Exeter Friendly Society Limited

Annual Report and Accounts 2019

The Exeter

You matter more.

Exeter Friendly Society Limited

Board:

Wallace Dobbin, BA, Barrister	Board Chairman and Independent Non-Executive Director
David Brand, BA, FIA	Senior Independent Non-Executive Director
Steve Payne, BSc, FIA	Independent Non-Executive Director
Helen McEwan, BA, AFPC	Independent Non-Executive Director
Keith Baldwin	Independent Non-Executive Director (Appointed 1 August 2019)
Andy Chapman, ACII, APFS	Chief Executive
Paul Austin, BSc, FCA	Executive Director (Retired 8 April 2019)
John Gunn, BSc, FFA	Executive Director (Appointed 8 April 2019)
Steve Bryan, BA	Executive Director
Chris Pollard	Executive Director (Appointed 8 April 2019)
Professor Willie Hamilton, CBE, MD, BSc, FRCP, FRCGP	Medical Director
Zoe Kubiak, FCG, MSc	Company Secretary (From 9 February 2019)
Registered Office:	Lakeside House, Emperor Way, Exeter EX1 3FD Tel: **0300 123 3201** Email: **member@the-exeter.com** Website: **www.the-exeter.com**
With Profits Actuary:	Trevor Fannin, BSc, FIA, Willis Towers Watson
Independent Auditors:	PricewaterhouseCoopers LLP
Bankers:	Barclays PLC
Investment Managers:	Royal London Asset Management Limited
Tax Advisers:	Mazars Group

The Exeter is a trading name of Exeter Friendly Society Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Register number 205309) and is incorporated under the Friendly Societies Act 1992 Register No. 91F.

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Chairman's Statement

It is with great pleasure that I present our 2019 Annual Report.

Our Focus

The Exeter has enjoyed an extremely successful year despite a challenging economy, accentuated by Brexit uncertainty and a competitive insurance landscape. Most importantly, our members remain at the heart of everything we do. Whether it be product, claims innovation or service delivery, our members have been and always will be at the forefront of every decision we make.

Under the strong leadership of Andy Chapman and his executive team, The Exeter has not only achieved a solid year of growth but has continued to position itself as a market leader in terms of customer service and satisfaction, and product innovation.

We continue to build on the organic growth of our business, working closely with our business partners to deliver relevant and innovative propositions to current and prospective members.

As a mutual insurer, without investor shareholders, our model is inherently ethical. As an organisation we continue to improve our Society for our members and to prepare for the changes in the pipeline surrounding key areas such as access to insurance, vulnerable customers and our wider environmental impact.

The Board places a significant focus not just on the strategic plans developed by management, but also on the wider culture of our business, through engaging with members, colleagues, service providers and other stakeholders.

Our Board

Our Board[1] comprises member-elected directors who continue to deliver value to members by providing strong and effective guidance to successfully shape the strategic direction of the organisation.

This requires a Board that collectively possess the balance of skills and experience to foresee the challenges and seize the opportunities within this increasingly complex environment. For these reasons, it remains important that The Exeter attracts and retains directors of the appropriate calibre to effectively govern, manage and shape the strategic direction of the organisation.

I believe that our Board is well placed to undertake this important role on your behalf with relevant, diverse and deep levels of expertise across the business, insurance and risk spectrum.

Our Board has undergone a few changes this year.

In April 2019 we welcomed John Gunn to the board as Finance Director, replacing Paul Austin who retired after 10 years of service. We were also joined by Chris Pollard, Chief Operating Officer increasing the number of Executive Directors to five. To maintain the independent balance required, we welcomed Keith Baldwin as an Independent Non-Executive Director in August 2019.

The Board, through its Nomination Committee, has discussed succession planning for the Chief Executive Office role and it was originally planned for Andy to retire at the end of 2020. However, due to the severity and ongoing uncertainty of COVID-19 Andy has agreed to delay his retirement.

I would like to take this opportunity to remind all members to have their say as to how The Exeter is governed by encouraging you all to vote at our AGM each year. This is an important difference between a mutual and other types of insurers and I trust that you will continue to take the opportunity to actively participate in the business of governing your organisation.

> 'I believe that our Board is well placed to undertake this important role on your behalf, with relevant, diverse and deep levels of expertise across the business, insurance and risk spectrum'

Final words from the Chairman

It has certainly been another very busy year for The Exeter with solid results and strong performance. I would like to thank our highly engaged and committed Board of Directors who continue to support me and provide valuable counsel throughout the year. To our Chief Executive, Andy Chapman, the Executive Board, management and all our staff, I would sincerely like to thank you all for your dedication, hard work and continuing focus on our members.

I have heard many anecdotes of the relationships that exist between our staff, members and the financial advisers we work with and it's these relationships that, I believe, set The Exeter apart.

The impact of Covid-19 over the past few months has proven to be very challenging for everyone, thanks for the staff, 99% of which are now working from home, we have been doing everything we can to provide all our members the same quality of service.

[1] The Board is the Committee of Management of the Exeter Friendly Society Limited.

In closing, I would like to thank you, our members for your loyalty and commitment. Whether you are a longstanding member or are new to The Exeter, our aim is to provide all our members with a superior experience both now and in the future.

As we look to the future, there will no doubt be challenges along the way but I am very confident that we have the right governance, strategy, structures and people in place to continue to provide you with the best service we possibly can.

Wallace Dobbin, BA, Barrister

Chairman
15 April 2020

‘Whether you are a longstanding member or are new to The Exeter, our aim is to provide all our members with a superior experience both now and in the future.’

Chief Executive's Report

I am delighted to follow the Chairman's statement by introducing The Exeter's 2019 Annual Report and Accounts.

The Exeter has again withstood some challenging conditions to deliver solid growth against a backdrop of global uncertainty, an uncertain Brexit situation, increasing regulatory requirements and a highly competitive insurance sector.

With a clear, focussed strategy and a highly dedicated team, we have delivered a significant number of projects and improvements. We remain committed to working hard for our members with some standout results in terms of industry recognition and customer service.

We have continued to invest across our entire business, not only in products, but also in relation to the optimised service our members enjoy. With a focus on continuing to improve our member experience, it is in the areas of value-added services and digital claims that The Exeter has made significant gains over the past year.

'With a clear, focussed strategy and a highly dedicated team, we have delivered a significant number of projects and improvements.'

Real Life

Real Life, our life insurance product for customers who have suffered from serious or multiple health conditions, was expanded to the whole of market during 2019 taking a bold step to make protection accessible and inclusive for more people. I'm very proud to say that we have offered terms to the majority of applicants to Real Life. Many people previously refused life insurance may have thought their medical history had meant that the protection they and their families needed was out of reach.

HealthWise

In 2019 we launched HealthWise to all members of The Exeter. HealthWise, which offers quick and convenient medical advice and treatments at no added cost, helps all our members to get value from their policy every day without impacting their premiums or no claims discount.

We have been delighted to see consistent downloads of the HealthWise app during the year with a strong uptake on the usage of services available. In particular the popularity of physiotherapy and mental health services, has demonstrated the immense value of this member benefit.

Digital Claims

More recently, The Exeter has significantly improved our service for Income Protection members in regard to the submission of claims with the introduction of a digital claims process. The process for submitting a member's claim is the real test for our Society, so it is critically important to make the process as fast and convenient as possible. In today's digital world, everyone expects fast and efficient on-line solutions, and this technology has helped us deliver this to you.

I can assure our members that we intend to remain on the front foot in further developing collaborative opportunities and capitalising on our digital capability to provide meaningful benefits to members.

'I can assure our members that we intend to remain on the front foot in further developing collaborative opportunities.'

Industry Excellence

While the market continues to be extremely competitive, I am delighted to report that this year we have received several prestigious industry accolades for both our products and our service;

- **Winner** – Best Individual Life Insurance, Cover Excellence Awards 2019
- **Winner** – Doing it Better, Protection Review Awards 2019
- **Winner** – Best Private Medical Insurance, Cover Customer Care Awards 2019
- **Winner** – Customer Service 'Above and Beyond', Cover Customer Care Awards 2019
- **Highly Commended** – Best Healthcare Service, ILP Moneyfacts Awards 2019
- **Highly Commended** – Claims Management Team, Cover Customer Care Awards 2019
- **Highly Commended** – Underwriting Team, Cover Customer Care Awards 2019
- **Commended** – Best Income Protection Provider, ILP Moneyfacts Awards 2019

Being recognised by our peers in this way is further reinforcement of our strong reputation in the market.

Brexit

There is ongoing uncertainty around Brexit and the transition to exit from the EU. This is an area the Board will continue to monitor to assess the potential impact on our members resident in the EU. The Exeter is not directly regulated in the EU countries in which policyholders reside but operates its private medical business under a special regime agreed between the UK and the EU.

Whilst an orderly exit would allow us to more effectively address the consequence of change against a defined timeframe, we have identified some areas for the Board to continue to monitor:

- Operational complexity in respect of those members who reside in the EU.
- Including continuity, where possible, of cover to EU members, or assist a smooth transition to a new provider should we no longer be able to continue to provide cover.
- Investment market volatility.
- Increased costs as a result of more demanding regulatory compliance.

Community

As a mutual, we believe that community support is an essential part of our proposition. As a business we have always looked to facilitate strong community partnerships and support for those local and small not-for-profit groups in the Exeter area. In 2019 the society donated over £50,000 to these causes and we will continue to engage our staff in community programmes so that together we can all make a positive impact.

Looking forward

There is no doubt that advances in technology and market competition will remain key factors in the near future. More than ever, a flexible and agile approach towards innovation, collaboration and partnership is essential to our strategic direction. The Exeter will continue to review the landscape for collaborative opportunities to ensure we remain relevant and can continue to offer our members competitive, modern technology, valuable products and exceptional customer service.

COVID-19 presents a new uncertainty and challenge in 2020. Our primary focus is the operational readiness and commitment to the safety and wellbeing for our members and staff, to ensure that we continue to deliver on our promises. We have increased the capability for almost all staff to be able to continue to deliver crucial services from home, we have also implemented schemes to minimise the likelihood of transmission within our offices for those unable to work from home. The continued strength of our balance sheet will allow us to meet any short-term challenges.

Thanks and acknowledgements

I am genuinely proud of The Exeter's achievements over the past year and would like to thank the Board for their ongoing support and commitment to our members and our team. In particular, I would like to thank our Chairman, Wallace Dobbin, for his counsel and dedication to The Exeter throughout the year. To my Executive Board, management and staff, I sincerely thank you for another year of commitment, loyalty and focus on our members. We have an extremely positive culture at The Exeter and I am proud and inspired by the work I see you doing every day on behalf of our members.

I would also like to thank the financial advisers and insurance intermediaries who remain supportive of us and recommend our products to their clients.

Finally, I would like to thank you, our members. You are the reason we exist. To those who have provided me with feedback throughout the year, thank you for your loyalty and commitment. Whilst I love hearing about your positive experiences, I also appreciate learning how we can improve.

We look forward to your continued support over the coming year.

Andy Chapman, ACII, APFS

Chief Executive
15 April 2020

> 'I am genuinely proud of The Exeter's achievements over the past year.'

Strategic Report

Principal activities and business model

The principal activities of The Exeter are the provision of Income Protection (IP), Private Medical Insurance (PMI), and Life Insurance policies to its members. We also offer Health Cash Plans (HCP).

The Exeter's insurance businesses consist of both general and long-term elements, the former represented by its books of PMI and HCP business and the latter through its IP and Life Insurance policies. All insurance policies are underwritten by The Exeter and sales of new policies are distributed primarily through financial advisers and broker networks.

Economic and market environment

The launch of a new PMI product, Health+, in September 2018 has resulted in an increased level of take up of PMI during 2019.

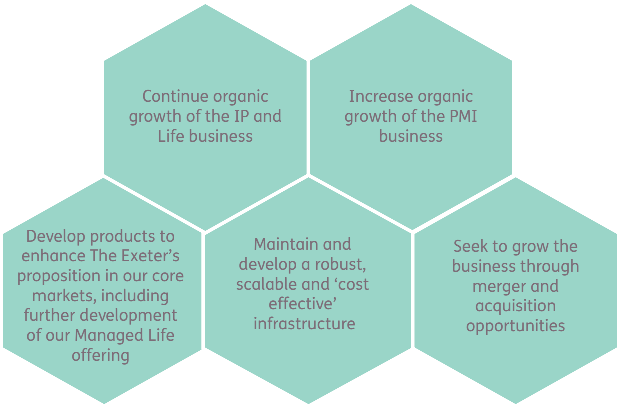
In 2017, The Exeter entered the life cover market with a bespoke plan for individuals with health conditions that can be effectively managed. Market reaction was positive and in 2018, we widened the offering to those persons with other significant health conditions. The trend for increased Life protection sales continued in 2019.

In 2018, we changed our investment policy to move to shorter dated investments. This decision proved to yield positive results in respect of the short-dated corporate bonds, which also matched the liability profile of the portfolio. While this policy cannot guarantee returns on assets, we have received and continue to expect good returns whilst maintaining a low level of risk and ensuring liquidity if needed.

Strategic progress

The Board re-affirmed its vision in 2019: to become the protection provider of choice for its customers and distribution partners through the development of quality products, efficient processing and rapid claims payment.

Delivery on our vision depends on us being able to:



By seeking to expand the business through the sale of profitable and innovative policies, the Board aims to generate and preserve value for our members over the long-term, thereby providing a firm capital base on which to support future growth.

Product development

Our enhanced IP products were launched in late 2016 and have performed strongly since. However, the Board is very aware that we must continually innovate in an increasingly competitive and responsive marketplace. We undertake regular product reviews to ensure current and future products meet the needs of our members which resulted in launch of Health+ in September 2018, an enhanced and more flexible PMI offering. The launch of Health + in 2018 was successful, this success encouraged further improvement in the digital area, including the launch in 2019 of the e-claims system.

We continue to invest in developing our IT systems to ensure that these meet the needs of the business and provide the required support as we move forward towards our strategic goals.

Key performance indicators

The Board monitors several key performance indicators to measure its success in delivering its strategy for the organisation, including sales, premium income, membership, claims, operating expenses, reserves, capital and solvency.

The key performance indicators have been chosen as being the most relevant measures of achievement against strategic targets and performance of products against expected results.

The purpose of the remainder of this strategic report is to explain progress made in implementing our strategy during 2019, in the context of the financial statements and its key performance indicators, and to consider the key factors, strengths and principal risks that might influence the Group's future prospects.

Membership

Membership is a key measure as it reflects the scale of the Society; and the long-term ability to continue to provide services to members depends upon membership being stable or growing. Whilst membership drives the financial results it is not a number that is directly derived from the financial statements.

Sales of new PMI policies increased during 2019, but coupled with an increase in policy lapses, resulted in a fall in the number of members with PMI policies by 900 from 24,647 to 23,747 during the year.

By contrast, IP membership showed a 3,702 increase on the previous year from 41,686 to 45,388 members at the year end.

HCP sales continued to be lacklustre in 2019 showing an overall decrease in the numbers of members from 27,231 to 24,050. The cash plan market is dominated by two very large insurers with high marketing profiles and management have focused on maintaining rather than increasing sales of this product.

Sales of the new life protection products showed a significant increase in 2019 and we expect this to continue as the product offering has been widened.

Overall, therefore, the membership base showed an increase on previous years, with total membership of 98,237 (2018: 95,127) at the year end.

Written premium income and sales

Written premium income comprises premiums from new policies sold in the year along with combined premiums of historic sales.

New PMI sales totalled £3.2 million which represented a 101.6% increase on the £1.6 million recorded in 2018. Policy lapses were at a high level during 2019 and as a consequence there was an overall reduction in the number of PMI policyholders. Gross written premium therefore decreased by 2.2% to £37.0 million during the year.

Gross sales of new IP policies were £4.8 million showing an increase during 2019 (2018: £4.2 million). Taking into account policy lapses during the year has resulted in an overall gross written IP premium of £24.2 million (2018: £22.4 million). Life sales increased to £3.5million (2018: £1.2 million).

The HCP business contributed an amount of £3.5 million (2018: £3.7 million) to The Exeter's written premium income.

Claims and expenses

The Society's policies are designed to pay claims for the benefit of members and therefore this is a key measure of performance. In addition, the cost of providing those policies must be controlled to ensure the long-term viability of the Society.

PMI benefits and claims decreased by 6.3% to £29.2 million, partly as a result of the reduction in size of the book of business, but also due to the continued benefits of outsourcing PMI claims. Gross IP benefits and claims totalled £9.0 million, a 17.6% increase on 2018. On a net basis, after allowing for reinsurance recoveries, there was an increase of 1.5% to £5.3 million. Benefits paid on the HCP business amounted to £2.9 million, bringing the total claims paid out for the Group to £41.0 million (2018: £41.8 million).

At Group level the commission payable to intermediaries increased by 47.9% to £14.6 million, this has been driven mainly by the increase in sales of Life policies. Net operating expenses increased by 35.4% from £16.0 million to £21.7 million (2018: 17.0%), largely as a result of increased new business sales.

Asset and liability movements

The Exeter invests its assets in bank deposits, government securities, corporate securities and equities.

The organisation has a policy of not using equities to match any insurance liabilities and therefore such investments are made out of unallocated surplus. An analysis of the Society's financial assets can be seen in Note 18 to the financial statements.

Movements on reserves and solvency

Group IFRS reserves increased by £9.7 million (2018: decrease of £10.4 million) resulting in a combined IFRS unallocated surplus of £195.7 million (2018: £185.3 million). Solvency margins are a key performance indicator and are reviewed regularly by the Board to ensure we remain financially secure into the future.

We report our solvency position directly to the Prudential Regulation Authority (PRA). As allowed under International Financial Reporting Standards (IFRS), we align reporting in the Annual Report and Accounts as closely as possible with the requirements of Solvency II reserving.

Solvency II is the regime by which the Board runs the capital resources of the business. The measure of capital used for management purposes is defined as "Solvency II own funds" and these resources are measured against the relevant capital levels as defined in the regulations:

- Minimum Capital Requirement ("MCR") which is the level calculated by a prescribed standard formula below which a company must not fall to remain compliant.

- Solvency Capital Requirement ("SCR") which is a requirement (also calculated by prescribed standard formulae) which creates a threshold for Regulatory intervention if it is breached.
- Companies are also required to assess their own capital requirement based on a forward-looking assessment of future capital requirements known as Own Risk and Solvency Assessment ("ORSA"). The ORSA is a strategic tool that is used by The Exeter to ensure that the business is managed in a way that considers and takes account of all risks. The ORSA may introduce even higher capital requirements if the Board believe it is necessary.

Each element of the business is assessed separately for capital purposes and therefore The Exeter's overall capital requirement is split between long term business, general business and the cash plan operations. These elements are considered further below.

The Exeter sets a risk appetite to define the level of risk that the Board believes to be appropriate given the nature and scale of our operations. When assessing the level of Solvency II own funds held against the capital requirements, we set a limit above the relevant capital requirement below which solvency should not fall. If the level of Solvency II own funds approaches the limit there are a number of risk mitigation actions that can be undertaken to improve this situation which could include revisions to the Society's investment strategy, pricing strategy or restricting operations to reduce capital usage.

The Solvency II position for The Exeter is managed separately for the long term and general business funds and the results can be summarised as follows:

	General Business Fund	
	2019	**2018**
	£000	**£000**
Available capital	**99,883**	**91,291**
Capital requirements:		
MCR	5,264	4,419
SCR	21,058	17,674
Available capital as a % of MCR	1897%	2066%
Available capital as a % of SCR	474%	517%

	Long term Business Fund	
	2019	**2018**
	£000	**£000**
Available capital	**87,779**	**87,010**
Capital requirements:		
MCR	15,374	13,749
SCR	61,499	54,995
Available capital as a % of MCR	571%	633%
Available capital as a % of SCR	143%	158%

The cash plan operations are conducted within a 100% owned subsidiary which is separately regulated and monitored. As a result, it has a separate capital adequacy requirement which must be separately monitored and maintained. Details of the current solvency position for the Exeter Cash Plan Limited are set out below:

	Exeter Cash Plan	
	2019	2018
	£000	£000
Available capital	**3,039**	3,080
Capital requirements:		
MCR	2,153	2,222
SCR	739	788
Available capital as a % of MCR	141%	139%
Available capital as a % of SCR	411%	391%

Principal risks and uncertainties

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. In meeting its obligations, the Board has carried out a robust assessment of the principal risks facing The Exeter, including those that would threaten its business model, future performance, solvency or liquidity.

The Exeter classifies risks using the following categories:

1. Risks customers transfer to us (Insurance risk, e.g. mortality, morbidity, health and persistency risks);
2. Financial Risks that we incur (e.g. Credit, Market and Liquidity Risks);
3. Risks that we incur in the course of normal business (e.g. Operational, Broker & Premium Credit, Conduct and Cyber Security Risks); and
4. Strategic & External Risks (e.g. Business Strategy, Political and Economic & Environmental Risks).

Further details of the principal risks facing the business, and the Board's policies and processes for managing or mitigating those risks, can be found in the Risk Management Report below. Having monitored and reviewed The Exeter's risk management and internal control systems during the year, the Board is satisfied that these are operating effectively.

Risk Management Report

This section summarises the principal risks that the Society is exposed to and the way the Society manages them. The Society has adopted an enterprise-wide risk management (ERM) framework to ensure that risks are managed effectively. This framework comprises the three lines of defence model which provide three levels of independent oversight and assurance of the risk management carried out by the business.

Risks are assessed on a fund by fund basis and then aggregated for the Society as a whole. The Board's Governance & Risk Committee reviews the risk management framework at least annually and receives quarterly reports from the Chief Risk Officer. In addition, the Executive Board receives risk management reports monthly.

The Board has set a risk appetite measured as a proportion of available capital for each of the funds. The utilisation of capital against this appetite is measured and considered regularly and appropriate action taken to address any issues. In addition, the Board has established its risk preference for the 14 high-level risks which is an informed subjective assessment of the degree of risk that the Board is content to accept.

Risks customers transfer to us (Insurance risks)

Insurance risks arise from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. Long-term insurance risk arises from mortality, morbidity, persistency and expense variances. General insurance risk arises from risks in general insurance contracts which lead to significant claims in terms of quantity or value. Systems are in place to measure, monitor and control exposure to all these risks. These are documented in policies for underwriting, pricing, claims and reinsurance. The Board's Governance and Risk Committee is responsible for recommending the approval of relevant risk related policies and monitors compliance thereto based upon reporting provided by the Actuarial and Risk Management teams. New products and existing products are subject to review and approval via the Proposition Governance Committee, Executive Board and the Board, whilst the quality and performance of our intermediary partners is monitored by the Distribution Quality Management Committee of the Executive Board to ensure that unsuitable insurance risks are not being introduced. Additionally, to mitigate risk in the long-term business fund the Society places reinsurance with Swiss Re.

Financial risks that we incur

The Society is exposed to a range of financial risks through its financial assets, financial liabilities, insurance contract liabilities or assets and associated reinsurance balances. In particular, the key financial risk is that in the long-term its investment proceeds are insufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk. However, the Society also faces financial risks in respect of property valuations, concentration of investments and counterparty exposures.

Each of the exposures to risk are analysed regularly to assess their likely impact and probability. The overall level of risk is then compiled into a detailed report taking into account the correlation of individual risks to arrive at a required level of capital. The Board is responsible for reviewing the risks faced by the Society and approving the required level of capital to be held against each risk element.

Market Risk	Market Risk is the risk of losses arising from changes in the value of assets or in the income from the assets. The key risks faced in this area are equity risk; interest rate risk; and exchange rate risk. The Society manages market risk so that the returns generated are in line with members' expectations and support the Society's future strategic and operational objectives. For assets backing member liabilities, market risk is managed by matching, within broad parameters, the duration and profile of the assets with the underlying liabilities. The Society has also mitigated market risk by maintaining a policy of investing assets required to back insurance liabilities in bank deposits and fixed interest and index-linked securities. The Society's Investment Committee oversees the Investment Policy and strategy, which the Society implements through the use of investment mandates. Each mandate aims to manage the market risk using some, or all, of the following mechanisms: 1. Defined performance benchmarks; 2. Limited on asset allocation by asset type, market capitalisation and geographical spread; 3. Limits on duration of the fixed interest portfolio. The Society is exposed to interest rate risk where changes in interest rates result in changes to market values or cash flows. Most members of the Society within the Long-Term Business Fund bear the interest rate risk through reviewable premiums. Some members (Holloway) bear the interest rate risk through the allocation of bonuses which is influenced by changes in market values and cash flows. • **Equity price risk** Holdings in equities are by their nature subject to market movement. In order to mitigate this risk the Society employs an external Investment Portfolio Manager and has a policy of only investing in equities out of assets not matching insurance liabilities. Assets required to back insurance liabilities are therefore held in bank deposits; index-linked securities; and fixed interest securities. The sensitivity of the Society's asset value to a movement in the equity market differs between the two funds. At the year end the impact on the General and Long-Term Business Funds of a 1% market movement is £215,712 (2018: £166,238) and £149,565 (2018: £176,903) respectively. • **Interest rate risk**

Due to the nature of its products the Long-Term Business Fund is impacted to a greater extent by interest rate movements. Risk mitigation is achieved by matching the duration of investments to the expected cash flow requirements of the Long-Term Business Fund. This asset and liability matching cannot be exact due to the uncertainties involved but is reviewed regularly and adjustments made to the portfolio allocation if required.

Interest rate movements would have an impact on asset and liability values and capital requirements. The sensitivity of the Society's net assets after capital requirements also differs between the two funds. At the year end the estimated impact of a 1% increase in interest rates on the General Business Fund is a £20,000 increase in free assets (2018: £300,000 decrease in free assets) and on the Long Term Business Fund is an increase in free assets of £4,500,000 (2018: £4,000,000 reduction in free assets). The Exeter Cash Plan has negligible exposure to interest rate movement.

- **Exchange rate risk**

The Society has a number of Private Medical Insurance policies overseas which present an exchange rate risk. This is mitigated by holding deposits in Euros as a natural hedge against the exchange rate risk. Exchange rate risk also arises from the Society's overseas equity holdings and this risk is managed by limiting the extent of overseas exposure, holding diversified investments and not using such investments to back insurance liabilities.

Deposits are held in Euros to match Euro denominated liabilities and for certain policies both the premiums and claims are paid in Euros; therefore, the exposure to exchange rate movements is low.

- **COVID-19**

The coronavirus (COVID-19) has been identified as a risk, and we are monitoring its impact on our business, members and employees. There is uncertainty over the magnitude of the economic slowdown that will result from this pandemic. Our primary focus is on ensuring the safety and wellbeing of our employees and members. We have invoked our business resilience plans to help support both employees and members to ensure we sustain our usual quality of business operations. At this time, we do not believe that COVID-19 will have a material adverse impact on The Exeter's financial results or result in The Exeter being unable to meet its capital requirements. There has not been an impact on our ability to service members policies and as a result of the Government advice to 'stay at home', all our departments were successfully managed and transferred to remote working, demonstrating our operational agility at very short notice. Since the start of 2020 and the continuing development of COVID-19, there has been an increase in claims but again we do not believe the overall impact of these claims will be material. In respect of our excess asset investments, at the end of February 2020 we had £19m of our excess assets invested in equities. We are actively continuing to monitor the COVID-19 impact on the business.

Credit risk

Credit risk relates to counterparties to the Society required to meet its financial obligations. The Society takes on investment credit risk when it is considered beneficial to do so in support of the Society's strategic objectives and in matching Policyholder liabilities. The Society seeks to minimise other forms of credit risk, in particular those related to deposit takers and bond issuers.

Assets backing insurance liabilities are invested primarily in gilts and deposits. In addition, the Society has taken the following steps to mitigate credit risk:

1. Diversified the portfolio of investments to reduce the potential impact of a credit event;
2. Counterparty limits are in place for each bank deposit and cash equivalents;
3. Credit rating assessment of counterparties;
4. Only reinsurers who match the Society's credit rating requirements are used.

Liquidity risk

Liquidity risk is the risk that the Society, although solvent, is unable to meet its obligations as they fall due. The Society's objective on liquidity risk management is to ensure that sufficient funds are available over the short and medium term to meet the needs of the Society. This includes new business costs, planned strategic activities, member withdrawals, claims payments and day to day cash flow requirements.

Liquidity risk is managed as follows:

1. Budgets are prepared to assess the short term and medium-term liquidity requirements;
2. Assets of suitable marketability and maturity are held to meet the member liabilities as they fall due; and
3. Credit risk of deposit takers is managed by having appropriate counterparty and credit limits in place.

Risks that we incur in the course of normal business

All the risks within this category are variants of Operational Risk, which in turn is the risk of loss resulting from insufficient, inadequate, or ineffective people, processes and/or systems.

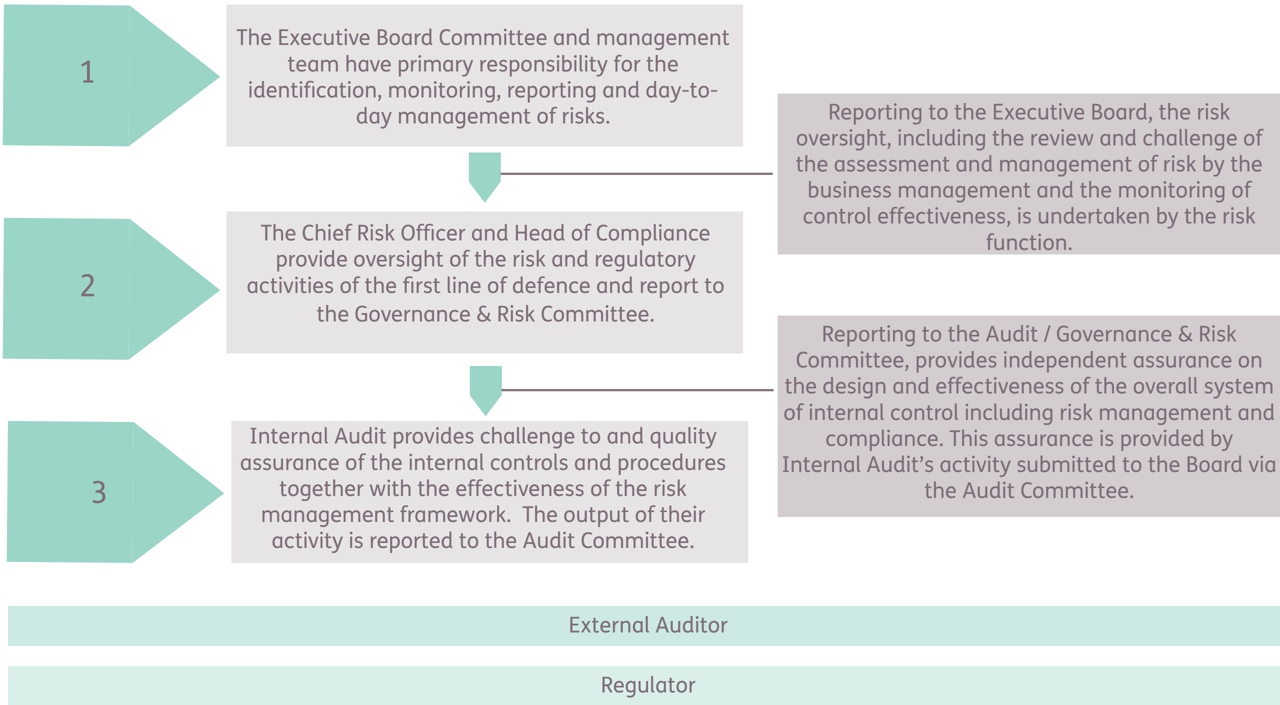
Broker Risk	The risk of loss from poor selection or management of third-party introducers of business resulting in high levels of claims and/ or lapses and/or inability to recover commission clawback. The Society has relevant policies and procedures in place in respect of due diligence and has developed a Distribution Quality Management approach to monitor and manage the quality and quantity of applications from individual and group brokerages.
Conduct Risk	The risk of loss from failure to ensure good customer outcomes in line with market and regulatory expectations. The Society's strong corporate culture places fair treatment of customers, staff and suppliers at the centre of management's values and behaviours. During 2019 a new Conduct Risk Scorecard has been developed and implemented.
Operational Risk	The risk relating to direct or indirect loss arising from inadequate or failed internal processes, practices and people. This includes losses as a result of fraud or other forms of financial crime and is managed through having regularly reviewed policies, procedures, process maps and oversight by line management and via Compliance and Risk Management teams.
IT Systems Risk	Risk of loss resulting from the design, management and maintenance of our IT estate, including the IT infrastructure and the choice and operation of the software and applications thereon. The Society has undertaken a strategic review of its IT operations during 2019 and implemented a new structure that reflects the degree of material outsourcing of the architecture and improves supplier management capabilities in terms of infrastructure and software maintenance and development.
Cyber Security Risk	Risk of loss resulting from breaches or attacks on information systems or as a result of unintentional user error resulting in a system being temporarily unavailable. The Society engages a number of specialist cyber security partners and approaches to both protect the infrastructure and test the defences on a continuous basis.

Strategic & External Risks

Political, Economic & Environmental Risk	Risk arising from changes in government policy, regulation, economic and environmental approaches including the financial impact of climate change. Including: **Brexit** The Society has been considering the potential outcomes and impacts of Brexit for quite some time and had planned for both deal and no-deal scenarios in terms of its European domiciled Private Medical Insurance policy members. Whilst the threat of a 'no deal' situation may have reduced, it remains a potential outcome. We expect further clarity later in the year and will continue to keep impacted members informed. **The financial risks of climate change** Whilst the Society does not anticipate any material impact to performance in the short term, an approach to the longer term impacts of transitioning to a low carbon economy and possible changes to consumer behaviour and experience is being developed. During the year, the Board appointed a Climate Change Officer. Also captured within this category are horizon and emerging risks, these being potential risks that may or may not materialise and those that we can see approaching but for which there is insufficient detail or data to be able to formulate a meaningful risk value or probability.
Business Strategy	The risk of loss emanating from the failure to set or achieve a sustainable business strategy resulting in poor financial performance, risk to solvency, regulatory censure and/or reputational damage. Strong leadership from the Board and regular monitoring of performance helps to mitigate the risk of a flawed strategy impacting the Society.

The Three Lines of Defence

Everyone within the Society is responsible for identifying and managing risks within their day to day activities. Fourteen high-level risks have been identified by the Board and these are owned by individual members of the Executive Management team. These fourteen high-level risks are supported by a significant number of lower-level risks and internal controls that are owned and managed on a day to day basis by direct reports of the Executive Management Team. Together, these risk owners form the first line of defence in the Society's risk management framework.



Future outlook

The Exeter continues to put the interests of its members at the heart of the organisation. To support this philosophy, the Board ensures that products and services are designed and delivered in accordance with the needs of those members. To better serve the needs of all our members in early 2019 we rolled out HealthWise to all eligible members, giving access to a range of added facilities to complement their purchased cover, and at no added cost to the member. Notwithstanding expected increasingly competitive market conditions in 2020 and beyond, the Board believes we are well positioned to achieve growth through innovation and product range expansion and increased focus on key distribution relationships.

The move to an intermediary-focused distribution model six years ago continues to be a successful strategy that has delivered growth over the period. The Board believes that this is a good platform from which to form a solid long-term future for the business.

There remains uncertainty over the exact nature of the UK's future relationship with the EU and we expect this uncertainty to continue during 2020 and beyond. Key issues for The Exeter's business include market volatility, possible movement to recession and regulatory uncertainty.

Regulation is of particular importance as The Exeter is not directly regulated in the EU countries in which policyholders reside but is permitted to operate its private medical business under a special regime agreed between the UK and the EU. The continued uncertainty around Brexit and the transition to exit from the EU means the Board will continue to monitor the ongoing negotiations to assess the potential impact this will have on our EU resident members. Should we find ourselves in the position of not being able to provide cover for these members we will seek to identify and assist where possible a smooth transition to a new provider.

2020 has begun with the outbreak of a new strain of the Coronavirus (COVID-19) in China, with confirmed cases in over 100 countries, including the UK. The World Health Organisation, on 11th March 2020, made an assessment and characterised this as a pandemic which now poses a risk to economic disruption. There is considerable uncertainty around the severity and duration of the disease in the UK, with both members and staff facing some risk of infection.

Notwithstanding our robust capital position and the operational actions that we are implementing, a deterioration in the situation would have some adverse implications for our businesses arising from the potential impacts. We are keeping abreast of the medical, political and economic developments so that we can best maintain our operational and financial resilience as the outbreak evolves.

S172(1) Directors' Duties Statement

The Board has considered the Companies (Miscellaneous Reporting) Regulations 2018. For accounting years beginning on or after 1 January 2019, companies that meet certain thresholds will be required to report under this regime.

The Directors continue to have regard to the interests of the Society and its subsidiaries employees and other stakeholders, including the impact of its activities on the community, environment and the Society's reputation, when making decisions. The Directors, acting fairly between members, and acting in good faith consider what is most likely to promote the success of the Society for its members in the long term. In doing so it had regard, amongst other matters, to the following:

- the consequences of any decision in the long-term;
- the interest of all employees;
- the business relationships with suppliers, customers and other stakeholders;
- any impact the business may have on the community, stakeholders and the environment;
- continuing to maintain the reputation and high standards of business conduct; and
- the need to act fairly with the members, employees and other stakeholders.

On behalf of the Board of Directors:

Wallace Dobbin, BA, Barrister
Board Chairman
15 April 2020

Andy Chapman, ACII, APFS
Chief Executive
15 April 2020

The Board regularly receives reports from management on issues in respect of members, suppliers, the community, the environment and regulators, which it takes into account in its decision-making process. In addition to this, the Board seeks to understand the interests and views of the organisations stakeholders by engaging with them directly as appropriate.

	Report	**Header**	**Page reference**
Stakeholder consideration and the Board's approach to engagement	Corporate Governance	Consideration of Stakeholders	28
Overall stakeholder engagement	Corporate Governance	Workforce engagement / Community engagement / Managing our environmental impact	28
Read more about our business plans	Strategic	Principle activities and business model	8
How we manage risks	Strategic	Risk Management	11
Environmental impact	Corporate Governance	How we manage our environmental impact	28

Board of Directors

Below are the members of our Board, along with their profiles. All of the Non-Executive Directors meet the definition of independent directors as provided by both the 2018 UK Corporate Governance Code and the Association of Financial Mutuals Corporate Governance Code 2019.

Key to the Committees: **A** Audit **N** Nomination **GRC** Governance & Risk **R** Remuneration **I** Investment **O** Chairman

Wallace Dobbin BA, Barrister - Chairman (Non-executive) **N** **R** **O**

Appointed: March 2008

Chairman: June 2013

Experience: Wallace has extensive experience in corporate strategy, marketing and communications and is a trained lawyer. Previous roles include being a member of the UK Board of Zurich Financial Services, Strategic Development Director for BAT UK Financial Services and Business Development Director for Allied Dunbar Assurance.

Other appointments: Wallace is a Non-Executive Director ('NED') of FNZ UK Ltd and was formerly a NED of Quilter Financial Planning Ltd, Intrinsic Financial Services Ltd and the Vice Chairman and Senior Independent Director of the Gloucestershire Hospitals NHS Foundation Trust. He was a member of the CBI London Council and a former Trustee of the Sir Steve Redgrave Charitable Trust.

David Brand BA, FIA - Senior Independent Director (Non-Executive) **A** **I** **GRC** **N** **R**

Appointed: January 2014

Experience: David is a qualified actuary who, prior to his retirement in June 2012, had worked for the Hannover Re Group in the UK, acting as the Managing Director of its UK life reinsurance subsidiary from 2003. David had been with the company since 1988, and a Director since 1990. During his career David also held various roles with the Institute of Actuaries, including being a member of Council and he also served on the Health Committee of the Association of British Insurers from 2006 to 2012.

Other appointments: David is an independent Non-Executive Director of Chesnara plc, the life and pensions management company, where he also serves on the Audit and Risk Committee, Remuneration Committee and the Nomination Committee. He is an independent Non-Executive Director of Chesnara's life insurance subsidiaries, Countrywide Assured in the UK and Movestic Liv in Sweden, where he is the Chairman.

Keith Baldwin (Non-Executive) **A** **N** **GRC** **R** **I**

Appointed: August 2019

Experience: Keith has extensive experience across the financial services arena with expertise in Business Strategy, Corporate Governance, Sales and Marketing and Business Acquisition. He has held previous roles as Deputy Chairman and Chief Executive Officer of Allied Dunbar Assurance and Chief Operating Officer of Zurich (UK, International and Ireland) Life. Keith has recently stepped down as Non-Executive Director of Quilter Financial Planning.

Other appointments: Keith is also a keen aviator and is Chairman of the Board of Trustees of the Jon Egging Trust, Non-Executive Director of General Aviation Safety Council, and Liveryman of the Honourable Company of Air Pilots.

Steve Payne BSc, FIA (Non-Executive)

GRC | R | A | N | I

Appointed: September 2015

Experience: Steve is a qualified Actuary who has held a variety of senior management roles in the Life Assurance industry. These include Managing Director for Protection at Friends Life (2011-2014), a FTSE100 company, where he led the integration of the protection businesses of AXA, Friends Provident and Bupa. Steve was a member of Friends Life's Group Executive. Prior to this, he led the Bupa Protection business where he became Chief Executive (2004-2010). Steve has also worked for two Reassurance businesses which are now known as Scor and Hannover Re, and was Deputy Chief Executive at Revios (UK), the company that became Scor (UK) (2004).

Other appointments: Steve was appointed as a Non-Executive Director of Safe World Insurance Group UK Ltd in June 2019. He is also an independent Non-Executive Director of Pacific Life Re Limited, the life reinsurance company. Steve is a past Chair of ILAG (The Investment and Life Assurance Group), a former member of the ABI Protection Committee, and was twice Chair of the Institute and Faculty of Actuaries Healthcare Conference.

Helen McEwan BA, AFPC (Non-Executive)

N | A | GRC | R | I

Appointed: September 2016

Experience: Helen has a wealth of experience across the life and pensions industry with particular expertise in Strategy, Leadership and Partnership Development. Helen spent many successful years at Aegon UK, where her roles included Director of Banks, Partnerships Director and Head of International Sales. During her tenure, Helen was highly regarded for her astute commercial acumen coupled with her ability to develop key distribution partnerships, optimise new business volumes and nurture new talent. Helen was appointed Chief Pensions Officer to the Universities Superannuation Scheme on 1 April 2019, where she has Executive responsibility for Policy, Strategy, Marketing Communications, Change, Digital Transformation and Pension Operations.

Other appointments: Previous roles held by Helen include Commercial Director at Fintech Adviser firm True Potential and Business Development Director with Auto-enrolment specialist, Now Pensions. Helen is also a former Trustee of Edinburgh Young Careers charity.

Andy Chapman ACII, APFS - Chief Executive (Executive)

I

Appointed: March 2008

Experience: Andy was appointed Chief Executive in March 2008, following the transfer of engagements from Pioneer Friendly Society, having been the Chief Executive at Pioneer since September 2005. He joined Pioneer having previously been Group Director at Liverpool Victoria Friendly Society and Managing Director at Permanent Insurance. Andy is the former Chairman of the Board of the Association of Financial Mutuals (AFM), the trade body which represents mutual insurers, friendly societies and other financial mutuals in the UK, having been on the Board for nine years and Chairman since 2016-2019. In 2017, Andy was appointed to the Financial Conduct Authority Smaller Business Practitioner Panel, which represents the interests of practitioners of firms of small or medium size within their sector across the range of regulated activities as regulated by the FCA. He also sits on the Health Committee of the Association of British Insurers (ABI). The ABI is the voice of insurance, representing the general insurance, investment and long-term savings industry.

Other appointments: He is currently Chairman of the Northbrook Community Trust, a charity set up to fund the provision of education and training (including support and accommodation) for any child or young person in Devon.

John Gunn BSc, FFA - Finance Director (Executive)

GRC

Appointed: April 2019

Experience: John joined the society as Chief Actuary and Chief Risk Officer in February 2017 and was appointed to the Board as Finance Director in April 2019. John has spent his entire career in Life and Health insurance, joining Scottish Life immediately on graduation from Heriot Watt University. After qualifying as an Actuary in 2004, he spent 10 years working for Royal London's protection businesses in the UK and Ireland in a variety of roles including Head of Pricing, Head of Actuarial and Head of Products. Prior to joining The Exeter, John then worked at Scottish Widows and as General Manager at Omnilife.

In his role at The Exeter, John has responsibility for the actuarial, management information and finance teams.

Steve Bryan BA - Director of Distribution and Marketing (Executive)

Appointed: July 2017

Experience: Steve joined the Board of the Society in July 2017 as Distribution and Marketing Director. In his role at The Exeter, Steve is responsible for sales, marketing, proposition development and relationship management.

Steve has spent his entire career in the Financial Services sector, starting out on the graduate training scheme of Lloyds bank, having graduated from the University of Leeds. Subsequently, a distinguished 20-year tenure with Legal & General followed in a variety of roles across the General Insurance and Protection divisions, culminating in Steve heading up Intermediary distribution across both divisions. Steve brings to The Exeter a wealth of experience across protection, General Insurance, Mortgage and Healthcare markets.

Chris Pollard - Chief Operating Officer (Executive)

Appointed: April 2019

Experience: Chris has worked in financial services for over 30 years, combining technical expertise within underwriting and claims disciplines, alongside broad operational and service management skills. Chris was first appointed Chief Underwriter with Skandia in 1994 before assuming responsibilities for new business services. In 2007 Chris joined Bupa Health Assurance leading the underwriting, claims and customer services teams, and played a key role developing the Friends Life protection business until successful acquisition by Aviva. In 2015 he set up his business delivering specialist consultancy skills to numerous firms, including St James's Place, Pacific Life re and Ernst & Young.

In his role at The Exeter, Chris has responsibility for operations, underwriting, claims and the change office.

Professor Willie Hamilton CBE, MD, BSc, FRCP, FRCGP - Medical Director (Executive)

Appointed: April 2005

Experience: Willie qualified in medicine in 1982, and has a research career on improving diagnosis, particularly that of cancer. He is the professor of Primary Care Diagnostics at the University of Exeter Medical School, where he heads the Discovery research group, with over £35 million total research funding, and nearly 300 publications. His main research topic is improving the diagnosis of cancer, both by identifying which patients are most at risk, and now studying which tests are the best to offer.

Willie has received several accolades during his distinguished career. He has won Research Paper of the Year twice. He has also written two textbooks, one on orthopaedics and the second on cancer, the latter winning a British Medical Association prize. He was the clinical lead for a NICE (National Institute for Health and Care Excellence) guideline NG12, on investigation of suspected cancer, and sits on several Department of Health Committees relevant to cancer. He was awarded a CBE in the 2019 New Years' Honours list for 'services to improving early cancer diagnosis'.

Board and Committee membership attendance record

Against each Director's name is shown the number of meetings of the Board and its Committees at which the Directors were present as a member and in brackets the number of such meetings that the Director was eligible as a member of the Board or Committee to attend during the year.

Director	Board[(1)]	Audit Committee	Governance and Risk Committee	Investment Committee	Nomination Committee	Remuneration Committee
Wallace Dobbin (Board Chairman)	8 (8)	-	-	-	5 (5)	3 (3)
David Brand (Senior Independent Non-Executive Director) (Chairman of Audit Committee and Investment Committee)	8 (8)	5 (5)	5 (5)	4 (4)	5 (5)	3 (3)
Steve Payne (Independent Non-Executive Director) (Chairman of Governance and Risk Committee and Remuneration Committee)	8 (8)	5 (5)	5 (5)	4 (4)	5 (5)	3 (3)
Helen McEwan (Independent Non-Executive Director) (Chairman of the Nomination Committee)	8 (8)	5 (5)	5 (5)	4 (4)	5 (5)	3 (3)
Keith Baldwin (Independent Non-Executive Director)[(2)]	4 (4)	1 (1)	2 (2)	1 (1)	2 (2)	2 (2)
Andy Chapman (Chief Executive)	8 (8)	-	-	4 (4)	-	-
Paul Austin[(3)] (Finance Director)	2 (2)	-	1 (1)	-	-	-
Steve Bryan (Director of Distribution and Marketing)	8 (8)	-	-	-	-	-
John Gunn[(4)] (Finance Director)	6 (6)	-	4 (4)	-	-	-
Chris Pollard[(5)] (Chief Operating Officer)	6 (6)	-	-	-	-	-
Professor Willie Hamilton (Medical Director)	8 (8)	-	-	-	-	-

(1) This included one Strategy Day.

(2) Keith Baldwin was appointed in August 2019.

(3) Paul Austin retired in April 2019.

(4) John Gunn was appointed April 2019.

(5) Chris Pollard was appointed April 2019.

Directors' Report

Members of the Board of Directors

The Board of Directors who held office in 2019 are listed on the inside front cover of this Report, with their resumes on page 16. There is also an inclusion of the biography of Keith Baldwin who was appointed Independent Non-Executive Director to the Board on 1 August 2019.

Viability statement

The Assessment period

The Board has assessed the Group's viability over a three-year period to December 2022. This is based on the three-year rolling strategic plan for the business, which is progressively implemented, and which gives greater certainty over the forecasting assumptions used. The three-year strategic plan was last approved by the Board in February 2020. The Board receives quarterly reports from the Chief Risk Officer and sets and approves risk tolerances for the business.

How we assess the Society's prospects

During 2019, the Directors carried out a robust assessment of the principal risks facing the Group, these are outlined on page 11. This assessment included consideration of the Group's resilience in severe but plausible scenarios, supported by the use of stress testing and sensitivity analysis around the central assumptions of the Group's three-year rolling strategic plan. The scenarios considered included significant variations in the levels of new business, policy lapses and claims compared to those expected in the central projections, changes to the underlying economic assumptions such as interest rates, an abstract scenario which assumed a realistic combination of extreme events occurring simultaneously.

Assessment of viability

In addition to the assessment above the Board has carried out a robust assessment of the principal risks facing the business, including those that would threaten the business model, future performance, solvency or liquidity. The principal risks are set out on page 11. Based on the outcomes of the risk assessment, the Directors believe that the Group is well placed to manage its risks successfully, having taken into account its business activities and overall financial position, including liquid cash balances, cash flow forecasts and capital adequacy levels.

The Directors are also confident that the Society and the Group will be able to continue in operation and meet all their liabilities as they fall due over the period considered.

Going concern

The Directors consider it appropriate that the financial statements have been prepared on a going concern basis and also confirm there were no material uncertainties identified for a period of twelve months from the date of approval of the statements.

Since the start of 2020 the situation relating to COVID-19 has continued to develop. To date, we have not seen a material impact on our operations. As a result of COVID-19, we have started to see an increase in claims, but believe the impact of these claims will not be material. Furthermore, our investment strategy is to only invest excess assets in riskier investments, such as equities. Our equity investment at the end of February 2020 was £19m with the remainder invested in lower risk assets. The business response to the impact of COVID-19 and Governmental advice to 'stay at home', has been successfully managed, with remote working in all departments, demonstrating our operational resilience and exceptional staff commitment to our members.

The Strategic Report provides the Group's key performance indicators, capital management, business environment and future outlook and also provides information about the principal risks and material uncertainties affecting the Group and can be seen on page 11.

Statement of solvency

Throughout the year the Group and the Society maintained capital reserves in excess of its Solvency Capital Requirement and Minimum Capital Requirement.

Bonuses to Holloway plan policyholders (Long Term Business Fund)

Only those members with a Holloway plan are entitled to a bonus. In deciding a bonus and interest declarations this year, the Board of Directors has taken into account both fairness to members and the financial climate during the year.

The Board is therefore recommending bonuses and interest rates as set out below:

Bonus Declaration

Ordinary Shares £1.10 (2018: £1.10)

Commuted Shares £1.81 (2018: £1.81)

Interest Rates

Ordinary Accounts 0.8% (2018: 0.8%)

Commuting Members and Juveniles 0.8% (2018: 0.8%)

Over 65's 0.8% (2018: 0.8%)

The Terminal Bonus to be paid to all ordinary members whose policies mature or surrender in 2020 is 80% (80% in 2019) of the member's dividend account. The level of Terminal Bonus is subject to continuous review by the Board and can be altered at any time.

Creditor payment policy

Our policy is, where possible, to agree the terms of payment with suppliers at the start of trading, to ensure that suppliers are aware of the terms of payment and pay in accordance with its contractual and other legal obligations.

We aim to settle the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments), when in full conformity with the terms and conditions of the purchase, within the agreed payment terms. The Society's creditor days were 15 days at 31 December 2019 (2018: 12 days).

Charitable donations and political contributions

Donations totalling £48,185 (2018: £14,971) were made to charities during 2019. As part of the 2019 AGM the Society made a donation to the Children's Hospice South West for every vote cast, this initiative raised £5,582. In addition to this figure, an amount of £1,500 (2018: £1,250) was paid in respect of medical insurance policies that included a hospice donation as a benefit.

No political contributions were made during the year (2018: Nil).

Financial Crime

The Society remains conscious of the increasing threat financial crime poses to the business and to its Members, in particular cyber-crime, which is a growing risk. The Society is fully committed to conducting its business with high ethical standards and provides all employees with on-line training. As well as the on-line training, all employees are provided with the employee policy handbook, which contains among other policies, Whistleblowing, Corporate Social Responsibility, Conflicts of Interest, Anti-Bribery, Modern Anti-Slavery and Gifts, Entertainment and Hospitality.

Complaints and disputes

The Board ensures there are processes in place for investigating, handling and recording complaints. Complaints are seen as valuable opportunities to improve the way we work and to improve our relationship with members. We aim to rectify our errors without undue delay and we investigate and explain our position if a complaint is not justified.

The Exeter is a member of the Financial Ombudsman Service, to which unresolved complaints are referred if all other avenues fail to bring about a satisfactory conclusion.

Directors' and officers' liability insurance

Throughout 2019, the Society has maintained liability insurance cover for its Directors and officers as permitted under Section 106 of the Friendly Societies Act 1992.

With-Profits Actuary

During the financial year Trevor Fannin of Willis Towers Watson Limited was the Group's With-Profits Actuary. In compliance with Section 77 of the Friendly Society's Act 1992, Mr Fannin has confirmed that neither he nor his family have any pecuniary interest in the Society, except for the remuneration paid to Willis Towers Watson Limited in respect of his role as the Fund's Actuary. This amounted to £28,562 inclusive of VAT in 2019 (£80,524 in 2018).

Independent external auditors

The Committee oversees the Society's relationship with and monitors the performance of the external independent auditors and makes recommendations to the Board in relation to their appointment, reappointment or removal. These recommendations are then put to the members for approval at the Annual General Meeting. PricewaterhouseCoopers LLP have held the position of the Society's independent auditors since 2008. The Committee has decided to undertake a tender exercise in 2020 and several auditors have been approached. As this exercise will not be complete by Annual General Meeting PricewaterhouseCoopers LLP will be reappointed pending the outcome of the tender exercise.

All relevant information has been provided to the firm's independent external auditors. PricewaterhouseCoopers LLP were re-appointed as the Society's independent external auditors at the Annual General Meeting on 20 June 2019. PricewaterhouseCoopers LLP is willing to continue in office and a resolution will be proposed at the Annual General Meeting scheduled on 20 June 2020 for their re-appointment.

Relations with Members

The Board is fully committed to the fair and reasonable treatment of all Members, who are both owners and customers of the Society. The Board reviews a wide range of key performance and risk indicators at each of its meetings, including several that assess how well the Society is meeting its commitments to treating customers fairly. The Society actively encourages feedback from its Members through a variety of methods including Member surveys, correspondence and telephone contact; as well as through the issue of annual statements, renewal notices and the information pack for the Annual General Meeting (AGM).

The Board has appointed a Senior Independent Non-Executive Director, David Brand, whose responsibilities include being available to handle issues and concerns raised by members. Any member wishing to contact Mr Brand may do so, in the first instance, by writing to him at the Society's Registered Office.

Constructive use of the Annual General Meeting

Each year the Society provides a copy of the abbreviated version of its Annual Report and Accounts to every member, together with an invitation to attend the Annual General Meeting (AGM) and a Proxy Voting Form for members who are unable to attend the meeting in person. A full copy of the Annual Report and Accounts is available online or by request to the Society. In an effort to facilitate member attendance at the AGM, it will be held in Exeter in 2020.

At the AGM the Board Chairman gives a presentation on the main developments in the business and members present have the opportunity to raise questions and put forward their views. All members of the Board are present at the AGM each year (unless exceptionally their absence is unavoidable) to answer questions.

Approved on behalf of the Board of Directors:

Wallace Dobbin, BA, Barrister
Board Chairman
15 April 2020

Andy Chapman, ACII, APFS
Chief Executive
15 April 2020

Directors' Responsibilities Statement

The following statement should be read in conjunction with the Statement of Independent Auditors' Responsibilities on page 48 and is made by the Directors to explain their responsibilities for the preparation of the financial statements.

The Directors are responsible for preparing the Strategic Report, the Directors' Report, the Corporate Governance Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Friendly Society law requires the Directors to prepare, for each financial year, financial statements comprising a balance sheet and an income and expenditure account. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under Friendly Society law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society as at the end of the financial year and the income and expenditure of the Society for the financial year, or where a true and fair view is not given, the necessary information is provided to explain why this is so. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's and the Group's transactions, that disclose with reasonable accuracy at any time the financial position of the Society and the Group and enable them to ensure that the financial statements comply with the Friendly Societies Act 1992. They are also responsible for safeguarding the assets of the Society and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Society's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors section confirm that, to the best of their knowledge:

- the Society's financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the state of affairs and income and expenditure for the Society and the Group;
- the Strategic Report and the Directors' Report includes a fair review of the development and performance of the business, together with a description of the principal risks and uncertainties that it faces; and
- they consider it appropriate to adopt the going concern basis of accounting in preparing them, and have not identified any material uncertainties to the Society's ability to continue to do so for twelve months from the date of approval of the financial statements.

Each Director in office at the date the Directors' Report is approved confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Society's independent auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Society's independent auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of The Exeter's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Governance Report

Good corporate governance is essential to the Board of Directors' commitment to running the Society's business in the best interests of its members. Through the year ended 31 December 2019, the organisation has complied with the AFM Corporate Governance Code 2019 ("the Code") and additionally voluntarily applied areas of the FRC UK Corporate Governance Code 2018.

During the year ended 31 December 2019, the Society continued to follow a corporate governance framework closely aligned to the UK Corporate Governance Code 2018.

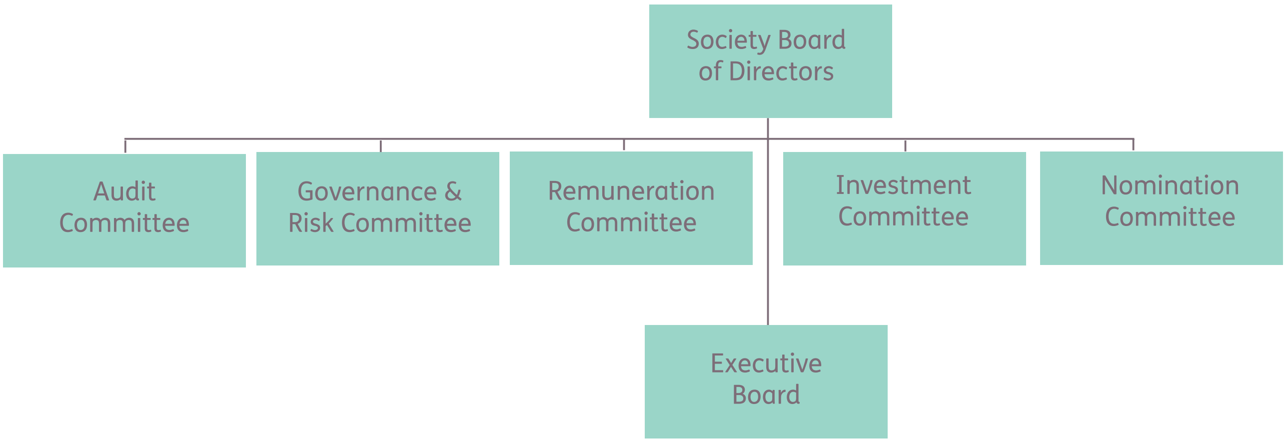
AFM Corporate Governance Code 2019

The Board has considered the AFM Corporate Governance Code 2019 ("AFM Code") which was issued in December 2018 and takes effect from 1 January 2019 The AFM Code was introduced principles of best practice to be adopted on a "apply and explain" basis. The following table sets out the extent the Society has applied these principles:

	Principle	Applied	How Applied:
1.	**Purpose and leadership:** An effective board promotes the purpose of an organisation, and ensure that its values, strategy and culture align with that purpose.	Yes	• Through the leadership of the Board, a clear vision for the Society's purpose and overall values is articulated which defines the strategy and culture of the organisation. Through internal consultation, this has been embedded at all levels. • The protocols are in place including the Corporate Governance and Policies handbooks, which support the execution of the overall purpose and vision of the Society across the organisation.
2.	**Board composition:** Effective board composition requires an effective chair and balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.	Yes	• The Board operates through clear and established protocols and governance processes. These are set out in the matters reserved to the Board and its committee's terms of reference. This ensures all matters and decisions are appropriately challenged and transparent. • The Board is supported by the executive management team and internal operational committees, including, the Executive Board, Security, Employee Consultation, Proposition Governance and Distribution Quality Management and other Committees. • Accountability is through routine internal evaluations of the Board and its Committees, with an external evaluation having been undertaken in 2018. • The Board composition is balanced between executive and independent non-executive directors. Longevity and continued independence of non-executives is evaluated annually.
3.	**Director responsibilities:** The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.	Yes	• Board is made up of a complimentary mix of skills and experience to ensure the appropriate level of skills and knowledge are in place to address the current and future of the Society. • Through the company secretary, the Board has been given any necessary learning support, policies and management information. This has enabled directors to fulfil their role and align their decisions and thinking in line with the success and vision of the organisation. • The Board continues to focus on governance to ensure the organisations corporate vision and strategy remains appropriate and at the centre of its decision making.
4.	**Opportunity and risk:** A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.	Yes	• Through clear definition of the Society's vision and strategy, the Board's decisions are always focused on delivering quality long-term value to its members. This has been demonstrated through the introduction of the HealthWise app that was launched at the end of 2018 to all eligible members. • Principal risks have been identified with a robust monitoring, mitigation and reporting system in place. These have been articulated and reported in the Risk Management report on page 11.
5.	**Remuneration:** A board should promote executive remuneration structures aligned to the long-term sustainable	Yes	• The Society's remuneration policy is set out and monitored by the Remuneration Committee. The policy has clear objectives to incentivise

Principle		Applied	How Applied:
	success of an organisation, taking into account pay and conditions elsewhere in the organisation.		management based on the long-term success of the Society's strategic vision and business plans. • Succession planning and retention of talent, at both senior and the operating level of the organisation, continue to be a focus for the Board.
6.	**Stakeholder relationships and engagement:** Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	Yes	• Through the Society's vision and strategy, stakeholder engagement is embedded at all levels of the organisation and externally where applicable. The Board and senior management clearly define and promotes the direction of engagement across all areas of organisation. • The Board promotes an annual cycle of stakeholder engagement and continues an ongoing programme of employee consultations and forums and have appointed Helen McEwan, non-executive director, with responsibility for employee engagement.

The Board and its Committees



The Board's role is to provide entrepreneurial leadership of the Society within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Society's strategic aims and ensures that the necessary financial and human resources are in place to meet objectives and review management performance. The Board also sets the organisation's values and standards and ensures that its obligations to members and others are understood and met.

The Board has a general duty to ensure that relevant legislation and regulations are adhered to, and that proper accounting records and effective systems and controls are established, maintained, documented and audited to safeguard members' interests. The Independent Non-Executive Directors are responsible for bringing independent judgement to discussions held by the Board, using their breadth of experience and understanding of the business to constructively challenge and help develop proposals on strategy. The Independent Non-Executive Directors' Terms and Conditions of Appointment are available upon request.

There is a formal schedule of matters specifically reserved for the Board's decision and a Corporate Governance Handbook sets out its responsibilities and the structure of delegation of authority by the Board to management.

The Board has established five Committees, under its overall authority, to consider certain matters in detail. Information about these Committees is in the section "Board Committees" provided from page 32. There is also an Executive Board (EB), details of which are set out below.

The Board held eightformal Board meetings in 2019, including a day devoted to the development of strategy. Each Board meeting includes a consideration of the Society's performance against its strategic objectives, with corrective action proposed as required to ensure that the business remains on target to achieve them. In addition, the Independent Non-Executive Directors met on one occasion without the Executive Directors and on a further occasion without the Board Chairman present. The attendance record during the year of Directors at formal meetings of the Board and its Committees is shown on page 19.

The Company Secretary acts as Secretary to all Board Committees.

Audit Committee	The Audit Committee provides oversight and advice to the Board in respect of financial reporting, financial crime, internal and external audit, and the adequacy and effectiveness of internal controls and risk management systems.
Governance and Risk Committee	The role of the Committee is to provide oversight and advice to the Board in relation to current and potential future risk exposures and future risk strategy, including determination of risk appetite. In addition, the Committee is responsible for monitoring compliance oversight, and the effectiveness of the Enterprise Risk Management Framework, Whistleblowing and Fraud.
Remuneration Committee	The Remuneration Committee is responsible for determining and agreeing with the Board the framework for remuneration of the Board Chairman, the Executive Directors and other Senior Executives of the Society. The Committee also reviews the ongoing appropriateness and relevance of the Remuneration Policy across the rest of the business.
Investment Committee	The Investment Committee is responsible for determining and agreeing the investment guidelines and policy, including establishing and maintaining ongoing investment limits, credit policies, and external professional advisors.
Nomination Committee	The role of the Committee is to assist the Board Chairman in keeping the composition of the Board under review, making recommendations to the board on succession planning, executive level appointments and leading the appointment process.

The Executive Board

There is a clear division of responsibilities between the Board Chairman, as leader of the Board, the Independent Non-Executive Directors who bring independence and oversight, and the Chief Executive and Executive Directors who are responsible for the day to day running of the business. In addition to the Board Committees, an Executive Board Committee assists the Chief Executive in the performance of their duties. Its Terms of Reference are approved by the Board and include:

- The development and implementation of strategy, operational plans, policies, procedures and budgets;
- The monitoring of operational and financial performance;
- The identification, assessment and control of risk;
- Monitoring compliance with legal and regulatory obligations;
- The priority of and allocation of resources; and
- Monitoring and reacting appropriately to competitive forces in each area of operation.

The Committee meets twice a month and at other times as special business circumstances may dictate. Its work is supported by subcommittees which focus their attention on key issues such as operational improvements, the fair treatment of customers, information security and counter-fraud measures.

The Executive Board receives regular reports from the Chief Executive on key issues arising from Board meetings including key operational decisions.

Committee members are:

Andy Chapman	Chief Executive
John Gunn	Finance Director (from 8 April 2019)
Steve Bryan	Director of Distribution and Marketing
Chris Pollard	Chief Operating Officer (from 4 March 2019)
Adrian Hodgkinson	Head of Information Technology (resigned 30 March 2020)
Paul Smith	Chief Information Officer (from 20 January 2020)
Sally Hodge	Head of Human Resources

Regular attendees include the Head of Finance, the Head of Compliance, the Chief Internal Auditor, the Chief Risk Officer and the Company Secretary.

Board Strategy Day

The Board held its annual strategy day in August 2019, at which it reviewed each element of the Society's vision, business plan, IT infrastructure and longer-term strategic opportunities. Key actions from that day are reflected in management's planning for the business with the Board having had the opportunity to review progress with the key strategic projects throughout the year.

Board membership and independence

At the end of the year, the Board comprised five Executive Directors, four Independent Non-Executive Directors and the Independent Non-Executive Board Chairman. The names of the Directors together with brief biographical details are set out from page 16.

The Board considers the Independent Non-Executive Directors to be independent in character and judgement and free of any relationship or circumstances that could affect the exercise of their judgement. Also, the Independent Non-Executive Board Chairman of the Society, Wallace Dobbin, was and continues to be considered independent since his appointment in 2013.

The Boards' Senior Independent Non-Executive Director, David Brand, provides a sounding board for the Board Chairman and serves as an intermediary for the other Directors when necessary. He also has special responsibility for Member relations.

Board Chairman and Chief Executive

The Board Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The Board Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion, particularly on strategic issues. The Board Chairman has no involvement in the day to day business of the Society. The Board Chairman facilitates the effective contribution of Independent Non-Executive Directors and constructive relations between Executive and Independent Non-Executive Directors also ensuring the effective communication with the Society's members.

The Chief Executive is responsible for implementing the strategy agreed by the Board and managing the Society's business within the parameters set by the Board. He is accountable to the Board for the financial and operational performance of the Society. To ensure the successful delivery of key targets, he creates a framework of values, organisational objectives and allocates decision making and responsibilities to nominated staff to assist him. The division of responsibility between the Board Chairman and Chief Executive is clearly established, in writing, and agreed by the Board.

Board and Committee annual effectiveness review

To be effective as a Board, Directors must function cohesively as a group. Each year, an evaluation of the effectiveness of the Board, its Committees and individual Directors is conducted. Each Independent Non-Executive Director has an annual performance appraisal conducted by the Board Chairman. This provides an opportunity to identify and optimise the Board's strengths as well as highlighting areas for further focus and development. The Independent Non-Executive Directors hold at least one meeting a year, facilitated by the Senior Independent Non-Executive Director and without the Board Chairman present, to appraise the Board Chairman's performance. Executive Directors are evaluated within the performance evaluation framework for employees generally and by the Remuneration Committee in the context of their remuneration.

In accordance with the Code, the Board has adopted the principle of externally facilitated evaluation on a three-yearly cycle. In the intermediate years the Board undertakes a self-evaluation exercise of its performance and that of its Committees. An external evaluation was undertaken in late 2018, and the outcome was that the Board operates very effectively using good governance principles and acted in the interests of members. A small number of minor recommendations were noted and implemented. The external evaluation was conducted by Praesta Partners LLP, consultants specialising in board and director development and coaching. The consultancy has been engaged in the past to facilitate Board strategy meeting, but has no other connection with the Society.

For 2019, the Board have undertaken an internal evaluation led by the Board Chairman and Company Secretary. The review took place in November and December 2019. The process took the form of a questionnaire, covering general areas of effectiveness, completed by each Committee Member. The review endorsed the belief that the Board and its Committees are performing and operating effectively. Meetings were found to be professionally led with constructive challenge and debate encouraged. The results further indicated that the Board were cohesive with a strong regard and focus on the interests of members and risk. Several minor observations and recommendations were noted and have since been actioned.

The evaluation of the performance and contribution of each Director was conducted by the Board Chairman. The reviews concluded that each Director continues to perform effectively and demonstrate commitment to their role. Led by David Brand, Senior Independent Non-Executive Director, a review of the Board Chairman's performance was carried out by the Board. Feedback on the Board Chairman's performance was obtained from all Directors and the results collated and discussed at a meeting without the Board Chairman present. The conclusion was that the Board Chairman continues to perform effectively and demonstrates commitment to his role.

Board appointments and re-election

The Nomination Committee considers the balance of skills and experience on the Board and the requirements of the business. Appointments are made on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The recruitment process for Directors involves appropriate sources of objective external opinion. Further information about the responsibilities of the Nomination Committee in relation to Board appointments is provided on page 38.

Directors must be authorised by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) for the Senior Insurance Manager Functions they are performing within the Society, and comply with the rules, principles and standards of conduct laid down by those respective authorities.

As recommended by the Code, all Directors are subject to election at the first Annual General Meeting following their appointment to the Board and are required to seek re-election annually thereafter. Any term of office beyond six years for an Independent Non-Executive Director is subject to particularly rigorous review and the Board's general policy is that Independent Non-Executive Directors ideally should not, unless there is a strong business case, serve more than nine years.

There were several changes to the Board during 2019 with John Gunn replacing Paul Austin, Finance Director who retired on 8 April 2019. In addition, Chris Pollard, Chief Operating Officer and Keith Baldwin, Independent Non-Executive Director were appointed. More details on succession planning and recruitment are set out in the Nomination committee's report on page 38.

Members of the Society have the right under the Society's Rules to nominate candidates for election to the Board.

Information and professional development

The Board believes strongly in the development of all employees and Directors. On appointment, a tailored induction programme is arranged for each new Director which includes a series of meetings with other Directors and senior management as well as provision of key information about the Society. Further detail regarding the appointment and induction of Executive and Independent Non-Executive Directors can be found on page 38. Any training or development needs are identified during this process and in the course of subsequent annual evaluations of the Board's and individual Director's performance and effectiveness.

The Society provides the resources required for developing Directors' knowledge and capabilities through continued personal development and membership of professional bodies. During the year, the Directors attended internal and external training sessions and insurance industry events. Detailed focus briefings were also provided on a number of subjects including risk matters. Continued attention will be given around training, briefings and external courses, aimed specifically at Board Directors.

The offices of Board Chairman, Chief Executive and Company Secretary are distinct and held by different persons. The Board Chairman ensures that the Board receives accurate, timely and clear information sufficient to enable it to fulfil its responsibilities. Under the direction of the Board Chairman, the Company Secretary ensures that good information flows within the Board, its Committees and between Senior Management and Independent Non-Executive Directors, as well as facilitating induction and assisting with professional development as required. The Company Secretary, to whom all Directors have access, also has responsibility for advising the Board through the Board Chairman on all governance matters and for ensuring that Board procedures are complied with.

All Board members have access to independent, professional advice and the benefit of appropriate liability insurance, both at the Society's expense.

Consideration of our Stakeholders

The Board recognises its responsibility to take into consideration the needs and concerns of our stakeholders as part of its discussion and decision-making processes. The table below highlights how the Board ensures effective engagement with, and encourages participation from, our stakeholders.

The Board's approach to stakeholder engagement

Members	The Board seeks to have regular, clear and effective communication with its members. We encourage member participation at our AGM, a key event which provides opportunity to meet directly with members.
Suppliers	The Board recognises that building trusted partnerships with our suppliers is crucial. Suppliers take many forms, from policy service providers, brokers, etc. This is administered through supplier managers who provide regular updates to the Board on key relationships. The Exeter has sought to ensure good working condition throughout its supply chain.
Colleagues	The Board regularly receives updates on the Society's HR strategy and employee matters. Helen McEwan, non-executive director was appointed during the year to be the nominated Board employee representative. She regularly attends employee committee meetings, informal coffee meetings, and the employee forum.
Community	We endeavour to recruit locally, where possible, and aim to build a positive relationship with our community. The Exeter's 2019 charity is Children's Hospice South West. The Charity and Community Committee and employees also supported various other charities through other fundraising. CSR emissions reduction and recycling were all priorities for the business and we fully complied with the ESOS requirements.

Workforce engagement

The Board recognises the importance of engagement with all stakeholder groups. The Board has considered and has regard for all employee interests and the impact of Board decision making on all stakeholders. The Board level position of liaison with employees is Helen McEwan, Independent Non-Executive Director, who meets regularly with employees. Employee communication is through a variey of ways, these are: annual Staff Summit and All Staff Briefings, quarterly Employee Consultation Forum meetings (regular employee engagement meetings held throughout the year), detailed induction days for all employees, a Brand Champion scheme and coffee meetings. We consider that this culture promotes good governance. The Society encourages innovation, constructive challenge and collaboration which we believe is essential in a motivated workforce.

The results were received in December 2019, of the company-wide survey, provided by a Great Place to Work. With 95% of employees responding, giving their views on a variety of areas, including strategic direction, values and ethics, communication, career development and wellbeing. The responses gave us an excellent UK Trust Index Score of 88% (2018: 87%). Over the year ahead work will continue on actions and engagement based on themes that emerged.

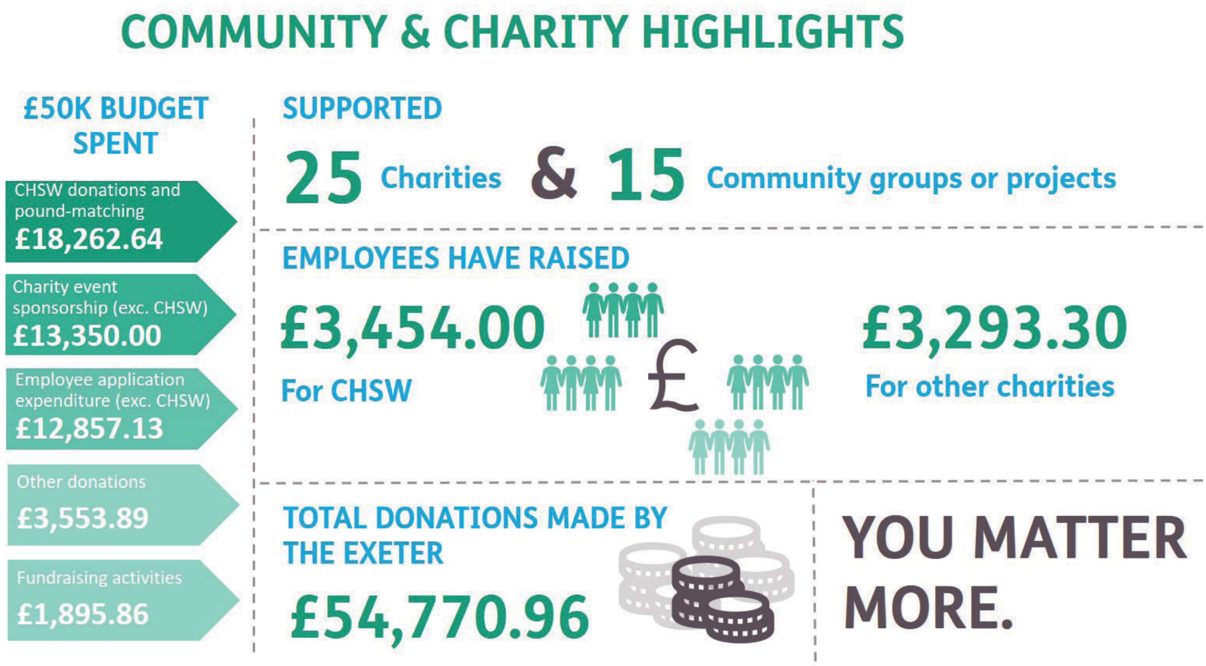
During the year the Society enjoyed hosting various staff initiatives including Brand Champion event days and Extravaganza week, and in January 2019, held a Staff Summit day.

Community and Member engagement

We develop relationships with our members based on mutual trust and our ability to strive to effectively meet their needs. We operate in a way that allows us to work closely with our members and actively seek feedback to inform ongoing improvements.

Working with our business partners is an important part to the Society and we aim to maintain a close relationship with our suppliers. To do this we have appointed managers who meet at least once a month to discuss levels of service and ways to continue to provide a strong service to our members.

During 2019 we engaged regularly, through attending groups such as the Quilter Specialist Panel.



Rainbow Run for CHSW

Twilight walk for Hospiscare

Twilight walk for Hospiscare

CHSW

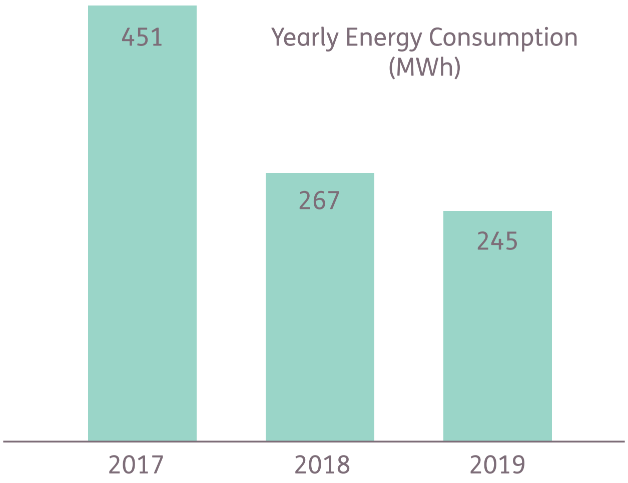
Volunteer Day at CEDA Devon

Sponsored walk for CHSW

Managing our environmental impact

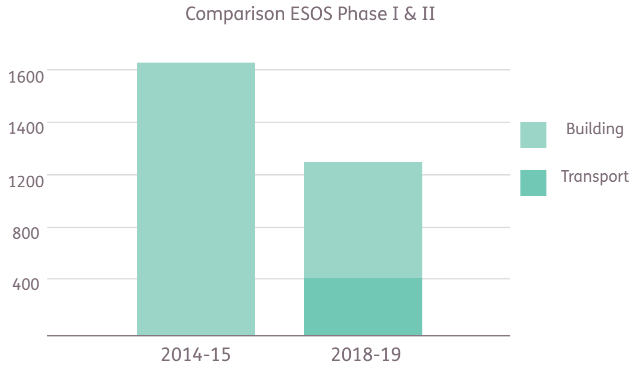
Our operational environmental impact is mostly comprised of the energy we use in our buildings and travel. To reduce our impact in these areas we track our consumption, pursue ongoing improvements in building management, and encourage our employees to consider their travel arrangements to and from work, such as car sharing. To further encourage a cleaner travel to work, the Society offers an 'on your bike' scheme to staff members to assist staff to buy a bike for travel to work.

The business has committed to fully engaging with the Energy Saving Opportunity Scheme Regulations 2019 (ESOS). For the twelve-month period 2018-2019 Hoare Lea undertook an ESOS assessment of the business. Energy usage examined was in relation to any energy consumed, this included electricity, heating, water and fuel. Overall for the period the total consumption was 1,301GJ of which 69% was buildings related. Our yearly building energy usage has reduced over the last three years, as outlined in the chart below:



ESOS Phase I and Phase II comparison

As part of ESOS Phase II, transport usage has been included in the assessment as it now equates to over 10% of total energy consumption. We are confident with further positive action, we could see an improvement in energy reduction over the coming year.



Over the last five years, we have seen a significant reduction in our CO_2 emission rating and overall energy usage. Recommendations from Hoare Lea, corporate responsibility engineers, to further reduce energy usage are being considered.

Modern anti-slavery statement

The Exeter wants to do all it can to help tackle human trafficking, forced labour, bonded labour and child slavery. Our main focus is on raising awareness of modern slavery issues and encouraging good practices among our suppliers and employees. We have published our 2019 statement on our website, reinforcing our commitment to this important issue.

Financial crime prevention

We have a zero tolerance approach to financial crime, bribery and corruption. We have policies, frameworks and controls in place to help ensure that we only receive or pay money to or from clients, third parties, partners and suppliers that we have identified as suitable to do business with. We run mandatory annual training for our employees which requires passing a test that confirms their understanding of both our policies and the part our people play. We also maintain a register of gifts, entertainment and hospitality we receive or provide. We have processes for reporting and reviewing breaches of our policies. In 2019 we had no breaches.

Board Committee Reports

The Board has five established Committees: Audit, Governance and Risk, Investment, Nomination and Remuneration to undertake detailed review of those matters within their remit, as defined by each Committee's Terms of Reference. These Terms of Reference are available on request and are published on the Society's website.

The Board reviews the minutes of Committee meetings and receives reports and recommendations from the Committees. The composition and performance of the Committees are reviewed annually by the Board.

Audit Committee

Committee membership and attendance

All members of the Committee are Independent Non-Executive Directors. The Board believes members have the necessary range of financial, risk control and commercial expertise to provide effective challenge to management.

		Total of 5 meetings held in 2019
David Brand	Committee Chairman	5
Helen McEwan	Independent Non-Executive Director	5
Steve Payne	Independent Non-Executive Director	5
Keith Baldwin	Independent Non-Executive Director (joined 12 September 2019)	1

Members attended all the meetings for which they were eligible.

Key Committee activities during the year:

- Monitored the integrity and any significant issues of the financial statements.
- Provided advice and recommendation on whether the Annual Report & Accounts, taken as a whole, was fair, balanced and understandable, and provided the members with the information necessary to assess the Society's position, performance, business model and strategy.
- Reviewed the statement in the Annual Report confirming that the Directors have carried out a robust assessment of the principal and emerging risks and how they are being managed or mitigated.
- Made recommendation to the Board, for it to put to the Members for their approval at the Annual General Meeting, in relation to the appointment of the independent external auditor.
- Reviewed and monitored the independent external auditor's independence and objectivity, as well as the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.
- The Committee reviewed the independent external auditors non-audit fees including reviewing the Society's policy on this.
- Kept up to date on regulation and made recommendation to the Board in consideration of the impact of IFRS 17 insurance contract liabilities on the Society.
- The Committee regularly reviewed and considered the Actuarial Function report.
- The Committee regularly reviewed and considered the Internal Audit work plan.
- Reviewed the independent external auditor, its annual audit plan, and audit fees.
- Considered and made recommendation to the Board of any changes to the Committee Terms of Reference.
- Reported to the Board, identified any matters in respect of which it considered that action or improvement was needed, and made all recommendations to the Board.
- The Committee oversaw an internal self assessment of the Internal Audit function and acted on the recommendation resulting from the assessment, which was used as preparation for an external assessment also carried out during the year.
- The Committee oversaw a review of the Actuarial function, by an independent external advisor, and considered the resulting recommendations.

Committee composition

The Committee comprises, the Committee Chairman and three Independent Non-Executive Directors. Invitations to attend Committee meetings are extended on a regular basis to the Board Chairman, the Chief Executive, the Finance Director, the Director of Distribution & Marketing, the Chief Operating Officer and the Chief Internal Auditor. Representatives from PricewaterhouseCoopers LLP (PwC), the independent external auditors, also attend meetings by invitation. Other senior managers are invited to attend as required and include the Head of Finance.

The Committee also has regular private meetings separately with the independent external auditors and Chief Internal Auditor. These meetings address the level of support and information exchange and provide an opportunity for participants to raise any concerns directly with the Committee.

Committee members are appointed by the Board, following recommendation by the Nomination Committee in consultation with the Committee Chairman. The Audit Committee Chairperson is appointed by the Audit Committee, in accordance with the Code. The Committee operates under written Terms of Reference and meets at least three times a year, at appropriate times in the reporting and auditing cycle.

Responsibilities of the Committee

The Committee's responsibilities are to oversee and report to the Board on:

- The Annual Report and Accounts, financial returns and other financial statements, to consider the key accounting judgements and estimates.

- The appropriateness of the accounting policies, including the going concern and viability statement.
- Monitor the annual financial statements of the defined benefit pension scheme, where not monitored by the Board as a whole.
- Advise the Board on its view of the 'fair, balanced and understandable' reporting to also ensure the information is understandable by members to assess The Exeter's performance, business model and strategy.
- The appointment or dismissal of the Chief Internal Auditor, the approved internal audit work programme, key audit findings and the quality of internal audit work.
- The independence of the independent external auditors, the appropriateness of the skills of the audit team, the approved audit plan, the quality of the firm's execution of the audit, and the agreed audit and non-audit fees.
- Review the commentary received from the independent external auditors on the FRC's Audit Quality Review Report on the firm.
- Other responsibilities comprise consideration of changes in law and regulation, including the implementation of IFRS17.

In carrying out its duties, the Committee is authorised to obtain any information it needs from any Director or employee. It is also authorised to seek, at the expense of the Society, appropriate external professional advice whenever it considers this necessary. The Committee did not need to take any independent advice during the year.

The full Terms of Reference for the Committee were reviewed during the year to ensure that they are in line with best practice guidelines. These can be found on the Society's website.

Financial Reporting

The primary role of the Committee in relation to financial reporting is to review with both management and the independent external auditors the appropriateness of the annual financial statements concentrating on, amongst other matters:

- oversight and review of the Solvency II Quarterly Reporting Templates and of the Solvency II submission;
- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the independent external auditors;
- whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's position and performance, business model and strategy; and
- any correspondence from regulators in relation to the Society's financial reporting.

To aid its review, the Committee considers reports from the Finance Director, the Chief Actuary and also reports from the independent external auditors on the outcomes of their annual audit.

The primary areas of judgement considered by the Committee in relation to the 2019 accounts and how these were addressed were as follows:

- Insurance contract liabilities (Long Term Business Fund) – the calculation of the long term insurance business provision is an issue where management and professional judgements are important. These are addressed by the Committee challenging the Chief Actuary and management on the key assumptions made and considering any relevant professional advice that may have been received. The independent external auditors also report on the reasonableness of significant accounting estimates. The independent external auditors also consider this as part of their report on page 48.
- Insurance contract liabilities (General Business Fund) – whilst these are more straightforward to calculate than for long term business, because the contracts are renewable annually and claims have a shorter tail, the Committee is required to satisfy itself that the assumptions used in the estimation of the claims incurred but not reported, unearned premium and unexpired risks provisions are reasonable. This it does by challenging the Chief Actuary and management on the key assumptions and considering any relevant professional advice that may have been received. The independent external auditors also consider this as part of their report on page 48.
- Age at Entry Management Account for the PMI business – whilst the amount set aside to cover the value of potential future losses on Age at Entry business is not required to be recognised in the financial statements as a liability, the Committee is required to satisfy itself of the appropriateness of the method used in its calculation for the purposes of its disclosure in the Notes to the Financial Statements. The value attached to the Account is also integral to the calculation of the Society's capital requirements for the General Business Fund and is therefore included in the ORSA calculations. The Committee satisfies its obligations by challenging the Chief Actuary and management on the key elements of the calculation and considering any relevant professional advice that may have been received. The external independent auditors also report on the reasonableness of significant accounting estimates. The independent external auditors also consider this as part of their report on page 48.

The Committee receives regular reports on the basis for the ongoing Solvency II reporting.

Independent external audit

The Committee manages the relationship and monitors the performance of the external independent auditors, on behalf of the Board, and makes recommendations to the Board in relation to their appointment, reappointment or removal. These recommendations are then put to the members for approval at the Annual General Meeting. PricewaterhouseCoopers LLP has held the position of the Society's independent external auditors since 2008. In accordance with the Code, it is a policy of the Committee to conduct a tender exercise at least every 10 years. The Committee undertook this tender exercise in 2017 and several independent external auditors were approached, including PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP were re-selected by the Audit Committee and re-appointed as The Exeter's independent external auditors by the members voting at the Annual General Meeting (AGM) on 20 June 2019.

The Society has policies in place which aim to safeguard and support the independence and objectivity of the external independent auditors. One such policy requires the prior approval of the Board for the engagement of the independent external auditors for non-audit work. The independent external auditors are not normally engaged to provide any other services in line with current standards. They continue to provide support should The Exeter suffer a cyber or data incident.

The effectiveness of the external audit process is assessed as part of the Committee's annual effectiveness review, which takes the form of a survey issued to the Committee members and regular attendees. The Chairperson collates the findings of the effectiveness review and ensures that any issues relevant to the audit process are acted upon.

Non-audit Fees

The Committee regularly considers the engagement of, and level of fees payable to, the independent external auditor for non-audit work, considering potential conflicts and the possibility of actual or perceived threats to their independence. The Society's policy is to consider whether to place material non-audit services work with the independent external auditor on a case-by-case basis, based on an assessment of who is best placed to do the work having regard to availability, resources, capability, experience and any conflicts of interest of potential candidate firms for the work. The Committee makes any choice based on what it considers to be in the Society's best interest overall, having regard to potential independence issues if the work is placed with the company's independent external auditors. Non-audit services offered to the independent external auditors would not include the design or operation of financial information systems, internal audit services, maintenance or preparation of accounting records or financial statements that would be subject to external audit, or work that the Committee considers is reasonably capable of compromising its independence as auditor. Having considered the non-audit services provided by the indpendent external auditor during the year ended 31 December 2019, the Committee is satisfied that these services were provided effectively and did not prejudice the objectivity or independence of the independent external auditor. A breakdown of fees paid to the independent external auditor is set out in note 10 on page 72.

Internal audit

The Internal Audit function advises management on the effectiveness of the Society's internal control systems, the adequacy of those systems to manage business risk and to safeguard its assets and resources. The Internal Audit function provides objective assurance on risks and controls to the Committee.

The risk-based audit work plan is agreed by the Committee annually. Progress against the internal audit work plan is reviewed at each Committee meeting, in order that any changes in priorities or resourcing can be discussed and agreed.

During 2019, 16 Internal Audit engagements were completed. In addition, an independent external quality assessment of the Internal Audit function was undertaken by the Chartered Institute of Internal Auditors. The report concluded that there were no areas of non-conformance with the Institute's 64 professional practice standards, but 13 recommendations for improvement were made where partial conformance was identified. The recommendations were discussed with the Audit Committee and agreed actions have been taken forward.

David Brand BA, FIA
Audit Committee Chairman
15 April 2020

Governance and Risk Committee

Committee membership and attendance

As recommended by the Code, the majority of members of the Committee are Independent Non-Executive Directors.

		Total of 5 meetings held in 2019
Steve Payne	Committee Chairman	5
Helen McEwan	Independent Non-Executive Director	5
David Brand	Senior Independent Non-Executive Director	5
Keith Baldwin	Independent Non-Executive Director (joined 12 September 2019)	2
John Gunn	Finance Director (Executive) (appointed 8 April 2019)	3

Members attended all the meetings for which they were eligible.

Key Committee activities during the year:

- Reviewed and monitored the quarterly Risk Report (including the quarterly event horizon).
- Reviewed and monitored the Cyber Security Update Report and ad-hoc business penetration report.
- Reviewed and monitored the quarterly Compliance Function Report.
- Received and reviewed the Distribution and Quality Management Report including the quarterly Projects Update.
- Reviewed, challenged and made recommendation for final approval, by the Board, of the 2019 ORSA Report, and its design, objectives, sensitivities and approval process.
- Reviewed, challenged and made recommendation for approval, by the Board, of the annual Risk Appetite.
- Reviewed, challenged and made recommendation for approval, by the Board, of the Matters Reserved to the Board.
- Reviewed and made recommendation for approval, by the Board, of the Committee's Terms of Reference.
- The Committee performed an annual effectiveness review.

Committee composition

The Committee comprises, the Committee Chairman, three Independent Non-Executive Directors and the Finance Director. Regular attendees are the Chief Executive, the Director of Distribution and Marketing, the Medical Director, and the Chief Operating Officer. Other senior managers are invited to attend as requested and include the Head of Change, the Head of Information Technology, the Chief Risk Officer and the Head of Compliance.

The Committee members are appointed by the Board on the recommendation of the Nomination Committee in consultation with the Committee Chairman.

The Committee meets at least three times a year, at appropriate times in the reporting cycle. The Chief Risk Officer and Head of Compliance both have direct access to the Committee and its Chairman, and they meet at least once a year with the Committee, without the Society's management present.

Responsibilities of the Committee

The Committee ensures and provides assurance to the Board that the Society's risk management strategy and governance arrangements are appropriate to its business, its market and meet the requirements of the regulatory regime. In discharging its responsibilities, the Committee reviews, approves and monitors internal risk and compliance strategies and reports.

The following sets out the Committee's responsibilities:

General governance and risk

- Review and advise the Board on the overall risk appetite, tolerance and strategy.
- Oversee and advise the Board on the current risk exposures and future risk strategy.
- In conjunction with the Audit Committee, keep under review the overall risk assessment processes that inform the Board's decision making, regularly review and approve the parameters used in these measures and methodology adopted, and set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- Identify, review and manage new risk types.
- Advise and make necessary recommendations to the Board on proposed strategic transactions.
- Ensure that material risks have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively.
- Approve and monitor compliance with the ORSA Policy and provide oversight and challenge for the ORSA process.
- Review and challenge risk information received and ensure the risk appetite is not exceeded and review reports on all material breaches and ensure the adequacy of proposed mitigation actions.
- Keep under review the adequacy and effectiveness of the risk management systems and review and approve the statements to be included in the Annual Report, in respect of internal controls and risk management.
- Provide qualitative and quantitative advice to the Nomination and the Remuneration Committees to ensure executive remuneration policies encourage good risk management.

Risk Function

- Consider and approve the remit of the risk function. Including:
  - resources and independence of the Chief Risk Officer.
  - recommend the appointment and removal of the Chief Risk Officer and
  - review and monitor management's responsiveness to the findings and recommendations of the Chief Risk Officer.

Whistleblowing and Fraud

- Review the adequacy and security of the Society's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing.
- Review the Society's procedures for detecting fraud.
- Review the Society's systems and controls for the prevention of bribery.
- Review regular reports from the Money Laundering Reporting Officer of the adequacy and effectiveness of the Society's anti-money laundering systems and controls.

Governance arrangements

- Regulatory compliance arrangements and its related policies and procedures and monitor their effectiveness.
- Keep under review developments and prospective changes in the regulatory environment.
- Keep under review developments in the various governance codes that are applicable to the Society.
- Review the Corporate Governance Report for inclusion in the Annual Report and Accounts and make recommendation to the Board of its adequacy.
- Make recommendation to the Board on effective member engagement.

Compliance oversight

- Approve the appointment and termination of the Head of Compliance.
- Review and approve the remit of the Compliance function, ensuring it has the necessary resource and access to information to enable it to fulfil its mandate. The Committee shall also ensure the Compliance function has adequate independence and is free from management and other restrictions.
- Review and assess the annual compliance plan and monitor its progress.
- Review regular reports from the Head of Compliance.
- Review and monitor management's responsiveness to the findings and recommendations and ensure that the agreed actions are put into effect.

Risk Management

The Board determines the strategy for risk management and control. Senior management designs, operates and monitors risk management and internal control processes. The Governance and Risk Committee, on behalf of the Board, reviews the adequacy of these processes and ensures appropriate risk management systems and processes are in place to identify, evaluate and manage risks faced by the Society. This process is regularly reviewed by the Board. Any risk related issues are investigated, and additional compliance or internal audit resources allocated as needed.

In 2019, the Board approved the updated Risk Appetite and Risk Register, which are regularly reviewed and form the basis of discussion and decision-making.

Further details for the Risk Appetite, Risk Register and key risks affecting the business are set out in the Risk Report on page 11 and Note 3 of the Financial Statement, on page 65.

Internal Audit

The Internal Audit function provides independent and objective assurance that the Society's risk management processes are appropriate and are applied effectively.

Compliance

The Committee provides oversight of the Society's governance and regulatory compliance arrangements and monitors their on-going effectiveness. The Committee regularly reviews reports from the Compliance function including the outcomes and recommendations arising from its monitoring programme.

The Committee also devotes a significant portion of its time to ensuring that the Society meets its obligations under Solvency II. During the year, the focus was on the methodology and assumptions for the Solvency Capital Requirement calculations, the review and recommendation to the Board of the Society's Own Risk and Solvency Assessment Report (ORSA).

The Committee reviews the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters with Steve Payne, Independent Non-Executive Director, being the officially nominated Whistleblowing contact.

Steve Payne, BSc, FIA
Governance & Risk Committee Chairman
15 April 2020

Investment Committee

Committee membership and attendance

		Total of 4 meetings held in 2019
David Brand	Committee Chairman	4
Helen McEwan	Independent Non-Executive Director	4
Steve Payne	Independent Non-Executive Director	4
Andy Chapman	Chief Executive	4
Keith Baldwin	Independent Non-Executive Director (joined 12 September 2019)	1

Members attended all the meetings for which they were eligible.

Key Committee activities during the year:

- The Committee reviewed the Investment Managers reports and investment summaries.
- The Committee reviewed its investment summaries.
- The Committee reviewed its investment guidelines.
- The Committee performed an annual effectiveness review.
- Reviewed and made recommendation for approval, by the Board, of the Committee's Terms of Reference.

Committee composition

The Committee comprises, the Committee Chairman, three Independent Non-Executive Directors and the Chief Executive. The Committee is chaired by David Brand, Senior Independent Non-Executive Director. Regular attendees include the Finance Director, the Distribution and Marketing Director and the Chief Operating Officer. Representatives from the Investment Managers, Royal London Asset Management Limited (RLAM), are invited to attend either in person or by telephone, to discuss investment performance.

The Committee is appointed by the Board, following recommendation by the Nomination Committee and operates under written Terms of Reference and meets at least three times a year.

Royal London Asset Management was appointed as the Society's Investment Managers in 2011, following a selection process that was overseen by the Committee. A separate contract is in place with HSBC Bank Plc for the provision of custodial services for the Society's investments. A thorough review was undertaken in May 2018, and the Committee recommended the re-appointment of RLAM as the Society's Investment Manager.

Responsibilities of the Committee

The Committee is responsible for making recommendations to the Board, within its agreed Terms of Reference. The Terms of Reference of the Committee are available on the Society's website.

- Review and recommend investment guidelines to the Board, including monitoring and amending established limits for investments and credit policies including investment and counterparty liability, taking advice from the Chief Actuary and other financial advisors.
- Monitoring of investments to ensure they are consistent with the Investment Guidelines and report on any variations with required remedial actions.
- Determine appropriate counterparty limits and credit rating requirements.
- Set and monitor appropriate performance benchmarks for each fund and regularly review performance with external fund managers.
- Regularly review the external fund managers policy for compliance with the Stewardship Code and report the outcomes to the Board.
- At least every three years review the capabilities, performance and costs of the fund manager and make appropriate recommendation to the Board.

David Brand BA, FIA
Investment Committee Chairman
15 April 2020

Nomination Committee

Committee membership and attendance

		Total of 5 meetings held in 2019
Helen McEwan	Committee Chairwoman	5
Wallace Dobbin	Board Chairperson	5
David Brand	Senior Independent Non-Executive Director	5
Steve Payne	Independent Non-Executive Director	5
Keith Baldwin	Independent Non-Executive Director (joined 12 September 2019)	2

Members attended all the meetings for which they were eligible.

Key Committee activities during the year:

- Independent Non-Executive Director recruitment and induction.
- Recruitment and induction of the Chief Operating Officer and the Finance Director.
- Appointment of Company Secretary.
- Reviewed the Board and Committee Membership.
- Reviewed the Board Diversity Policy.
- Reviewed the Committee Terms of Reference under the new AFM Corporate Governance Code 2019.
- Annual Committee effectiveness evaluation reviewed by the Committee.

Looking ahead, long-term succession planning at the Board and Executive Board level will remain a key focus of the Committee and we will continue to keep the composition of the Board and its committees under review during 2020.

Committee composition and Non-Executive Director Independence

Composition

The Committee comprises, the Committee Chairwoman and four Independent Non-Executive Directors. The Committee is chaired by Helen McEwan, Independent Non-Executive Director. The Committee is appointed by the Board and operates under written terms of reference. Only Committee members are entitled to attend meetings except for the Chief Executive and the Head of HR who have a standing invitation.

Independence

The Board Chairman was considered independent on his appointment in 2013 and, therefore, meets the criteria for membership of this Committee. At least half of the Directors are Independent Non-Executive Directors. The Board through the thorough review and recommendation of the Nomination Committee was satisfied that the Board Chairman remained independent.

Responsibilities of the Committee

The Committee is responsible for making recommendations to the Board, within its agreed Terms of Reference. The Terms of Reference of the Committee are available on the Society's website.

The Committee also assists the Board in discharging its responsibilities in respect of:

- Regularly reviewing and evaluating the size, structure and composition (which includes the balance of skills, diversity, experience and knowledge) of the Board and making recommendations to the Board with regard to any changes.
- Considering succession planning for Directors and other Senior Executives, taking into account the challenges and opportunities facing the Society and the future skills and expertise needed on the Board in the future.
- Reviewing the leadership needs, both Executive, Independent Non-Executive and Senior Management, with a view to ensuring that it remains appropriate and to make any recommendations to the Board on any changes.
- Identifying and making recommendations for the approval of the Board regarding candidates for Board vacancies, and reviewing the time required from Independent Non-Executive Directors for the performance of their duties.
- Reviewing the annual re-election provisions and any matters relating to the continuation in office of any Executive Director and appointment of any Director to other office.

Selection and appointment process

There is an established approach for seeking and evaluating external candidates for Board positions, which was used for the two exernal appointments made during the year. The Nomination Committee, prior to making a recommendation to the Board for an appointment, would undertake the following process:

In identifying suitable candidates for appointment to the Board, the Committee considers candidates on merit against objective criteria and for that reason no target has been set for female Directors as recommended by the Davies Report published in February 2011 for FTSE 350 companies. The majority of employees at the Society are female, including many at managerial level. Staff development and advancement are actively encouraged through a variety of initiatives, affording the same opportunity for all employees.

Succession planning and recruitment

Board Composition	The Committee reviews the structure, size and composition of the current board and its committees including the skills, experience, diveristy and tenure of the Directors, and considers any gaps, skills and experience needed.
Role Brief	The Committee, in conjunction with its external advisor, develop a role brief for the position. The brief is aligned with the needs identified from the composition review and consideration is given to the policies of the Society, such as Board Diversity and related commitments.
Shortlisting	The external advisor, after a full and comprehensive search provides a longlist of candidates, which would be reviewed by the Committee and the Chairman. The Committee would agree on a shortlist of candidates from a broad range of backgrounds, based on skills and experience.
Interviewing	A formal two stage interview process was used to assess candidates. Additional meetings with senior management were arranged where appropriate. The Committee would then give consideration to the most appropriate appointment.
Recommendation	Due diligence and referencing was undertaken, upon satisfactory completion, the Committee made appointment recommendation to the Board.
Induction	A comprehensive induction programme tailored to the director is developed. This includes one-to-one meetings with key senior management from within the business. The programme also includes access to a induction pack encompassing a wide range of key information.

Diversity

The Directors recognise the benefits of a diverse Board and embrace diversity and inclusion in the widest sense. The Board has adopted a Board Diversity Policy, to complement the Society wide diversity and inclusion policy. This Policy confirms our commitment to ensure that candidates are fairly considered and paid regardless of their gender, race, age, sexual orientation, professional or academic background.

The Board has a clear objective to see an increase in number of women in senior management roles and throughout the workforce as a whole. However, we believe that diversity should not be about firm quotas or solely a gender debate and that instead we should look at a wider ranging approach. For this reason, the Board has chosen not to set any specific targets but will continue to maintain its practice of embracing diversity in all its forms when compiling shortlists of suitable candidates.

Talent and succession

The Committee is mindful of its responsibilities to consider succession planning for the Senior Executive and Senior Management team and annually reviews the Company's talent pipeline in order to ensure that the Company and the sectors are identifying near and medium-term candidates for all key roles.

Time commitment, and re-election to the Board

The Board gives an approximate idea of the time commitment expected from its Independent Non-Executive Directors on appointment, noting that additional requirements may emerge during the year. The Committee reviewed the independence, effectiveness and commitment of each of the Independent Non-Executive Directorsand concluded that none were overextended, or unable to fulfil their duties to the Board.

Prior to the Board recommending an Independent Non-Executive Director for re-election at the Annual General Meeting, the Committee considers their appointment giving due regard to performance, skills, knowledge and continuing commitment to the role and ability to contribute effectively to the Board and to ensure the continuing balance of the Board. On the basis of the above criteria the Committee considers that the current Board continues to be appropriate for the needs of the business. As a result, all the existing Directors will be standing for election or re-election at the Annual General Meeting in June 2020.

Helen McEwan BA, AFPC
Nomination Committee Chairwoman
15 April 2020

Remuneration Committee

Committee membership and attendance

All members of the Committee are Independent Non-Executive Directors.

		Total of 2 meetings held in 2019
Steve Payne	Committee Chairman	2
Wallace Dobbin	Board Chairperson	2
David Brand	Senior Independent Non-Executive Director	2
Helen McEwan	Independent Non-Executive Director	2
Keith Baldwin	Independent Non-Executive Director (joined 12 September 2019)	2

Members attended all the meetings for which they were eligible.

Key Committee activities during the year:

- Reviewed and made recommendation of the Executive Director Bonus Scheme payments 2018/2019.
- Reviewed and made recommendation of the Executive Director Salaries.
- Reviewed and made recommendation for determining the non-executive directors' remuneration.
- Reviewed and made recommendation of the Committee Terms of Reference.
- Annual Committee effectiveness evaluation.
- Began a review of the Executive Bonus schemes, supported by Ernst & Young LLP, to ensure bonuses are better aligned with both performance and upcoming regulatory requirements.

Committee composition

The Committee comprises, the Committee Chairman and four Independent Non-Executive Directors. Regular attendees include the Chief Executive and the Head of HR.

The Committee is appointed by the Board, following recommendation by the Nomination Committee and operates under written terms of reference.

The Committee, when required, uses the services of Vyv Attwood and Ernst and Young LLP as remuneration consultants. Vyv Attwood and Ernst and Young LLP do not have any conflicts of interest.

Committee Responsibilities

The Committee is responsible for making recommendations to the Board, within its agreed terms of reference. The following are an outline of the responsibilities:

- Setting the Remuneration Policy for all Executive Directors and the Board Chairman, and also determining the remuneration of the Independent Non-Executive Directors.
- Review the ongoing appropriateness and relevance of the Remuneration Policy.
- Determining the total individual remuneration package of each Executive Director, the Board Chairman and other designated Senior Executives.
- Obtain reliable, up to date remuneration information of other companies of comparable scale and complexity to assist remuneration decision making.
- Responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.
- Approve the design of, and determine targets for, any performance-related pay schemes operated by the Society, and approve the total annual payments made under such schemes.
- Determine the policy for, and scope of, pension arrangements for each Executive Director and other designated Senior Executives.
- Ensuring the contractual terms on termination, and other payments made, are fair to the individual, and to the Society, that failure is not rewarded and to mitigate any loss is fully recognised.
- Oversee any major changes in employee benefits structures throughout the Society.
- Agree the policy for authorising claims for expenses from the directors.
- Work and liaise as necessary with other Board Committees.

Steve Payne, BSc, FIA
Remuneration Committee Chairman
15 April 2020

Directors' Remuneration Report

On behalf of the Board, I am very pleased to present the Directors' Remuneration Report for the year to 31 December 2019. The report has been structured broadly in accordance with the remuneration disclosure regime that applies to Stock Exchange listed companies, to ensure that the Society's remuneration policies and practices are presented in a clear and informative way.

Remuneration policy

The Board recognises the need to engage staff at all levels who are capable of delivering its strategy and thereby ensuring the long-term prosperity of the Society. To this end it has developed remuneration principles clearly aligned with that strategy, which promote the appropriate behaviours and deliver rewards linked to the success of the Society and the personal performance of the individual.

The remuneration of the Executive Directors is based on the following principles:

- Executives are rewarded for creating long term value for the Society and hence its members; Performance related rewards form part of the total remuneration package;
- The remuneration package is competitive in the market in which the Society operates;
- Failure is not rewarded; and
- Contractual terms are agreed which ensure that, on termination, payments are fair to the individual and the Society.

The current reward package at The Exeter is a combination of base salary, variable pay and a market competitive benefits package. The Remuneration Policy is designed to support the Society's values and business culture by balancing the need to recognise and reward high performance with the requirements to manage risk and ensure that it promotes employee behaviours which are in the best interests of its members. The Remuneration Committee considers the reward package of other Group employees when determining the Executive Directors' remuneration for the year. This includes annual base salary reviews, benefits and bonus schemes.

The Committee plans to review the executive and staff bonus schemes during 2020 and it anticipates publishing a revised Remuneration Policy once the review is complete.

Remuneration policy table

Type of Remuneration	Purpose and link to the strategy	How it operates
Executive Directors		
Base salary	To recruit and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society.	Base salaries take account of: • Skills and experience; • Salaries across the Society; and • By reference to the published information from comparable organisations in the financial services sector including data from the Willis Towers Watson Financial Services Survey (excluding London). Salaries are usually reviewed annually with changes implemented from 1 April each year.
Benefits	To recruit and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society.	The main benefit provided is the provision of Private Medical Insurance cover for Executive Directors and their immediate families.
Annual Bonus (Executive Director Bonus Scheme)	Variable pay is designed to enable managers and staff to share in the success of the Society and is payable upon achievement of a set of defined business and individual performance targets.	Corporate and individual performance targets are set by the Remuneration Committee at the start of each year and achievements reviewed after the year end. The Committee can use its discretion to award or adjust bonuses and awards can be subject to claw-back if performance is misstated, in the event of misconduct or if there has been a major failure of management resulting in substantial damage to the business or reputation of the Exeter Friendly Society Group.
Pension	To recruit and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society.	The Executive Directors are members of the Society's defined contribution Group Personal Pension Plan, which is available to all employees. Pension entitlements are not included as salary for the purpose of bonus calculations.
Non-Executive Directors		
Fees	To recruit and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society without compromising their independence.	Annual fee for Board Chairman. Annual fee for Independent Non-Executive Directors. Additional fees paid to the Chairpersons of the Board Committees. Fees are reviewed periodically, with the Board Chairman's fee reviewed by the Committee and the Independent Non-Executive Directors' fees reviewed by the Executive Directors to avoid any conflict.

Maximum value potential	Performance metrics	Changes to policy in 2019
No specific cap on salaries. In determining any increases, the rate of increase for other employees is considered.	Personal and corporate performance and the levels of increase throughout the Society are considered when deciding whether a salary increase should be awarded.	No changes. Details of how the Society's policy on base salaries has been implemented in 2019 are provided on page 46.
No pre-determined maximum.	None.	No changes.
Reviewed and determined by the Committee annually. The maximum bonus opportunity for Executive Directors is 200% of base salary. 40% of the annual bonus award for Executive Directors is deferred for two years post-award.	Performance is measured against key corporate performance indicators and individual performance.	Details of how the Society's variable pay policies have been implemented during the year are provided from page 46.
A maximum Society contribution of 15% of base salary for Executive Directors, except where they have contributed the maximum to their pension, in which case they were given the cash equivalent.	None.	No changes. Details of the pension contributions made by the Society during the year are provided in the table on page 45.
No specific cap on fees. However, fee levels are benchmarked against market levels.	None.	No changes. Details of the fees paid during the year are provided on page 45.

Comparability of policy across the Group

The following notes outline any differences in the Society's policy on the remuneration of its Executive Directors from other employees within the Group by reference to each element of remuneration:

Base Salary

There are no differences in the application of Remuneration Policy across the Group in relation to base salaries. The Committee takes into account the overall salary budget and percentage increases made to other employees with similar levels of performance when setting Executive Directors' salaries.

Benefits

There are no differences in policy although the benefits available may vary according to the level of the employee within the business. Every employee is entitled to free Private Medical Insurance (PMI) cover with the Society and a 50% discount on normal premium rates for their spouse or partner and dependent children. Executive Directors and employees above a certain level are entitled to free PMI cover for themselves and their spouse or partner and dependent children.

Pensions

There are no differences in policy although the rates of pension contributions made by the Society vary according to the level of the employee within the business.

Annual bonus

The Company Annual Bonus Scheme applies to all staff with the exception of the Executive Directors and other members of the Executive Board. The maximum bonus opportunity within this Scheme varies by the level of the employee within the business.

The Executive Directors and other members of the Executive Board are eligible to participate in the Executive Director Bonus Scheme and Executive Bonus Scheme respectively and, with 40% of the annual bonus awards made under these Schemes are deferred for two years post-award. The Medical Director does not participate in the bonus schemes, as his executive role is largely an advisory one.

Relative importance of remuneration elements

The Committee's view is that performance-related elements of the remuneration package for Executive Directors should be a significant proportion of the total. This serves to align the actions of these Directors with the interests of members.

The charts below illustrate the mix, as at the date of this report, between the fixed and performance related pay of Executive Directors on target performance levels compared to the minimum and maximum thresholds.

Director	Performance	Base Salary	Executive Director Bonus Scheme	Pension
Andy Chapman (Chief Executive)				
	Minimum	87%	0%	13%
	On Target	57%	34%	9%
	Maximum	47%	47%	6%
Paul Austin (Finance Director until April 2019)				
	Minimum	87%	0%	13%
	On Target	57%	34%	9%
	Maximum	47%	47%	6%
John Gunn (Finance Director from April 2019)				
	Minimum	87%	0%	13%
	On Target	57%	34%	9%
	Maximum	47%	47%	6%
Steve Bryan (Director of Distribution and Marketing)				
	Minimum	87%	0%	13%
	On Target	47%	47%	6%
	Maximum	32%	63%	5%
Chris Pollard (Chief Operating Officer)				
	Minimum	87%	0%	13%
	On Target	57%	34%	9%
	Maximum	47%	47%	6%

Executive Directors' recruitment and service contracts

When recruiting Directors, the Society's policy is to pay appropriately to attract individuals with the skills and experience appropriate to the role to be filled, taking into account remuneration across the Group, including other senior managers, and that offered by comparable businesses. Base salaries are set against market data and internal comparisons. All elements of reward are aligned to the Remuneration Policy.

Executive Directors are employed on contracts subject to no more than nine months' notice and specify that any Director appointed by the Board during the year holds office until the next Annual General Meeting and must then stand for election to continue in office. The Committee endorses the principle of mitigation of damages in the event of the early termination of service agreements.

Independent Non-Executive Directors' letters of appointment

The Independent Non-Executive Directors do not have contracts of service but are provided with letters of appointment. Such appointments are initially for a three-year term although, in accordance with the Code, all Directors stand for re-election by members each year at the Society's Annual General Meeting.

The letters of appointment set out the time commitment expected of the Independent Non-Executive Directors in the performance of their duties. They also provide for a notice period of six months although this may be reduced in circumstances where they are no longer able to meet the obligations and conditions of their appointment.

Considerations elsewhere in the Group

In setting the Remuneration Policy for Executive Directors, the Committee has taken account of the pay arrangements for other employees in the Group. The same principles apply to remuneration policy for all employees, that pay should be benchmarked against relevant markets to ensure competitiveness whilst controlling costs, and that performance related pay should be aligned with and help drive the achievement of the Group's business strategy. In determining any increase in the level of base salaries for Executive Directors, the policy requires that the rate of increases for other employees is considered.

Consultation with members

The Committee is committed to open dialogue with members on Executive Director remuneration. The Directors' Remuneration Report is subject to a vote at the Annual General Meeting.

Annual Report on remuneration

The following table shows the breakdown of total remuneration for Directors in 2019 together with the prior year comparatives:

	2019 £000s					2018 £000s				
	Salary / Fees	Benefits / Expenses	Bonus	Society Pension Payment[1]	Total	Salary / Fees	Benefits / Expenses	Bonus	Society Pension Payment	Total
Executive Directors										
Andy Chapman	311	2	386	47	**746**	299	2	313	45	**659**
Paul Austin[2]	64	1	137	10	**212**	201	0	195	30	**426**
John Gunn[3]	183	0	196	27	**406**	0	0	0	0	**0**
Professor Willie Hamilton	70	0	0	0	**70**	64	0	0	0	**64**
Chris Pollard[4]	153	0	87	12	**252**	0	0	0	0	**0**
Steve Bryan	188	0	368	28	**584**	181	0	151	27	**359**
Sub-totals	**969**	**3**[5]	**1,174**	**124**	**2,270**	**745**	**2**[5]	**659**	**102**	**1,508**
Non-Executive Directors										
Wallace Dobbin	81	1	0	0	**82**	77	0	0	0	**77**
David Brand	56	1	0	0	**57**	53	2	0	0	**55**
Steve Payne	56	4	0	0	**60**	53	5	0	0	**58**
Keith Baldwin[6]	19	1	0	0	**20**	0	0	0	0	**0**
Helen McEwan	51	4	0	0	**55**	49	7	0	0	**56**
Sub-totals	**263**	**11**[7]	**0**	**0**	**274**	**232**	**14**[7]	**0**	**0**	**246**
Totals	**1,232**	**14**	**1,174**	**124**	**2,545**	**977**	**16**	**659**	**102**	**1,754**

(1) The Directors have the option of receiving payments in lieu of some or all of these pension contributions. The following have opted to take this allowance; A D S Chapman, P Austin, J R Gunn, C J Pollard and S D Bryan.

(2) Paul Austin retired April 2019

(3) John Gunn appointed to the Board April 2019

(4) Chris Pollard appointed to the Board April 2019

(5) Benefits for the Executive Directors relate to the premium paid for an Income Protection Policy.

(6) Keith Baldwin appointed to the Board August 2019

(7) The expenses quoted are those which the Non-Executive Directors (NEDs) have incurred for travel or accommodation whilst on NED duties at Head Office. HMRC consider these to be taxable so the figure disclosed is the grossed up value of these expenses (other expenses incurred on NED duty which are not in respect of Head Office are not taxable and have therefore not been disclosed).

Executive Directors

Base Salary

The annual base salary levels of the Executive Directors (which were last reviewed and increased on 2 April 2019) are as follows:

Name	As At April 2019	As At April 2018	Increase
Andy Chapman (Chief Executive)	£312,625	£305,000	3%
Paul Austin (Finance Director until April 2019)	£205,000	£205,000	0%
John Gunn (Finance Director from April 2019)	£185,000	£0[1]	n/a
Steve Bryan (Director of Distribution and Marketing)	£189,625	£185,000	3%
Chris Pollard (Chief Operating Officer)	£185,000	£0[1]	n/a
Professor Willie Hamilton (Medical Director)	£47,150	£46,000[2]	3%

[1] Appointed during the year.

[2] Professor Willie Hamilton also earns fees for providing medical advice to the business. In 2019 these amounted to £23,308 (2018: £18,788).

Variable pay - Executive Director Bonus Scheme

Variable pay at Exeter Friendly Society Limited is designed to enable managers and staff to share in the success of the Group and is payable upon achievement of a set of defined business and individual performance targets. Performance incentive plans for senior managers and Executive Directors are structured to ensure a strong focus on both short and longer term business performance. The amounts paid depend on the Committee's measurement of Group performance against the business targets for the relevant period.

The Executive Director Bonus Scheme is for the Executive Directors (excluding the Medical Director) and is designed to deliver awards that reflect the performance of the individual executive and the Society over the short and long term. It is designed to be motivational and rewarding for executives, whilst protecting the assets of members and complying with best practice. The Medical Director does not participate in the Scheme, as his executive role is largely an advisory one.

Each year the participating Executive Directors can earn a bonus of up to an agreed percentage of salary for the achievement of individual and corporate objectives. The bonus award is based on three performance elements:

- Corporate measured performance;
- Individual performance; and
- A risk and governance modifier (which may reduce or withdraw an award, if there have been significant compliance or governance breaches, or excessive customer complaints).

The corporate performance measures may vary from year to year but for 2019 and 2018 they were Net Earned Premium (after reinsurance impact) and Operating Expenses (excluding commission to brokers). The planned targets for both measures were agreed by the Board following approval of the updated three-year Business Plan at the beginning of the respective years.

Net Earned Premium

Achieving within 1% of the target for Net Earned Premium generates a bonus of 20% of base salary. For every 0.5% by which performance exceeds the target range, the bonus increases by 2% up to a maximum 40% of base salary. Conversely, for every 0.5% by which performance falls below target, the bonus reduces by 3% of base salary. Therefore, this element of bonus falls to zero when Net Earned Premium is 4.3% below target and reaches the maximum level of 40% of base salary at 6% above target.

Operating Expenses

Achieving within 2% of the target for Operating Expenses generates a bonus of 20% of base salary. For every 1% outside the target range, the bonus increases or reduces by 3% of base salary. Therefore, this element of bonus falls to zero when Operating Expenses are 8.7% above target and reaches the maximum level of 40% of base salary at 8.7% below target.

The Remuneration Committee have authorised discretion to adjust the metrics above when they feel that the calculated outcome does not reflect the performance of the business. Previous recent examples of where the Remuneration Committee over-riding used its discretion to adjust the calculated bonus are;

- In 2017, the Remuneration Committee reduced the bonus by 10% as they felt the calculated metric would have excessively rewarded the executive directors.
- In 2018, the Remuneration Committee increased the bonus by 10% to reflect an exceptional year.
- In 2019, the Remuneration Committee increased the bonus by 12% to reflect the exceptional increase in new business achieved in the year.

The following table shows the targets that were set for the corporate performance measures in both 2019 and 2018 and the awards made in respect of those measures:

Corporate Performance Measure	2019				2018			
	Target £000s	Actual £000s	Percentage of Target Achieved	Entitlement as a Percentage of Base Salary	Target £000s	Actual £000s	Percentage of Target Achieved	Entitlement as a Percentage of Base Salary
Net Earned Premium	69,403	67,868	97.8%	12.8%	66,579	65,172	97.9%	13.5%
Operating Expenses[1]	18,076	18,214	100.8%	20.0%	14,305	13,712	95.9%	26.5%
Totals				32.8%				40.0%

[1] Operating expenses in this context excludes deferred acquisition costs; product development costs; pension costs; and sundry year end write-offs.

Pension arrangements

The Executive Directors are members of the Society's defined contribution Group Personal Pension Plan, which is available to all employees. They may also make their own contributions in addition to those made on their behalf by the Society. The contribution made by the Society on behalf of the Executive Directors in both 2019 and 2018 was 15% of base salary. The Medical Director is not entitled to pension contributions from the Society.

Other benefits

The Executive Directors are entitled to free Private Medical Insurance cover with the Society for themselves, their spouse or partner and dependent children. The Society also pays the insurance premium for an Income Protection policy held in the Chief Executive's name.

External fees received

The Chief Executive received £10,000 (2018: £10,000) for attending the Financial Conduct Authority's Smaller Business Practitioner Panel, which the Board has authorised and was retained.

Independent Non-Executive Directors

Independent Non-Executive Directors, including the Board Chairman, are remunerated solely by fees. They do not receive any incentive payments, nor do they have pension scheme or other benefit entitlements from the Society.

The review of remuneration for the Independent Non-Executive Directors (other than the Board Chairman) is delegated to the Chief Executive and Executive Directors of the Board, who may take advice from external remuneration consultants, as appropriate. Their remuneration is intended to reflect the time commitment and responsibilities of the role and is validated by reference to the published information from comparable organisations in the financial services sector.

Steve Payne, BSc, FIA
Remuneration Committee Chairman
15 April 2020

Independent auditors' report to the members of Exeter Friendly Society Limited

Report on the financial statements

Opinion

In our opinion, Exeter Friendly Society's group financial statements and Society financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and the Society's affairs as at 31 December 2019 and of the group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU); and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements, included within the Annual Report, which comprise: the group and Society Consolidated Statements of Financial Position as at 31 December 2019; the group and Society Consolidated Statements of Comprehensive Income; the group and Society Consolidtd Statement of Cash Flows for the year then ended; and the notes to the financial statements which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Society.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the group or Society in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

Materiality	• Overall group materiality: £2,450,000 (2018: £2,417,000) based on 1.3% of the group's Unallocated Divisible Surplus. • Overall Society materiality: £2,328,000 million (2018: £2,291,000) based on 1.19% of the Society's Unallocated Divisible Surplus.
Audit scope	• The group consists of one financially significant component, being Exeter Friendly Society Limited (the 'Society'). This reporting unit was therefore subject to an audit of its complete financial information.
Key audit matters	• Morbidity assumptions used in the valuation of the long term business insurance contracts (group and Society) • The impact of events after the reporting period in relation to COVID-19 (group and Society)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and Society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements of the group and Society. We also considered those laws and regulations that have a direct impact on the financial statements of the group and Society such as the Friendly Society Act 1992 and the Prudential Regulation Authority's regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of long term business insurance contracts. Audit procedures performed by the group engagement team included:

- Discussions with the Board, management, internal audit and the Audit Committee, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's internal controls designed to prevent and detect irregularities;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes;
- Procedures relating to the valuation of long term insurance contracts described in the related key audit matter below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations impacting premiums or expenses; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Morbidity assumptions used in the valuation of the long term business insurance contracts (group and Society) Refer to page 32 (Audit Committee Report), page 56 (accounting policies) and note 22 to the financial statements The group and Society financial statements include long term insurance contracts for the estimated cost of settling claims associated with income protection and life products. We focused on the morbidity assumptions to which the valuation is most sensitive. The directors derive these assumptions with reference to historical experience and the application of expert judgement.	Our work to address the valuation of the long term insurance contracts was supported by our in-house actuarial specialists and included the following procedures: • We tested the underlying data used in the year-end valuation and experience analysis which supports management's judgements in setting the morbidity assumptions. • We tested the accuracy of the calculations used in the experience analysis. • We compared the methodology used to set the assumptions against recognised actuarial practices and assessed the reasonableness of any expert judgements in arriving at the final assumptions by applying our industry knowledge and experience. Through the procedures detailed above, we have found the morbidity assumptions used to value the long term insurance contracts were supported by the evidence obtained.
The impact of events after the reporting period in relation to COVID-19 (group and Society) As discussed within the Strategic Report on page 12 and note 29 of the financial statements, the start of 2020 has seen an outbreak of Coronavirus (COVID-19). As at 31 December 2019 only a limited number of cases had been reported to the World Health Organisation. Since then, the virus has spread across multiple countries and caused significant disruption to supply chains and travel with a corresponding impact on the markets. The impact of COVID-19 is considered to be a non-adjusting post balance sheet event. Management have performed an impact assessment of the COVID-19 outbreak considering the financial volatility and have prepared the financial statements on a going concern basis. In considering whether the group and Society can meet its obligations as they fall due, management have estimated the impact of the potential claims exposure, reduction in investment values as a result of the volatile market conditions and the change in solvency capital surplus.	We have obtained and assessed management's analysis of the impact of COVID-19 on the group and Society financial statements. This included the following: • Evaluated management's stress and scenario testing and challenged management's key assumptions; • Considered alternative stress testing performed by management as part of the Own Risk and Solvency Assessment ('ORSA') process; • Assessed the mitigating actions that management have put in place; • Obtained and reviewed board papers in relation to COVID-19; and • Assessed the disclosures made by management in the financial statements. Based on the work performed and the evidence obtained, we consider the disclosure of the impact of COVID-19 within the financial statements to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group and the Society, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

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

	Group financial statements	Society financial statements
Overall materiality	£2,450,000 (2018: £2,417,000).	£2,328,000 (2018: £2,291,000).
How we determined it	1.3% of the group's Unallocated Divisible Surplus ('UDS').	1.19% of the Society's Unallocated Divisible Surplus ('UDS').
Rationale for benchmark applied	We consider the UDS to be the most relevant measure to apply as this represents the value of the members' interests in the Society.	We consider the UDS to be the most relevant measure to apply as this represents the value of the members' interests in the Society. To reduce the level of aggregation risk for the group audit, materiality for the Society has been restricted to ensure it does not exceed 95% of the group's overall materiality.

For the one component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The materiality allocated to this component was £2,328,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £122,500 (group audit) (2018: £120,850) and £116,400 (Society audit) (2018: £114,450) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director's have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and the Society's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether it had been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Friendly Societies Act 1992 requires us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

In light of the knowledge and understanding of the group and the Society and their environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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 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.

Auditors' 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 auditors' 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. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 73 of the Friendly Societies Act 1992 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Friendly Societies Act 1992 exception reporting

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion

- we have not received all the information and explanations and access to documents we require for our audit; or

- adequate accounting records have not been kept by the group or Society, or

- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the Members on 26 June 2008 to audit the financial statements for the year ended 31 December 2008 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2008 to 31 December 2019.

Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
15 April 2020

Consolidated Statements of Comprehensive Income

for the year ended 31 December 2019

	Note	Group		Society	
		2019	2018 Restated	**2019**	2018 Restated
		£000	£000	**£000**	£000
Gross earned premiums	4	**67,828**	65,129	**64,326**	61,464
Reinsurers' share of gross earned premium	4	**(8,028)**	(6,912)	**(8,028)**	(6,912)
Net earned premium		**59,800**	58,217	**56,298**	54,552
Investment income	5	**2,587**	2,560	**2,579**	2,548
Net gains / (losses) on investments	6	**9,251**	(4,898)	**9,246**	(4,890)
Other Income					
Reinsurance commission	7	**274**	138	**274**	138
Total Income		**71,912**	56,017	**68,397**	52,348
Gross benefits and claims	8	**(41,032)**	(41,787)	**(38,165)**	(38,776)
Reinsurers' share of gross benefits and claims	8	**3,718**	2,453	**3,718**	2,453
Net benefits and claims		**(37,314)**	(39,334)	**(34,447)**	(36,323)
Gross change in insurance contract liabilities	9	**6,926**	(10,174)	**6,950**	(10,294)
Reinsurers' share of gross change in insurance contract liabilities	9	**5,373**	8,997	**5,373**	8,997
Net change in insurance contract liabilities		**12,298**	(1,177)	**12,322**	(1,297)
Investment expenses and charges		**(218)**	(262)	**(218)**	(262)
Net operating expenses (excluding commission to brokers)	10	**(21,657)**	(15,993)	**(21,650)**	(15,634)
Commission and introductory fees to Brokers	10	**(14,184)**	(9,755)	**(13,964)**	(9,549)
Bonus and rebates		**(598)**	(637)	**(598)**	(637)
Total Benefit, Claims and Expenses		**(61,673)**	(67,159)	**(58,555)**	(63,702)
Profit / (loss) before tax		**10,239**	(11,141)	**9,842**	(11,354)
Income Tax Expense	13	**0**	0	**0**	0
Transfer (to) / from the Unallocated divisible surplus	20	**(10,239)**	11,141	**(9,842)**	11,354
Result for the year		**0**	0	**0**	0
Other Comprehensive Income					
Pensions scheme actuarial gain / (loss)	21	**201**	38	**201**	38
Fair value gains of property, plant and equipment	17	**0**	40	**0**	40
Post Retirement Medical Benefit Reserve actuarial gain		**0**	0	**0**	0
Transfer (to) / from the Unallocated Divisible Surplus	20	**(201)**	(78)	**(201)**	(78)
Other Comprehensive Income for the year		**0**	0	**0**	0
Total Comprehensive Income for the Year		**0**	0	**0**	0

All income and expenditure relates to continuing operations. The Society is not presenting a separate Statement of Changes in Equity as the information is presented in Notes 2 and 20. As a Friendly Society, all net earnings are for the benefit of participating policy holders and are carried forward within the Unallocated Divisible Surplus. Accordingly, there is no profit for the year shown in the Statement of Comprehensive income.

The notes from page 56 to 97 form part of these financial statements. See note 30 for details regarding the restatement as a result of an error.

Consolidated Statements of Financial Position

as at 31 December 2019

	Note	Group		Society	
		2019	2018 Restated	**2019**	2018 Restated
		£000	£000	**£000**	£000
Assets					
Intangible assets and goodwill	16	**6,557**	6,357	**6,557**	5,957
Deferred acquisition costs					
- General business	14	**1,694**	1,166	**1,556**	1,046
Investments in group undertakings	15	**0**	0	**25**	25
Property, plant and equipment	17	**3,214**	3,193	**3,214**	3,193
Post-employment benefits obligations					
- Pension benefit obligation (general business fund)	21.1	**974**	680	**974**	680
Insurance contract assets	22	**68,241**	62,381	**68,241**	62,381
Loans and other receivables:					
- Insurance receivables	19	**15,305**	14,678	**13,749**	13,114
- Amounts due from subsidiary undertakings		**0**	0	**2,997**	3,941
- Prepayments and accrued income		**421**	405	**419**	403
Financial assets	18	**136,952**	135,775	**134,947**	133,775
Cash and cash equivalents		**11,702**	14,274	**10,269**	12,708
Total Assets		**245,060**	238,909	**242,948**	237,223
Liabilities					
Unallocated divisible surplus	20	**195,703**	185,262	**195,600**	185,558
Insurance contract liabilities	22	**21,877**	22,848	**20,578**	21,578
Reinsurers' share of insurance contract assets		**16,540**	21,913	**16,540**	21,913
Post-employment benefits obligations					
- Pension benefit obligation (long term business fund)	21.2	**140**	140	**140**	140
Trade and other payables					
- Insurance payables	25	**3,289**	2,575	**2,688**	2,145
- Amounts due to subsidiary undertaking		**0**	0	**28**	28
- Other payables including tax and social security	26	**3,202**	2,969	**3,101**	2,702
- Accruals and deferred income		**4,309**	3,202	**4,273**	3,160
Total Liabilities		**245,060**	238,909	**242,948**	237,223

See note 30 for details regarding the restatement as a result of an error. The financial statements beginning on page 53 and the notes on pages 56 to 97 were approved and authorised for issue by the Board of Directors on 15 April 2020 and were signed on its behalf by:

Wallace Dobbin, BA, Barrister
Board Chairman

Andy Chapman, ACII, APFS
Chief Executive

Consolidated Statements of Cash Flows

for the year ended 31 December 2019

	Note	Group 2019 £000	Group 2018 £000	Society 2019 £000	Society 2018 £000
Cash flows from operating activities					
Cash generated used in operating activities	27	**(6,701)**	(8,013)	**(6,559)**	(8,097)
Dividend income received		**967**	917	**967**	917
Interest income received	27	**1,620**	1,643	**1,612**	1,631
Net cash used in Operating Activities	27	**(4,114)**	(5,453)	**(3,980)**	(5,549)
Cash flows from investing activities					
Purchases of property, plant and equipment	17	**(259)**	(554)	**(259)**	(554)
Movement in term deposits		**3,519**	6,504	**3,519**	6,504
Purchase of intangible assets	16	**(1,617)**	(1,981)	**(1,617)**	(1,981)
Net cash generated from Investing Activities		**1,643**	3,969	**1,643**	3,969
Exchange (losses) / gains on Cash and Cash equivalents		**(101)**	25	**(101)**	25
Net decrease in cash and cash equivalents		**(2,572)**	(1,459)	**(2,439)**	(1,555)
Cash and cash equivalents at the beginning of the year		**14,274**	15,733	**12,708**	14,263
Cash and cash equivalents at the end of the year		**11,702**	14,274	**10,269**	12,708

The notes on pages 56 to 97 form part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

1 Accounting policies

1.1 Basis of preparation and consolidation

The Group's and Society's financial statements conform to International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The IFRS transition date was 31 December 2009. In addition the Society's accounts comply with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (the Regulations).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, financial assets and financial liabilities at fair value through income. The group is incorporated and domiciled in England and Wales, the registered address is Lakeside House, Emperor Way, Exeter, EX1 3FD.

These financial statements are presented in pounds sterling, which is the functional currency of the Group and Society.

The accounting policies have been applied consistently and the consolidated financial statements have been prepared on a going concern basis. At the date of authorisation of these financial statements there were standards and interpretations which were in issue but not yet effective, these are detailed in note 32.

i. Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on the bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred.

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

1.2 Significant accounting judgements, estimates and assumptions

The key accounting estimates and judgements relate to the following areas:

i. Valuation of long term insurance contract liabilities

The Society calculates its long term insurance contract liabilities on the basis of best estimate liabilities plus a risk margin using Solvency II principles. Solvency II requires a best estimates provision, adjusted for a risk margin to reflect the uncertainty of cashflows.

Under Solvency II, the best estimate technical provisions for life insurance policies are the expected present value of all future cash flows under the policy, including premiums, claims, expenses and commission, which occur after the valuation date but within the period of coverage of the contract boundary. For income protection insurance the contract boundary is the retirement date and for term assurance it is the end date.

For long term policies which are written at guaranteed premium rates the contract boundary is taken to be the end of the policy term as they are fully underwritten at the outset and the Society cannot re-underwrite at premium review. However, for those contracts that do allow for premium reviews the future adjustments are taken into account within the provision calculations.

The projections for Solvency II purposes are calculated using best estimate assumptions and allow for discounting at a prescribed risk-free interest rate.

The Solvency II technical provisions require a risk margin to be added to the best estimate of technical provisions to reflect the additional cost of capital needed to offset the risks inherent in the insurance. This risk margin is calculated on a Solvency II basis, net of the impact of associated reinsurance; however IFRS 4: Insurance Contracts, prohibits the netting of reinsurance assets against the related insurance liabilities. Therefore the Society has calculated both a gross risk margin and the reinsured element to ensure the risk margin is appropriately presented in accordance with IFRS 4.

As the valuation methodology is on a best estimate basis with a risk margin, the long term insurance liability results in a negative position and is therefore disclosed as an asset. The corresponding reinsurance balance is presented as a reinsurance liability.

Policy reserves make allowance for policies where there is an expected net cash inflow to the Society (negative reserves). Allowance is made however for negative reinsurance reserves where there is an expected cash outflow due to the reinsurer. The Society has two main reinsurance contracts with Pacific Life Re and Swiss Re.

The principal assumptions used are morbidity, mortality, persistency and expenses. Interest rates are an important assumption too and the Group use those prescribed under Solvency II. The assumptions used for morbidity are based on standard industry tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for expenses and persistency are based on product characteristics and relevant experience. The assumptions used for discount rates are based on prescribed Solvency II market yields. Due to the long term nature of these obligations, the estimates are subject to uncertainty and Solvency II therefore prescribes a Risk Margin which adjusts reserving for this uncertainty.

The terms of the Treaty with Pacific Life Re for income protection policies sold from 2006 to late 2016 provided for initial reinsurance commission to be paid to the Society. As a result of this up-front commission the reinsurers receive a higher proportion of the future premiums, leading in many cases, to a negative reinsurance reserve, based on the 50% treaty share of future claims and premiums. From November 2016, all new long term business has been under a reinsurance Treaty with Swiss Re which provides for the payment of risk premiums only with no upfront commission, therefore the reserving will change in future as the proportion for policies covered by this treaty increases.

ii. Valuation of general insurance contract liabilities

For Private Medical Insurance and Cash Plan policies within the general fund, estimates are made for the expected ultimate cost of claims reported as at the year end date and the cost of claims incurred but not yet reported (IBNR) to the Society. It can take many months before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than provided. Standard actuarial claims projection techniques are used to estimate outstanding claims. These techniques use past patterns of delay between claims being incurred and settled, and combine them with estimates of ultimate loss ratios and seasonality of claims. Case estimates are used for some reported claims where the ultimate amount is not known.

To the extent that the ultimate cost is different from the estimate, where experience is better or worse than expected, the surplus or deficit will be credited or charged to gross claims within the Statement of Comprehensive Income in future years.

iii. Valuation of pension liabilities and other post-employment benefit obligations

The value of pension obligations is determined using an actuarial valuation. This involves making assumptions about interest rates, expected returns, longevity and future benefit indexation. Due to the long term nature of these obligations the estimates are subject to significant uncertainty. Details of the key pension assumptions are contained in Note 21.

iv. Valuation of intangibles and goodwill

The Group's policy is to measure goodwill and intangible assets at the point of acquisition calculated as the cost of acquisition less the fair value of the assets acquired. At each reporting date, the Group reviews the carrying amounts of its intangible assets and goodwill to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

1.3 Principal accounting policies

i. Basis of consolidation

The Group financial statements consolidate the results of the Society and its subsidiary companies. The notes and disclosures within these financial statements apply to the Group and Society unless otherwise stated.

ii. Contract classification

All policies issued by the Society are insurance contracts under IFRS 4. Holloway policies have an investment component, although in comparison to the insurance element this is de minimis. As such these policies are considered insurance contracts.

iii. Premiums

(a) General Insurance Contracts

Written premiums are accounted for in the period in which contracts are entered into. Premiums are recognised as earned over the period of the policy, premiums applicable to periods after the year end date being carried forward to the following year.

(b) Long Term Insurance Contracts

Premiums are accounted for when due for payment. New business premiums are recognised when the policy liability is set up and the premium is due for payment. Holloway Income Protection products are all reviewable annually. Pure Protection and Bills & Things products are reviewable after the initial 3 years. The Locum product is reviewable after the initial 5 years. The Professional Income Protection and Income One products have guaranteed premiums. Pure Protection Plus and Income one Plus contracts include both guaranteed and reviewable premium policies. Managed Life premiums are guaranteed, but may vary by pre-determined amounts if the policy holder meets certain pre-agreed conditions.

iv. Reinsurance

(a) General Business Fund

The general business is not reinsured.

(b) Long Term Business Fund

Most of the long-term Income Protection contracts are ceded to reinsurers under contracts to transfer 50% - 75% of the insurance risk. Managed and Impaired Life products are ceded to a reinsuer under contract to transfer 90% of the insurance risk. These contracts are accounted for as insurance contracts.

The reinsurer's share of gross earned premiums in the Statement of Comprehensive Income reflects the amounts payable to reinsurers in respect of those premiums reinsured during the period.

Commissions due from the reinsurer are recognised in the period in which the policy commences.

The reinsurer's share of gross benefits and claims incurred in the Statement of Comprehensive Income reflects the amounts receivable from reinsurers in respect of those claims incurred during the period.

Any balance due from the reinsurers in respect of commission and claims are disclosed within Insurance Receivables in the Statement of Financial Position. Any balance to the reinsurer in respect of premiums is disclosed within Insurance Payables in the Statement of Financial Position.

The impact of reinsurance on the long term insurance reserve is calculated to reflect all future premium payments to the reinsurers and subsequent claims receipts. In many cases for existing business written prior to November 2016 this results in negative reinsurance reserves. Please refer to Note 1.2 (i) for more information about negative reinsurance reserves. Insurance contracts written from November 2016 are reinsured on a seperate treaty which is likely to result in fewer negative reinsurance reserves on these policies.

v. Claims

(a) General Business Fund

Claims are approved benefit claims and related claims handling expenses incurred in the year, together with changes in the provision for outstanding claims at the year end. Claims incurred but not reported (IBNR) are projected using a triangulation method together with estimated loss ratios. The date at which a claim is deemed to be incurred is the date at which the corresponding medical treatment begins. The IBNR provision is then calculated as the ultimate projected cost of claims less cumulative claims incurred already reported. Provision is also made for claims notified but not settled and are estimated on an individual case by case basis.

Claims costs include a reallocation of administration expenses calculated based on a percentage of claims incurred. For the year to 31st December 2019 this was 7.65% (2018: 8.25%) which includes the claims handling fee charged by AXA PPP Healthcare Limited for their services and internal costs.

(b) Long Term Business Fund

Sickness and Life claims are accounted for on acceptance of the claims notification, and claims payable on maturity, death and surrender are recognised when the payment becomes due. Gross benefits and claims relate to pay-outs in 2019. Any other changes are accounted for in the Gross change in contract liabilities in the Statement of Comprehensive Income.

vi. Acquisition costs

(a) General Business Fund

Acquisition costs represent commission payable and other related expenses of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent period are deferred and charged to the accounting periods in which the related premiums are earned.

(b) Long Term Business Fund

Acquisition costs represent commission payable (net of reinsurance commission receivable) and other related expenses of acquiring insurance policies written during the financial year. The Solvency II valuation methodology reflects expected cash flows with a risk margin and therefore it is not considered prudent to carry forward deferred acquisition costs. The directors believe that all acquisition costs should be expensed immediately rather than spreading a proportion of these costs against future accounting periods.

It is not considered appropriate to introduce a deferred acquisition cost which would mitigate some of the effect of the risk margin. The movement on long term contract reserves after risk margin adjustment reflects the release of contract value through the Statement of Comprehensive Income and therefore the adjustment for deferred acquisition costs is not required.

vii. Investment income

Dividends on equity investments are included in the Statement of Comprehensive Income account on an accruals (ex-dividend) basis. Other investment income is recognised on an accruals basis. Realised and unrealised gains and losses on investments are taken to the Statement of Comprehensive Income. Unrealised gains and losses on investments represent the difference between the valuation of investments at the year end date and their original cost, or if they have been previously re-valued, at that valuation. The movement in unrealised gains and losses recognised in the period includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Realised gains and losses on investments are calculated as the difference between the net sale proceeds and original cost.

viii. Foreign currencies

Foreign currency transactions have been converted into sterling, the Society's reporting currency, at average rates of exchange. Monetary assets and liabilities in foreign currencies have been translated at the rates of exchange ruling at the year end. Exchange differences are taken to the Statement of Comprehensive Income.

ix. Taxation

The Society's Private Medical Insurance and Income Protection products are exempt from tax. The Exeter Cash Plan products and the Society's Life products are subject to tax.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax repayable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that its is no longer probable that the related tax benefit will be realised.

Premiums where applicable are recorded net of insurance premium taxes.

x. Property, Plant and equipment

All property is occupied by the Society at the balance sheet date. Land and buildings are formally re-valued annually and included in the accounts at valuation with any surplus or deficit being reflected within other comprehensive income and transferred to/from the unallocated divisible surplus.

Other property and equipment is measured at cost, less accumulated depreciation. Depreciation is provided to write off the cost, less estimated residual value, of tangible assets by equal instalments over their estimated useful economic lives as follows:

Building fit-out costs	3 - 10 years
Equipment, fixtures and fittings	3 - 10 years
Computer equipment	2 - 5 years

The Society's policy is to revisit the estimated useful economic lives and estimated residual values at the end of each financial year.

xi. Intangible assets and goodwill

Software costs are capitalised if it is probable that the asset created will generate future economic benefits.

Software costs, including software licences, are recognised as intangible assets and amortised using the straight line method over their useful lives (three to ten years). The amortisation periods used are reviewed annually.

Software values are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortised.

xii. Investments in group undertakings

Subsidiaries are held in the Society's Statement of Financial Position at deemed cost less any provision for impairment where appropriate.

xiii. Financial assets

The Society classifies its financial assets as financial assets at fair value through income or at amortised cost.

Financial assets at fair value through income

The Society classifies all of its investments upon initial recognition as financial assets at fair value through income and subsequent valuation movements are recognised in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Society has transferred substantially all risks and rewards of ownership. Financial assets at fair value through income include listed and unlisted investments, and units in collective investment vehicles. Fair value is based on the bid value at the year end.

Financial assets at amortised cost

The Society measures Term Deposits initially at fair value and then at amortised cost.

xiv. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and short term deposits with a maturity of less than 3 months.

xv. Insurance contract liabilities

The methodology for calculating long term insurance contract liabilities is based on Solvency II principles. These are set out in Note 1.2 (i).

xvi. Employee benefits

The Society operates three pension schemes – two defined benefit schemes and one defined contribution scheme. Contributions to the defined contribution scheme are charged to the Statement of Comprehensive Income as incurred.

(a) Defined benefit pension costs - General Business Fund

The assets of the defined benefit scheme are measured at fair value. The scheme's liabilities are measured on an actuarial basis using the projected unit method and are discounted to reflect the time value of money and the characteristics of the liabilities. The resulting surplus or deficit in the defined benefit scheme is recognised as an asset or liability respectively. Current service charges are recognised in the Statement of Comprehensive Income. Interest to the net benefit liability (asset) is charged on the Statement of Comprehensive Income. Actuarial gains and losses are disclosed in other comprehensive income. This fund is closed to new members and closed to future accrual.

(b) Defined benefit pension costs - Long Term Business Fund

The defined benefit scheme is an unfunded scheme for one former employee/spouse. This scheme is closed to existing employees of the Society. The total cost of the pensions payable each year is charged to the provision, to which is credited appropriate interest earned and transfers from or to retained reserves sufficient to meet the expected liability, as recalculated on an annual basis.

(c) Post retirement medical benefits reserve

A reserve has previously been established to reflect the expected long term cost of discounted Private Medical Insurance policies held by some retired staff and Board members.

xvii. Provisions

Provisions are recognised when the Society has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. A provision is made for onerous contracts in which the unavoidable costs of meeting the present legal or constructive obligation exceed the expected future economic benefits.

xviii. Insurance receivables and payables

Insurance receivables and payables are recognised when due and include amounts due to and from agents, brokers and insurance contract holders. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the Statement of Comprehensive Income either as an operating expense, or in the case of receivables, premium income.

xix. Unexpired risks

A provision is made for unexpired risks in respect of certain private medical insurance products to the extent that the expected claims, related expenses and deferred acquisition costs are expected to exceed unearned premiums for those products, after taking account of future investment income on the unearned premium provision.

The provision for unexpired risks is detailed in note 22.9.

xx. Unallocated divisible surplus

The unallocated divisible surplus represents the excess of assets over and above the insurance contract liabilities and other liabilities. Any profit or loss in the year arising through the Statement of Comprehensive Income is transferred to the unallocated divisible surplus.

xxi. Operating segments

IFRS 8 requires entities which publicly trade securities to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. This requirement does not apply to the Society as it does not issue any financial instruments in the public market.

The Group has two strategic divisions, the General Business Fund and the Long Term Business Fund, which are its reportable segments.

The principal activity of the General Business Fund is to underwrite general insurance business through both direct and broker distribution channels. The primary sources of premium income are from the sale of Private Medical Insurance and Cash Plans. The principal activities of the General Business Fund are in the United Kingdom, although there is a small proportion of business which is written in the United Kingdom but for which the location of risk is outside of the United Kingdom. The geographical segmentation is disclosed in note 4 to the accounts.

The principal activity of the Long Term Business Fund is to provide Income Protection and Managed Life products through broker distribution channels. All activities of the Long Term Business Fund are based in the United Kingdom.

2 Capital management

2.1 Capital management

Capital resources result from accumulated mutual capital with no capital tiers or capital instruments in issue; subordinated or unsubordinated. Therefore, all surplus capital is available to support the business. The Society owns shares within the subsidiary companies which are fully paid up with no other forms of financing available.

Solvency II is the European-wide regime for calculating and disclosing solvency and is the regime by which the Board runs the capital resources of the business. It assesses capital on a number of bases:

Minimum Capital Requirement ("MCR") which is the level calculated by prescribed standard formulae below which a company must not fall to be compliant.

Solvency Capital Requirement ("SCR") which is a requirement (also calculated by prescribed standard formulae) which creates a threshold for Regulatory intervention if is breached. Companies are also required to assess their own capital requirement based on a forward looking assessment of future capital requirements know as an Own Risk and Solvency Assessment ("ORSA"). The ORSA may introduce even higher capital requirements if the Board believe it is necessary to do so.

The Society and its subsidiaries closely monitor the available capital resources compared to the levels of capital required under relevant regulators or, if higher, the Board's assessment of the appropriate levels of capital to be held as identified in the ORSA.

Whilst the ORSA is prepared on a Group basis the review assesses each element of the business separately as the Society manages its capital requirements within two separate ring fenced funds for life and general business together with a stand-alone 100% subsidiary of the General Fund which operates the Cash Plan business. Any intra-group or intra-fund transactions take place at market value with any resultant balances being settled regularly where necessary.

The Society sets its risk appetite based on the results of its assessment of risk. As the long term, general and cash plan funds are separate with no immediate ability for cross-subsidy then the appetite will apply separately for each fund. This risk appetite is expressed as a percentage of capital resources over and above the capital requirements with maximum and minimum levels set and pre-determined points for review and corrective action. As a minimum the Board would always aim to have available capital equal to at least 130% of capital resources requirements.

Set out below are the details of how the available capital resources have been calculated for each fund, the restrictions in place over the available capital resources, the basis of calculating the regulatory capital requirements and an explanation of the change in available capital. The available capital has been determined in accordance with the Prudential Regulation Authority's (PRA) regulations and includes the unallocated divisible surplus. The unallocated divisible surplus represents surplus funds of the Society which have not been allocated to members and is available to meet regulatory and solvency requirements of the Society. Adjustments have been made to restate the assets and liabilities in line with PRA regulations.

2.2 Capital management - Long term insurance business

		Group		Society	
	Note	**2019**	2018 Restated	**2019**	2018 Restated
Statutory unallocated divisible surplus	20	**£000**	£000	**£000**	£000
Opening unallocated divisible surplus		**92,314**	102,576	**92,314**	102,576
Transfer to / (from) Unallocated Divisible Surplus from Statement of Comprehensive Income		**3,108**	(10,274)	**3,108**	(10,274)
Actuarial (gain) / loss on defined benefit pension scheme taken to Statement of Comprehensive Income	**20**	**(8)**	12	**(8)**	12
Closing unallocated divisible surplus		**95,413**	92,314	**95,413**	92,314
Reconciliation to Solvency II own funds					
Closing unallocated divisible surplus		**95,413**	92,314	**95,413**	92,314
Adjustments required for Solvency II		(7,634)	(5,304)	(7,634)	(5,304)
Own funds under Solvency II		**87,779**	87,010	**87,779**	87,010

The capital statement above has been prepared on an aggregate basis, for the total Long Term Insurance Fund based on current accounting principles. Total available capital resources of the Society's long term insurance business amounted to £87.8 million (2018 on a comparative basis: £87.7 million). See note 30 for details regarding the restatement as a result of an error.

2.3 Capital management - General insurance business

		Group		Society	
	Note	**2019**	2018	**2019**	2018
Statutory unallocated divisible surplus		**£000**	£000	**£000**	£000
Opening unallocated divisible surplus	**20**	**92,948**	93,749	**93,243**	94,257
Transfer to / (from) Unallocated Divisible Surplus from Statement of Comprehensive Income		**7,252**	(653)	**6,824**	(750)
Actuarial loss on defined benefit pension scheme taken to Statement of Comprehensive Income		**209**	26	**209**	26
Fair value gains on property, plant and equipment taken to Statement of Comprehensive Income		**0**	40	**0**	40
Actuarial (loss) on unexpired risk reserve taken to Statement of Comprehensive Income		**(120)**	(214)	**(90)**	(329)
Closing unallocated divisible surplus	20	**100,289**	92,948	**100,187**	93,243
Reconciliation to Solvency II own funds					
Closing unallocated divisible surplus		**100,289**	92,948	**100,187**	93,243
Adjustments required for Solvency II		(401)	(1,652)	(304)	(1,952)
Own funds under Solvency II		**99,888**	91,296	**99,883**	91,291

The capital statement above has been prepared on an aggregate basis, for the total General Insurance Fund based on current accounting principles.

In addition to regulatory requirements the Society makes capital adjustments within its ORSA for certain Private Medical Insurance products sold by the Society which include an age-at-entry policy whereby the Society calculates the policyholder's premium by reference to the age of the policyholder on joining the Society rather than their age at each annual policy renewal, provided that their cover remains unchanged. The age-at-entry policies are annual, general insurance contracts and under the policy terms both the policyholder and the Society have the right not to renew the policy after the end of the 12 month term. Furthermore, management has discretion to alter premium rates and the level of cover under age-at-entry plans, subject to compliance with the overall age-at-entry principle. No specific accounting provision in relation to potential future losses on contracts not yet entered into has been made in these financial statements but it is relevant for the management of capital.

It is management's current intention to uphold the age-at-entry policy, acknowledging that this may result in future underwriting losses. For internal management purposes £44.6 million (2018: £49.3 million) of the General Reserve has been allocated to cover future underwriting losses arising from these age-at-entry polices. The Society does not guarantee this level of capital allocation and will be guided by the need to ensure its continued financial well-being and to meet statutory levels of solvency.

Under Solvency II regulations total available capital resources of the Society's general business after adjustments for age at entry policies amounted to £44.6 million (2018 on a comparative basis: £49.3 million).

2.4 Capital management - Cash plan business

The cash plan operation is a 100% owned subsidiary which has its own regulatory registration and capital resources requirement. On the basis of Solvency II regulations which result in total available capital resources of the subsidiary amounted to £3.0 million (2018 on a comparative basis: £3.1 million).

3 Risk management

This section alongside the Risk Mangement Report on page 11 summarises the principal risks that the Society is exposed to and the way the Society manages them.

3.1 Risks Customers transfer to us (Insurance risks)

Insurance risks arise from the inherent uncertainties as to the occurrence, amount and timing of insurance claims. Long term insurance risk arises from mortality, morbidity, persistency and expenses variances. General insurance risk arises from risks in general insurance contracts which lead to significant claims in terms of quantity or value. Systems are in place to measure, monitor and control exposure to all these risks. These are documented in policies for underwriting, pricing, claims and reinsurance. Additionally to mitigate risk in the long term business fund the Society places reinsurance.

i. Long term insurance

On life and income protection business, the Society uses underwriting procedures, backed up with medical screening if appropriate. Reinsurance is in place to limit the quantum of risk retained on most policies incepted since November 2006.

Note 22 sets out the long-term insurance contract liabilities and details the impact of movements during 2019. The table below sets them out by type of contract.

	2019			2018 Restated		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Group	**£000**	**£000**	**£000**	£000	£000	£000
Holloway income protection	**2,765**	**0**	**2,765**	1,335	0	1,335
Other income protection	**(72,669)**	**17,567**	**(55,102)**	(70,352)	22,506	(47,846)
Term assurance	**(6,782)**	**(1,028)**	**(7,810)**	(1,661)	(594)	(2,255)
Total	**(76,687)**	**16,540**	**(60,147)**	(70,678)	21,913	(48,766)
Society	**£000**	**£000**	**£000**	£000	£000	£000
Holloway income protection	**2,765**	**0**	**2,765**	1,335	0	1,335
Other income protection	**(72,669)**	**17,567**	**(55,102)**	(70,352)	22,506	(47,846)
Term assurance	**(6,782)**	**(1,028)**	**(7,810)**	(1,661)	(594)	(2,255)
Total	**(76,887)**	**16,540**	**(60,147)**	(70,678)	21,913	(48,766)

The valuation assumptions have been recommended by the Chief Actuary and approved by the Board.

See Note 24 for details of assumptions used in the calculation of the long-term business reserve. See note 30 for details regarding the restatement as a result of an error.

ii. General insurance

The table below sets out the concentration of general insurance claims liabilities by type of contract:

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
UK	**3,532**	4,104	**3,234**	3,799
International	**422**	438	**422**	438
Total	**3,954**	4,542	**3,656**	4,237

The development of insurance liabilities provides a measure of the Society's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Society's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the Statement of Financial Position. An accident year-basis is considered to be most appropriate for the business written by the Society.

Reporting year	**2017**	**2018**	**2019**	**Total**
Estimate of ulitmate claims costs				
At end of reporting year	33,543	31,064	28,857	93,464
One year later	33,858	30,817	-	-
Two years later	33,858	-	-	-
Current estimate of cumulative claims incurred	33,858	30,817	28,857	93,532
Cumulative payments to date	(33,858)	(30,817)	(25,201)	(89,876)
Liability recognised in the balance sheet	-	-	3,656	3,656
Reserve in respect of prior years	-	-	-	
Total reserve included in the balance sheet	-		3,656	3,656

3.2 Financial Risks that we incur

The Society is exposed to a range of financial risks through its financial assets, financial liabilities, insurance contract liabilities or assets and associated reinsurance balances. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk. However, the Society also faces financial risks in respect of property valuations, concentration of investments and counter-party exposures.

The Financial Risks that we incur are further analysed in the Risk Management Report on page 11.

Credit Risk

The Group's maximum exposure to credit risk is detailed below and discussed on page 12.

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Debt securities - UK Listed securities	**100,424**	97,942	**98,419**	95,942
Equity securities - UK Collectives	**36,528**	34,314	**36,528**	34,314
Insurance Receivables	**15,305**	14,678	**13,749**	13,114
Term deposits	**0**	3,519	**0**	3,519
Cash and cash equivalents	**11,702**	14,274	**10,269**	12,708
Total assets bearing credit risk	**163,959**	164,727	**158,965**	159,597

Liquidity Risk

The tables below summarises the maturity profile of the financial liabilities of the Group and Society based on the term to maturity and the underlying policies or benefits. the Group's approach to Liquidity risk management is referred to on page 12.

Group

	2019 - Group				
Maturity profile of financial liabilities 2019	**Within 1 year**	**1-5 years**	**Over 5 years**	**No term**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Insurance contract liabilities					
- Insurance contract liabilities (general business fund)	21,877	0	0	0	**21,877**
- Reinsurers share of insurance contract assets (long term business fund)	3,526	10,694	25,366	(23,046)	**16,540**
Post-employment benefits obligations					
- Pension benefit obligation (long term business fund)	0	0	140	0	**140**
Trade and other payables					
- Insurance payables	3,515	0	0	0	**3,515**
- Amounts due from subsidiary undertaking	0	0	0	0	**0**
- Other payables including tax and social security	2,976	0	0	0	**2,976**
- Accruals and deferred income	4,313	0	0	0	**4,313**
Total financial liabilities	**36,207**	**10,694**	**25,506**	**(23,046)**	**49,361**

	2018 - Group (Restated)				
Maturity profile of financial liabilities 2018	**Within 1 year**	**1-5 years**	**Over 5 years**	**No term**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Insurance contract liabilities					
- Insurance contract liabilities (general business fund)	22,848	0	0	0	**22,848**
- Reinsurers share of insurance contract assets (long term business fund)	3,294	9,678	26,042	(17,101)	**21,913**
Post-employment benefits obligations					
- Pension benefit obligation (long term business fund)	0	0	140	0	**140**
Trade and other payables					
- Insurance payables	2,574	0	0	0	**2,574**
- Amounts due from subsidiary undertaking	0	0	0	0	**0**
- Other payables including tax and social security	2,969	0	0	0	**2,969**
- Accruals and deferred income	3,207	0	0	0	**3,207**
Total financial liabilities	**34,893**	**9,678**	**26,182**	**(17,101)**	**53,652**

See note 30 for details regarding the restatement as a result of an error.

Society

Maturity profile of financial liabilities 2019	2019 - Society				
	Within 1 year	1-5 years	Over 5 years	No term	Total
	£000	£000	£000	£000	£000
Insurance contract liabilities					
- Insurance contract liabilities (general business fund)	20,578	0	0	0	**20,578**
- Reinsurers share of insurance contract assets (long term business fund)	3,526	10,694	25,366	(23,046)	**16,540**
Post-employment benefits obligations					
- Pension benefit obligation (long term business fund)	0	0	140	0	**140**
Trade and other payables					
- Insurance payables	2,913	0	0	0	**2,913**
- Amounts due from subsidiary undertaking	28	0	0	0	**28**
- Other payables including tax and social security	2,875	0	0	0	**2,875**
- Accruals and deferred income	4,275	0	0	0	**4,275**
Total financial liabilities	**34,195**	**10,694**	**25,506**	**(23,046)**	**47,349**

Maturity profile of financial liabilities 2018	2018 - Society (Restated)				
	Within 1 year	1-5 years	Over 5 years	No term	Total
	£000	£000	£000	£000	£000
Insurance contract liabilities					
- Insurance contract liabilities (general business fund)	21,578	0	0	0	**21,578**
- Reinsurers share of insurance contract assets (long term business fund)	3,294	9,678	26,042	(17,101)	**21,913**
Post-employment benefits obligations					
- Pension benefit obligation (long term business fund)	0	0	140	0	**140**
Trade and other payables					
- Insurance payables	2,145	0	0	0	**2,145**
- Amounts due from subsidiary undertaking	28	0	0	0	**28**
- Other payables including tax and social security	2,702	0	0	0	**2,702**
- Accruals and deferred income	3,163	0	0	0	**3,163**
Total financial liabilities	**32,909**	**9,678**	**26,182**	**(17,101)**	**51,668**

See note 30 for details regarding the restatement as a result of an error.

Fair value estimate - Group

The principal financial assets held as at the reporting date for the Group, analysed by their fair value hierarchies were:

	Group			
2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through income:				
- Equity securities	0	36,528	0	**36,528**
- Debt securities	100,424	0	0	**100,424**
Total assets at fair value	**100,424**	**36,528**	**0**	**136,952**

	Group			
2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through income:				
- Equity securities	0	34,314	0	**34,314**
- Debt securities	97,942	0	0	**97,942**
Total assets at fair value	**97,942**	**34,314**	**0**	**132,256**

Fair value estimate - Society

The principal financial assets held as at the reporting date for the Society, analysed by their fair value hierarchies were:

	Society			
2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through income:				
- Equity securities	0	36,528	0	**36,528**
- Debt securities	98,419	0	0	**98,419**
Total assets at fair value	**98,419**	**36,528**	**0**	**134,947**

	Society			
2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through income:				
- Equity securities	0	34,314	0	**34,314**
- Debt securities	95,942	0	0	**95,942**
Total assets at fair value	**95,942**	**34,314**	**0**	**130,256**

3.3 Risks that we incur in the course of normal business

All the risks within this category are variants of Operational Risk, which in turn is the risk of loss resulting from insufficient, inadequate, or ineffective people, processes and/or systems. These risks are addressed in the Risk Management Report on page 11

3.4 Strategic & External Risks

The Strategic and External Risks faced by The Exeter are covered in the Risk Management Report on page 11

Cyber security is regarded as one of The Exeter's top priorities. There are several measures in place to detect and prevent threats to our systems. The risks and preventative measures are covered in the Risk Management Report on page 12.

Also captured within this category are horizon and emerging risks, these being potential risks that may or may not materialise, e.g. a nationalised Income Protection scheme (a “horizon” risk) and those that we can see approaching but for which there is insufficient detail or data to be able to formulate a meaningful risk value or probability e.g. financial impact of climate change (an “emerging” risk).

4 Net earned premium

		Group		Society	
		2019	2018	**2019**	2018
		£000	£000	**£000**	£000
Gross written premiums					
Long term insurance contracts:					
	Holloway income protection	**3,028**	3,159	**3,028**	3,159
	Life products	**2,684**	571	**2,684**	571
	Other income protection	**21,137**	19,219	**21,137**	19,219
General insurance contracts:					
	UK	**37,331**	37,992	**33,825**	34,305
	International	**3,144**	3,497	**3,144**	3,497
Change in gross provision for unearned premiums		**504**	691	**508**	713
Gross earned premiums		**67,828**	65,129	**64,326**	61,464
Reinsurers' share of gross premiums					
Long term insurance premiums		**(8,028)**	(6,912)	**(8,028)**	(6,912)
Net earned premiums		**59,800**	58,217	**56,298**	54,552

All long term insurance contracts are based in the United Kingdom and have regular premiums which are recognised as income when due for payment.

5 Investment income

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Income from investments at fair value through income:				
Interest income	**1,620**	1,643	**1,612**	1,631
Dividend income	**967**	917	**967**	917
Total investment income	**2,587**	2,560	**2,579**	2,548

6 Net gains / (losses) on investments

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Investments at fair value through income - realised gains / (losses):				
- Debt securities	**1,932**	(639)	**1,932**	(639)
- Equity securities	**470**	331	**470**	331
Investments at fair value through income - unrealised gains / (losses):				
- Debt securities	**1,684**	(481)	**1,679**	(473)
- Equity securities	**5,165**	(4,109)	**5,165**	(4,109)
Net gains / (losses) on investments	**9,251**	(4,898)	**9,246**	(4,890)

7 Reinsurance commission

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Gross reinsurance commission receivable	**274**	138	**274**	138
Net reinsurance commission	**274**	138	**274**	138

8 Net benefits and claims

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Gross Claims from Statement of Comprehensive Income	**7,990**	6,793	**7,990**	6,793
Payment of Terminal Bonuses	**349**	223	**349**	223
Change in Members Dividend Account excluding Interest & Dividend credited	**635**	617	**635**	617
Long term insurance contracts benefits and claims payable	**8,974**	7,633	**8,974**	7,633
Gross Claims from Statement of Comprehensive Income, excluding change in provision	**32,058**	34,154	**29,191**	31,143
General insurance contracts benefits and claims payable	**32,058**	34,154	**29,191**	31,143
Gross benefits and claims	**41,032**	41,787	**38,165**	38,776
Reinsurers' share of gross benefits and claims	**(3,718)**	(2,453)	**(3,718)**	(2,453)
Net benefits and claims	**37,314**	39,334	**34,447**	36,323

9 Net change in insurance contract liabilities

	Group		Society	
	2019	2018	**2019**	2018
		Restated		Restated
	£000	£000	**£000**	£000
(Decrease) / Increase in Gross insurance contract liabilities	**(6,832)**	10,121	**(6,860)**	10,217
Change in provison for unearned premium	**504**	691	**508**	714
Provision for bonuses and rebates	**(598)**	(637)	**(598)**	(637)
Gross change in insurance contract liabilities	**(6,926)**	10,174	**(6,950)**	10,294
Reinsurers' share of gross change in insurance contract liabilities				
Change in long term insurance contract liabilities	**(5,373)**	(8,997)	**(5,373)**	(8,997)
Net change in insurance contract liabilities	**(12,298)**	1,177	**(12,322)**	1,297

Further analysis regarding the movement in insurance contract liabilities can be found in Note 22. See note 30 for details regarding the restatement as a result of an error.

10 Net operating expenses

	Group		Society	
	2019	2018	**2019**	**2018**
	£000	£000	**£000**	**£000**
Acquisition costs (excluding commissions)	**12,456**	9,298	**12,300**	9,182
Increase in deferred acquisition costs (excluding commissions)	**(127)**	(54)	**(123)**	(54)
Administrative expenses	**9,328**	6,749	**9,473**	6,506
Net operating expenses (excluding commission to brokers)	**21,657**	15,993	**21,650**	**15,634**
Commission and introductory fees	**14,586**	9,860	**14,350**	9,646
Increase in deferred acquisition costs (commission)	**(402)**	(105)	**(386)**	(97)
Commission to brokers	**14,184**	9,755	**13,964**	**9,549**
Net operating expenses (including commission to brokers)	**35,841**	25,748	**35,614**	**25,183**

Net operating expenses include:				
Auditors' remuneration:[1]				
Fees payable to the Society's auditors for the audit of current year financial statements	**193**[2]	184	**193**	184
Fees payable to the Subsidiaries auditors for the audit of current year financial statements	**15**	18	**15**	0
Fees payable to the Society's auditors for other services pursuant to legislation	**0**	0	**0**	0
Other non-audit services not covered above	**122**[3]	45	**122**	45
Depreciation of tangible assets	**228**	188	**228**	188
Amortisation of intangible assets	**1,017**	788	**1,017**	788
Impairment	**400**	0	**919**	0
Loss on disposal of Property, Plant and Equipment	**10**	1	**10**	1
Aggregate amount of Directors' Emoluments	**2,277**	1,754	**2,277**	1,754

(1) In addition to the amounts disclosed above, expenses relating to audit work of £9,138 (2018: £14,000) were paid to the auditors in respect of the year ended 31 December 2019

(2) Included within this amount are fees of £23.2k (2018: £40k) relating to the 2018 audit which were agreed subsequent to the accounts being signed off.

(3) The Society utilised the following services from PwC during the year; MakingTax Digital Bridging software, Cyber Assurance, and Consultancy relating to the IT function. The amounts shown are exclusive of VAT.

11 Employee information

	Group		Society	
	2019	**2018**	**2019**	**2018**
	Number	**Number**	**Number**	**Number**
The average number of persons (full-time equivalents) including Executive Directors employed by the Society and subsidiary in the year was:				
Administration	**124**	107	**124**	107
Business Development	**21**	17	**21**	17
Average full-time equivalents in the year	**145**	124	**144**	124
The closing full-time equivalent at 31 December was:	**145**	134	**145**	134
Staff costs for the above persons were:	**£000**	£000	£000	£000
Wages and salaries	**9,987**	8,081	**9,928**	8,047
Social security costs	**720**	672	**713**	668
Other pension costs	**600**	542	**596**	540
Total staff costs	**11,307**	9,295	**11,237**	9,255

12 Directors' emoluments

Directors' emoluments, including pension contributions and compensation for loss of office, fell within the following ranges:

	Group		Society	
	2019 Number	2018 Number	**2019 Number**	2018 Number
Executive				
£0 - £99,999	**1**	1	**1**	1
£200,000 - £299,999	**1**	0	**1**	0
£300,000 - £399,999	**0**	1	**0**	1
£400,000 - £499,999	**1**	1	**1**	1
£500,000 - £599,999	**1**	0	**1**	0
£600,000 - £699,999	**0**	1	**0**	1
£700,000 - £799,999	**1**	0	**1**	0
Total	**5**	4	**5**	4
Non-executive				
£10,000 - £39,999	**1**	0	**1**	0
£40,000 - £49,999	**0**	0	**0**	0
£50,000 - £59,999	**3**	3	**3**	3
£60,000 - £69,999	**0**	0	**0**	0
£70,000 - £79,999	**0**	1	**0**	1
£80,000 - £89,999	**1**	0	**1**	0
Total	**5**	4	**5**	4
	£000	£000	**£000**	£000
Highest paid director	**746**	659	746	659
Chairman	**82**	77	82	77

Defined Contribution Pension benefits were accruing to three Executive Directors as at 31 December 2019 (2018: three). The aggregate amount of pension contributions made by the Society to the Executive Directors was £124,734 (2018:£102,093). Pension contributions in respect of the highest paid Director for the year amounted to £46,608 (2018:£44,812).

Disclosures which are required to be audited as part of the financial statements which include (where applicable):

- The aggregate amount of remuneration (including salary, fees, bonuses and benefits in kind);
- Long-term incentive schemes;
- Pension schemes;
- Compensation for loss of office; and
- Sums paid to or receivable by third parties for making directors' services.

are included in the remuneration report on page 45

13 Taxation

Tax activities relate to the activities of Exeter Cash Plan Holdings Limited, The Exeter Cash Plan, and the Life product offered in the Long Term Fund.

13.1 Amounts recognised in profit or loss

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Tax expense:				
Current tax expense	**0**	0	0	0
Adjustment for prior years	**0**	0	0	0
	0	0	**0**	0
Deferred tax	**0**	0	0	0
Total income tax expense	**0**	0	**0**	0

The current rate of corporation tax in the UK is 19% (2018: 19%).

13.2 Reconciliation of current tax expense

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Profit / (Loss) before tax from continuing operations	**(122)**	209		0
Current tax at standard corporation tax rate	**(23)**	40		0
Increase / (Decrease) in tax losses carried forward	**23**	(40)		0
Total tax expense	**0**	0	**0**	0

Total accumulated tax losses and additonal expenses as at the reporting date are £13,288,395 (2018: £13,166,395) and £10,877,720 (2018:£3,526,771) respectively for the group and Society. £12,565,466 relate to the pre-acquisition activities of The Exeter Cash Plan.

A deferred tax asset has not been recognised due to the uncertainty of future taxable profits arising.

14 Deferred acquisition costs

		Total Group £000	Total Society £000
Cost:			
At 1 January 2019		**1,166**	**1,046**
Total acquisition costs deferred			
	Commission and introductory fees	1,250	1,143
	Other Acquisition costs	444	413
Total acquisition costs amortised			
	Commission and introductory fees	(849)	(757)
	Other Acquisition costs	(317)	(289)
At 31 December 2019		**1,694**	**1,556**
Cost:			
At 1 January 2018		1,007	895
Total acquisition costs deferred			
	Commission and introductory fees	849	757
	Other Acquisition costs	317	289
Total acquisition costs amortised			
	Commission and introductory fees	(744)	(660)
	Other Acquisition costs	(263)	(235)
At 31 December 2018		1,166	1,046

All deferred acquisition costs are included within the General Business Fund.

15 Investments in group undertakings

The Society investment in subsidiaries can be analysed as follows:

	2019 General Business Fund £000	2018 General Business Fund £000
Cost at 1 January	**2,350**	2,350
Additions	**0**	0
Disposals	**0**	0
Cost at 31 December	**2,350**	2,350
Provision at 1 January	**(2,325)**	(2,325)
Provided in the year	**0**	0
Released in the year	**0**	0
Provision at 31 December	**(2,325)**	(2,325)
Carrying value at 31 December	**25**	25

All investments in subsidiaries are held within the General Business Fund.

The subsidiary undertakings shown below are wholly owned, incorporated in England and Wales the ultimate parent of the subsidiaries is the Society.

Name of Subsidiary Undertaking	Nature of Business
Go Private Limited	Medical and insurance services intermediary – ceased trading with effect from 21 September 2007. Exempt from audit under S477 (2) and S476 of the Companies Act 2006.
Exeter Friendly Members Club Limited	General insurance intermediary – ceased trading with effect from 31 December 2001; dormant with effect from 31 December 2002. Exempt from audit under S477 (2) and S476 of the Companies Act 2006.
Pioneer Advantage Limited	Dormant since incorporation. Exempt from audit under S477 (2) and S476 of the Companies Act 2006.
Exeter Cash Plan Holdings Limited	Holding company for The Exeter Cash Plan
The Exeter Cash Plan	Provider of health insurance - acquired 30 October 2015

The registered address of all of the above subsidiaries is Lakeside House, Emperor Way, Exeter, EX1 3FD.

16 Intangible assets and goodwill

All Intangible assets are owned by Exeter Friendly Society Limited. As such no intangible assets are owned directly by any of the Group's subsidiaries.

Reconciliation of carrying amount

	2019			2018		
	Goodwill	**Software and Licenses**	**Total**	Goodwill	Software and Licenses	Total
Cost:	**£000**	**£000**	**£000**	£000	£000	£000
Cost at 1 January	400	14,723	15,123	400	12,742	13,142
Additions	0	1,617	1,617	0	1,981	1,981
Disposals	0	0	0	0	0	0
Transfer of intangibles	0	0	0	0	0	0
Cost at 31 December	**400**	**16,340**	**16,740**	400	14,723	15,123
Accumulated Amortisation:						
Provision at 1 January	0	8,766	8,766	0	7,977	7,977
Amortisation	0	1,017	1,017	0	789	789
Impairment loss	400	0	400	0	0	0
Reversal of impairment loss	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Transfer of intangibles	0	0	0	0	0	0
Provision at 31 December	**400**	**9,783**	**10,183**	0	8,766	8,766
Carrying value at 31 December	**0**	**6,557**	**6,557**	400	5,957	6,357

Goodwill is tested annually for impairment, and only recognised in the Group. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

At the reporting date, the Directors have assessed that there has been an impairment to the carrying value of the goodwill calculated at acquisition of The Exeter Cash Plan. In previous years the investment in subsidiary has been measured at Value in Use. The value of future cash flow is highly sensitive to Claim Loss Ratios which have been volatile in 2019. As a result of this the Fair Value measurement is now higher, and this has resulted in an impairment being recognised in the year.

Software costs, including software licences, are recognised as intangible assets and amortised using the straight line method over their useful lives (three to ten years). The amortisation periods used are reviewed annually.

Software values are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Any amortisation or impairment charges are recognised in the Statement of Comprehensive Income within Net Operating Expenses.

17 Property, plant and equipment

All Property, plant and equipment are owned by Exeter Friendly Society Limited. As such no fixed assets are owned directly by any of the Group's subsidiaries.

	Land and buildings £000	Building fit-out costs £000	Equipment, fixtures and fittings £000	Computer equipment £000	Total £000
Cost:					
At 1 January 2019	2,200	908	1,354	1,181	5,643
Additions	0	0	65	194	259
Disposals	0	0	0	(717)	(717)
Revaluation	0	0	0	0	0
At 31 December 2019	**2,200**	**908**	**1,419**	**658**	**5,185**
Accumulated Depreciation:					
At 1 January 2019	0	908	552	990	2,450
Provision for the year	0	0	119	109	228
Disposals	0	0	0	(707)	(707)
At 31 December 2019	**0**	**908**	**671**	**392**	**1,971**
Net book value at 31 December 2019	**2,200**	**0**	**748**	**266**	**3,214**

	Land and buildings £000	Building fit-out costs £000	Equipment, fixtures and fittings £000	Computer equipment £000	Total £000
Cost:					
At 1 January 2018	2,160	908	954	1,048	5,070
Additions	0	0	400	154	554
Disposals	0	0	0	(21)	(21)
Revaluation	40	0	0	0	40
At 31 December 2018	**2,200**	**908**	**1,354**	**1,181**	**5,643**
Accumulated Depreciation:					
At 1 January 2018	0	908	461	913	2,282
Provision for the year	0	0	91	97	188
Disposals	0	0	0	(20)	(20)
Transfer of intangibles	0	0	0	0	0
At 31 December 2018	**0**	**908**	**552**	**990**	**2,450**
Net book value at 31 December 2018	**2,200**	**0**	**802**	**191**	**3,193**

The Society's premises at Emperor Way were valued as at 31 December 2019 by Stratton Creber, Chartered Surveyors, External Valuers, on the basis of open market vacant possession value in accordance with the Practice Statement in the Royal Institute of Chartered Surveyors' Appraisal and Valuation manual. If land and buildings had been recognised under the cost model it would be disclosed under a value of £1,443,000.

18 Financial assets

In accordance with IFRS recognition and measurement principles, all the Society's debt and equity investments are classified as investments designated at fair value through income and are described in these financial statements as investments held at fair value. All investments are designated as held at fair value upon initial recognition and are measured at subsequent reporting dates at fair value, which is the bid price of the exchange on which the investment is quoted. The Society's term deposits with a maturity date of more than three months are initially recognised at fair value and then at amortised cost. The composition and nature of the assets held are set out below.

18.1 Reconciliation of movements per classification in the year

Assets held at amortised cost

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
At 1 January	**3,519**	10,023	**3,519**	10,023
Movement in short term deposits with a maturity of less than 3 months	**(3,519)**	(6,504)	**(3,519)**	(6,504)
At 31 December	**0**	3,519	**0**	3,519

Assets held at fair value through income

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
At 1 January	**132,256**	135,030	**130,256**	133,022
Additions	**28,438**	62,825	**28,438**	62,826
Disposals at cost	**(30,592)**	(61,009)	**(30,592)**	(61,009)
Changes in Market value	**6,850**	(4,590)	**6,845**	(4,583)
At 31 December	**136,952**	132,256	**134,947**	130,256

18.2 Fair value through income - Group

	2019					
	General Business Fund		**Long Term Business Fund**		**Total**	
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
	Market value	**Cost**	**Market value**	**Cost**	**Market value**	**Cost**
Equity securities:						
UK collectives	21,571	16,202	14,957	12,371	36,528	28,573
	21,571	**16,202**	**14,957**	**12,371**	**36,528**	**28,573**
Debt securities:						
UK listed	76,767	68,024	23,657	23,322	100,424	91,346
	76,767	**68,024**	**23,657**	**23,322**	**100,424**	**91,346**
Total	**98,338**	**84,226**	**38,614**	**35,693**	**136,952**	**119,919**

	2018					
	General Business Fund		Long Term Business Fund		Total	
	£000	£000	£000	£000	£000	£000
	Market value	Cost	Market value	Cost	Market value	Cost
Equity securities:						
UK collectives	16,624	14,358	17,690	17,167	34,314	31,525
	16,624	**14,358**	**17,690**	**17,167**	**34,314**	**31,525**
Debt securities:						
UK listed	68,573	60,897	29,369	29,687	97,942	90,584
	68,573	**60,897**	**29,369**	**29,687**	**97,942**	**90,584**
Total	**85,197**	**75,255**	**47,059**	**46,854**	**132,256**	**122,109**

18.3 Fair value through income – Society

	2019					
	General Business Fund		Long Term Business Fund		Total	
	£000	£000	£000	£000	£000	£000
	Market value	Cost	Market value	Cost	Market value	Cost
Equity securities:						
UK collectives	21,571	16,202	14,957	12,371	36,528	28,573
	21,571	**16,202**	**14,957**	**12,371**	**36,528**	**28,573**
Debt securities:						
UK listed	74,762	66,028	23,657	23,322	98,419	89,350
	74,762	**66,028**	**23,657**	**23,322**	**98,419**	**89,350**
Total	**96,333**	**82,230**	**38,614**	**35,693**	**134,947**	**117,923**

	2018					
	General Business Fund		Long Term Business Fund		Total	
	£000	£000	£000	£000	£000	£000
	Market value	Cost	Market value	Cost	Market value	Cost
Equity securities:						
UK collectives	16,624	14,358	17,690	17,167	34,314	31,525
	16,624	**14,358**	**17,690**	**17,167**	**34,314**	**31,525**
Debt securities:						
UK listed	66,573	58,902	29,369	29,687	95,942	88,589
	66,573	**58,902**	**29,369**	**29,687**	**95,942**	**88,589**
Total	**83,197**	**73,260**	**47,059**	**46,854**	**130,256**	**120,114**

18.4 Amortised cost - Group / Society

	2019			2018		
	General Business Fund	Long Term Business Fund	Total	General Business Fund	Long Term Business Fund	Total
	£000	£000	£000	£000	£000	£000
	Amortised Cost	Amortised Cost	Amortised Cost	Amortised Cost	Amortised Cost	Amortised Cost
Term Deposits:						
Term Deposits:	**0**	**0**	**0**	3,519	0	3,519
Total	**0**	**0**	**0**	3,519	0	3,519

19 Insurance receivables

19.1 Group

2019	Contract Holders	Agents / Brokers / Intermediaries	Reinsurers	Total
	£000	£000	£000	£000
Due as at 31 December 2019 - Less than 30 days in arrears	2,709	446	670	3,825
Due as at 31 December 2019 - More than 30 days in arrears	157	1,444	164	1,765
Not yet due as at 31 December 2019	11,021	0	0	11,021
Provision for impairment as at 31 December 2019	(155)	(1,151)	0	(1,306)
Total insurance receivables	**13,732**	**739**	**834**	**15,305**

2018	Contract Holders	Agents / Brokers / Intermediaries	Reinsurers	Total
	£000	£000	£000	£000
Due as at 31 December 2018 - Less than 30 days in arrears	2,479	390	445	3,314
Due as at 31 December 2018 - More than 30 days in arrears	184	1,338	0	1,522
Not yet due as at 31 December 2018	10,948	0	0	10,948
Provision for impairment as at 31 December 2018	(165)	(941)	0	(1,106)
Total insurance receivables	**13,446**	**787**	**445**	**14,678**

Debtors greater than 30 days are considered to be impaired. Provision is made on impaired debt to the extent to which recovery is expected based on experience of similar debtors. Provisions relating to Contract Holders premium due amounts are recognised as an adjustment to premium income in the Statement of Comprehensive Income.

19.2 Society

2019	Contract Holders £000	Agents / Brokers / Intermediaries £000	Reinsurers £000	Total £000
Due as at 31 December 2019 - Less than 30 days in arrears	2,709	137	670	3,516
Due as at 31 December 2019 - More than 30 days in arrears	156	1,133	164	1,453
Not yet due as at 31 December 2019	10,086	0	0	10,086
Provision for impairment as at 31 December 2019	(155)	(1,151)	0	(1,306)
Total insurance receivables	**12,796**	**119**	**834**	**13,749**

2018	Contract Holders £000	Agents / Brokers / Intermediaries £000	Reinsurers £000	Total £000
Due as at 31 December 2018 - Less than 30 days in arrears	2,460	70	445	2,975
Due as at 31 December 2018 - More than 30 days in arrears	123	989	0	1,112
Not yet due as at 31 December 2018	10,077	0	0	10,077
Provision for impairment as at 31 December 2018	(109)	(941)	0	(1,050)
Total insurance receivables	**12,551**	**119**	**445**	**13,114**

Debtors greater than 30 days are considered to be impaired. Provision is made on impaired debt to the extent to which recovery is expected based on experience of similar debtors. Provisions relating to Contract Holders premium due amounts are recognised as an adjustment to premium income in the Statement of Comprehensive Income.

20 Unallocated divisible surplus

	Group			Society		
	Long Term Business Reserves £000	General Business Reserves £000	Total £000	Long Term Business Reserves £000	General Business Reserves £000	Total £000
At 1 January 2019	92,314	92,948	185,262	92,314	93,243	185,557
Transfer to the Unallocated Divisible Surplus	3,100	7,341	10,441	3,100	6,943	10,043
At 31 December 2019	**95,413**	**100,289**	**195,703**	**95,413**	**100,187**	**195,600**
At 1 January 2018	102,576	93,749	196,325	102,576	94,257	196,833
Transfer from the Unallocated Divisible Surplus	(10,262)	(801)	(11,063)	(10,262)	(1,013)	(11,276)
At 31 December 2018 Restated	**92,314**	**92,948**	**185,262**	**92,314**	**93,243**	**185,558**

The unallocated divisible surplus for both of the funds represents amounts which have yet to be allocated to members. Any surplus or deficit arising during the year on the Long Term Business Fund is transferred to or from the Long Term Business Fund at each year end. Any surplus or deficit arising during the year on the General Business Fund is transferred to or from the General Business Fund at each year end.

The Transfer of Engagements dated 31 March 2008 states that each of the Long Term Business Fund and the General Business Fund shall be responsible for maintaining its own Capital Resource Requirement. Save as may be required by regulations made by the PRA or other competent regulatory body or in circumstances where the Fund is unable to meet its Capital Resource Requirement, neither the Long Term Business Fund nor the General Business Fund shall provide capital support to the other.

See note 30 for details regarding the restatement as a result of an error.

20.1 General business reserve

The general business reserve can be further analysed as follows:

2019	Cash Plan	General Reserve	Revaluation Reserve	Pension Reserve
	£000	£000	£000	£000
At 1 January 2019	(299)	92,289	276	680
Property revaluation	0	0	0	0
Actuarial gain on defined benefit pension scheme	0	0	0	209
(Deficit) / surplus for the financial year	(122)	6,649	0	85
At 31 December 2019	**(421)**	**98,938**	**276**	**974**

2018	Cash Plan	General Reserve	Revaluation Reserve	Pension Reserve
	£000	£000	£000	£000
At 1 January 2018	(508)	93,467	236	555
Property revaluation	0	0	40	0
Actuarial gain on defined benefit pension scheme	0	0	0	26
Surplus / (deficit) for the financial year	209	(1,178)	0	99
At 31 December 2018	**(299)**	**92,289**	**276**	**680**

20.2 Long term business reserve

The long term business reserve can be further analysed as follows:

2019	General Reserve	Pension Reserve	Total
	£000	£000	£000
At 1 January 2019 Restated	92,852	170	93,022
Actuarial loss on defined benefit pension scheme	0	(8)	(8)
Surplus for the financial year	2,391	8	2,400
At 31 December 2019	**95,243**	**170**	**95,413**

2018	General Reserve	Pension Reserve	Total
	£000	£000	£000
At 1 January 2018	102,426	150	102,576
Actuarial loss on defined benefit pension scheme	0	12	12
(Deficit) / surplus for the financial year	(9,574)	8	(9,566)
At 31 December 2018 Restated	**92,852**	**170**	**93,022**

See note 30 for details regarding the restatement as a result of an error.

21 Post-employment benefits

All staff are employed and remunerated by Exeter Friendly Society Limited. As such no staff are employed directly by any of the Group's subsidiaries.

The Society operates three separate arrangements to provide benefits to employees in retirement, as described below.

21.1 Defined benefit scheme – General Business Fund

For some employees, the Society operates a funded pension scheme, the Exeter Friendly Society Limited Retirement Benefits Scheme, which provided benefits for its employees based on a final pensionable pay until 30 June 2009 when the scheme closed to future benefit accrual.

The weighted average duration of the expected benefit payments from the scheme is around 20 years. The defined benefit scheme is operated from a trust, which has assets which are held separately from the Society, and by trustees who ensure the scheme's rules are strictly followed.

The funding target is for the scheme to hold assets equal in value to the accrued benefits allowing for future pension revaluation and future pension increases. If there is a shortfall against this target, then the Society and trustees will agree on the deficit contributions to meet this deficit over a period. There is a risk to the Society that adverse experience could lead to a requirement for the Society to make additional contributions to recover any deficit that arises.

Contributions are set based upon funding valuations carried out every three years; the last valuation was carried out as at 1 January 2018 by an independent qualified actuary in accordance with IAS 19. In accordance with the requirements of the Pensions Act 2004, the Trustees and Employer put a Schedule of Contributions in place and agreed a Recovery Plan whereby, based on the assumptions made and financial conditions at the valuation date, it was expected that the shortfall would be eliminated after the payment falling due in January 2021. The amount of total employer contributions paid to the scheme during 2019 is £165,840 including administrative expenses and PPF levies (2018 actual: £177,018).

Next year, providing market conditions remain unchanged, the Employer's contributions during the year will be £150,000 plus around £25,000 to meet the Scheme expenses paid directly by the Employer.

A proportion of the pensions in payment have been secured through the purchase of annuity policies with an insurance company. In line with previous years, these have been included in the figures as a matching asset and liability. Based on the actuarial assumptions it is estimated that the asset and matching liability is approximately £475,000 at the year-end.

Actuarial gains and losses are recognised immediately through other comprehensive income.

All pension payments are paid directly through the scheme administrator BBS Consultants & Actuaries Ltd.

i. The plan assets and defined benefit obligations are as follows

	2019	2018	2017
	£000	£000	£000
Present value of defined benefit obligation	**(8,914)**	(8,182)	(8,642)
Fair value of plan assets	**9,888**	8,862	9,197
Surplus	**974**	680	555
Impact of asset ceiling	**0**	0	0
Net asset in statement of financial position	**974**	680	555

ii. Expense recognised in the profit or loss

	2019 £000	2018 £000
Employers part of current service cost	**0**	0
Administrative Expenses	**(102)**	(93)
Interest income	**21**	15
Past service (cost)	**0**	0
Gains on settlements	**0**	0
Total expense recognised in profit or loss	**(81)**	(78)

iii. Amounts recognised outside profit or loss

	2019 £000	2018 £000
Actuarial gain	**209**	26
Impact of asset ceiling	**0**	0
Amount recognised outside profit or loss	**209**	26

iv. Plan assets

	2019		2018		2017	
	Allocation	**£000**	Allocation	£000	Allocation	£000
Equities	**0%**	**0**	0%	0	32%	2,935
Bonds	**0%**	**0**	0%	0	32%	2,939
Multi-asset fund	**72%**	**7,080**	66%	5,876	31%	2,813
LDI Funds	**22%**	**2,225**	28%	2,493	0%	0
Other	**6%**	**583**	6%	493	5%	510
Total	**100%**	**9,888**	100%	8,862	100%	9,197

The scheme does not invest directly in property occupied by the Society or in financial securities issued by the Society.

The investment strategy is set by the Trustees of the scheme. The strategy is to invest in a range of collective investment schemes consistent with the funding objectives, giving the scheme diversified exposure to a variety of investment markets and potential for growth while also offering protection against interest rate and inflation risk. The collectives in which the scheme currently invests are managed by Legal and General Investment Management.

v. Movement in the net defined benefit obligation

	2019 £000	2018 £000
Opening net asset	**680**	555
Expense charged to profit and loss	**(81)**	(78)
Gain recognised outside profit and loss	**209**	26
Employer contributions	**166**	177
Closing net asset	**974**	680

vi. The movement in the defined benefit obligation during 2019 is as follows:

	Present value of obligation	Fair value of plan assets	Total	Movement in the asset limit	Total
	£000	£000	£000	£000	£000
At 1 January 2019	(8,182)	8,862	**680**	0	**680**
Employer's part of current service cost	0	0	**0**	0	**0**
Interest expense	(234)	255	**21**	0	**21**
Actual return on plan assets	0	936	**936**	0	**936**
Actuarial losses - experience on benefit obligation	8	0	**8**	0	**8**
Actuarial gains - changes in financial assumptions	(763)	0	**(763)**	0	**(763)**
Actuarial gains - changes in demographic assumptions	28	0	**28**	0	**28**
Admininstrative expenses	0	(102)	**(102)**	0	**(102)**
Employer contributions	0	166	**166**	0	**166**
Benefit payments	229	(229)	**0**	0	**0**
As at 31 December 2019	**(8,914)**	**9,888**	**974**	**0**	**974**

The movement in the defined benefit obligation during 2018 is as follows:

	Present value of obligation	Fair value of plan assets	Total	Movement in the asset limit	Total
	£000	£000	£000	£000	£000
At 1 January 2018	(8,642)	9,197	555	0	**555**
Employer's part of current service cost	0	0	0	0	**0**
Interest expense	(222)	237	15	0	**15**
Actual return on plan assets	0	(433)	(433)	0	**(433)**
Actuarial gains - experience on benefit obligation	(69)	0	(69)	0	**(69)**
Actuarial losses - changes in financial assumptions	476	0	476	0	**476**
Actuarial gains - changes in demographic assumptions	52	0	52	0	**52**
Admininstrative expenses	0	(93)	(93)	0	**(93)**
Employer contributions	0	177	177	0	**177**
Benefit payments	223	(223)	0	0	**0**
As at 31 December 2018	**(8,182)**	**8,862**	**680**	**0**	**680**

vii. The significant actuarial assumptions were as follows:

Assumptions	**2019**	2018	2017
Price inflation (RPI)	**3.0% pa**	3.4% pa	3.4% pa
Discount rate	**2.0% pa**	2.9% pa	2.6% pa
Pension increases (in deferment and in payment)	**3.0% pa**	3.4% pa	3.4% pa
Salary growth	n/a	n/a	n/a
Life expectancy of male aged 65 at balance sheet date	**21.8 years**	21.9 years	22.1 years
Life expectancy of female aged 65 at balance sheet date	**24.0 years**	23.8 years	23.9 years
Life expectancy of male aged 65 in 20 years from balance sheet date	**23.1 years**	23.3 years	23.5 years
Life expectancy of female aged 65 in 20 years from balance sheet date	**25.5 years**	25.4 years	25.4 years

viii. Sensitivity to changes in the weighted principal assumptions

These sensitivity figures have been calculated to show the movement in the Defined Benefit Obligation in isolation, assuming no other changes in market conditions at the accounting date. In practice, a change in the discount rate, for example, is unlikely to occur without any impact in the value of the assets held by the scheme.

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1.00%	Decrease by £1,626k	Increase by £2,186k
RPI Inflation	0.50%	Increase by £992k	Decrease by £863k
Mortality	20% reduction	N/a	Increase by £690k

21.2 Defined benefit scheme – Long Term Business Fund

Following the merger with Pioneer Friendly Society, the Society has taken over the operation of the unfunded defined benefit pension scheme for one (2018: one) former employee. This scheme is closed to existing employees of the Society. The total cost of the pensions payable each year is charged to the provision, to which is credited appropriate interest earned and transfers from or to retained reserves sufficient to meet the expected liability, as recalculated on an annual basis.

Superannuation Reserve Fund	**2019**	2018
	£000	£000
Balance as at 1 January	**(140)**	(160)
Interest on scheme liabilities	**(1)**	(2)
Actuarial (loss) / gain for the period recognised in the Statement of Comprehensive Income	**(8)**	12
	(150)	(150)
Benefit Paid	**10**	10
Balance as at 31 December 2019	**(140)**	(140)

The Society's Chief Actuary has determined the amount of the provision required as at 31 December 2019 to meet the expected future liabilities; mortality is unchanged and a discount rate of 1.0% (2018: 1.0%) and pension increases of 3.0% (2018: 3.0%) have been applied.

21.3 Defined contribution scheme

The Society also operates one (2018: one) defined contribution pension scheme, which is open to all eligible employees. The cost of Society contributions for the year ending 31 December 2019 was £553,630 (2018: £539,871) and there were no outstanding contributions (2018: Nil) at the year end date.

22 Insurance contract assets / liabilities

22.1 Analysis of insurance contract assets / liabilities and reinsurance liabilities – Group

	2019			2018 Restated		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Long term insurance business Solvency II technical provision (BEL)	**(131,656)**	**39,586**	**(92,070)**	(120,135)	42,087	(78,047)
Long term insurance business Solvency II technical provision (Other)	**11**	**0**	**11**	14	0	14
Long term insurance business Solvency II risk margin	**54,958**	**(23,046)**	**31,912**	49,442	(20,174)	29,268
Long term insurance business members dividend account	**7,805**	**0**	**7,805**	7,843	0	7,843
Long term insurance business claims liabilities	**640**	**0**	**640**	455	0	455
Long term insurance business provision for bonuses and rebates	**0**	**0**	**0**	0	0	0
Total long term insurance liabilities / (assets)	**(68,241)**	**16,540**	**(51,702)**	(62,381)	21,913	(40,468)
General insurance unearned premiums	**17,260**	**0**	**17,260**	17,764	0	17,764
General insurance claims incurred but not reported (IBNR)	**2,516**	**0**	**2,516**	2,795	0	2,795
General insurance other claims liabilities	**1,438**	**0**	**1,438**	1,747	0	1,747
General insurance unexpired risk provision	**662**	**0**	**662**	542	0	542
Total general	**21,877**	**0**	**21,877**	22,848	0	22,848
Total	**(46,365)**	**16,540**	**(29,825)**	**(39,533)**	21,913	(17,620)

See note 30 for details regarding the restatement as a result of an error.

22.2 Analysis of insurance contract assets / liabilities and reinsurance liabilities - Society

	2019			2018 Restated		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Long term insurance business Solvency II technical provision (BEL)	**(131,656)**	**39,586**	**(92,070)**	(120,135)	42,087	(78,047)
Long term insurance business Solvency II technical provision (Other)	**11**	**0**	**11**	14	0	14
Long term insurance business Solvency II risk margin	**54,958**	**(23,046)**	**31,912**	49,442	(20,174)	29,268
Long term insurance business members dividend account	**7,805**	**0**	**7,805**	7,843	0	7,843
Long term insurance business claims liabilities	**640**	**0**	**640**	455	0	455
Long term insurance business provision for bonuses and rebates	**0**	**0**	**0**	0	0	0
Long term insurance business provision for closure reserve	**0**	**0**	**0**	0	0	0
Total long term	**(68,241)**	**16,540**	**(51,702)**	(62,381)	21,913	(40,468)
General insurance unearned premiums	**16,303**	**0**	**16,303**	16,812	0	16,812
General insurance claims incurred but not reported (IBNR)	**2,237**	**0**	**2,237**	2,504	0	2,504
General insurance other claims liabilities	**1,419**	**0**	**1,419**	1,733	0	1,733
General insurance unexpired risk provision	**619**	**0**	**619**	529	0	529
Total general	**20,578**	**0**	**20,578**	21,578	0	21,578
Total	**(47,663)**	**16,540**	**(31,123)**	(40,803)	21,913	(18,891)

See note 30 for details regarding the restatement as a result of an error.

22.3 Movement in long term insurance Solvency II technical provision – Group and Society

	2019			2018 Restated		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Balance at 1 January	**(70,678)**	**21,913**	**(48,766)**	(81,037)	30,910	(50,127)
Model Changes	**(4,916)**	**1,463**	**(3,453)**	987	131	1,118
Net change of in-force business	**(5,926)**	**(6,201)**	**(12,127)**	(8,693)	(3,476)	(12,169)
Impact of change in assumptions	**4,833**	**(635)**	**4,199**	18,065	(5,652)	12,412
Balance at 31 December	**(76,687)**	**16,540**	**(60,147)**	(70,678)	21,913	(48,766)
Impact of change in assumptions is made up of:						
Changes in morbidity (other)	**(4,396)**	**2,716**	**(1,680)**	4,364	(2,522)	1,842
Changes in lapse rates	**10,988**	**(4,085)**	**6,903**	9,259	(3,027)	6,231
Revised expenses assumptions	**0**		**0**	1,393	73	1,466
Changes in discount rates	**(2,691)**	**618**	**(2,074)**	948	(286)	661
Change in bonus rates	**964**	**103**	**1,067**	2,101	110	2,211
	4,864	**(648)**	**4,217**	18,065	(5,652)	12,412
Balance at 31 December is made up of:						
Holloway income protection	**2,765**	**0**	**2,765**	1,335	0	1,335
Other income protection	**(72,669)**	**17,567**	**(55,102)**	(70,352)	22,506	(47,846)
Term assurance	**(6,782)**	**(1,028)**	**(7,810)**	(1,661)	(594)	(2,255)
	(76,687)	**16,540**	**(60,147)**	(70,678)	21,913	(48,766)

Without reinsurance the long term business provision would reduce by £16.5 million to £(76.7) million (2018: £(70.7) million). See note 30 for details regarding the restatement as a result of an error.

22.4 Movement in long term insurance members' dividend account – Group and Society

	2019	2018
	£000	£000
Balance at 1 January	7,843	7,822
Bonus credited during the period	90	91
Dividend credited during the period	568	635
Forfeiture and lapses during the period	(61)	(88)
Death, retirements and surrenders during the period	(635)	(617)
Balance at 31 December	**7,805**	**7,843**

22.5 Movement in long term insurance business claims liabilities – Group and Society

	2019			2018 Restated		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Balance at 1 January	**455**	**0**	**455**	233	0	233
Claims incurred	**8,175**	**(3,718)**	**4,457**	7,015	(5,588)	1,427
Claims paid during the year	**(7,990)**	**3,718**	**(4,272)**	(6,793)	5,588	(1,205)
Balance at 31 December	**640**	**0**	**640**	455	0	455

Disclosures 22.6 to 22.9 relate to the general insurance business which is not reinsured. See note 30 for details regarding the restatement as a result of an error.

22.6 Movement in general insurance unearned premiums

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Balance at 1 January	**17,764**	18,455	**16,812**	17,526
Premiums written in the year	**40,475**	41,489	**36,969**	37,801
Premiums earned during the year	**(40,979)**	(42,180)	**(37,478)**	(38,515)
Balance at 31 December	**17,260**	17,764	**16,303**	16,812

22.7 Movement in general insurance claims incurred but not reported (IBNR)

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Balance at 1 January	**2,795**	2,827	**2,504**	2,542
Movement in claims incurred in prior year	**(350)**	64	**(304)**	87
Movement in claims IBNR in current year	**72**	(96)	**37**	(125)
Balance at 31 December	**2,516**	2,795	**2,237**	2,504

22.8 Movement in general insurance other claims liabilities

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Balance at 1 January	**1,747**	1,483	**1,733**	1,459
Movement in claims received but not yet paid	**(309)**	264	**(313)**	274
Balance at 31 December	**1,438**	1,747	**1,419**	1,733

22.9 Movement in unexpired risk reserve

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Balance at 1 January	**542**	328	**529**	200
Movement in unexpired risk reserve	**120**	214	**90**	329
Balance at 31 December	**662**	542	**619**	529

23 Reinsurers' share of insurance contract assets

	2019	2018	**2019**	2018
		Restated		Restated
	£000	£000	**£000**	£000
Balance at 1 January	**21,913**	30,910	**21,913**	30,910
Movement in reinsurers share of contract liabilities	**(5,373)**	(8,997)	**(5,373)**	(8,997)
Balance at 31 December	**16,540**	21,913	**16,540**	21,913

See note 30 for details regarding the restatement as a result of an error.

24 Long term insurance contract assets valuation assumptions

The following table summarises the main elements of the method and basis used when calculating the Long Term Business Provision. These are the same as used to calculate the technical provisions in the ORSA. The method and basis are prepared by the Chief Actuary and are approved by the Board.

Summary of Valuation Basis	
Sickness Provision	
Method	Gross Premium
Interest Rate	The EIOPA risk-free curve (with no volatility adjustment) for the UK
Allowance for Expenses	£57.86 (2018: £57.86) per policy, inflating at 3.0% (2018: 3.0%) per annum and 6.5% (2018: 6.5%) of future claims. Based on projected expenses for 2019 and budgeted accounts for 2020-2022 and using actuarial judgement.
Allowance for Future Bonus	Based on the maximum sustainable dividend and terminal bonus rates.
Mortality	40% (2018: 40%) of TM92(ult)/TF92(ult) for Professional Income Protection, Income One and Locum Income Protection contracts 50% (2018: 50%) of TM92(ult)/TF92(ult) for other Income Protection contracts
Morbidity	Best estimate based on Society's experience over the last seven years (longer for products that have less experience). The Society uses prevelance rates for the first six months and inception/termination rates thereafter. The Society sets its own rates for prevelance and inceptions and a multiple of CMIR12-T for terminations depending on the product and the duration of claims in line with experience.
Persistency and Lapses	Holloway, Pure Protection and Pure Protection Plus: Best estimate based on the Society's experience over the last three years for these products. Bills & Things: Experience has been analysed separately for Northern Ireland (NI) and the rest of the UK: a) NI: Best estimate based on the last three years of experience for durations of one to six years; 200% of the rest of the UK for durations or seven years and longer. b) Rest of the UK: Best estimate based on experience for the durations of one to eight years, and 100% of Holloway and Pure Protection for subsequent durations. Professional Income Protection, Income One and Income One Plus (aged costed): Best estimate based on the Society's experiences over the last three years for these products for durations up to ten years, and 100% of Holloway and Pure Protection expected lapses beyond ten years duration. Income One and Income One Plus (level premium): Best estimate based on experience from the last three years for the first three years duration; 100% of age-costed lapse rates for durations of four years and longer. Locum: 100% of Holloway and Pure Protection expected lapses.

Summary of Valuation Basis	
Life Provision	
Method	Gross Premium
Interest Rate	The EIOPA risk-free curve (with no volatility adjustment) for the UK
Allowance for Expenses	£30 per policy, inflating at 3% per annum
Mortality	95% of the reinsurer's rates
Persistency and Lapses	Best estimate assumptions derived from the latest lapse experience investigation and using actuarial judgement. Lapse rates are differentiated between Smokers and Non-smokers and by Benefit type, i.e. Decreasing and level. The Lapse rates vary by duration in force.

These assumptions have been approved by the Chief Actuary and signed off by the Board.

The impact on policy reserves of sensitivities to key valuation assumptions are as follows:

Income Protection

Assumption:	Increase to best estimate liability
Morbidity: an instantaneous permanent increase in inceptions by 35% for 12 months followed by a 25% increase thereafter and a 20% decrease in recoveries. These are reduced by 50% for reviewable annual premium contracts. It is also assumed that future Holloway bonuses can be reduced.	£62.2 million (2018: £56.0 million)
Mortality: An instantaneous permanent increase in mortality rates of 15%	£0.4 million (2018: £0.4 million)
An increase in renewal and claims expenses by 10% and an increase in expense inflation rate by 1% pa	£6.7 million (2018: £6.1 million)
Increase in lapses by 50%	£62.8 million (2018: £54.5 million)
An increase in interest rates by 1% pa	£10.8 million (2018: £10.2 million)

A Holloway Income Protection Policy is designed to meet the demands and needs of a person who wishes to ensure that their income is protected up until an agreed age, as a result of illness or accidental injury. It is also intended to provide a tax-free lump sum payable at the policyholder's selected retirement age by participating in surpluses, which are dependent upon experience.

The long term business provision allows for future bonuses. Total allowance within the long term business provision is £14.2 million. (2018: £12.8 million).

Holloway Income Protection products are all reviewable. Pure Protection and Bills & Things products are reviewable after initial 3 years. The Locum product is reviewable after initial 5 years. The Professional Income Protection and Income One products have guaranteed premiums. Pure Protection Plus and Income One Plus contracts include both guaranteed and reviewable premium policies.

Life policies

Assumption:	Increase to best estimate liability
An instantaneous permanent increase in mortality rates of 15%	£3.5 million (2018: £1.0 million)
An increase in renewal and claims expenses by 10% and an increase in expense inflation rate by 1% pa	£0.4 million (2018: £0.1 million)
Increase in lapses by 50%	£(0.1) million (2018: £0.0 million)
An increase in interest rates by 1% pa	£(0.1) million (2018: £0.0 million)

25 Insurance payables

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Due to contract holders	**411**	306	**269**	292
Due to agents/brokers/intermediaries	**1,916**	1,380	**1,457**	965
Due to reinsurers	**962**	888	**962**	888
Total insurance payables	**3,289**	2,575	**2,688**	2,145

26 Other payables including tax and social security

	Group		Society	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Trade payables	**493**	459	**493**	299
Tax and social security	**1,617**	1,542	**1,516**	1,435
Corporation tax payables	**0**	0	**0**	0
Other payables	**1,092**	968	**1,092**	968
Total other payables including tax and social security	**3,202**	2,969	**3,101**	2,702

27 Cash used in operating activities

	Group		Society	
	2019	2018 Restated	**2019**	2018 Restated
	£000	£000	**£000**	£000
Profit / (loss) for the year before transfer to unallocated divisible surplus	**10,239**	(11,144)	**9,842**	(11,353)
- Interest received	**(1,620)**	(1,643)	**(1,612)**	(1,631)
- Dividends received	**(967)**	(917)	**(967)**	(917)
- Net realised and unrealised (gains) / losses on investments	**(9,251)**	4,898	**(9,246)**	4,890
- Purchase of investments at fair value through income	**(28,438)**	(62,825)	**(28,438)**	(62,825)
- Sales of investments at fair value through income	**32,994**	60,700	**32,994**	60,700
- Foreign Exchange Differences	**101**	(25)	**101**	(25)
Non-cash items				
- Expenses deferred during the year	**(529)**	(159)	**(510)**	(151)
- Depreciation	**228**	188	**228**	188
- Amortisation	**1,017**	789	**1,017**	789
- Impairment	**400**	0	**919**	0
- Loss on disposal of Plant, Property and Equipment	**10**	1	**10**	1
Changes in working capital				
Net increase in insurance receivables	**(626)**	(451)	**(634)**	(404)
Net (increase) / decrease in other prepayments and accrued income	**(16)**	270	**(16)**	270
Net (decrease) / increase in insurance liabilities and associated reinsurance balances	**(12,205)**	1,124	**(12,232)**	1,221
Net increase in provisions and pension obligations	**(93)**	(107)	**(93)**	(107)
Net increase in insurance payables	**556**	934	**543**	909
Net decrease / (increase) in amounts due from subsidiary undertakings	**0**	0	**25**	(16)
Net increase / (decrease) in trade and other payables	**393**	(237)	**398**	(247)
Net increase in accruals and deferred income	**1,106**	588	**1,112**	611
Cash generated used in operations	**(6,701)**	(8,013)	**(6,559)**	(8,097)

The Society classifies the cash flows for the purchase and disposal of financial assets in its operating cash flows as the purchases are funded from cash flows associated with the origination of insurance, net of cash flows for payments of insurance benefits and claims and investment contract benefits. See note 30 for details regarding the restatement as a result of an error.

28 Contingent liabilities

As at 31 December 2019 the Group was subject to one legal proceeding. It is not practical to forecast the final result of the legal proceedings; however, management does not believe that it will have a material effect on the financial position.

29 Events after the Reporting Period

The coronavirus (COVID-19) has been identified as a non-adjusting post Balance Sheet event, and we are monitoring its impact on our business, members and employees. There is uncertainty over the magnitude of the economic slowdown that will result from this pandemic. The Society is unable to estimate the full financial impact at this stage, however the Directors have modelled a stressed scenario and it is the best estimate of the Directors that the Society will be able to satisfy its regulatory solvency requirements. The Directors continue to monitor the situation.

30 Restatement of prior period error

2018 figures have been restated. This is due to two material errors in the preparation of the numbers;

- The risk margin calculation contained an incorrect allowance for the downside risk of income protection claims

• The data underlying the persistency assumptions was found to contain errors

The Society also took the opportunity to incorporate an immaterial correction to the modelling of waiver of premium and to make improvements to the modelling of clawback on mass lapse in the restated 2018 numbers.

The effect of the restatement on the 2018 financial statements is detailed below.

	Effect on 2018
Statement of Comprehensive Income	£'000
Increase in Gross Insurance contract liabilities	(4,066)
Decrease in Reinsurers share of Insurance contract liabilities	3,357
Decrease in Profit	(709)
Decrease in Transfer to Unallocated Divisible Surplus	709
Statement of Financial Position	
Decrease in Liability: Reinsurance share of Insurance Contract Asset	3,357
Decrease in Insurance Contract Asset	4,066
Decrease in Unallocated divisble surplus	709

31 Related party transactions

31.1 Transactions in the year

	2019	2018
	£000	£000
Transactions between the Society and other Group Companies		
- Direct costs incurred by the Society recharged to The Exeter Cash Plan	**898**	846
- Direct costs incurred by the Society settled by The Exeter Cash Plan	**(923)**	(830)
Balance outstanding between the Society and other Group Companies		
- Exeter Cash Plan Holdings Limited	**2,983**	3,902
- The Exeter Cash Plan	**14**	39
- Go Private Limited	**(23)**	(23)
- Exeter Friendly Members Club Limited	**(5)**	(5)
Total balances due from / (to) other group companies	**2,969**	3,913

31.2 Key management compensation

Key management personnel of the Society include all Directors, Executive and Non-Executive, and senior management.

	Group		**Society**	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Salaries and other short-term employee benefits	**3,987**	3,331	3,987	3,331
Termination benefits	**0**	0	0	0
Post-employment benefits	**258**	264	258	264
Total key management compensation	**4,245**	3,595	**4,245**	3,595

31.3 Other related parties

During their term of office in 2019, the Chief Executive and three (2018: three) other executive members of the Board of Directors received free Private Medical Insurance, total claims made under these policies was £8,808. (2018: £1,474).

The Chief Executive has two policies with the Society for immediate family members which are priced at 50% of standard terms. One Non Executive Director has a PMI policy with the Society, which is priced at standard terms.

During the year the Society paid commission on sales of insurance products to Quilter Financial Planning, a network of Independent Financial Advisers, of which Wallace Dobbin was an Executive Director, and Keith Baldwin is a Non-Executive Director. The payments were made under the Society's commercial terms of business and Wallace Dobbin was not involved in the negotiation of these terms.

In September 2018 Steve Payne was appointed a Director of Pacific Life Re Limited. Since his appointment there have been no changes in the Society's agreement with Pacific Life Re.

32 IFRS developments

Standards, amendments and interpretations effective for 2019, which are considered to have no significant impact on the Society's results, are set out below.

32.1 New standards which are now effective

IFRS 9 'Financial Instruments'

Effective for annual accounting periods beginning on or after 1 January 2018. This standard replaces guidance on IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities. For Insurance entities within the scope of IFRS 17 an optional deferment on the application of this standard is available, which the Group has adopted. This is detailed in note 32.2

IFRS 16 'Leases'

Effective for annual accounting periods beginning on or after 1 January 2019. The Group and Society do not hold any leases within the scope of IFRS 16

32.2 Amendments to standards which are now effective

Amendment to IFRS 4 'Insurance Contracts': Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'

IFRS 9 'Financial Instruments' (effective for accounting periods beginning on or after 1 January 2018). Management have taken the decision to apply the temporary exemption for IFRS 9. This is consistent with other insurers who issue insurance contracts under the scope of IFRS 4. In line with the deferral of the IFRS 17 effective date (see Note 30.3), the IASB has confirmed that the temporary exemption from IFRS 9 for qualifying insurers be extended until 1 January 2023.

Under the temporary exemption, insurers are permitted to continue to apply IAS 39, instead of adopting IFRS 9, if their activities are 'predominantly connected with insurance'. The assessment of whether activities are predominantly connected with insurance is initially performed as at the annual reporting date immediately preceding 1 April 2016.

To assess whether activities are 'predominantly connected with insurance', two tests have to be performed. Only if both tests are passed are an insurer's activities considered to be predominantly connected with insurance. First, an insurer assesses whether the carrying amount of its liabilities arising from contracts within IFRS 4's scope is significant, compared to the total carrying amount of all of its liabilities. Secondly, the insurer compares the total carrying amount of its liabilities connected with insurance with the total carrying amount of all of its liabilities. The second test is passed if the resulting percentage is either: greater than 90%; or, if it is less than or equal to 90% but greater than 80%, the insurer is not engaged in a significant activity unconnected with insurance.

The Group and Society meet the criteria to apply the temporary exemption from IFRS 9. The carrying value of liabilities within IFRS 4's scope at 31 December 2015 was significant compared to the total carrying amount of all of its liabilities and in excess of the 90% threshold for liabilities connected with insurance. Reassessments of eligibility for the temporary exemption at subsequent annual reporting dates are only made where there is a significant change in the entity's activities. As there has been no significant change in the Group's or the Society's activities, no such reassessment has been performed.

Separate disclosure is required of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and not categorised as Fair Value through Profit and Loss (FVTPL) due to either being managed on a fair value basis or held for trading. Within the Group and Society's operations there are no such financial assets that require separate disclosure.

The adoption of IFRS 9 for non-insurance subsidiaries within the Group has not resulted in any measurement changes and consequently no consolidation adjustments have had to be made to the Group financial statements.

Amendment to IFRS 9 'Financial Instruments' on prepayment features with negative compensation

Effective for annual accounting periods beginning on or after 1 January 2019. The Group has opted to take the temporary exemption in applying IFRS 9.

IAS 28 'Investments in associates'

Effective for annual accounting periods beginning on or after 1 January 2019. The Society does not have any long term interests in Subsidiaries that require additional disclosure under this standard.

IAS 19 'Employee benefits'

Effective for annual accounting periods beginning on or after 1 January 2019. As the amendments apply prospectively to plan amendments, curtailments or settlements the Society is not currently impacted by transition.

IFRIC 23 'Uncertainty over income tax'

Effective for annual accounting periods beginning on or after 1 January 2019. An uncertain tax treatment is any tax treatment applied where there is uncertainty over whether the treatment will be accepted by the tax authority. This is not applicable to the Group or Society.

Annual improvements 2015-2017 cycle

The annual improvements are effective on or after 1 January 2019 and cover the following standards; IFRS 3 'Business Combinations', IFRS 11 'Joint arrangements', IAS 12 'Income Taxes' and IAS 23 'Borrowing costs'. These changes have not had an impact on the accounts of the Group or Society.

32.3 New standards and amendments to standards not yet effective

As at the date of authorisation of these financial statements, the following Standards and Interpretations as well as amendments to existing Standards and Interpretations, which have not been applied in these financial statements, were in issue but not effective:

IFRS 17 'Insurance Contracts'

IFRS 17 was issued in May 2017 and replaces IFRS 4 ‘Insurance contracts’. The original effective date of IFRS 17 was 1 January 2021; however a one year deferral to 2023 has been agreed.

IFRS 17 applies to all types of insurance contracts and measures insurance contracts either under the general model or the simplified premium allocation approach for short-duration contracts. IFRS 17 measures insurance contracts based on the present value of future cashflows incorporating a risk adjustment. The fulfilment cashflows are remeasured at each reporting date.

The presentation of results and the disclosures required under IFRS 17 will vary considerably from IFRS 4. The impact of adoption has yet to be fully assessed by the Group, and work will continue throughout 2020 to ensure that the required systems, processes and controls are embedded to ensure technical compliance by the implementation date.

IFRS 3 'Business Combinations'

IFRS 3 provides clarification over what can be defined as a business. The Group and Society will not be impacted by these changes.

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