receive and review quarterly Compliance &amp; Risk and Insurance reports covering compliance and risk activities / developments, policyholder surveys, complaints and breaches; and</li> <li>• Robust initial and ongoing due diligence arrangements in place to ensure that all outsourced arrangements and third party benefit providers are regularly reviewed and performance monitored.</li> </ul>
<p><b>Association of Financial Mutuals (AFM) Corporate Governance Code</b></p> <p><i>This is the risk of the Society failing to comply with the AFM Corporate Governance Code</i></p>		<p>The Society is committed to meeting its obligations for effective corporate governance and applies the six principles and provisions of the AFM Corporate Governance Code (AFM CGC).</p> <p>The Governance Committee holds oversight responsibility for ensuring that the Society's corporate governance framework is consistent with the AFM CGC.</p> <p>The Society's Annual Reports and Financial Statements explains how the Society complies with each of the six principles:</p> <ul style="list-style-type: none"> <li>• Purpose &amp; Leadership;</li> <li>• Board Composition;</li> <li>• Director Responsibilities;</li> <li>• Opportunity &amp; Risk;</li> <li>• Remuneration; and</li> <li>• Stakeholder Relationships &amp; Engagement,</li> </ul> <p>and how they have been applied by the Society throughout the year.</p>



# Strategic Report

Risk	Risk movement over 2020	Management and mitigation
<p><b>Non-compliance with legal and regulatory requirements</b></p> <p><i>This is the risk of regulatory scrutiny, censure and/or financial penalty</i></p>		<p>The Society has in place documented policies, procedures and controls which are regularly reviewed and audited to ensure its compliance with relevant legal and regulatory requirements, including:</p> <ul style="list-style-type: none"> <li>• The annual Compliance &amp; Risk Report and Plan is approved by the Society's Audit, Risk and Compliance Committee (ARCC) and Board;</li> <li>• The quarterly Compliance &amp; Risk Reports detailing progress against the Compliance &amp; Risk Plan are reported to the ARCC, Commercial Board and Board; and</li> <li>• The Internal Audit Function undertakes risk based audits of the Society's compliance and risk systems and controls and provides reports to the ARCC. It is the responsibility of the Compliance &amp; Risk Officer to oversee the implementation of any recommendations.</li> </ul>
<p><b>Investment Strategy</b></p> <p><i>This is the risk that the Society fails to achieve its investment strategy</i></p>		<p>In relation to the investment strategy of the Society, the Commercial Board holds oversight responsibility for the LTB investment strategy, and the overall investment strategy of the Fraternal Funds. The following processes, procedures and controls are in place to manage the respective investment strategies, including:</p> <ul style="list-style-type: none"> <li>• The LTB investment strategy is approved by the Board, Commercial Board, Chief Actuary and With Profits Actuary;</li> <li>• Qualified external Investment Managers (IM) to manage the agreed strategic asset allocation and achievement of investment targets;</li> <li>• IM performance assessed on a quarterly basis by the Commercial Board; and</li> <li>• The Commercial Board regularly receives reports on the asset allocation of funds on a monthly basis and performance of funds against the agreed benchmark on a quarterly basis.</li> </ul> <p>Given the volatility in markets in 2020, as a result of the pandemic and other worldwide issues, the Society's investment strategy has been able to be maintained and the Society has not had to be a forced seller of equities. The impact of the assets on the Society's solvency has been regularly monitored throughout 2020 and will continue to be monitored throughout 2021. The impact of the low UK interest rate will continue to be reviewed.</p>

# Strategic Report

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At the start of 2020, the Society identified the Covid-19 Pandemic as an emerging and fast increasing risk. The Society implemented a number of mitigating measures to manage the financial and operational impacts of Covid-19 to ensure that the business continued to operate fully with staff working from home. The Society has kept the Regulators informed of its actions and has received no challenges to date. The Board have closely monitored the situation and will continue to do so throughout 2021 in terms of Solvency, Liquidity, Governance, Operations and Regulatory Requirements. There are numerous references within these Reports and Financial Statements as to how the Society met the challenges face as a result of the pandemic in 2020.

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

Whilst these are the principal risks, the 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 Boards 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.

## Climate Change Risk Strategy

The Society continues to acknowledge climate change as a matter of scientific fact. Climate change presents risks to the Society from both an environmental and financial perspective, which may result in damage to some of its short, medium and long term objectives.

An overview of the measures implemented to mitigate these risks, as well as further steps the Society will take to develop its climate change risk strategy throughout 2021 is set out on page 13. The Society will strive to take a proportionate and risk based approach that is appropriate to its exposure to climate change risk and complexity of the Society's business model and strategy.

# Strategic Report

## Governance

- The Society's Board has ultimate responsibility for climate change risks, however responsibility for oversight of the management of financial risks from climate change has been allocated to the CEO.
- The Board has set the Society's climate change risk appetite statement as well as ensuring that climate related financial risks are effectively managed.

## Risk Management

- Climate change risk was incorporated into the Society's Risk Management Framework, including the inclusion of climate related risks into the Society's risk register in 2019 which, in line with all other risks is regularly reviewed and updated as and when necessary.
- The Society's Board and Senior Management Team periodically review its exposure to climate change risks. The approach taken to identify, monitor, manage and report the impact of climate change risks will continue to be developed throughout 2021 and beyond.
- The Society's Own Risk & Solvency Assessment (ORSA) for the year ended 2019 included commentary in respect of the Society's exposure to climate change and this will continue to evolve over time.
- The Society's Solvency Financial Conditions Report (SFCR) will continue to be reviewed to reflect its exposure to climate change risks including what if scenario analysis to assess the potential impact of climate change risks materialising.

## Strategy

- The performance of the business could be adversely affected by harmful environmental events and developments which could impact financial markets and longevity, morbidity and mortality risks to which the Society has limited exposure.
- In terms of the Society's investment portfolios, during 2020, the Society engaged with its external Investment Managers to look to evaluate the individual holdings within each portfolio, from a climate change perspective. This included a weighted portfolio ESG score compared to the index and an assessment of greenhouse gas tons per £m, again compared to the index. This reporting will continue to evolve in 2021.
- To manage the climate risks relating to the property portfolios, the Society regularly receives reports from its Property Managers, including Energy Performance Certificates and annual flood risk rating to understand the impact of climate risks such as potential threats to coastal properties, flood risk and increases in buildings and contents insurance.

## Metrics and Targets

- The Society has seen a reduction in its carbon footprint throughout 2020 from reduced travel as almost all staff have worked from home and meetings have been held remotely in response to the Covid-19 pandemic. The Society is keen to continue to explore the options around remote meetings and working where possible.
- Oddfellows House, the Society's Head Office has been awarded the Building Research Establishment Environmental Assessment Method (BREEAM) Certification, which focuses on sustainability in relation to energy, water, waste, heating, insulation, pollution and recycling.
- In 2021 the Society will look to develop a set of climate change risk metrics and targets that are appropriate and proportionate to its exposure to climate change risks and complexity of the Society's business model and strategy.

# Strategic Report

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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, as at 31 December 2020 has a network of some 119 Branches, throughout the United Kingdom. Despite the challenges faced by society as a whole in 2020, our Society remained committed to looking after our members and policyholders and maintained our excellent customer service throughout whether that was answering queries, supporting members, providing many on line events for members to take part in or prompt payment of claims.

### *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 305,917 members.

The Directors have, over the years engaged 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. With the effect of the Covid-19 pandemic in 2020, the physical meetings traditionally held were not possible and so electronic meetings took place wherever possible. The Society's AGM took place via Zoom Webinar on 1 September with 171 voting Deputies attending. Given the outlook for 2021, plans are in place to allow for multiple electronic sessions to be held for the 2021 AMC to allow Deputies, who are deputed by their Branches, to debate and vote upon the various business matters which would normally be included on the three day business Agenda.

In addition to the electronic AGM held and the many online events held for members to take part in, the Society also regularly held electronic workshops and meetings to support the members in the Branches throughout the ups and downs in 2020.

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 had 56 staff at the end of 2020 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. Again, throughout 2020, these meetings have all continued to be held via electronic means and the CEO has, since the end of March 2020, sent weekly communications to all staff to ensure they are aware of what is happening, and keeping them informed and involved, and importantly, supported them throughout the period where staff have been working from home. Formal performance appraisals are conducted annually for all of the Society's employees, some of which have been held via electronic means. Quarterly climate/culture surveys were undertaken in 2020 and all employees were encouraged to participate. In September 2020, the CEO launched a new quarterly Employee engagement survey using an external Company "Engagement Multiplier" which included questions focussed on the support and welfare of staff throughout 2020. Any matters that are flagged up in this process are reviewed and followed up as appropriate.

The Engagement Score in the December survey increased by 1.3 to 78.4 (September 77.1). A score of 75 and above indicates staff are engaged. All comments or suggestions made in the survey are anonymous but the CEO responds to each and every comment.

# Strategic Report

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## **Community Engagement**

The Society supports many local and national charities and makes significant donations via its Branch network. In 2020, the amount of donations to charitable causes across the UK totalled over £140,000 (2019 : £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 2020, £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.

## **Current activities**

### **Long Term Business (LTB)**

The LTB activities throughout 2020 focused on managing the legacy books of business, achieving growth organically and through transfers of engagements, and ensuring that the Society met all of its regulatory requirements. It is pleasing to report that, even though 2020 was a very challenging year caused by the Covid-19 virus, it was a successful year for Unity Mutual, the Society's financial services brand.

Throughout 2020, it was possible to maintain a business as usual approach in regard to the administration of the policies, and policyholders continued to receive the usual high standards of service, whilst the Staff, in the main, worked from home.

The Child Trust Fund accounts began to mature in September when those account holders reached age 18. The planning and preparation undertaken over the last 18 months came to fruition as we implemented a smooth and efficient maturity process.

Our strategy of offering competitive products proved to be highly effective and popular as we strived to meet our existing customers' needs and attract new ones. Overall, new business policy and premium income sales achieved during 2020 were the highest to date, with £7.9m of new premium income (2019 : £4.2m) and 1,157 new policies (2019 : 934).

The exploratory discussions which started to be held with the Board of the Kingston Unity Friendly Society Limited (KU) towards the end of 2019 came to fruition in 2020, with the members of KU voting overwhelmingly in favour, at their Special Meeting held in November, to transfer their engagements to the Society. Following Regulatory approval, the transfer became effective on 1 February 2021.

The Board is pleased to advise that the Society continues to manage its operations in a fully compliant manner.

Looking forward, and despite the difficult challenges we currently face, the Board is of the view that the Society is well placed to continue to grow and meet the long terms needs of our customers.

### **Branch Development under Covid**

Last year the lives of staff and members was transformed by the pandemic and resulting government directives and so was the work and priorities of the Branch Development Department (BDD).

Basic survival, staying connected and looking out for each other became the new priorities and we needed to find ways to make sure our key workers and members were supported as much as possible.

From the breakout of the pandemic the key areas of focus for the department were to:

- help keep members regularly informed (making sure there was clarity about the Society's position to the Covid-19 situation);
- support key Branch workers; and
- maintain some level of social connectivity with members both on and offline.



# Strategic Report

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Initially the response was reactive but slowly as the situation unfolded, it was possible to be more proactive – enabling the team to continue with existing projects and progress new initiatives that evolved out of being in a pandemic. The information below outlines both the reactive and proactive work of Branch Development during a very challenging 2020.

## ***A community of Oddfellows coming together to support each other***

In these unprecedented times, the Branch Development team has been working closely with our Branches to continue to offer both on and offline social activity to members. This has also included creating forums for key workers to discuss issues, share ideas and stay connected to each other and the Society. To facilitate this, Social Organisers (SOs) and Secretaries have their own WhatsApp network groups and the Branch Development Officers have hosted twice weekly video sessions for SOs via Zoom. These included event demonstrations, topical discussions, swapping ideas, problem solving and training.

**Multi-tasking.** As face-to-face social events were cancelled or postponed, SOs were encouraged to help their Branches make 'check in' phone calls or to help in other ways to support members, eg passing on useful information about shopping and prescription delivery options.

**WhatsApp support groups.** It was important to create forums for key workers to discuss issues, share ideas and stay connected to each other and the Society. To facilitate this, two WhatsApp network groups were set up for SOs and Secretaries. Guidance on how to set up a WhatsApp group was also shared with all the Branches and many of them created similar groups for their committees of management and social members.

**Social Organisers Drop in sessions.** From March, the Branch Development Officers ran weekly online Drop-ins via Zoom. Initially twice a week, these facilitated topical discussions, sharing ideas, problem solving and training. Many SOs have said that these sessions, gave them a much needed lifeline during the pandemic which they found useful, helpful and supportive. Each week highlights of the Drop-in sessions, along with any other useful information, was and is still being sent to all SOs and Secretaries in a Weekly Update emailer.

**Q & A sessions with the CEO.** Several online Q&A sessions were organised in June and July with 58 Branch representatives attending from across the country. Branches were invited to submit questions in advance for the CEO to respond to on the day. Topics included clarifying protocols for social events and meetings, undertaking risk assessments and making Oddfellows Halls Covid-19 secure. A further session was held with the CEO in January 2021 with 49 Secretaries and SOs attending and having a good discussion on matters that were concerning them.

## ***Communication: checking in and keeping everyone informed***

**Covid-19 comms.** The marketing communications team assisted in coordinating a steady flow of information and messages to keep key stakeholders regularly updated with useful information via emails, circulars, postcards and letters. The information included:

- February – Coronavirus circular sharing NHS info.
- March – circular and emails provided clarity about social events, Branch meetings, AMC, Unity Office closure, staff working from home etc.
- March and November – all member emails from the CEO with letter templates for Branches to send to all their members. 'Are you ok?' and 'Friendship and Support' letters reminding members we are here for them and who to contact if help was needed.
- March/April - emailers to members focussed on reinforcing support available to them.
- April, May, June, September - emails and circulars provided updates, guidance and other useful information about the latest Government announcements which included face-to-face social events and meetings.
- Editorial support was also given to the Care team in producing a variety of care related newsletters and information sheets on a variety of topics including bereavement and misinformation.

Other communication projects continued throughout 2020 including the website 'cookie' information being updated to bring it in line with the current legal data requirements. Society News, monthly e-mailers, regular social media posts and refreshing website content also carried on throughout the year.

# Strategic Report

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**Social media – ‘Facebook Fridays’** were established to offer weekly online ‘bite-sized’ training workshops to upskill Branch administrators. These were very well received and very timely in light of lockdown as it was an opportunity to make more of online communication. Branch Facebook activity and engagement generally improved thanks to these workshops.

**Oddfellows Travel.** Additional marketing communications resource was used to refresh the Active Travel Club proposition. There was a ‘soft’ relaunch of it with new content created for the website, social media, e-marketing and Oddspace. New travel partners were also established offering additional holiday discounts and destinations for members. At the moment, holidays are not possible but plans are in place to offer breaks to members in the latter part of 2021.

## **Staying socially connected**

**Offline connectivity.** Not all members have access to computers or choose to use digital channels to communicate, so Branches reached out to their members (particularly vulnerable and older ones) in order to keep them socially connected. They sent quizzes and ‘boredom busters’ in the post, as well as interim newsletters. They made phone calls just to chat or pass on useful information and some even delivered afternoon tea hampers to members doorsteps.

**Online events.** Members who were online also got quizzes and boredom busters emailed to them along with invitations to a variety of online social events. In the early part of the 2020 lockdown, the SO Drop-in sessions were used to provide Zoom training and online event ideas. As confidence built, so did the variety of social events on offer – everything from talks on ‘Ports from Porto’ to seated yoga and art classes, and everything in between.

The functionality of the website and Online Events Listing programme was changed in 2020 to be able to promote online events more widely. Fortnightly What’s On listings were regularly sent to SOs and Secretaries to share with their members.

By the end of 2020 two new national events had been introduced. These were a ‘coffee morning’ and ‘Fun Thursday’ - organised weekly and jointly facilitated by SOs and Branch Development Officers. These events would join 100 other online events being promoted every month across the country. A national four page listing is also produced on a quarterly basis for Branches to email or post as an Events Diary replacement or to add it to their local newsletters.

**Oddspace (the Society’s Intranet) – lockdown resource hub.** At the start of lockdown a new section, called ‘Social distancing can still be social’, was added to the Oddspace home page. This contains a huge selection of resources and information, with a lot of the content coming from Branches. It includes quizzes, e-mags, cultural links, welfare posters and information, event ads, and guides to help Branches to organise online events.

## **Recruitment**

As the Society was not able to offer a strong social proposition (the main reason most people join), given the restrictions faced as a result of Covid, it was inevitable that we would struggle to recruit at the same level as last year (ie 844 vs 1,398 in 2019).

Most of our recruitment activity was rescheduled to the second half of the year from August through to December as socialising at a distance, in limited numbers, was allowed going into September’s Friendship Month. Pay Per Click ads ran throughout 2020 continuing with best performing messages that helped to drive enquiries. Most of the new members and enquiries came during the last quarter of the year, for example, from October to December, 834 people enquired compared to 611 in 2019. Overall, the number of enquiries generated stayed at a healthy level despite the 18.4% dip (ie 2,093 vs 2,565 in 2019).

As people were not able to enjoy the usual face-to-face contact with members from their local Branch, all those who enquired or joined from 24 March 2020 received a personal note from the CEO and a mindfulness puzzle book. These were very much appreciated and many emails and notes of thanks were received at Unity Office.

National print and digital advertising supported two campaigns - Friendship Month (FM) followed by the delayed Spring Campaign which focussed on the retired market. It was also possible to take advantage of a number of late advertising newspaper/magazine deals at the end of the year, plus a Peoples Friend podcast that continued into 2021.



# Strategic Report

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Recruitment through Refer a Friend (RaF) was also down - 303 compared to 732 last year. A RaF campaign was planned for Q4 – targeting Life Members who had never referred anyone before. Due to last minute issues, this went out at the start of 2021.

**Conversion.** A number of existing projects were developed along with a new online Open Day initiative. These were:

- Conversion workshops to improve telephone skills went online – delivered to Branches via Zoom; and
- An infographic outlining the process/actions involved when dealing with enquiries was created to act as an easy, accessible aide memoire for Secretaries and other key workers. To accompany this an online Event Invitation was also designed.

Both of these projects were disseminated and made available on Oddspace.

**Online Open Days.** In the absence of ‘taster’ events for prospects to attend, online Open Days were created as a social opportunity and to find out more about what membership could offer. The Open Days ran through October to December and timetabled at different times of the day and on different days of the week. They included a short presentation, ice-breakers, breakout rooms and games. Invitations were sent to everyone who enquired during Friendship Month and the Retirement Campaign. Attendance varied from six to 25 at each session and conversion was high. Online Open Days will continue in 2021 along with the introduction of online new member events.

## 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 Group Consolidated Income and Expenditure Accounts shown on pages 63 and 64, with the Group Consolidated Statement of Other Comprehensive Income being shown on page 66, and the Assets and Liabilities as at 31 December 2020 shown in the Group Consolidated Balance Sheet on pages 59 and 60. The Technical Account for Long Term Business on page 63 shows a transfer from the Fund for Future Appropriations of £2.88m compared to a transfer to the Fund for Future Appropriations of £4.90m in 2019. The Non Technical Account shows the income and expenditure arising from the Society’s business objectives as outlined on page 65 and produces a deficit of income over expenditure of £1.06m (2019 : deficit of £1m). In 2020 the Investment income decreased and unrealised gains on investments decreased from 2019 which led to the total investment return to investing Branches decreasing from 2019. This led to an overall deficit of income over expenditure in 2020.

The total investment return (including realised and unrealised gains and losses) for the Non Technical Account amounted to £4.9m (2019 : £14.29m) of which £5m (2019 : £13.82m) 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 £0.21m (2019 : gains of £9.30m) and the Technical Account shows a movement in net unrealised losses of £18.32m (2019 : gains of £21.49m).

The movement in losses on investments in 2020 has resulted in a Consolidated Balance Sheet gross asset value which has decreased to £439.27m from £448.49m in 2019 and is an overall decrease of £9.22m (2.0%), the key driver being the decrease in asset valuations as at 31 December 2020.

The effect of coronavirus (Covid-19) in 2020 led the UK to be in recession due to two consecutive quarters of negative growth in the first half of 2020. Lockdown followed an increase in the number of cases resulting in closure of schools, shops and businesses putting a burden on public finances and the deficit level. The increase in the number of infections during the second half of 2020 continued the uncertainty and led to another increase in the number of restrictions.

The Bank of England base rate reduced from a level of 0.75% in August 2018 to 0.25% on 11 March 2020 and then to 0.10% on 19 March 2020. This level continued throughout the remainder of 2020 and continued into 2021. Inflation remained under the 2% target for 2020 mainly due to lower oil prices, the temporary reduction in VAT in the hospitality and leisure sector and weaker wage growth.

The Government’s Job Retention Scheme helped to keep unemployment at a reduced rate. This scheme is due to continue until 30 April 2021.

# Strategic Report

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The transition period for Brexit continued to 31 December 2020. The negotiations with the EU continued during 2020 as the likelihood of a switch to World Trade Organisation rules increased until a last minute Brexit trade deal was struck at the end of December 2020. The Society will continue to monitor any impact of the UK leaving the EU, which is anticipated to be minimal given the Society's operations.

## Covid-19

The spread of a new strain of the Coronavirus (Covid-19) which hit the world in early 2020 continued to affect the world throughout 2020 and into 2021. At the time of writing this report, the UK is still in national lockdown with no date for when the restrictions will start to be lifted. The rollout of the Covid vaccinations commenced in mid December 2020 and as at 14 February 2021, more than 15 million people in the UK had been given at least one dose of a Covid vaccine. The virus caused disruptions to businesses and economic activity which has precipitated substantial fluctuations in interest rates and global stock markets. Even now, 12 months on there remains significant uncertainty which is expected to continue for some time. We monitored the situation very closely throughout 2020 and into 2021 and the Society's business effectively carried on as business as usual with all staff working effectively and efficiently from home from 25 March 2020. The Society, throughout all this time has, and continues to operate effectively, and any impact on the Society's Solvency Capital Ratio (SCR) which, as at 31 December 2020, stood at 397%, continues to be monitored on an ongoing basis.

In addition, throughout 2020, the Society was in discussions with the Kingston Unity Friendly Society (KU) with regard to them transferring their engagements to the Oddfellows. It was hoped that this transfer would have been finalised in 2020 but this was not possible. As a result the effective date of transfer of KU to the Society was 1 February 2021. As such, therefore, its assets and liabilities are not included in the Society's Balance Sheet for 2020 but are noted as a post Balance Sheet event. (Note 27).

## Liquidity strategy

The current economic climate remains volatile with interest rates at an all-time low. Some economies have showed signs of improving more than others, 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 Board and signed on its behalf by:



**C J Nelson**  
Chief Executive Officer  
1 April 2021

# Directors' Report

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The Directors present their Annual Report together with the Financial Statements for the year ended 31 December 2020. 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 Boards 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.

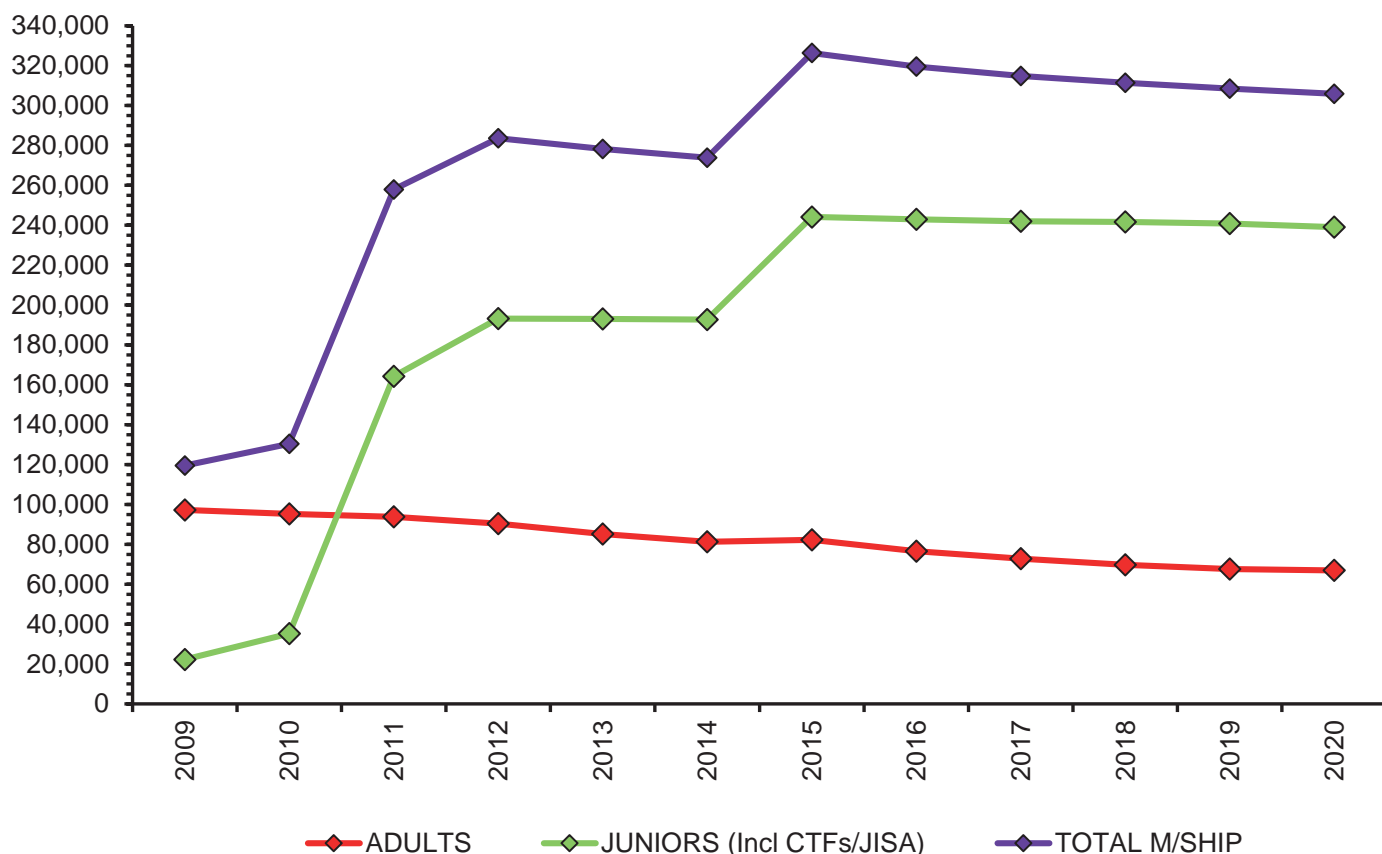
In the unlikely event that a complaint cannot be resolved to the member's satisfaction, the member is made aware of the option to appeal to the Financial Ombudsman Service (FOS).

Over the last three years, the Society has received 26 regulated business complaints. Following appropriate investigation, 17 were upheld, six refuted, one withdrawn and two 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 305,917 members on 31 December 2020 (308,456 in 2019), of which 236,899 were Junior Members (236,087 being Child Trust Fund Members and 812 Junior ISAs).

### MEMBERSHIP DURING LAST 12 YEARS



## 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

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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 2020 Board meeting. The Board conducted this review using a detailed budget for the forthcoming year (ie 2021), the Strategic Plan which covers the three year period of 2019 to 2021, the Society's Own Risk and Solvency Assessment (ORSA) which covers the period to December 2022 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 2021 budget and Strategic Plan are also reviewed and approved by the Board.

The Board have determined that the two year period to December 2022 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 2022;
- The strategy and associated principal risks underpinning the Society are monitored over a forward looking two year period; and
- The level of confidence within the judgments made as part of the forward looking two year assessment is in line with the Society's risk tolerance and business objectives.

The Board also considered the Principal Risks and Uncertainties as described in the Strategic Report. 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 any resulting effect on the investment market will be the main impact the Society faces as a result of the UK leaving the EU.

## Effect of Covid-19

2020 has been, what must be classed as, one of the most unusual years in modern history which began with the spread of a new strain of the Coronavirus (Covid-19). This had an effect across the world throughout 2020 and caused disruptions to businesses and economic activity. There remains significant uncertainty in the months to come. The Society has continued to operate effectively and efficiently throughout the whole of 2020 and this going concern statement makes specific mention of how that has occurred. The Society continues to monitor the situation and considers any impact to ensure we are able to continue to operate effectively. Throughout the year the Society has monitored its Solvency Capital Ratio (SCR) which, as at 31 December 2020, stood at 397%, a movement from the position as at the end of 2019 (401%).

As noted in the signed 2019 Reports and Financial Statements, the Society has and continues to have in place a number of measures that are ensuring that the Society's business, both fraternal business and Long Term Business (LTB) continue to operate fully with all staff working from home, or as was the case more latterly in 2020, with some staff working partly from the office, in a safe and secure environment and partly from home.



# Directors' Report

Throughout 2020 the Society has continued to closely monitor the situation that we have all found 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 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 have actively considered our SCR position to ensure we take appropriate actions if this is needed.

The movements during the year being:

31 December 2019	401%
31 March 2020	363%
30 June 2020	409%
30 September 2020	409%
31 December 2020	397%

During 2020 the Society has 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.

The level of claims in terms of numbers and values are consistent with the projected run-off and cash flows from the Solvency II model, and which include the Child Trust Fund (CTF) maturities which commenced on 1 September 2020.

## Liquidity

In relation to our regulated business within LTB, the 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 in 2015. As at the end of December 2020, this portfolio amounted to £12.55m (out of overall LTB assets of £253m). The Society has continued to actively manage the diversification of the portfolio by allowing the Non-Profit Fund to take partial investment in the property portfolio. At YE20 this resulted in £4.51m being held by the Druids Fund and £8.04m by the Non-Profit Fund compared to £11m and £2m respectively at the end of 2019.

Given the other investments in each of the LTB Funds, and the investments of the LTB overall, the illiquidity of this portfolio does not create any material concern.

## Governance and operations

Following the Government lockdown announcement on 23 March 2020, all of the Society's staff were successfully transitioned to be able to work from home by close of business the next day.

The Society set up a Coronavirus Working Group consisting of the CEO, the Insurance Director, the Compliance & Risk Officer and the HR & Office Manager, with both formal and informal reporting being regularly reported to Directors on the steps being taken to manage and mitigate the risks resulting from the coronavirus pandemic.

Both offices are all equipped with the necessary PPE, screens, signage and one way systems around the offices, so that those staff who, during the lockdown, needed to go into the office at any time, have been doing so in a safe and secure environment.

Whilst the plan was to open the Office in early August, the local restrictions then brought into place in Manchester delayed that opening and whilst the Office could still have opened, given the fact that the systems in place enabled all staff to work successfully from home, then in order to protect them, the Office in Manchester remained closed. The Liverpool Office, which hosts less people did open as the numbers of staff based there is less than five and they chose to recommence days in the office.

# Directors' Report

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As at the end of 2020, the Manchester Office remained closed and, given the current national lockdown in place, remains closed at the time of writing this report. Staff continue to all work effectively from home and the assessment of reopening the Offices will be determined as and when restrictions are lifted.

## **Acquisition of Kingston Unity Friendly Society (KUFS)**

The Society has been in discussions with KUFS for over 12 months. Following detailed due diligence undertaken and confirmation by the Society's Board, Kingston Unity's Board, KUFS's members at a Special General Meeting, and the approval of the Regulators, the transfer of business was concluded on 1 February 2021. Based on the due diligence undertaken and the terms of the transfer, the Directors are satisfied that the acquisition of KUFS does not impact upon the viability and going concern statements.

## **Meeting other regulatory obligations**

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

Taking into account the Society's scale and complexity we are satisfied that we have taken appropriate and proportionate actions throughout the year 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.

Taking all these matters into account, the Society has continued to adopt the going concern basis in preparing the Financial Statements.

## **Corporate Governance**

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

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

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

The Board is committed to complying with best practice in Corporate Governance and for the year ended 31 December 2020 the Society complied with the principles required under the provisions of the Association of Financial Mutuals (AFM) Corporate Governance Code which is based upon six fundamental principles. The Board considers that throughout the period under review, it has applied all the principles and provisions of the AFM Corporate Governance Code.

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. The two elements of the Society, its Long Term Business undertaken by the brand Unity Mutual – "Family Friendly Finance" 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.



# Directors' Report

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## 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 generations to come.

## Principle 2 – Board Composition

A biography for each Director can be found on Pages 29 to 33 of this report and also on the website [www.oddfellows.co.uk](http://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.

## Size and Structure

Given the impact of Covid-19, the Society held an electronic AGM on 1 September 2020 where 11 Directors were elected. Of these, eight serve on the 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 2020 serve on at least one of these Sub Boards and the list of who serves on which can be found on Page 33. 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 Board and the Sub Boards is felt to be appropriate and proportionate to the scale and complexity of the Society's business.

The Society has in place a Diversity Policy 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 of 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 2020, the Audit, Risk & Compliance Committee (ARCC) co-opted an additional Skilled Person as part of their composition who brings specific skills and knowledge to the ARCC. The composition and remit of each of the Sub Boards and Committees are noted on Pages 36 to 47. 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

# Directors' Report

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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 Management and relevant external courses, all of which is fully documented in the Training and Development Plan, which also includes the requirement for Directors to undertake Computer Based Training (CBT) modules each year, the details of which are included in Page 36.

2020 saw a new way of evaluating each Director which included a self-assessment across the following areas:

- Business Strategy and Model;
- Compliance and Risk Management and Internal Controls;
- Effectiveness;
- Experience of the Society;
- External/Internal Audit and Investment Management;
- Financial and Actuarial Analysis and Controls;
- Governance, Oversight and Controls;
- Leadership – the Board and its Sub Boards and Committees;
- Market Knowledge;
- Regulatory Framework and requirements; and
- TCF and Culture.

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.

## **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 Board has a programme of three principal meetings every year, with the Commercial and Fraternal Boards 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 34. The key strategic areas of focus in 2020 are included in the Strategic Report on Pages 7 to 19.

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 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 Board and both the Sub Boards, the Governance Committee and is ex-officio on all other Committees. The Grand Master is a member of the 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 36 to 47.

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.

# Directors' Report

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## 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 even throughout 2020 where Covid-19 restrictions have been in place and all staff have been working from home, has still maintained all its business as usual. It has also seen an increase in the levels of new premium income compared to 2019, progress with a Transfer of Engagements from another Society which completed on 1 February 2021, has seen a high level of enquiries in respect of membership of the Society, and even with Covid-19 has still managed to recruit new fraternal members to the Society offering them the Care and Welfare support together with online events allowing members to realise that the Society is always there for them. Where opportunities are considered, the Sub Boards initially review the business cases which, once approved, are then submitted to the 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 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.

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 36 to 40).

## 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 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 2020, 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.

# Directors' Report

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## **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. All of which, have continued on a more frequent basis throughout 2020 via Zoom to ensure that whilst the camaraderie that exists in the usual Office environment is not possible due to all staff home working, ensuring that they continue to be supported through what has been a challenging environment for all. Together with the work undertaken on culture, which includes an annual staff culture survey and quarterly staff surveys that everyone has the opportunity to complete, this ensures that all staff and management have good access in terms of information and providing feedback.

## **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 2021 and beyond.

## **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. With the Covid-19 restrictions in place, the Society was unable to hold its planned Annual Movable Conference (AMC) in May 2020 but instead held an electronic AGM on 1 September 2020 where there were 171 voting Deputies representing the Society's 120 Branches. This ensured that the Society was able to fulfil its regulatory and statutory obligations to deal with certain matters such as the reception of the Reports and Financial Statements, the reappointment of the Society's Auditors and the election of the Society's Officers and Directors.

The AGM, albeit electronic, served as an excellent way of ensuring the Society's members remained informed about developments in the Society but also had 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, unfortunately only the March seminar could be held in 2020 where 34 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 15 to 18.

## **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](http://www.oddfellows.co.uk)), intranet and social media channels provide extensive and up-to-date news on ongoing developments.

# Directors' Report

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## Directors

### David Alan Randall

Grand Master (Aged 69)



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 but due to work commitments he didn't become active until the early 2000's. He held various Lodge positions becoming Noble Grand in 2007, District Trustee in 2008 and Provincial Grand Master in 2011. He still holds the position of District Trustee today.

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

He was a member of East Anglian Group Conference Executive Committee for seven years becoming its President in 2015/2016. He retired from work before standing and being elected to the Board in 2016 and has been Grand Master since May 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 71)



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 13 years as Honorary Auditor. He served six years on the Investigation Committee, four of them as Chairman. Prior to his election to the Board of Directors in 2017, he was a Unity Special Arbitrator. 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.



# Directors' Report

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## Bill Henchliff

Immediate Past Grand Master (Age 71)



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 20 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.

## Jane Nelson, FCCA FCMA, Dip IoD

Chief Executive Officer/Secretary of the Order/Executive Director (Age 55)



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 ten 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 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 served as its Vice Chair from January 2016, and at the AFM Conference and AGM held in October 2019, she was elected as Chair of the AFM Board, a position she still holds today.

In December 2020, she was appointed as a member of the Finance and Investment Committee of The Natasha Allergy Research Foundation, a UK charity looking to help and cure people with allergies. Its main purpose being to fund and support pioneering allergy research bringing the greatest scientific minds together, working for treatments and better medicine.

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 on the Committee of Management for over 20 years and as a Trustee since November 2003.

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

# Directors' Report

## Tony Luckett

MNED (Age 60)



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 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 and Past President in 2011. 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) incorporating Whistleblowing Champion in June 2019.

Tony is self-employed and has been for over 37 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 father's and grandfather's companies before him and is registered with Trust Mark and Build Assured (Warranty Builder). He is currently sitting 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 third term as Past President.

He also served as a Director from 2004-2016 of the Manchester Unity Credit Union Ltd, serving 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 68)



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 39 years.

Barbara has served on the Group Conference Executive for 10 years, five of them as Secretary, a position she still holds. She has also been the 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, and socialising with her family and friends.



# Directors' Report

## Stephen Code, MBA

Insurance Director/Executive Director (Age 60)



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 43 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

External Non-Executive Director (Age 65)



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, in agreement with the Society's Regulators came 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.

## Richard Gough

External Non-Executive Director (Age 69)



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.

# Directors' Report

## Colin Nugent, ACII

External Non-Executive Director (Age 66)



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 61)



David became a Director of the Society in May 2019 and was elected Chairman of the Board in June 2020. Having spent 27 years in the mutual building society, latterly as CEO of Hanley Economic Building Society. David chose a career switch in 2016 to become CEO of Douglas MacMillan Hospice in Stoke on Trent. His current role is to oversee the strategic development of one of the UKs largest independent hospices, founded in 1973 and now responsible for the palliative care of around 3,000 patients each year.

David is a former 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 2020, six Board meetings were held. As at 31 December 2020, 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. Following the changes in the Society's governance in 2018, the AMC elect the Directors who are then allocated to the Commercial Board or Fraternal Board based on their skills, knowledge and experience, with each of these Sub Boards 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 or Committee.

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 \*

### Executive

Jane Nelson >\*+  
Steve Code >+

### External Non-Executive

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

>Board

+Commercial Board

\*Fraternal Board

# Directors' Report

## Board Attendance

Attendance at 2020 Board and Committee Meetings:

	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	6	6	9	2 +	5	5	5	5				
David Ogden	6	6	9	9	5	5			4	4	2	2
Bill Henschliff					5	5	5	2 ^				
Jane Nelson	6	6	9	9	5	5	5	5 +	4	4		
Tony Luckett	6	6	9	9	5	5	5	5	4	4	2	2
Barbara Needham	6	1			5	5	5	5	4	4		
Steve Code	6	5 ~	9	9								
Bill Connolly	6	6	9	8 ♦	5	1			4	4	2	2
Richard Gough	6	1	9	9								
Colin Nugent	6	6	9	9			5	5				
David Webster	6	6	9	8 ~							2	1 ^

♦ Personal ~ Holiday

^ Newly appointed Director to the Committee

+ The Grand Master and Chief Executive Officer are ex-officio on all Committees and meetings attended have been included in the numbers

Three of the Board meetings held in the year were short meetings that needed to be held as a result of Board approval being required for certain matters.

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

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

Given the effects of the Covid-19 pandemic in 2020, the majority of meetings held post 24 March were held by electronic means. A summary of which meetings were held physically in the Office and which were held electronically is shown below:

Board		Commercial Board		Fraternal Board		ARCC		Governance Committee		Remuneration Committee	
Conference Call	March	Office	Jan, Feb	Office	Feb	Office	Jan	Office	Feb	Office	Jan, Nov
Zoom	May, July, Sept (two meetings), Dec	Zoom	April, May, June, July, Sept, Oct, Nov	Zoom	Apr, Aug, Oct, Dec	Office & part Conference Call	Mar	Zoom	June, Sept, Nov		
						Zoom	May, June, Nov				

# Directors' Report

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## 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 2020, eight Directors were classed as independent.

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

MNED Tony Luckett served as the Senior Independent Director in 2020. He has been available to members for unresolved concerns during the year.

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

## Induction Training and Evaluation of Directors

The Regulators are taking a more stringent approach to the assessment of applicants under the PRA/FCA Senior Managers & Certification Regime (SM&CR), particularly relating to the applicant's core competencies and capabilities in the following areas:

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

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

In accordance with that Scheme, each member of the Board, Sub Boards and Committees undertook self-assessment before the end of 2020, a process which highlights areas of strengths and areas for development, which can be appropriately addressed. During 2020, 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. The team evaluation process included the Board, Commercial Board, Fraternal Board, Governance Committee and the Audit, Risk and Compliance Committee, whilst the individual self-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.

# Directors' Report

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 2020 where the Directors met without the presence of the Chairman.

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

- Anti Bribery
- Anti Money Laundering & 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 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 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 2020 were:

<b>Audit, Risk and Compliance Committee:</b>	Colin Nugent	(Chairman) (External Non-Executive Director)
	David Randall	
	Bill Henchcliff	
	Tony Lockett	
	Barbara Needham	
	Charles Haygarth	(External Skilled Person)

## Composition of the ARCC

The members of the Audit, Risk and Compliance Committee (ARCC) as at 31 December 2020 are as stated above. Martin Berry and Gavin Hughes (External Skilled Persons) stepped down from their positions on the ARCC during 2020 due to their external commitments. In addition, Clive Tayler retired from the ARCC following the 2020 AMC. The ARCC would formally like to thank Clive Tayler, Martin Berry and Gavin Hughes for their service as members of the ARCC.

The ARCC is appointed annually by the 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.

# Directors' Report

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

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

Four meetings of the ARCC were held during 2020. 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 2020, the Society did not receive any whistleblowing reports.

## **Risk Management Framework (RMF) and internal control**

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

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

- **Oversight:**  
All critical risks have been identified and are being managed and monitored under a holistic approach consistent with the Board's approved Risk Appetite Statements.
- **Ownership and Responsibility:**  
The ownership of risk is assigned to Risk Owners who are responsible for identifying, evaluating and reporting risk exposures.
- **Assurance:**  
The Board, Directors 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 Board.



# Directors' Report

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

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

The External Auditors provide independent challenge of the internal control framework in respect of financial reporting. The Society's Compliance & Risk Officer has the day to day responsibility for the Society's RMF.

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

The Society's Head of IT provides the ARCC with assurance reports with regards the adequacy and effectiveness of the Society's cyber security systems and controls, and that they are appropriate and proportionate to the Society's scale, complexity and business model.

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

## **Financial risk management objectives and policies**

The Society's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The source of risk and further details around the management of risks which are faced by the Society are disclosed and discussed in greater detail within Note 26 in these Financial Statements.

The use of financial derivatives is governed by the Society's policies approved by the 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 37. 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 the EU Audit Directive, the External Auditors must be reviewed every ten years. An External Audit Review and tender process commenced in September 2019, which was reported to the AGM in 2020, which resulted in the reappointment of Deloitte. 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.

Due to the global pandemic Covid-19 and the national lockdown that followed, audit planning and year end 2020 audit work was performed via a mixture of face to face and remotely via zoom meetings. As undertaken for a number of years audit information and data has been shared via a secure data portal, which has enabled the external audit work to be performed as planned.

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.

# Directors' Report

## 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:** Following the reappointment of Deloitte the Audit Partner was changed from Adam Addis to Peter Birch. The Partner can perform the role for a period of five years.
- **Audit related services:** This is work that the External Auditor performs in its capacity as Auditor, where the nature of the work is closely allied to that of the audit of the Reports and Financial Statements. Accordingly, this work is undertaken by the External Auditor unless unusual circumstances apply.

## Tax advice

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 2020.

## 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 2020 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 Board around significant fluctuations. The ARCC also considers the results of Internal Audit work and External Audit reports in coming to their conclusion.

# Directors' Report

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

## **Internal Audit of Unity Office**

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

The Internal Audit Plan was agreed by the ARCC following an assessment of the results of the audit work already undertaken.

The audit needs analysis was taken into account when developing the Internal Audit strategy, Strategic Plan and annual plan of work. All work follows a risk based systems audit approach.

During the year ended 31 December 2020 audit work was conducted across departments within the Offices in Manchester and Liverpool.

Internal audit work is performed quarterly to fall in line with ARCC meetings. The first quarter of 2020 was performed as usual on site at the relevant offices. Due to the global pandemic Covid-19 and the national lockdown that followed, subsequent work was performed remotely. Meetings with Unity staff were held via zoom, rather than face to face. The use of screen sharing and secure transfer of documents via cloud services has enabled the internal audit work to be performed as planned.

Each department, where recommendations to changes in their procedure had previously been made, were revisited as and when those recommendations became due. Of the Internal Audit recommendations made in previous years, there were four recommendations made which were still in the process of being actioned at the end of 2020. The ARCC continue to review 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 2020.

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 Board and the Annual Movable Conference. There were no exceptions that the Committee consider should have been reported during 2020.

<b>Commercial Board:</b>	Richard Gough	(Chairman) (External Non-Executive Director)
	Jane Nelson	
	Steve Code	
	David Ogden	
	Tony Lockett	
	Bill Connolly	(External Non-Executive Director)
	Colin Nugent	(External Non-Executive Director)
	David Webster	(External Non-Executive Director)

The members of the Commercial Board as at 31 December 2020 are as stated above.

Directors are elected at the AMC and are allocated to one of the two Sub Boards. Those appointed to the Commercial Board are confirmed by resolution of the Board.

The Commercial Board consists of at least seven members 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.

# Directors' Report

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

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) and Conduct Risk;
  - 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;
- assess the fair outcomes for policyholders taking into account any relevant historical provisions detailed in any relevant instrument of transfer;
- 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 the performance of the With Profits Actuary at least annually;

# Directors' Report

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- assess and consider the appropriateness of the costs and expenses incurred in running the funds;
- consider how bonus rates, smoothing and, if relevant, market value reductions have been calculated and applied;
- consider the relative interests of policyholders with and without guarantees;
- consider With Profits customer communications, such as annual reports, bonus statements, product literature and reports to With Profits policyholders;
- identify surplus and excess surplus and the merits of distribution/retention;
- provide advice and guidance on any other issues that With Profits policyholders might reasonably expect the Advisory Arrangement to be involved in; and
- review and update the Society's LTB Run-Off Plan.

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 Solvency II environment, and the regulatory feedback and consultation papers issued by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

## **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.

## **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. As a result of discussions over a period of time, the Society accepted the Transfer of Engagements from the Kingston Unity Friendly Society Ltd on 1 February 2021.

## **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 2020 are as stated above.

Directors are elected at the AMC and are allocated to one of the two sub Boards. Those appointed to the Fraternal Board are confirmed by resolution of the Board.

# Directors' Report

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The Fraternal Board consists of at least six members 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 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 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. Since 2018 Branch Internal Audits have been carried out on a rolling basis, with the aim being 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 process now followed also includes some pre work being requested from Branch Secretaries to ensure a more efficient and effective programme of internal audit visits.

Given the Covid-19 situation in 2020, it was not possible to audit as many Branches as intended. 15 Branch internal audits were carried out in 2020, all of which were reported to the Fraternal Board meetings during 2020. This means that there are 10 Branches which, due to the unforeseen circumstances, will not have been audited since before 2018. This will be rectified early in 2021 when those Branches will be audited as a matter of priority and, from then on, it is envisaged that all Branches will be audited every two years.

In the majority of cases any recommendations as a result of the Internal Audit visits were accepted and actioned by the relevant Branch Committee of Management. In 2020 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 2020 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.



# Directors' Report

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All Branch audit reports and the responses of the Committee of Management to the recommendations of the Branch Internal Auditor are critically reviewed by the Fraternal Board, so that they can be satisfied that both the Branch function and the approach of their Committees, in general, is appropriate and 'fit for purpose'.

Where there is any doubt expressed that the Branch administration is in need of further scrutiny then the Fraternal Board are empowered to appoint a Deputation to ensure that all assistance necessary can be afforded to the Branches.

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 Board which will receive and approve its minutes.

<b>Governance Committee:</b>	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 2020 are as stated above. Gary Morley retired on 31 December 2020 and thanks go to him for his valued support and guidance given to the Committee. With effect from 1 January 2021, Vicky Morley, the Society's Compliance and Risk Officer, was appointed as Company Secretary.

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 2020:

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

The Governance Committee undertook reviews and reported back on the following matters during 2020: The oversight and management of governance related risks within the Society's Risk Management Framework:

- Traditions of the Society.
- 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;
- Review of the Society's compliance with the Association of Financial Mutuals (AFM) Corporate Governance Code (CGC), across six key Principles;
- 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;
- Review of Delegated Authority;
- Governance Committee Clause;
- Review of PRA Rules on Board Diversity and Succession Planning;
- Review of Directors and Senior Managers Succession Planning;
- Review of Board nominations and Rule 18 as a consequence of Covid-19;
- Review and updating of Director & Skilled Persons Appraisal Forms;
- MNED Nominees Training; and
- The Terms of Reference for the Sub Boards and Committees, including confidentiality.

# Directors' Report

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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.

Four members attended (either in person or via Zoom) the training that was held on 7 October 2020, and by the deadline of 30 November 2020, one existing MNED and two new MNED nominations had been received.

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

The members of the Remuneration Committee as at 31 December 2020 are as stated above.

The Board delegates responsibility of overseeing the design, implementation and maintenance of the Society's Remuneration Policy 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; and
- determining targets for any performance-related pay schemes operated by the Society.

For the year 2020, 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 previously 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 2020.

# Directors' Report

	Salary	Cash Allowance in lieu of pension	Taxable Benefits	Total	
				2020	2019
<b>Chief Executive Officer/ Secretary of the Order</b>	£167,715	£42,137	£10,660	£220,512	£213,550
<b>Insurance Director</b>	£147,088	£36,941	£9,682	£193,711	£189,454
<b>Total</b>	£314,803	£79,078	£20,342	£414,223	£403,004

Taxable Benefits currently offered are private medical insurance and a company car or car allowance. The Executive Directors both have notice periods of 12 months.

## Pension entitlements

The figures are in respect of benefits within the M U Pension Scheme.

Position	Accrued pension 31.12.20 (per annum)	Transfer value of accrued pension at 31.12.19	Transfer value of accrued pension at 31.12.20	Pension input amount over 2019 less Director's contributions	Pension input amount over 2020 less Director's contributions
<b>Chief Executive Officer/Secretary of the Order</b>	£68,691	£1,885,060	£1,796,811	Nil	Nil
<b>Insurance Director</b>	£7,610	£162,982	£159,196	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. Therefore, from this date onwards the pension input amount and contributions are zero.
- 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 figures make no allowance for any future adjustments which may be required in relation to the equalisation of Guaranteed Minimum Pension (GMPs). However, the transfer values at 31 December 2020 do include such allowance, following the judgement in the Lloyds case, which requires schemes to equalise GMP benefits for men and women.
- All accrued pensions and transfer values include the values of the Directors' AVC benefits, where applicable.
- 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

The fee based structure for the Society's External and Member Elected Non-Executive Directors for June 2020 to May 2021 is as detailed overleaf:

# Directors' Report

- A base fee of £4,000 pa is paid to all Non-Executive Directors who sit on the Board, the Commercial Board or the Fraternal Board.
- An additional fee of £4,500 pa is paid to the Chairman of the Board.
- An additional fee of £1,100 pa is paid to the Chairmen of the Commercial and Fraternal Boards.
- An additional fee of £1,100 pa is paid to the Chairmen of the Audit, Risk & Compliance and the Governance Committees.
- An additional fee of £550 pa is paid to the Chairman of the Remuneration Committee, the Senior Independent Director and the Society's TCF & Conduct Risk Champion.
- An additional fee of £900 pa is paid to any Non-Executive Director who sits on both Sub-Boards.
- An additional fee of £1,100 pa is paid the Grand Master in his year of Office.

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

The details in the following table show the remuneration arrangements that have been in place for the Non-Executive Directors and reflect the remuneration for the year ended 31 December 2020:

Name	Total Remuneration	
	2020	2019
David Webster (Chairman June 2020)	6,127	2,112
Bill Connolly (Chairman to end of May 2020)	5,920	7,663
David Randall	5,558	4,177
David Ogden	5,442	4,593
Bill Henchliff	3,842	3,987
Tony Luckett	5,442	4,385
Barbara Needham	3,842	2,112
Richard Gough	5,454	5,105
Colin Nugent	4,917	4,593
Charles Vaughan	-	1,667

## 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 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 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 Individual 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

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## Charitable Donations

### *H A Andrews and the Lupus Trust*

The Society is committed for the next three years to supporting the Lupus Trust to a total of £85,000, and the second donation of £28,000 was made in October 2020. The ongoing research project explores why the immune system in lupus patients becomes overactive, and how the processes may be reversed.

Due to coronavirus restrictions, the cheque could not be presented in person, however, the research team took their own photos to use across our website and social media. The research team provided an update, explaining how they have managed to continue their work despite social distancing restrictions. This brief update is available to view on the Society's website [www.oddfellows.co.uk](http://www.oddfellows.co.uk)

As the AMC had to be cancelled in 2020, and the AMC for 2021 will be held electronically, plans are in place for Professor Jo Spencer, head of the Lupus research team, to join the Society at the next available opportunity to present the research work undertaken over the three years.

### *Helping others*

Oddfellows have always looked further than their own front door when it comes to charitable giving, and this year was no exception. In spring, a nationwide appeal to raise critical funds for The Silver Line and the National Emergencies Trust resulted in a donation of £19,210. It helped some of those hardest hit by the coronavirus pandemic. £7,600 was also raised and sent overseas to help Australian people to rebuild their lives following the 2019/2020 bushfires.

In addition, Branches continued to support local and national charities and, in 2020, donated over £140,000.

## 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 2020, of which the Auditor is unaware. Each Director has taken all steps that he/she ought to have taken in his/her duty as a Director to make himself/herself aware of any relevant audit information and to establish that the Society's Auditor is aware of that information.

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



**C J Nelson**  
**Chief Executive Officer**  
**1 April 2021**

# 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') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the society's affairs as at 31 December 2020 and of the group's and 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 group and society income and expenditure accounts;
- the group and society statements of comprehensive income;
- the group and society balance sheets;
- the statement of accounting policies; and
- the related notes 1 to 28, excluding the capital disclosures in note 14 calculated in accordance with the Solvency II regime which are marked as unaudited.

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

### 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 group and 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. The non-audit services provided to the group and the society for the year are disclosed in note 22 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or 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

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"><li>• Expense assumptions used within technical provisions;</li><li>• Completeness and accuracy of policyholder data used within technical provisions; and</li><li>• Valuation of investment property.</li></ul> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"><li>! Newly identified risk</li><li>&lt;&gt; Similar level of risk</li></ul>
<b>Materiality</b>	<p>The materiality that we used for the group financial statements was £540k which was determined on the basis of 3% of Funds for Future Appropriation ("FFA").</p>



# Independent Auditor's Report

<b>Scoping</b>	Audit procedures designed to respond to the risks of material misstatement were performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	<p>For the purpose of the 31 December 2020 reports and financial statements, consolidated results and position are being presented for the first time. The decision was made to prepare consolidated financial statements due to the potential for future growth in the Society's activities.</p> <p>In determining materiality for the 31 December 2020 audit, we changed our benchmark from total assets to Funds for Future Appropriation ("FFA"). Our view continues to be that a balance sheet measure is the most appropriate and deem that FFA as a benchmark is more consistent with the industry, and remains relatively stable, however would also reflect any future growth of the group.</p> <p>In comparison with the prior year, we have not identified a separate Key Audit Matter for the current year relating to the appropriateness of the COVID-19 post balance sheet event disclosures, as this disclosure is not required in the current year.</p> <p>In the prior period our key audit matter relating to the valuation of investment property related to properties within the Druids portfolio, which are all in the residential sector. Through discussions with internal valuation specialists, we found that in light of COVID-19 restrictions there has been far greater uncertainty around the valuation of commercial properties within certain sectors, notably retail and leisure. We have therefore pinpointed our key audit matter to the £21.4m investment properties on the Group balance sheet that fall within these sectors.</p>

## 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and society's ability to continue to adopt the going concern basis of accounting included:

- evaluated management's stress and scenario testing, and challenged management's key assumptions. In conjunction with internal actuarial specialists, we reviewed the governance over, and the production of, solvency monitoring information, and considered its consistency with other available information and our understanding of the business;
- assessed the actions that came out of the various governance committee meetings which considered COVID-19 in advance of reporting;
- evaluated management's assessment of going concern, including challenge of the stressed balance sheet and capital requirement projections within the Society's Own Risk and Solvency Assessment ("ORSA"), and Medium Term Capital Management Plan, and operational matters within the Strategic Plan;
- assessed the potential future impact of COVID-19 and Brexit, and the mitigating actions management currently have in place, and those that may be required in response to a further deterioration in the wider UK and Global economy; and
- assessed the going concern disclosures made by management in the financial statements, based on our knowledge gained throughout the audit.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

# Independent Auditor's Report

## 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.

### 5.1 Expense assumptions used within the Technical Provisions

<b>Key audit matter description</b>	<p>The Technical Provisions balance is the largest liability on the Balance Sheet, held at £246.7m in 2020 (2019: £254.5m). Significant judgement is required in the setting of assumptions that underpin the Technical Provisions valuation and the society appoint an actuarial consultant to assist in the determination of the Technical Provisions. We identified a key audit matter in relation to the future expense assumptions used given the level of focus on the society expense base from the members. The use of an inappropriate assumption, whether through fraud or error, could result in a material misstatement particularly because of the high sensitivity of the provision to this assumption.</p> <p>Through 2020, management's actuarial specialist performed analysis of the expense assumptions, in particular the approach to estimating expenses for policyholders that could no longer be contacted ("gone-aways"). It was found that historically the policy provided expenses for such policies for a period significantly in excess of that experienced. This was deemed to be material to the users of the financial statements, and an error in the period year, as such the comparative period Technical Provisions have been restated to £254.5m, a reduction of £258.4m from that reported in the prior year. The prior period error has been disclosed within note 28.</p> <p>The accounting policy disclosure for the Technical Provisions is set out in note 1a and the financial disclosures are set out in note 14. This has been included in the Audit, Risk and Compliance Committee ("ARCC") report on page 39.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>In respect of the expense assumptions used within the technical provisions, we have;</p> <ul style="list-style-type: none"><li>• gained an understanding of the relevant internal controls put in place by management to manage the risks associated with setting the expense assumptions;</li><li>• assessed the competence, capability and objectivity of management's actuarial expert;</li><li>• challenged the split of expenses between fund and product groups to ensure that this is consistent with the policy expense assumptions;</li><li>• with the support of actuarial specialists we have challenged the appropriateness of the expense assumptions used within the modelling of Technical Provisions. As part of this work we have reviewed the adjustments to total expenses and the calculation of the per policy expenses;</li><li>• we have also performed a retrospective comparison of the 2020 actual expenses to the 2020 budget, and a comparison of the on-going expenses included in the actuarial model and the 2021 budget;</li><li>• we have agreed the actual expense base used in the assumption setting process through to the audited current year information to assess consistency;</li><li>• we have assessed the appropriateness of the prior period restatement with reference to how quantitatively and qualitatively material the error is to users of the financial statements; and</li><li>• we formed an expectation of the restated prior year Technical Provisions by scaling the current period expense assumptions based on the 2019 best estimate liability.</li></ul>
<b>Key observations</b>	<p>We found the expense assumptions used in the Technical Provision calculation, and the restated prior year Technical Provision, to be appropriate.</p>

# Independent Auditor's Report

## 5.2 Completeness and accuracy of policyholder data used within Technical Provisions

<b>Key audit matter description</b>	<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 Provisions. The use of incomplete or inaccurate data, whether through error or deliberate manipulation, could result in a material misstatement because the data extracted from the underlying platforms is integral to the material accuracy of the calculation at the year-end date. This key audit matter is also considered to be a fraud risk.</p> <p>The accounting policy disclosure for the Technical Provision is set out in note 1(a) and the financial disclosures are set out in note 14. This has been included in the ARCC report on page 39.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>In respect of the completeness and accuracy of policyholder data used within the Technical Provisions, we have performed the following procedures;</p> <ul style="list-style-type: none"><li>• we have gained an understanding of the relevant controls in place around the preparation, maintenance and integrity of the actuarial data extracts;</li><li>• we have gained an understanding of the relevant controls in place around the data input into the policyholder insurance systems;</li><li>• with the support of IT specialists we gained an understanding of the relevant controls over data security including access privileges and change management on the policyholder insurance systems;</li><li>• we have reconciled the number of policyholders included in the 2020 data extract to the 2019 audited data and tested a sample of the policyholder movements to supporting documentation to assess whether the data is complete and accurate;</li><li>• 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; and</li><li>• 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 policyholder documentation.</li></ul>
<b>Key observations</b>	<p>We conclude the completeness and accuracy of the policyholder data used in the Technical Provision is appropriate.</p>

# Independent Auditor's Report

## 5.3 Valuation of investment property

<b>Key audit matter description</b>	<p>In light of COVID-19, certain industries have been impacted by restrictions implemented by the UK government, notably the retail and leisure sectors. The impact has caused greater uncertainty around the market and the valuation of properties within these sectors. At 31 December 2020, management's experts valued the investment property at £70.8m, of which £21.4m related to properties within the retail and leisure sectors. We have identified a key audit matter relating to this specific segment of the balance, due to the heightened uncertainty around the valuation inputs and the inability to gain reliable market benchmarks. Management's expert referred to the various assumptions required as inputs within each property valuation, please refer to note 26.</p> <p>Due to the judgemental nature of the balance, we identified the manipulation of investment property valuation an area of potential fraud.</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 and 26. This has been included in the ARCC report on page 39.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>In respect of the valuation of investment property, we have performed the following procedures;</p> <ul style="list-style-type: none"><li>• 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;</li><li>• we have assessed the competency, capability and objectivity of the third party valuation specialist;</li><li>• we have reconciled the fair value of the investment properties through to the external valuation report provided at the year-end date;</li><li>• 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.</li></ul>
<b>Key observations</b>	<p>We consider the valuation of investment properties within the retail and leisure sectors, including its assumptions and methodology, to be appropriate.</p>

## 6. Our application of materiality

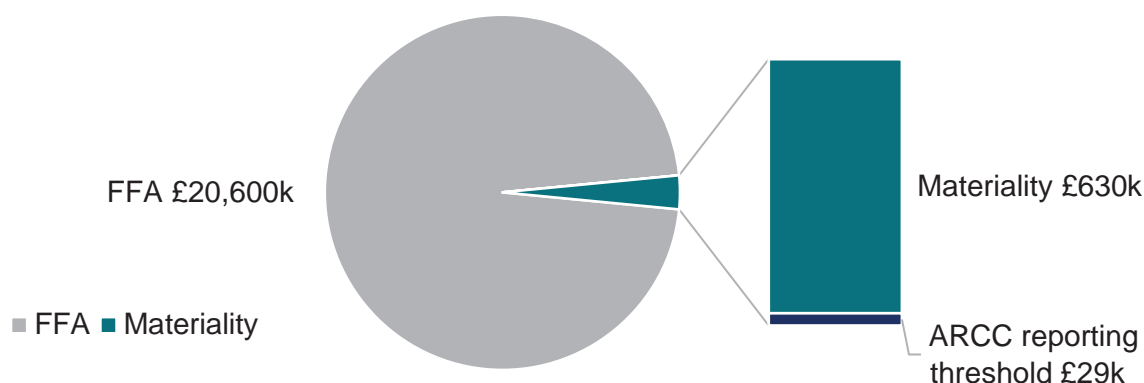
### 6.1 Materiality

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.

# Independent Auditor's Report

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

	Group Financial Statements	Society Financial Statements
<b>Materiality</b>	£540k	£534k (2019: £680k)
<b>Basis for determining materiality</b>	3% of FFA (2019: 0.15% of total assets).	Society materiality has been capped at 99% of group materiality.
<b>Rationale for the benchmark applied</b>	We have changed the benchmark from total assets, as used in the prior period, to FFA. Our view remains consistent in that a balance sheet measure is the most appropriate, due to fluctuations in the income statement driven by macroeconomic factors. We view that FFA as a benchmark is consistent with that used in relation to industry peers and that it is a key area of focus for users of the financial statements. It has also remained relatively stable post Solvency II implementation whilst reflecting any expected future growth of the group.	



## 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.

	Group Financial Statements	Society Financial Statements
<b>Performance Materiality</b>	60% of group materiality	60% (2019: 70%) of society materiality
<b>Basis and rationale for determining performance materiality</b>	We have set performance materiality at 60% of materiality, remaining consistent with the basis used for the determination of the Society performance materiality. Our judgement considers the control environment, which is common with the Society, and transfer of controls into a remote environment.	We have reassessed the determination of performance materiality, setting it at 60% of materiality rather than 70% as in prior periods. Our revised judgement considers the recent history of misstatements, and the control environment given the size of the finance function and transfer of controls into a remote environment

# Independent Auditor's Report

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## 6.3 Error reporting threshold

We agreed with the ARCC that we would report to the Committee all audit differences in excess of £27k (2019: £34k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1 Identification and scoping of components

For the purpose of the 31 December 2020 reports and financial statements, consolidated results and position are being presented for the first time.

The group 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 have been designed to respond to the risks of material misstatement at a group level, and were performed directly by the audit team.

## 8. Other information

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

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 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 group's and 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 group or the society or to cease operations, or have no realistic alternative but to do so.

## 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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



# Independent Auditor's Report

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 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 group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board;
- results of our enquiries of management, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - o the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including tax, valuations, pensions, IT, and actuarial 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 within the technical provisions, the completeness and accuracy of policyholder data used within the technical provisions, and the valuation of investment property. 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 frameworks that the group 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 group's ability to operate or to avoid a material penalty. These included consideration of Prudential Regulation Authority ("PRA") regulations, Financial Conduct Authority ("FCA") regulations as well as the Society's regulatory solvency requirements.

### 11.2 Audit response to risks identified

As a result of performing the above, we identified expense assumptions within the technical provisions, the completeness and accuracy of policyholder data used within the technical provisions, and the valuation of investment property 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.

# Independent Auditor's Report

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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 audit committee 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 HMRC, 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 group and the society and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified (set out on page 22);
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate (set out on page 22);
- the directors' statement on fair, balanced and understandable (set out on page 48);
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks (set out on page 26);
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems (set out on page 37 and 38); and
- the section describing the work of the audit committee (set out on pages 36 to 40).

### 14. Matters on which we are required to report by exception

#### 14.1 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; or
- 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

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## 15. Other matters which we are required to address

### 15.1 Auditor tenure

Following the recommendation of the ARCC, we were appointed by 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 11 years, covering the years ending 31 December 2010 to 31 December 2020.

### 15.2 Consistency of the audit report with the additional report to the audit committee

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

## 16. 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.



**Peter Birch (Senior statutory auditor)**  
**For and on behalf of Deloitte LLP**  
**Statutory Auditor**  
**Manchester**  
**1 April 2021**

# Group Consolidated Balance Sheet

		As at	
		31/12/2020	31/12/2019
		£'000	Restated £'000
<b>ASSETS</b>	<b>Note</b>		
<b>Investments</b>			
Land and buildings	5	70,953	76,076
Other financial investments			
Shares and other variable yield securities	6	70,906	63,858
Debt and other fixed income securities	7	112,377	102,423
Loans secured by mortgage	8	253	292
<b>Assets held to cover linked liabilities</b>	9	159,819	179,801
<b>Debtors due within one year</b>			
Other debtors	10	1,097	565
<b>Other assets</b>			
Tangible assets	11	4,791	4,964
Inventories		31	29
Other cash at banks, building societies and in hand		17,147	18,446
<b>Prepayments and accrued income</b>			
Accrued income		1,361	1,494
Prepayments		531	545
		<u>439,266</u>	<u>448,493</u>

# Group Consolidated Balance Sheet

		As at	
		31/12/2020	31/12/2019
		£'000	Restated £'000
<b>LIABILITIES</b>	<b>Note</b>		
<b>Reserves</b>			
Reserves provided for, by the rules and other specific purposes	12	2,472	2,469
<b>Fund for future appropriations</b>	13	18,253	24,927
<b>Technical provisions</b>			
Long term business provision	14	91,603	81,927
Claims outstanding		1,326	799
<b>Technical provisions for linked liabilities</b>	14		
Insurance contracts		2,117	2,025
Investment contracts		152,929	170,603
<b>Liabilities to investing branches</b>		143,403	140,546
<b>Creditors and accruals due within one year</b>	15	2,267	3,161
<b>Creditors, amounts falling due after more than one year</b>	15	19,000	19,000
<b>Deferred income</b>		893	965
<b>Pension scheme liability</b>	16	5,003	2,071
		<u>439,266</u>	<u>448,493</u>

The details of the restatement are included in Note 28 to these Accounts.

These Financial Statements of the Independent Order Fellows Manchester Unity Friendly Society Ltd. Registered number 223F were approved by the Board on 1 April 2021 and were signed on its behalf by:



**C J Nelson**  
Chief Executive Officer/Secretary of the Order

# Society Balance Sheet

		As at	
		31/12/2020	31/12/2019
ASSETS	Note	£'000	Restated £'000
<b>Investments</b>			
Land and buildings	5	70,953	76,076
Other financial investments			
Shares and other variable yield securities	6	70,906	63,858
Debt and other fixed income securities	7	112,377	102,423
Loans secured by mortgage	8	253	292
<b>Assets held to cover linked liabilities</b>	9	159,819	179,801
<b>Debtors due within one year</b>			
Other debtors	10	1,068	600
<b>Other assets</b>			
Tangible assets	11	4,791	4,963
Other cash at banks, building societies and in hand		17,141	18,398
<b>Prepayments and accrued income</b>			
Accrued income		1,360	1,494
Prepayments		530	543
		<u>439,198</u>	<u>448,448</u>



# Society Balance Sheet

		As at	
		31/12/2020 £'000	31/12/2019 Restated £'000
<b>LIABILITIES</b>	<b>Note</b>		
<b>Reserves</b>			
Reserves provided for, by the rules and other specific purposes	12	2,471	2,468
<b>Fund for future appropriations</b>	13	18,184	24,882
<b>Technical provisions</b>			
Long term business provision	14	91,603	81,927
Claims outstanding		1,326	799
<b>Technical provisions for linked liabilities</b>	14		
Insurance contracts		2,117	2,025
Investment contracts		152,929	170,603
<b>Liabilities to investing branches</b>		143,403	140,546
<b>Creditors and accruals due within one year</b>	15	2,267	3,161
<b>Creditors, amounts falling due after more than one year</b>	15	19,000	19,000
<b>Deferred income</b>		895	966
<b>Pension scheme liability</b>	16	5,003	2,071
		<u>439,198</u>	<u>448,448</u>

These Financial Statements of the Independent Order Fellows Manchester Unity Friendly Society Ltd. Registered number 223F were approved by the Board on 1 April 2021 and were signed on its behalf by:



**C J Nelson**  
Chief Executive Officer/Secretary of the Order

# Group Consolidated Income and Expenditure Accounts

		Years ended	
		31/12/2020	31/12/2019
		£'000	Restated £'000
<b>TECHNICAL ACCOUNT: Long Term Business</b>	<b>Note</b>		
Earned premiums, net of reinsurance		2,022	1,100
Investment Income	<b>17</b>	8,514	14,275
Unrealised (losses)/gains on linked investments		( 21,786 )	18,498
Unrealised gains on non-linked investments		3,466	2,990
Total technical income		( 9,806 )	35,763
Claims paid		( 3,919 )	( 3,972 )
Gross change in Long-Term Business Provision			
Decrease/(increase) in non-linked investment contract liabilities		( 379 )	4,609
(Increase) in insurance contract liabilities		( 3,331 )	( 1,454 )
Net Change in Long-Term Business Provision		( 3,710 )	3,155
Gross Changes in technical provision for linked liabilities			
Decrease/(increase) in linked investment contract liabilities		16,046	( 27,029 )
(Increase) in insurance contract liabilities		( 92 )	( 239 )
Net change in technical provisions for linked liabilities		15,954	( 27,268 )
Operating expenses		( 2,960 )	( 2,358 )
Investment expenses and charges		( 268 )	( 257 )
Tax	<b>18</b>	( 196 )	( 370 )
Other technical (expenses)/income		1	( 897 )
Transfer from/(to) Funds for Future Appropriations	<b>13</b>	2,882	( 4,896 )
Balance on the Long Term Business Technical Account		-	-

# Group Consolidated Income and Expenditure Accounts

NON TECHNICAL ACCOUNT	Note	Years ended	
		31/12/2020 £'000	31/12/2019 Restated £'000
Turnover		78	108
Investment income	17	6,039	6,916
(Losses) on realisation of investments		( 372 )	( 898 )
Movement in unrealised gains on investments		215	9,296
Annual lodge levy		2,039	2,153
Cost of Sales		( 44 )	( 59 )
Investment expenses and charges		( 353 )	( 341 )
Finance Charges		( 586 )	( 681 )
Other income		12	118
Investment return to investing branches	19	( 5,006 )	( 13,818 )
Net operating expenses		( 2,766 )	( 3,117 )
Non-contractual benefits		( 113 )	( 377 )
Pension scheme benefits	16	( 177 )	( 151 )
Transfer to the reserves provided for by the rules and other specific purposes	12	( 3 )	( 108 )
Excess of income over expenditure	13	<u>( 1,037 )</u>	<u>( 959 )</u>

# Society Income and Expenditure Accounts

NON TECHNICAL ACCOUNT	Note	Years ended	
		31/12/2020 £'000	31/12/2019 Restated £'000
Investment income	17	6,039	6,916
(Losses) on realisation of investments		( 372 )	( 898 )
Movement in unrealised gains on investments		215	9,296
Annual lodge levy		2,039	2,153
Investment expenses and charges		( 353 )	( 341 )
Finance Charges		( 586 )	( 681 )
Other income		12	118
Investment return to investing branches	19	( 5,006 )	( 13,818 )
Net operating expenses		( 2,756 )	( 3,113 )
Non-contractual benefits		( 113 )	( 377 )
Pension scheme benefits	16	( 177 )	( 151 )
Transfer to the reserves provided for by the rules and other specific purposes	12	( 3 )	( 108 )
Excess of income over expenditure	13	<u>( 1,061 )</u>	<u>( 1,004 )</u>

All the amounts above are in respect of continuing operations.

**Note:** The inclusion of OSSSL in the Group Income and Expenditure Accounts only affects the Non Technical Account, hence a Society Technical Account has not been presented as it would be identical to the Consolidated Technical Account on page 63.

# Statement of other Comprehensive Income

## Group Consolidated Statement of other Comprehensive Income

		Years ended	
		31/12/2020	31/12/2019 Restated
	Note	£'000	£'000
(Deficit) on Non Technical Account		( 1,037 )	( 959 )
Reserves provided for by the rules and other specific	12	108	108
Pension Scheme Actuarial losses	16	( 2,755 )	( 604 )
Total comprehensive loss for the year		<u>( 3,684 )</u>	<u>( 1,455 )</u>

## Society Statement of other Comprehensive Income

		Years ended	
		31/12/2020	31/12/2019 Restated
	Note	£'000	£'000
(Deficit) on Non Technical Account		( 1,061 )	( 1,004 )
Reserves provided for by the rules and other specific	12	108	108
Pension Scheme Actuarial losses	16	( 2,755 )	( 604 )
Total comprehensive loss for the year		<u>( 3,708 )</u>	<u>( 1,500 )</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 19.

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.

### Basis of Consolidation

The consolidated financial statements include the results of the Society and its subsidiary undertaking made up to 31 December each year. A subsidiary is an entity controlled by the Society. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The amounts in the consolidated financial statements all arise from continuing operations made up until 31 December each year.

In accordance with FRS102, Section 3 '*presentation of financial statements*' the comparative period has been restated on a consolidated basis.

The following UK subsidiary has taken advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ended 31 December 2020. Oddfellows Support Services Limited (the subsidiary) Company number 08309175 is 100% owned by the Society. In accordance with Section 479C of the Companies Act 2006, the Company will guarantee the debts and liabilities of the above subsidiary undertakings. As at 31 December 2020 the total sum of those debts and liabilities is £68,724.

### 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



# Notes to the Financial Statements

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discretion. All with-profit contracts are classified as insurance contracts under the current accounting rules. Investment contracts are those which carry financial risk, with no significant insurance risk.

## Insurance premiums

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

## Investment contracts, premiums and claims

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

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

## Insurance claims incurred and claims outstanding

All valid claims and benefits notified in respect of 2020 are included in the Financial Statements whether or not they have been settled. All claims notified but not settled as at 31 December 2020 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.

# Notes to the Financial Statements

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

## Owner occupied property

Owner occupied property is included under Fixed Assets on the Balance Sheet at fair value. The decrease on book value of owner occupied investment property is recognised in the Income & Expenditure account. Any 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.

## Turnover

Turnover is stated net of VAT and trade discounts. Turnover from the sale of goods is recognised when the goods are physically delivered to the customer. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due.

## Inventories

Inventories are stated at the lower of cost and expected selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

## 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 2020.

# Notes to the Financial Statements

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## 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 2020 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 2020, and copies of these reports may also be inspected at the Registered Office.

## Long Term Business provision

The Long Term Business provision is determined by the Society's Chief Actuary following the actuarial valuation. It is calculated on a basis to comply with the reporting requirements of the Prudential sourcebook and the Friendly Societies Act 1992. In broad terms the calculation uses a net premium valuation method to assess the amount of mathematical reserves. As such it includes explicit provision for regular bonuses declared at 31 December 2020, 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, (Pages 22-23).

## 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.

# Notes to the Financial Statements

## Related party disclosure

Total income during the year received from Branches in respect of the levy was £2,039k (2019 : £2,153k). Amounts due from Branches at 31 December 2020 in respect of goods and services was £87k (2019 : £32k). 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 61.

## 1b CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with 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. Within the expense assumptions, estimates are made relating to future acquisitions, which reduces the cost per policy and therefore the amount reserved.

# Notes to the Financial Statements

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 estimation 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 2020. Revenue transactions and those relating to the acquisition and realisation of investments including foreign fixed rate short term cash deposits have been translated at rates of exchange ruling at the time of the respective transactions.

## 3 STAFF COSTS

	2020 £'000	2019 £'000
Gross contracted service salaries	2,065	1,976
Social security costs	220	208
Pension costs	368	350
	<u>2,653</u>	<u>2,534</u>

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

	2020	2019
Directors	11	11
Clerical	50	49
Printing, production and dispatch	4	4
	<u>65</u>	<u>64</u>

## 4 AGGREGATE AMOUNT OF DIRECTORS' EMOLUMENTS

	2020 £'000	2019 £'000
Gross salaries	361	340
Cash in lieu of pension contributions	79	84
Benefits and allowances	20	19
	<u>460</u>	<u>443</u>

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

	2020 £'000	2019 £'000
Highest paid Director	<u>221</u>	<u>214</u>
Directors emoluments:		
Up to £10,000	9	10
£180,000 to £190,000	-	1
£190,000 to £200,000	1	-
£210,000 to £220,000	-	1
£220,000 to £230,000	1	-

# Notes to the Financial Statements

## 5 LAND AND BUILDINGS

	Occupied properties	Investment properties	2020 £'000	2019 £'000
	£'000	£'000		
Valuation as at 1 January	115	75,961	76,076	80,219
Additions at cost	-	-	-	107
Disposals	-	( 861 )	( 861 )	( 1,914 )
Realised (loss)	-	( 793 )	( 793 )	( 463 )
Movement in unrealised (losses)	-	( 3,469 )	( 3,469 )	( 1,873 )
Valuation as at 31 December	115	70,838	70,953	76,076

Freehold and leasehold investment properties were valued at 31 December 2020 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 2020 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	
	2020 £'000	2019 £'000
Valuation as at 1 January	63,858	56,243
Additions at cost	16,447	13,466
Disposals	( 11,495 )	( 15,645 )
Realised gains	241	638
Movement in unrealised gains/(losses)	1,855	9,156
Valuation as at 31 December	70,906	63,858

Listed equities, (quoted on the London Stock Exchange) were valued at 31 December 2020 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	2020 £'000	2019 £'000
Valuation as at 1 January	48,684	53,739	102,423	91,692
Additions at cost	22,838	22,803	45,641	22,488
Disposals	( 23,781 )	( 18,224 )	( 42,005 )	( 16,410 )
Realised gains / (losses)	472	560	1,032	( 39 )
Movement in unrealised gains	3,088	2,198	5,286	4,692
Valuation as at 31 December	51,301	61,076	112,377	102,423

Listed bonds were valued as at 31 December 2020 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

	2020 £'000	2019 £'000
Outstanding as at 1 January	292	337
Repayments	( 41 )	( 48 )
Interest earned	2	3
Outstanding as at 31 December	253	292

## 9 ASSETS HELD TO COVER LINKED LIABILITIES

	Cash at Bank & Building Society £'000	Unit Trusts £'000	Total £'000
Non Profit Fund	401	5,545	5,946
Ex-Nottingham Fund	-	39,941	39,941
Schoolteacher's Fund	-	83,510	83,510
Druids Fund	-	24,208	24,208
Equity Fund	-	1,688	1,688
Corporate Bond Fund	-	350	350
Money Fund	251	-	251
UK Index Fund	-	3,925	3,925
Valuation as at 31 December 2020	652	159,167	159,819
Valuation as at 31 December 2019	750	179,051	179,801

Linked business investments were valued as at 31 December 2020 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 £4,773k (2019: £6,757k).

# Notes to the Financial Statements

## 10 DEBTORS

	Group		Society	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Trade debtors	1,080	565	1,051	600
Tax to be recovered	17	-	17	-
	<u>1,097</u>	<u>565</u>	<u>1,068</u>	<u>600</u>

## 11 TANGIBLE ASSETS

### Group Tangible Assets

	Office & Computer Equipment £'000	Owner Occupied Premises £'000	Motor Vehicles £'000	Total £'000
1 January 2020	2,293	4,521	62	6,876
Additions	31	10	-	41
Disposals	( 303 )	-	-	( 303 )
31 December 2020	<u>2,021</u>	<u>4,531</u>	<u>62</u>	<u>6,614</u>
Depreciation:				
1 January 2020	1,845	41	27	1,913
Charge	200	-	13	213
Disposals	( 303 )	-	-	( 303 )
31 December 2020	<u>1,742</u>	<u>41</u>	<u>40</u>	<u>1,823</u>
Net Book Value:				
31 December 2020	<u>279</u>	<u>4,490</u>	<u>22</u>	<u>4,791</u>
31 December 2019	<u>449</u>	<u>4,480</u>	<u>35</u>	<u>4,964</u>

### Society Tangible Assets

	Office & Computer Equipment £'000	Owner Occupied Premises £'000	Motor Vehicles £'000	Total £'000
1 January 2020	2,293	4,521	62	6,876
Additions	31	10	-	41
Disposals	( 303 )	-	-	( 303 )
31 December 2020	<u>2,021</u>	<u>4,531</u>	<u>62</u>	<u>6,614</u>
Depreciation:				
1 January 2020	1,845	41	27	1,913
Charge	200	-	13	213
Disposals	( 303 )	-	-	( 303 )
31 December 2020	<u>1,742</u>	<u>41</u>	<u>40</u>	<u>1,823</u>
Net Book Value:				
31 December 2020	<u>279</u>	<u>4,490</u>	<u>22</u>	<u>4,791</u>
31 December 2019	<u>448</u>	<u>4,480</u>	<u>35</u>	<u>4,963</u>

# Notes to the Financial Statements

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 property in Manchester was last valued at 31 December 2019. The property in Liverpool was last valued at 31 December 2020. All Valuers used to value the Society's property which is occupied by the Society are independent of the Society.

## 12 RESERVES PROVIDED FOR BY THE RULES AND OTHER SPECIFIC PURPOSES

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

<b>Movement in the year:</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Balance at 1 January	2,468	2,360
Transfer from Non Technical Account	3	108
Balance at 31 December	<u>2,471</u>	<u>2,468</u>

## 13 FUND FOR FUTURE APPROPRIATIONS

### Group Fund For Future Appropriations

The fund for future appropriations comprises all funds, the allocation of which had not been determined by 31 December 2020.

<b>Movement in year:</b>	<b>2020 £'000</b>	<b>2019 Restated £'000</b>
Balance at 1 January	24,927	21,594
Transfer (to)/from Long Term Business Technical Account	( 2,882 )	4,896
( Deficit ) on Non Technical Account	( 1,037 )	( 959 )
Net Pension Scheme Actuarial ( Loss )	( 2,755 )	( 604 )
Balance as at 31 December	<u>18,253</u>	<u>24,927</u>

The balance at the accounting date arises as follows:

	<b>2020 £'000</b>	<b>2019 £'000</b>
Technical Account: Long Term Business	6,434	9,315
Non Technical Account	11,819	15,612
Balance as at 31 December	<u>18,253</u>	<u>24,927</u>

# Notes to the Financial Statements

## Society Fund For Future Appropriations

Movement in year:	2020 £'000	2019 Restated £'000
Balance at 1 January	24,882	21,594
Transfer from Long Term Business Technical Account	( 2,882 )	4,896
(Deficit) on Non Technical Account	( 1,061 )	( 1,004 )
Net Pension Scheme actuarial (loss)	( 2,755 )	( 604 )
Balance at 31 December	18,184	24,882

The balance at the accounting date arises as follows:

	2020 £'000	2019 £'000
Technical Account: Long Term Business	6,434	9,316
Non Technical Account	11,750	15,566
Balance as at 31 December	18,184	24,882

## 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 £'000
31 December 2020	6,434	11,750	18,184
31 December 2019	9,316	15,566	24,882

### Movement in capital resources

	Total Life insurance £'000
Total available capital resources at 1 January 2020	9,316
<i>Change in assets</i>	
Premiums less claims and expenses	( 982 )
Investment income	8,481
Realised and unrealised losses on investments	( 18,287 )
<b>Total change in assets</b>	<b>( 10,788 )</b>
<i>Change in liabilities</i>	
Change in provision for linked liabilities	( 9,676 )
Change in long term business provision	17,582
<b>Total change in liabilities</b>	<b>7,906</b>
<b>Total available capital resources at 31 December 2020</b>	<b>6,434</b>

# Notes to the Financial Statements

## Movement in capital resources

	<b>Total Life insurance Restated £'000</b>
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
<b>Total change in assets</b>	<b>31,827</b>
<i>Change in liabilities</i>	
Change in provision for linked liabilities	( 1,214 )
Change in long term business provision	28,144
<b>Total change in liabilities</b>	<b>26,930</b>
<b>Total available capital resources at 31 December 2019</b>	<b>9,316</b>

## Analysis of liabilities at 31 December 2020

	<b>Total Life insurance £'000</b>
With-profit liabilities	46,344
Non-profit insurance business	28,870
Non-profit investment contracts	16,389
Unit-linked	155,046
<b>Total provisions included in the Balance Sheet</b>	<b>246,649</b>

## Analysis of liabilities at 31 December 2019

	<b>Total Life insurance £'000</b>
With-profit liabilities	44,342
Non-profit insurance business	26,694
Non-profit investment contracts	10,891
Unit-linked	172,628
<b>Total provisions included in the Balance Sheet</b>	<b>254,555</b>

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.

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.

# Notes to the Financial Statements

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 2020 the Society's estimated SCR and corresponding eligible own funds were as follows:

	Unaudited 2020
Eligible Own Funds	£313.09m
SCR	£78.79m
Coverage (unrounded)	397%

Note, the SCR is an estimate and is unaudited. The Solvency II return will be submitted by the revised Regulatory deadline of 8 April 2021

## Sensitivities of the capital position

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

## Management of insurance risk

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

The main insurance risks can be summarised as follows:

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

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

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

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



# Notes to the Financial Statements

## 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 Board, or delegated to the Commercial Board as appropriate.

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

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

## (b) Provision

The principal assumptions used in the calculation of the long term business provision in 2020 were as follows:

Class of Business	Mortality tables
Annuities	70% IML/IFL922 - 3 years
UL CTF (DFS, NFS, SFS) and UL JISA / ISA (UIEF)	10% AM/FC00
Limited Claims	60% AM/FC00
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)

	2020 £'000	2019 £'000
Balance at 1 January		
Long Term Business provision	81,927	83,140
Provisions for linked liabilities	172,628	144,485
	<u>246,649</u>	<u>254,555</u>
Changes in technical provisions	( 7,906 )	26,930
	<u>246,649</u>	<u>254,555</u>
Balance at 31 December		
Long Term Business provision	91,603	81,927
Provisions for linked liabilities	155,046	172,628
	<u>246,649</u>	<u>254,555</u>

Within the changes in technical provisions is a £169k decrease (2019: £177k increase) in the non-profit investment contract provision.

# Notes to the Financial Statements

## (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 2020 were £253m (2019: £267m).

## 15 CREDITORS AND ACCRUALS

	Group		Society	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Trade creditors	77	58	77	58
other creditors and accruals	1,983	2,821	1,983	2,821
Tax creditor	207	282	207	282
	<u>2,267</u>	<u>3,161</u>	<u>2,267</u>	<u>3,161</u>
Amounts falling due after more than one year	<u>19,000</u>	<u>19,000</u>	<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 2020 were £538k (2019: £522k). The employer contribution rate was 34.8% up to 31 March 2020, after which the contribution rate reduced to 31.5% with effect from 1 April 2020.

The Balance Sheet position for the Scheme has worsened, with the deficit increasing from £2m to £5m over the accounting period. Although the performance of the Scheme assets was slightly higher than expected, this has been offset by the actuarial value of Scheme liabilities increasing over the year to £29.8m (compared with £25.9m at the end of 2019). 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 2019 ie a 1% loading on the liabilities as at 31 December 2020. This allowance is assumed to suitably reflect the 20 November High Court ruling on equalising historic transfer value payments from the Scheme.

It should be noted that the results and position shown have been calculated by reference to investment market conditions at 31 December 2020. 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.

# Notes to the Financial Statements

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

The projections are based on an update of a preceding actuarial valuation (as at 31 March 2018), thereby introducing an element of approximation relative to the result of a hypothetical full actuarial valuation at the census date.

## Society provisions and assumptions

The benefits have been valued in accordance with the provisions of the Scheme's Trust Deed and Rules dated 26 February 1998, and subsequent deeds of amendment. With effect from 1 April 2020, the scheme closed to new joiners and reduced the future accrual rates for members. An allowance has been made in the 31 December 2020 figures to reflect the expected reduction in the cost of future benefits. It is our understanding that there were no further significant changes in benefit structure of the Scheme, or by the method by which these are valued over the last year.

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

## FRS 102 Disclosures

The calculations carried out by the Society's Advisor have been undertaken using the accounting information of the Scheme as at 31 December 2020 and have been based on the participant information used in the valuation as at 31 March 2018.

<b>Census Date</b>	<b>31/03/2018</b>
<b>Active Participants</b>	
Number	54
Average Annual Pensionable Salary	£25,800
<b>Participants with Deferred Benefits</b>	
Number	34
Average Annual Deferred Benefits at census date	£4,800
<b>Participants Receiving Benefits</b>	
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	23.0	25.2
65 in 15 years	24.2	26.5

# Notes to the Financial Statements

<b>Income &amp; Expenditure</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Effect of employee service in the current period	510	488
Net interest on net defined liability	32	26
Defined benefit cost recognised in Income & Expenditure	<u>542</u>	<u>514</u>
Administration costs incurred during the period	173	159
Employer contribution	( 538 )	( 522 )
Cost recognised in Income & Expenditure	<u>177</u>	<u>151</u>
<b>Other Comprehensive Income (OCI)</b>		
Actuarial loss/(gain) arising during period	3,573	3,119
Return on plan assets (greater)/less than discount rate	( 818 )	( 2,515 )
Remeasurement effects recognised in OCI	<u>2,755</u>	<u>604</u>
<b>Total Defined Benefit Cost</b>		
Cost recognised in Income & Expenditure	715	673
Remeasurement effects recognised in OCI	2,755	604
Total defined benefit cost	<u>3,470</u>	<u>1,277</u>

<b>Assumptions Used to Determine Defined Benefit Cost</b>	<b>2020</b>	<b>2019</b>
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 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	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%

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

<b>Development of Net Balance Sheet Position</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Defined benefit obligation (DBO)	( 29,803 )	( 25,961 )
Fair value of assets (FVA)	24,800	23,890
Defined benefit deficit	<u>( 5,003 )</u>	<u>( 2,071 )</u>
<b>Reconciliation to the Balance Sheet</b>		
Net defined benefit liability at end of prior period	( 2,071 )	( 1,316 )
Effect of employee service in the current period	( 510 )	( 488 )
Net interest on net defined benefit liability	( 32 )	( 26 )
Remeasurement effects recognised in OCI	( 2,755 )	( 604 )
Employer contributions	538	522
Administration costs incurred during the period	( 173 )	( 159 )
Net defined benefit liability at end of current period	<u>( 5,003 )</u>	<u>( 2,071 )</u>

# Notes to the Financial Statements

## Assumptions and Dates Used for Measurements

Discount rate	1.30%	1.85%
Price inflation (RPI)	3.15%	3.20%
Price Inflation (CPI)	2.70%	2.35%
Long-term rate of return on assets	1.30%	1.85%
Rate of salary increase	4.15%	4.20%

Pension increases for in-payment benefits:

• in respect of excess pensions accrued prior to 6 April 1997 (in excess of GMP)	nil	nil
• in respect of excess pensions accrued prior to 1 April 2006 and after 5 April 1997	3.05%	2.95%
• in respect of pensions accrued after 31 March 2006	2.10%	1.95%
Pension increases for deferred benefits	2.70%	2.35%

## Change in Defined Benefit Obligation (DBO)

DBO at end of prior period	25,961	22,366
Effect of employee service in the current period	510	488
Interest cost on the DBO	472	583
Remeasurement of the DBO	3,573	3,119
Scheme participants contributions	167	145
Benefits paid from Scheme assets	( 880 )	( 740 )
DBO at end of current period	<u>29,803</u>	<u>25,961</u>

## Change in Scheme Assets

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of assets at end of prior period	23,890	21,050
Interest income on Scheme assets	440	557
Return on plan assets greater/(less) than discount rate	818	2,515
Employer contributions	538	522
Scheme participants' contributions	167	145
Benefits paid	( 880 )	( 740 )
Administrative costs paid	( 173 )	( 159 )
Fair value of assets at end of current period	<u>24,800</u>	<u>23,890</u>

## Scheme Asset Information

	<b>Target Allocation Range</b>	<b>Allocation Percentage 31/12/20</b>	<b>Allocation Percentage 31/12/19</b>
Equity securities	50.0%	45.8%	45.6%
Debt securities	40.0%	35.0%	34.6%
Real estate/property	10.0%	0.0%	3.1%
Cash	0.0%	3.5%	4.9%
Other*	0.0%	15.7%	11.8%
Total	100.0%	100.0%	100.0%

Fair value of Society assets (£'000)

£24,800

£23,890

\*Includes Diversified Collective Investments

# Notes to the Financial Statements

## 17 INVESTMENT INCOME

	2020 £'000	2019 £'000
Technical account: Long Term Business:		
Investment Property	663	623
Shares and other variable yield securities	5,666	8,918
Debt and other fixed income securities	2,096	2,059
Bank and building society interest	4	6
Capital Return	47	47
Other	5	6
	<u>8,481</u>	<u>11,659</u>
Gain on Realisation of Investments	<u>33</u>	<u>2,616</u>
	<u>8,514</u>	<u>14,275</u>
Non Technical Account:		
Land & Buildings Income	3,866	4,353
Less: Land & Buildings Expenditure	( 354 )	( 329 )
Shares and other variable yield securities	1,409	1,757
Debt and other fixed income securities	1,030	1,016
Bank and building society interest	83	113
Branch loan interest	5	6
	<u>6,039</u>	<u>6,916</u>

## 18 TAXATION

(a) Analysis of the tax charge for the year is	2020 £'000	2019 £'000
<b>Corporation tax</b>		
Current year policyholder tax charge	273	271
Prior year policyholder charge/(credit)	13	34
<b>Deferred tax</b>		
Timing differences, origination and reversal	( 88 )	80
Prior year charge/(credit)	( 2 )	( 15 )
<b>Total tax charge/(credit)</b>	<b>196</b>	<b>370</b>

The tax charge for the group is £196k (2019: charge of £370k).

The applicable UK corporation tax rate is 19% for the subsidiaries (2019: 19%), due to the reduction of the UK corporation tax rate from 20% to 19% which was effective from 1 April 2017.

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Deferred taxes for the subsidiaries at the balance sheet date have been measured using these enacted tax rates and reflected in these Financial Statements.

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% (2019: 20%). Deferred tax in the Society has been measured using this enacted rate.

At 31 December 2020, the group did not hold any provisions for uncertain tax positions.



# Notes to the Financial Statements

	<b>Society 2020 £'000</b>	<b>Society 2019 £'000</b>
(b) Reconciliation of total tax charge		
<b>(Deficit)/surplus of income over expenditure before tax</b>	( 1,061 )	( 1,004 )
<b>Tax on result</b>	( 202 )	( 191 )
Factors affecting tax charge:		
Accounting (deficit) not subject to policyholder tax	202	191
Items taxed on a different basis	196	370
<b>Total tax charge for the year</b>	196	370

	<b>Society 2020 £'000</b>	<b>Society 2019 £'000</b>
(c) Analysis of deferred tax asset		
Fixed Asset Timing differences	( 1 )	( 2 )
Deferred tax provision on unrealised gains	75	( 10 )
Losses recognised	5	-
<b>Total recognised deferred tax (provision)/asset</b>	79	( 12 )
<b>Unrecognised deferred tax assets</b>	-	-
<b>Total tax charge for the year</b>	79	( 12 )

	<b>Society 2020 £'000</b>	<b>Society 2019 £'000</b>
(d) Movement in recognised deferred tax asset/(provision)		
<b>Provision at start of the period</b>	( 12 )	53
Deferred tax (charge) / credit to Technical Account – Long-term business	91	( 65 )
Deferred tax charge to Non-Technical Account	-	-
<b>Provision at end of the period</b>	79	( 12 )

Taxation services are provided by PwC LLP and their remuneration for services in 2020 was £22k excluding VAT (2019 : £21k).

## 19 INVESTMENT RETURN TO INVESTING BRANCHES

	<b>2020 £'000</b>	<b>2019 £'000</b>
Investment income	( 4,457 )	( 5,166 )
Loss on realisation of investments	486	1,332
Movement in unrealised (gains) on investments	( 1,035 )	( 9,984 )
	<u>( 5,006 )</u>	<u>( 13,818 )</u>

## 20 LONG TERM BUSINESS - CHANGE IN OTHER TECHNICAL PROVISIONS

	<b>2020 £'000</b>	<b>2019 £'000</b>
Continuing Long Term Business (Note 14)	<u>( 7,906 )</u>	<u>26,930</u>

# Notes to the Financial Statements

## 21 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

	2020 £'000	2019 £'000
Land and buildings: Within one year	2	2
Other: Within one year	-	-
Other: Between one to five years	7	7
	<u>9</u>	<u>9</u>

Other financial commitments payable within one year not provided for in the accounts amounted to £8k (2019: £28k).

## 22 AUDITOR'S REMUNERATION

	2020 £'000	2019 £'000
Audit related assurance services	213	207
Other assurance services	8	-
Total (exclusive of Value Added Tax)	<u>221</u>	<u>207</u>

## 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:

- The Chief Actuary of the Society, between 1 January 2020 and 31 December 2020, was Mr Scott Robinson FIA, of Zenith Actuarial Limited. Mr Robinson is not a member of the Society.
- 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.
- 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 (for Chief Actuary and WP actuary services) amounted to £406,186 exclusive of Value Added Tax of which £113,386 exclusive of Value Added Tax was in respect of Due Diligence work in respect of a transfer of Engagements.
- 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 2020 totalled £19k (2019: £16k).

# Notes to the Financial Statements

## 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 2020 (2019: £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 2019 and 2020.

Fair value measurement at 31 December 2020				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Shares and other variable yield securities	70,906	-	-	70,906
Debt and other fixed income securities	112,377	-	-	112,377
Assets held to cover linked liabilities	159,819	-	-	159,819
<b>Other Assets held at fair value</b>				
Investment properties	-	-	70,953	70,953
Owner occupied property	-	-	4,490	4,490
<b>Total</b>	<b>343,102</b>	<b>-</b>	<b>75,443</b>	<b>418,545</b>
<b>Financial liability</b>				
Investment contracts at fair value through profit and loss	-	169,318	-	169,318
<b>Total</b>	<b>-</b>	<b>169,318</b>	<b>-</b>	<b>169,318</b>

Fair value measurement at 31 December 2019				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
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
<b>Other Assets held at fair value</b>				
Investment properties	-	-	76,076	76,076
Owner occupied property	-	-	4,480	4,480
<b>Total</b>	<b>346,082</b>	<b>-</b>	<b>80,556</b>	<b>426,638</b>
<b>Financial liability</b>				
Investment contracts at fair value through profit and loss	-	181,869	-	181,869
<b>Total</b>	<b>-</b>	<b>181,869</b>	<b>-</b>	<b>181,869</b>

# Notes to the Financial Statements

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 68 and 69.

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 2020.

In the case of investment properties and owner occupied properties, there are limited market observable inputs and therefore the fair value is determined using a valuation technique based on numerous assumptions. The assumptions used with in the determination of the fair value may depend on inputs drawn from the Society's own data, including; tenure, letting, floor space, condition, environmental matters, statutory and local authority requirements.

## 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 19.

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 2020	With-profit business	Non-profit business	Unit-linked	Other	Total
	£'000	£'000	£'000	£'000	£'000
<b>Assets</b>					
Land and buildings	6,615	5,938	-	58,400	70,953
Shares and other variable yield securities	4,186	3,759	158,818	62,961	229,724
Debt and other fixed income securities	37,472	33,651	350	41,254	112,727
Loans secured by mortgage	2	3	-	249	254
Other debtors	-	-	-	1,067	1,067
Tangible assets	-	-	-	4,791	4,791
Cash at bank, building society and in hand	1,648	1,481	651	14,012	17,792
Other assets	452	406		1,032	1,890
<b>Total assets</b>	<b>50,375</b>	<b>45,238</b>	<b>159,819</b>	<b>183,766</b>	<b>439,198</b>
<b>Liabilities</b>					
Reserves provided for, by the rules and other specific purposes	-	-	-	2,472	2,472
Insurance contract provision	35,141	28,870	2,117	-	66,128
Investment contract provision	11,203	16,389	152,929	-	180,521
Claims outstanding	1,326	-	-	-	1,326
Other liabilities	-	-	-	188,751	188,751
<b>Total liabilities</b>	<b>47,670</b>	<b>45,259</b>	<b>155,046</b>	<b>191,223</b>	<b>439,198</b>

# Notes to the Financial Statements

31 December 2019	With-profit business	Non-profit business	Unit-linked	Other	Total
	£'000	£'000	£'000	£'000	£'000
<b>Assets</b>					
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
<b>Total assets</b>	<b>44,929</b>	<b>41,322</b>	<b>179,801</b>	<b>182,396</b>	<b>448,448</b>
<b>Liabilities</b>					
Reserves provided for, by the rules and other specific purposes		-	-	2,469	2,469
Insurance contract provision	33,986	26,694	2,025	-	62,705
Investment contract provision	10,356	10,891	170,603	-	191,850
Claims outstanding	799	-	-	-	799
Other liabilities	-	-	-	190,625	190,625
<b>Total liabilities</b>	<b>45,141</b>	<b>37,585</b>	<b>172,628</b>	<b>193,094</b>	<b>448,448</b>

## 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 2020						
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
<b>GIB</b>	15,439	-	-	-	-	15,439
<b>Non-Linked (exc GIB)</b>	23,670	12,382	6,840	5,719	11,557	60,168
<b>Unit Linked</b>	68,191	72,138	1,909	969	1,639	144,846
<b>Total</b>	<b>107,300</b>	<b>84,520</b>	<b>8,749</b>	<b>6,688</b>	<b>13,196</b>	<b>220,453</b>

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
<b>GIB</b>	10,055	-	-	-	-	10,055
<b>Non-Linked (exc GIB)</b>	24,752	12,537	7,710	6,350	16,172	67,521
<b>Unit Linked</b>	59,909	102,827	983	539	1,345	165,603
<b>Total</b>	<b>94,716</b>	<b>115,364</b>	<b>8,693</b>	<b>6,889</b>	<b>17,517</b>	<b>243,179</b>

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 sensitivity would lead to an equal and opposite change in Own Funds compared to the increase sensitivity.



# Notes to the Financial Statements

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  $\pm 38.52\%$ .

It is assumed that the increase sensitivity would lead to an equal and opposite change in Own Funds compared to the decrease sensitivity.

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

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

The property value sensitivity considers a  $\pm 25\%$  change in property values.

It is assumed that the increase sensitivity would lead to an equal and opposite change in Own Funds compared to the decrease sensitivity.

31 December 2020	Expenses		Equity prices		Interest rates		Property values	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Change in LTB Own Funds	( 5,282 )	5,282	6,200	( 6,200 )	( 240 )	45	3,183	( 3,183 )

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 )

## 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:

<b>31 December 2020</b>			
	<b>Amounts not subject to credit risk</b>	<b>Amounts subject to credit risk</b>	<b>Balance Sheet carrying value</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Shares and other variable yield securities	-	70,906	70,906
Debt and other fixed income securities	-	112,377	112,377
Assets held to cover linked liabilities	159,819	-	159,819
Loans secured by mortgage	-	253	253
Cash at banks, building societies and in hand	-	17,141	17,141
<b>Total</b>	<b>159,819</b>	<b>200,677</b>	<b>360,496</b>

<b>31 December 2019</b>			
	<b>Amounts not subject to credit risk</b>	<b>Amounts subject to credit risk</b>	<b>Balance Sheet carrying value</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
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
<b>Total</b>	<b>179,801</b>	<b>184,971</b>	<b>364,772</b>

The amounts presented on the previous page 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.

# Notes to the Financial Statements

The amounts in the table above represent the maximum exposure to credit risk as at 31 December 2020. The Society's exposure to credit risk is summarised as:

Credit rating						
31 December 2020						
	AAA	AA	A	Below A	Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	-	-	-	-	70,906	70,906
Debt and other fixed income securities	126	48,242	9,086	17,011	37,912	112,377
Assets held to cover linked liabilities	-	-	651	-	159,168	159,819
Loans secured by mortgage	-	-	-	-	253	253
Cash at banks, building societies and in hand	-	53	14,170	336	2,582	17,141
<b>Total</b>	<b>126</b>	<b>48,295</b>	<b>23,907</b>	<b>17,347</b>	<b>270,821</b>	<b>360,496</b>

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
<b>Total</b>	<b>282</b>	<b>49,886</b>	<b>24,070</b>	<b>14,062</b>	<b>276,472</b>	<b>364,772</b>

No credit limits were exceeded during the year ended 31 December 2020.

## 27 EVENTS AFTER THE BALANCE SHEET DATE

On 1 February 2021, the Society completed the transfer of engagements of the Kingston Unity Friendly Society ("KU"). Given the date of the transfer, this transaction is viewed as a non-adjusting post balance sheet event and accordingly the Society's Financial Statements for the year ended 31 December 2020 do not include any financial information in respect of KU.

In terms of membership numbers as at 31 January 2021, KU had:

Total Adult Members	4,369
Total Child Members	94,263
Total Trust Members	10

**Total Members 98,642**

In terms of policy numbers as at 31 January 2021, KU had:

Total CTF Policies	93,011
Non-CTF Policies	10,267

**Total Policies 103,278**

# Notes to the Financial Statements

As at 31 December 2020, the Balance Sheet of KU is represented below:

ASSETS	£'000	£'000
Property	12,565	
CTF & Tracker Investments	55,948	
Fixed Interest	32,393	
Equities	1,109	
Mortgages and Loans	45	102,060
Debtors	143	
Tangible Assets	260	
Cash & Bonds < 2 years	8,033	
Prepayments & Accrued Income	575	9,011
<b>TOTAL ASSETS</b>		<b>111,071</b>

LIABILITIES	£'000	£'000
Reserves:		
Benefit, Reserve and Head Office Funds	103,121	
Own Funds	7,240	110,361
Other Creditors	164	
Accruals & Deferred Income	546	710
<b>TOTAL LIABILITIES</b>		<b>111,071</b>

Given that the transfer of engagements was completed on 1 February 2021, there is no requirement for the 31 December 2020 year-end Financial Statements of KU to be produced and audited.

The figures above, subject to any January 2021 material movements, will be the Balance Sheet that is transferred into the Society's Financial Statements for the period ending 31 December 2021.

## Future tax impacts

In the March 2021 Budget, it was announced that the UK Corporation Tax Rate will rise from its current rate of 19% to 25% with effect from April 2023. UK deferred tax balances as at 31 December 2020 continue to be measured at a rate of 19% as this was the substantively enacted rate at that date. Based on the quantum of the deferred Tax balances, we have estimated that the impact of increasing the rate to 25% from April 2023 will be immaterial to the Group Balance Sheet.

## 28 PRIOR YEAR RESTATEMENT

At 31 December 2019, the Society held a negative manual reserve of £(3.7)m in the technical provisions to offset an additional allowance for expenses for those policyholders who, despite the Society's continued efforts, can no longer be contacted ("gone-aways"). This negative manual reserve was held with reference to certain of the Society's funds.

In 2020, the Society performed a review of this calculation and concluded that the negative manual reserve should have been £1.5m higher, as well as having been held in relation to an additional fund. In total, the 2019 technical provisions and technical provisions for linked liabilities were deemed to be overstated by £3.9m in total as a result of these matters and as such, the 2019 comparatives in these financial statements have been restated.

The 2019 comparatives have also been restated for an error identified in the classification of technical provisions between insurance and investment contracts of £19.7m. This has no impact on net assets.

# Notes to the Financial Statements

<b>Group Consolidated Balance Sheet Liabilities</b>	<b>2019 Disclosure £'000</b>	<b>Restatement</b>	<b>Restated 2019 Disclosure £'000</b>
Fund for future appropriations	20,927	4,000	24,927
<b>Technical provisions</b>			
Long term business provision	85,400	( 3,473 )	81,927
<b>Technical provisions for linked liabilities</b>			
Insurance contracts	2,032	( 7 )	2,025
Investment contracts	171,012	( 409 )	170,603

<b>Society Balance Sheet Liabilities</b>	<b>2019 Disclosure £'000</b>	<b>Restatement</b>	<b>Restated 2019 Disclosure £'000</b>
Fund for future appropriations	20,994	3,888	24,882
<b>Technical provisions</b>			
Long term business provision	85,400	( 3,473 )	81,927
<b>Technical provisions for linked liabilities</b>			
Insurance contracts	2,032	( 7 )	2,025
Investment contracts	171,012	( 409 )	170,603

<b>Technical Account: Long Term Business</b>	<b>2019 Disclosure £'000</b>	<b>Restatement</b>	<b>Restated 2019 Disclosure £'000</b>
<b>Gross change in Long Term Business provision</b>			
(Decrease)/ increase in non-linked investment contract liabilities	( 15,167 )	19,776	4,609
Increase/(decrease) in insurance contract liabilities	14,850	( 16,304 )	( 1,454 )
Net Change in Long Term Business provision	( 317 )	3,472	3,155
<b>Gross Changes in technical provision for linked liabilities</b>			
(Increase) in linked investment contract liabilities	( 27,437 )	408	( 27,029 )
(Increase) in insurance contract liabilities	( 247 )	8	( 239 )
Net change in technical provisions for linked liabilities	( 27,684 )	416	( 27,268 )
Transfer (to) Funds for Future Appropriations	( 1,008 )	( 3,888 )	( 4,896 )





