

Exeter Friendly Society Limited

ANNUAL REPORT AND ACCOUNTS



Exeter Friendly Society Limited

Board:

Wallace Dobbin, BA, Barrister	Board Chair 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
Andy Chapman, ACII, APFS	Chief Executive
John Gunn, BSc, FFA	Executive Director
Steve Bryan, BA	Executive Director
Chris Pollard	Executive Director
Professor Willie Hamilton, CBE, MD, BSc, FRCP, FRCGP	Medical Director
Zoe Kubiak, FCG, MSc	Company Secretary
Registered Office:	Lakeside House, Emperor Way, Exeter EX1 3FD
With Profits Actuary:	Trevor Fannin, BSc, FIA, Willis Towers Watson
Independent Auditors:	Mazars LLP (appointed 27 August 2020)
Bankers:	Barclays PLC
Investment Managers:	Royal London Asset Management Limited
Tax Advisers:	Grant Thornton UK LLP (appointed 3 December 2020)

Cautionary statement: The Strategic Report and certain other sections of this annual report contain forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in which the business operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ from those currently anticipated. 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 (Registered number 205309) and is incorporated under the Friendly Societies Act 1992 Register No.91F).

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Strategic Report

Business highlights

KEY NUMBERS



Total numbers of members

101,297



Total value of claims paid

£34.7m

New business sales

£11.6m

Gross premium income

£71.1m

Total group assets

£250.8m

Trust pilot trust score*

4.6/5

Local charity support

£64k

HEALTHWise

USAGE MORE THAN DOUBLED

Top services used



No1
Remote GP 24/7



No2
Physiotherapy



No3
Mental health support

2020 AWARDS



Winner
Best Individual Income Protection Insurance

Cover Excellence Awards



Winner
Best Income Protection Insurance

Personal Finance Awards

*Based on 443 reviews.

Chairman's Statement

I am pleased to present to you our 2020 annual report. This has been a year like no other, a time in which we have been navigating and facing the challenges of the Covid-19 global pandemic.

I want to begin by acknowledging the personal and financial impacts that Covid-19 has had on our members, staff, and the UK as a whole. I want to assure you that at The Exeter we are aware of the challenges and that we are doing and will continue to do all we can to support those who need our assistance. I take pride in delivering a report to you which outlines how The Exeter has, despite the challenges, had a successful year, showing increased member growth, solid sales performance and delivered excellent levels of service to our members.

Our Covid-19 response

The impact of Covid-19 has been significant and, at the time of writing this statement, still much uncertainty remains. Our thoughts are with those directly affected by the pandemic and our thanks go to our key workers, who continue to put the needs of others before their own.

As a business, we entered the UK-wide lockdown from a strong position and as such were fortunate that we did not have to furlough any of our staff nor access any of the government funding made available. With the majority of staff working from home we were able to provide a full service to our members. We continued to pay claims, making additional ex-gratia payments where needed and aiding those members struggling to pay premiums.

It's been a particularly challenging year for the private medical insurance market, during which private hospitals have provided support to the NHS effort in managing coronavirus. During the pandemic we've been able to be flexible in serving the needs of our PMI members, providing alternative pathways to advice and treatment.

The safety and wellbeing of our staff has been and will continue to be a priority. I am immensely proud of the way they continue to uphold our values and work together to support both our members and each other, during these difficult times.

As we move into the second year of the pandemic, we are continuing to take a cautious, conservative approach to the potential future financial impacts, ensuring we have adequate provision in place.

Chief Executive recruitment update

It is with sadness that Andy Chapman, Chief Executive, has decided to retire having served on the Board since 2008. Prior to that Andy was the Chief Executive of Pioneer Friendly Society from 2005.

It is with pleasure I can confirm that Isobel Langton joined The Exeter, at the beginning of April 2021, as our new Chief Executive.

The Nomination Committee took great care to ensure Isobel had the right mix of skills and leadership qualities that would complement and continue the great work completed by Andy Chapman. Isobel is an experienced and respected senior financial services leader who has achieved much during her career.

Diversity & Inclusion

During the year the Nominations Committee of the Board has taken further steps to ensure that our culture reflects the inclusive nature of The Exeter and its members. This has been through a process of assessment, review and consultation with individual members to listen to their experiences and feedback. We have made changes to our Board Diversity & Inclusion Policy, Diversity & Inclusion website statement, the overall appointments framework for both Board and all staff appointments. The purpose is to drive meaningful and practical processes to ensure the framework for the business appropriately reflects our members and the wider community of stakeholders.

Culture

The responsibility for defining the Society's purpose, values and strategy, and for ensuring their alignment with the organisation's culture, rests with the Board.

In my experience, the culture at The Exeter is open, friendly and honest where people enjoy being part of a Society which is connected to its members and the services we provide. The Board has continued to keep staff wellbeing under review, including of course, the impact of the pandemic. The Board, the executives and the HR team have worked hard, offering a wide range of support services to assist staff to work from home and to accommodate home care and wellbeing needs.

The Board is delighted with the outcome from the Great Place to Work staff survey which, even through these challenging times, has shown an improvement in staff satisfaction. This is discussed further in the Strategic Review, which can be found on page 11.

Our future

Under the leadership of Andy Chapman and his Executive Team, the Exeter has achieved another solid year for growth, welcoming our 100,000th member to the society. We're always assessing how we can add value to the overall protection and health markets, particularly in terms of how we can offer cover in scenarios where advisers and customers might find their options limited. Under the leadership of Isobel Langton, our new Chief Executive, we will continue to provide excellent service for our members.

Final words from the Chair

I am very proud to have led the Board through such a significant period of our history and I want to thank every one of our Directors for their commitment and dedication throughout this challenging

‘The safety and wellbeing of our staff has been and will continue to be a priority. I am immensely proud of the way they continue to uphold our values and work together to support both our members and each other, during these difficult times.’

year. To our outgoing Chief Executive, Andy Chapman, who ends his tenure in 2021, I extend my personal thanks and gratitude for his outstanding contribution to our organisation over the last 15 years. Through Andy’s dedicated leadership he has set our business on course to enjoy a strong and resilient future. He leaves us with an experienced and talented senior team. I want to sincerely thank him for his support and commitment to me personally, to our staff and to our members.

Finally and most importantly, I want to thank all of our members for their loyalty, trust and support during this most difficult of years. We will never forget that you are the reason why this organisation exists. You have my commitment, on behalf of The Exeter, that we will continue to provide you with the excellent service that you deserve.

Wallace Dobbin, BA, Barrister
Board Chair

Chief Executive's Report

Introduction

I am delighted to follow the Chairman's Statement by introducing The Exeter's 2020 Annual Report and Accounts.

The Exeter has again withstood some challenging conditions to deliver solid growth against a backdrop of the global Covid-19 pandemic, increased levels of unemployment, the ongoing Brexit situation and intense competition.

'During the height of the pandemic, we aided those members who were struggling to pay their premiums as a result of the UK wide lockdown. We did not want to leave members uninsured, so took an individual approach on each case.'

Supporting existing members

Our members have never needed us more since Covid-19 arrived in the UK. Thanks to our staff and the enhancements we've made to services, processes, and infrastructure in the last 12 months, we've been there when it's mattered most. The Exeter formed a discretionary approach for self-isolation claims with the amount paid based on the length of membership held with us. The minimum payment was two weeks extending to twelve and longer where appropriate. Despite early rising claim volumes, we didn't change our approach, other than to increase payments to those considered vulnerable or those self-isolating before hospital procedures.

We moved over 90% of our 160 office-based staff to a full home working setup, providing continued service to our members and uninterrupted business hours. During the onset of lockdown, calls from our income protection members increased to 160% of normal levels, but despite this, since the onset of the pandemic, we still consistently achieved service levels across core areas of the business. We saw a 400% increase in our income protection claim requests during March and April, but thanks to our collective efforts, the majority of claims payments were still settled within a week.

Welcoming new members

As lockdown continued, a number of our competitors withdrew their products from the market. At The Exeter we felt very strongly about wanting to support those with an urgent need for insurance, such as healthcare professionals and other 'key workers' critical to the Covid-19 response. During this period, we received over 5,000 applications from those who could no longer purchase the insurance they needed elsewhere.

Helping those in need

During the height of the pandemic, we aided those members who were struggling to pay their premiums as a result of the UK wide lockdown. We did not want to leave members uninsured so took an individual approach on each case. This approach allowed us to retain 80% of members who were struggling to pay for their policy, who have now returned to their regular premium repayments, with their valuable cover still in place for the future.

The private medical insurance market

In response to the requisitioning of private hospitals by the NHS during the pandemic, we added an ex-gratia benefit to our Private Medical Insurance ("PMI") policies. From April 1st, 2020 to 31st March 2021, we've offered an enhanced cash benefit to members who are treated without charge in either an NHS or private setting. During 2020 we've paid over £878k in enhanced cash benefit to our members. We know that due to Covid-19 we paid less in PMI claims than expected during the pandemic and fully expect once hospitals are up to full capacity the claims position to increase. More information on this can be found in the Strategic Review, 'Our response to Covid-19', which can be found on page 11.

We know that due to Covid-19 we will pay less in PMI claims than expected during the pandemic and fully expect once hospitals are reinstated the claims position to increase.

HealthWise

All our members have access to HealthWise, our member benefits app, providing free and convenient access to remote GP services, expert second medical opinions and other support services. This year, it has provided fast, efficient support from healthcare services at a time when the NHS has been under huge pressure. Our members have attended appointments with remote medical experts for health concerns such as the management of chronic conditions, anxiety, depression, and treatment for musculoskeletal conditions. We encourage all our members to continue to make use of this free support service available to them.

Our staff

Covid-19 has accelerated the advent of more flexible work practices and our staff embraced a new way of working. We continue to make available a combination of head office alongside "work from home" flexibility for our teams to ensure our people are safe and our office environment is Covid-19 compliant.

Thank you

I am extremely proud of The Exeter's achievements not only during this past year but in the years since I first took the role as your Chief Executive. It has been an honour to lead The Exeter and I am very proud of our people and their passion for creating a

member-focused organisation. We have a strong senior leadership team and Board of Directors who are driving the business in the right direction, and I very much look forward to seeing The Exeter continue its success.

Under Isobel's leadership, I believe that the society, our members and our people will be in safe and capable hands for the future.

Finally and for the last time, I would like to thank you, our members. You are the reason we exist, and the business looks forward to another year of mutual support.

Andy Chapman, ACII, APFS
Chief Executive

Strategic Review

Principal activities and business review

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.

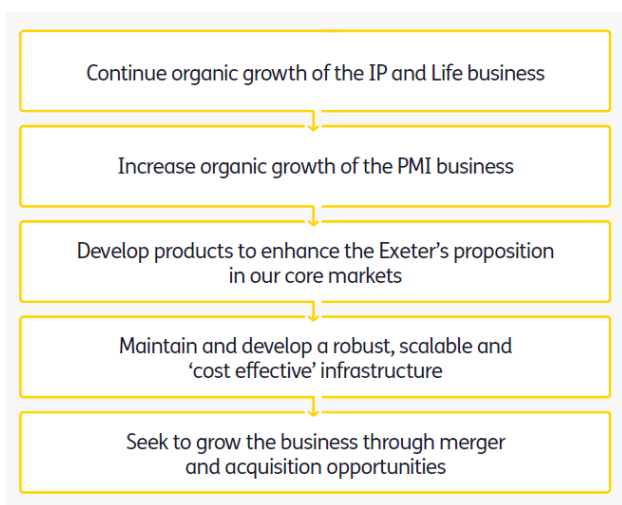
Economic and market environment

Previous predictions relating to the economy and market conditions for 2020, that fed into The Exeter's business plan, fundamentally changed during the early part of 2020. In addition to the scheduled Board meetings, the Directors convened regularly from March to assess the impact of a much changed risk outlook, combined with considerable economic and market uncertainties. Despite the impact of the pandemic and appropriate modifications to The Exeter's risk appetite, the market appeared sufficiently resilient to continue to respond to our core propositions.

Strategic progress

The Board re-affirmed its vision in 2020, which was 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 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.

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 2020, in the context of the financial statements and key performance indicators, and to consider the key factors, strengths and principal risks that might influence the Group's future prospects.

Membership and members

Membership is key to The Exeter 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 2020, but coupled with an increase in policy lapses, resulted in a decrease in the number of members, by 485, bringing the overall PMI members to 23,262 during the year (2019: 23,747). In contrast, IP membership showed a 4,499 increase on the previous year from 45,388 to 49,887 members at the year end.

HCP sales showed an overall decrease in the number of members from 24,050, to 19,773 in 2020. The cash plan market is dominated by two very large insurers with high marketing profiles and management has focused on maintaining rather than increasing sales of this product.

Sales of new life protection products showed a significant increase over the last two years and this is expected to continue as the product offering widens. Membership of the life protection book was 8,375 (2019: 5,052) at the year end.

Overall, therefore, the membership base showed an increase on previous years, with total membership of 101,297 (2019: 98,237) at the year end.

The regulators expect us to treat vulnerable customers fairly. However, we treat all customers (including members, potential customers, brokers and internal customers) fairly not just to comply with regulation, but because we believe it is the right thing to do and because we genuinely care about them.

Our members are important to The Exeter, and as a Society, we are proud to say that we maintain attention on the fair treatment of all members. In 2020 a member focus group was established for the fair treatment of vulnerable customers. The drivers of vulnerability as set out by the FCA are ill health, detrimental life events, low levels of resilience, and lack of capability. With this in mind, it is clear how, when using our services, many of our members may indeed be considered vulnerable.

The new forum is an opportunity for the whole business to come together and focus even more attention on ensuring that, in the FCA's words, "vulnerable customers" experience outcomes as good as other consumers and to receive consistently "fair treatment".

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 £3.5 million which represented an 8.8% increase on the £3.2 million recorded in 2019. Gross written premium was £35.8 million during the year.

Gross sales of new IP policies were £4.7 million during 2020 (2019: £4.8 million). Taking into account policy lapses during the year this has resulted in an overall gross written IP premium of £26.2 million (2019: £24.2 million). Life sales were £2.9 million (2019: £3.5 million) contributing gross premium written of £5.5m (2019: £2.7m).

The HCP business sales were £375k and in total contributed an amount of £2.8 million (2019: £3.5 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 28.3% to £20.9 million. Gross IP benefits and claims totalled £12.0 million, a 33.8% increase on 2019. On a net basis, after allowing for reinsurance recoveries, there was an increase of 29.1% to £6.8 million. Benefits paid on the HCP business amounted to £1.7 million, bringing the total claims paid out for the Group to £34.7 million (2019: £41.0 million).

At Group level the commission payable to intermediaries decreased by 8.7% to £13.3 million. Net operating expenses increased by 34.2% from £21.7 million to £29.1 million (2019: 35.4%).

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 20 to the financial statements.

Movements on reserves and solvency

Group IFRS reserves increased by £5.3 million (2019: £9.7 million) resulting in a combined IFRS unallocated surplus of £201.0 million (2019: £195.7 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). We align reporting in the Annual Report and Accounts as closely as possible with the requirements of Solvency II reserving only for the long-term business fund.

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 unaudited 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	
	2020	2019
	£000	£000
Available capital	104,161	99,883
Capital requirements:		
MCR	5,314	5,264
SCR	21,254	21,058
Available capital as a % of MCR	1960%	1897%
Available capital as a % of SCR	490%	474%

	Long term Business Fund	
	2020	2019
	£000	£000
Available capital	90,818	87,779
Capital requirements:		
MCR	15,523	15,374
SCR	62,095	61,499
Available capital as a % of MCR	585%	571%
Available capital as a % of SCR	146%	143%

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 unaudited solvency position for the Exeter Cash Plan Limited are set out below:

	Exeter Cash Plan	
	2020	2019
	£000	£000
Available capital	3,673	3,039
Capital requirements:		
MCR	2,255	2,153
SCR	771	739
Available capital as a % of MCR	163%	141%
Available capital as a % of SCR	477%	411%

Our response to Covid-19

Our Staff

Having monitored the Covid-19 situation daily, in late February the business had to move quickly to implement a work from home business continuity plan (BCP). The BCP was successfully delivered, laptops and other equipment for those staff who required this to work safely and consistently from home were immediately ordered and distributed. While some teams had experience of homeworking, others such as our customer-facing call centre staff had always been fully office based.

A dedicated 'Coronavirus Information Hub' was also created on the staff intranet to allow everyone to have quick and easy access

to the latest information. The hub was divided into three sections; Member and advisor information; Advice & guidance for employees and Homeworking toolkit. At the same time, our HR team prepared guides, tools and advice to help prepare managers for the switch to running a fully virtual team. This included managing homeworking and mental health and wellbeing of staff.

During the lockdown periods we have simply asked that staff work as many of their usual hours as they could given their individual circumstances, with the promise they would be paid their full salary even if they could not work their full hours due to other priorities such as childcare, supporting family or concerns for their own mental health and wellbeing. Each team individually managed their working patterns to ensure workloads were covered and we are incredibly proud to say that everyone pulled together to help one another.

Staff were given an extra days leave, in May and June, to ensure everyone was having a day to switch off from work. We also offered staff the option to change working patterns or reduce working hours to fit in with their respective needs. This included the option to take a two hour lunch when the clocks moved back to winter time, to ensure staff were able to get outside during the day.

In 2020 the Great Place to Work survey was undertaken, the results can be found on page 22. During the height of lockdown, an anonymous staff pulse survey was conducted, which revealed:

- 97% of staff were happy with the support they were receiving from The Exeter;
- 96% of staff were happy with the support they were receiving from their Manager;
- 98% felt their personal wellbeing was being taken into consideration; and
- 97% felt they were receiving sufficient and relevant communication about what was happening around the business while working from home.

Keeping our culture and business momentum going has been paramount and will continue to be core as the business moves into the future. The business received a weekly video message from various members of the Board, CEO and teams. This helped bring everyone together and share important information. As with everyone else in lockdown the business has seen hundreds of video chats, virtual coffee breaks, staff competitions and general knowledge quizzes.

The Exeter has been fortunate that it has not had to furlough staff or make any redundancies, with over 90% of staff continuing to work from home. An internal project team has been created, comprised of staff from across the business, who will plan and shape both a full return to the office (which is likely to be sometime in 2021) and also a plan for continued working from home for those who require greater flexibility.

Our Members

Our members have never needed us more than since Covid-19 arrived. Thanks to the dedication of our staff and enhancements we've made to services and processes, we have been there when it mattered the most. While other providers withdrew short deferred periods from their product lines, we felt strongly about wanting to support those with an urgent need for this type of

cover, such as healthcare professionals and other key workers critical to the Covid-19 response.

The Exeter formed a discretionary approach for self-isolation claims with the amount paid based on the length of membership held with us. The minimum payment was two weeks extending to twelve and longer where appropriate. Despite early rising claim volumes, we didn't change our approach, other than to increase payments to those considered vulnerable or those self-isolating before hospital procedures. When members were struggling to pay premiums, we waived them, but continued to ensure they remained fully covered and still able to claim should they need to. We did not leave members uninsured or require them to be re-underwritten. Our approach was to look at each individual case, ultimately writing off hundreds of premiums. This allowed us to retain 80% of members who were struggling to pay for their policy, ensuring they continued to have valuable cover in place. This approach to helping our members was something we offered beyond the terms of the contract and in fact we were one of the very few insurers to do so.

When the NHS requisitioned private hospitals, we added an ex-gratia cash benefit to our PMI policies of £500 per night to members treated without charge in either an NHS or private setting, for any eligible condition including Covid-19 members. However, this payment was not available to members where we were already paying for a private hospital stay. We also gave our PMI members access to a new Clinical Support Centre, providing consultations with leading UK specialists and practitioners via telephone, video or on-line. The service also assists members with confirmed diagnosis by providing them with advice to manage symptoms of their illness, particularly important for those awaiting non-urgent or elective surgery.

We have tried to be as flexible to our PMI members' needs and made exceptions in what have been exceptional circumstances, including:

- Allowing overseas treatment where a member was caught in lockdown abroad, even though this wasn't covered under their policy.
- Providing treatment at hospitals not covered under a selected hospital list, irrespective of whether this was at a greater expense to ourselves.
- Accommodating home physiotherapy visits for members who were unable to travel or were considered 'high risk'.
- Waiving of policy excesses where treatment was delayed due to the pandemic.

We believe that we will be paying less in PMI claims than expected during the pandemic and as a result we have made a commitment to our members that any surplus resulting from a reduction in claims will be returned to members. Once the full financial impact of Covid-19 is clear, we will be able to review the situation and determine the best way and amount to be returned.

All members have access to HealthWise, our benefits app, providing free and convenient access to GP services, second medical opinions, as well as other treatments and support services. In the year, it has provided our members with fast,

efficient support for health concerns, including the management of chronic conditions, anxiety, depression, and treatment for musculoskeletal conditions.

Our technological enhancements made to our claims system for IP members has paid off, the automation of the system, had significantly improved our process with 50% of digital claim forms returned, fully completed, within 48 hours. To obtain medical evidence required for processing claims, we launched, and continue to offer, virtual screenings for members who meet the criteria and who are not comfortable with in-person screenings. GP surgeries have also been offered the option to send iGPRs (iGPR is a system for electronic screening and medical reporting), the use of this service has seen a significant increase since its inception.

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, IT Infrastructure and Cyber Security Risks); and
4. Strategic & External Risks (e.g. Business Strategy, Political, 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 framework that the Society has determined to be the most appropriate, and includes 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.

'Thanks to the dedication of our staff and enhancements we've made to services and processes, we have been there when it mattered the most'

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 fourteen high-level risks which is an informed subjective assessment of the degree of risk that the Board is content to accept. Please refer to Note 3 for the detailed value related assessments of risks.

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 in the global reinsurance market.

Concentration risks are allowed for in Solvency II calculations using the Standard Formula. The market risk SCR incorporates the risk of any concentration of assets and the catastrophe risk SCR incorporates a concentration of insurance risks.

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, liquidity risk and credit risk, which also encompasses concentration and counterparty risks.

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
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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. Limits 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 are 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.

During 2020 we revised our investment strategy for the Long-Term Business Fund to move out of equities. Consequently it is only the General Business Fund that is susceptible to a movement in the equity market. At the year-end, the impact on the General Business Fund of a 1% market movement was £211,018 (2019: £215,712).

• 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.

	<p>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 £100,000 decrease in free assets (2019: £20,000 increase in free assets) and on the Long Term Business Fund is an increase in free assets of £3,500,000 (2019: £4,500,000 increase in free assets). The Exeter Cash Plan has negligible exposure to interest rate movement.</p> <p>• Exchange rate risk</p> <p>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.</p> <p>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.</p>
Credit risk	<p>Credit risk relates to counterparties to the Society failing to meet their 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.</p> <p>Assets backing insurance liabilities are invested primarily in gilts and deposits. In addition, the Society has taken the following steps to mitigate credit risk:</p> <ol style="list-style-type: none"> 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; and 4. Only reinsurers who match the Society's credit rating requirements are used.
Liquidity risk	<p>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.</p> <p>Liquidity risk is managed as follows:</p>

	<ol style="list-style-type: none"> 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.
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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. The Conduct Risk Scorecard introduced in 2019 is subject to continual improvement and is considered by the Board on a quarterly basis.
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	The risk relating to direct or indirect loss arising from inadequate or failed IT systems in terms of architecture, hardware, and/or software.
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	<p>Risk arising from changes in government policy, regulation, economic and environmental approaches including the financial impact of climate change. Including:</p> <p>Covid-19</p>
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Covid-19 has been identified as having the potential to materially impact:

- Insurance risks in respect of increased mortality and morbidity claims;
- Market risk in respect of the economic impact on interest rates, investment returns, credit standing of investment counterparties and associated widening of credit spreads and equity values;
- Operational risks associated with revised working practices, increased claims volumes, delays to medical evidence from overwhelmed GP surgeries and, during lockdown periods, the inability of our health sector partners to provide their normal screening services; and
- Strategic risks, particularly economic risk where the impact of lockdowns and the longer-term need to recover the significant levels of government borrowing is likely to have an impact on disposable income for members and prospective members alike for some time to come.

To date we have not seen a material increase in claims and the initial market risk impact at the start of the pandemic has seen a marked recovery. With relatively small exposure to equity risk, the worst of the market risk shock has been avoided. The impact on the economy over future years will need to be monitored. However, 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.

Brexit

Since the referendum, and throughout 2020, the Society was preparing for the various potential outcomes and impacts of Brexit in respect of both its EU resident membership and the wider potential impact leaving with, or without, a trade deal would have on the UK economy. The absence of an agreement to allow UK financial services firms (not authorised by an EU regulator) is such that we will not be permitted to renew Private Medical Insurance contracts during 2021 for EU domiciled members.

We have been in regular contact with affected members, offering alternative solutions as well as taking a very tailored approach to those claiming.

The Society continues to consider the wider impact on the UK economy of the trade deal agreed on 24 December and implementation of the new trading relationship with the EU.

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. This will include a proportionate response to climate risk scenario analysis.

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.

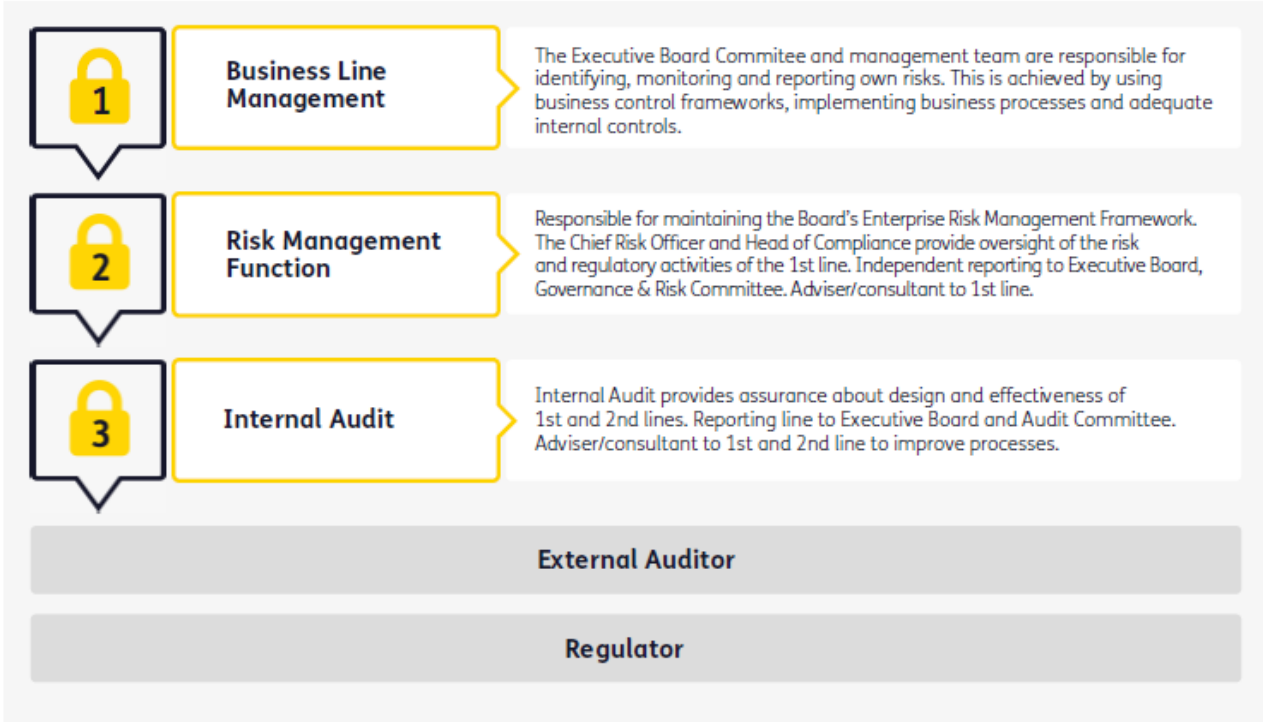
Horizon & Emerging risks

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.

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. Notwithstanding expected increasingly competitive market conditions in 2021 and beyond, the Board believes we are well positioned to achieve growth through continued innovation and product range expansion and increased focus on key distribution relationships.

The move to an intermediary-focused distribution model several years ago continues to be a successful strategy. 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 2021 and beyond. The key areas which may cause issues for The Exeter's business include market volatility, possible movement to a deeper recession and regulatory uncertainty.

S172(1) Directors' Duties Statement

Whilst the Group continues to report under the Friendly Societies Act, it has elected to present a Section 172(1) statement to explain how the directors have had regard to the matters set out in Section 172 of the Companies Act 2006.

In making its decisions throughout the year, the Board has considered and balanced the views and interests gained through its stakeholder engagement as well as the need to promote the long-term success of the Society. The Board met eleven times during the year, including a strategy and planning session. The Board met for an additional twelve meetings to discuss the impact of Covid-19.

The agenda for each board meeting is planned a year in advance, and prior to each meeting, is considered by the Chair, the Chief Executive and the Company Secretary. Meeting reports for the Board include: CEO Report, Distribution and Marketing Report, Chief Operating Officer's Report, Chief Risk Officer's Report on regulatory matters and member issues, and the Finance Director's Report on the trading and financial performance of the Society. Each Committee Chair also provides an update on the decisions made at Committee level and includes a regular update on member, governance and employee matters. The Board also ensures compliance with relevant legislation and regulation, maintaining high standards of compliance, internal controls and risk management.

Throughout the year the Board engaged with stakeholders to understand the issues and factors that are significant for them, and a number of actions were taken as a result of this engagement. Details on communicating with our communities,

and other stakeholders is contained within the Strategic Review report.

How the Board operates and the matters considered are set out in the Corporate Governance Report.

Decision-making and section 172 of the Companies Act

The success of the Society depends on our ability to engage effectively with our stakeholders and take their views into account. Section 172 requires directors, in making their decisions and choices, to have regard to a non-exhaustive list of factors to ensure that, in promoting the success of the Society, broader implications of decisions are considered.

The Exeter's key stakeholders and the way in which we interact and engage with them are shown on page 22. The governance and processes that the Society operates to ensure that relevant matters are considered by the Board are set out in the Corporate Governance Report. 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 has 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.

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 Society's stakeholders by engaging with them directly as appropriate.

Throughout this annual report, we provide different examples of how we: take into account the likely consequences of long-term decisions; build relationships with stakeholders; understand the importance of engaging with our employees; understand the impact of our operations on the communities in our region and the environment we depend upon; and attribute importance to behaving as a responsible business.

Full details of stakeholder engagement can be found in the Corporate Governance Report, Our Stakeholders on page 22. The table below provides a further example of the mechanism used by the Board in their decision making:

Matters considered	How this was achieved
Consideration of the members' needs	We continue to behave responsibly toward our members at all times and treat them fairly and equally.
The likely consequence of any long-term decisions	Our strategic objectives, which are set and monitored through a rolling long-term planning process and delivered through our focus on member service and satisfaction, employee training, development and wellbeing. The Business Plan is operated within tight budgetary controls and in line with regulation and The Exeter's ORSA.
Interests of The Exeter employees	Our employees are fundamental to the delivery of our plan. We pride ourselves on being a responsible employer, focused on employee engagement and communication, promoting a diverse and inclusive workforce. We will continue to be a responsible and fair employer in our approach to the pay and benefits our employees receive.
Fostering supplier and Customer relationships	<p>The Society continued its commitment to delivering quality services, value for money and satisfaction to its members, with direct engagement with members.</p> <p>We continue to build our relationship with key strategic and commercial partners, always with a focus on quality of service. This includes Board members regularly meeting with key suppliers.</p> <p>We ensure there is constantly an open and transparent engagement with our regulatory bodies and other stakeholders.</p>
Considering The Exeter's operations on the community and the environment	<p>The Society is committed to providing internships, community sponsorships and charitable engagement. The Exeter supported the Children's Hospice South West for a second year.</p> <p>We are building our ESG plan over the next year and look to further manage our sustainable office plan.</p>
Continuing the maintenance and high standards of business conduct and managing risks	We ensure a transparent approach to conducting business in a responsible manner, focussing on high standards of governance. Our codes of conduct, policies and governance are regularly monitored and updated to ensure our high standards are maintained.

On behalf of the Board of Directors:



Wallace Dobbin, BA, Barrister
Board Chairman
14 April 2021



Andy Chapman, ACII, APFS
Chief Executive
14 April 2021

Governance

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 2020, the organisation has complied with the AFM Corporate Governance Code 2019 ("the AFM Code") and additionally voluntarily applied areas of the FRC UK Corporate Governance Code 2018.

During the year ended 31 December 2020, the Society continued to follow a corporate governance framework closely aligned to the UK Corporate Governance Code 2018.

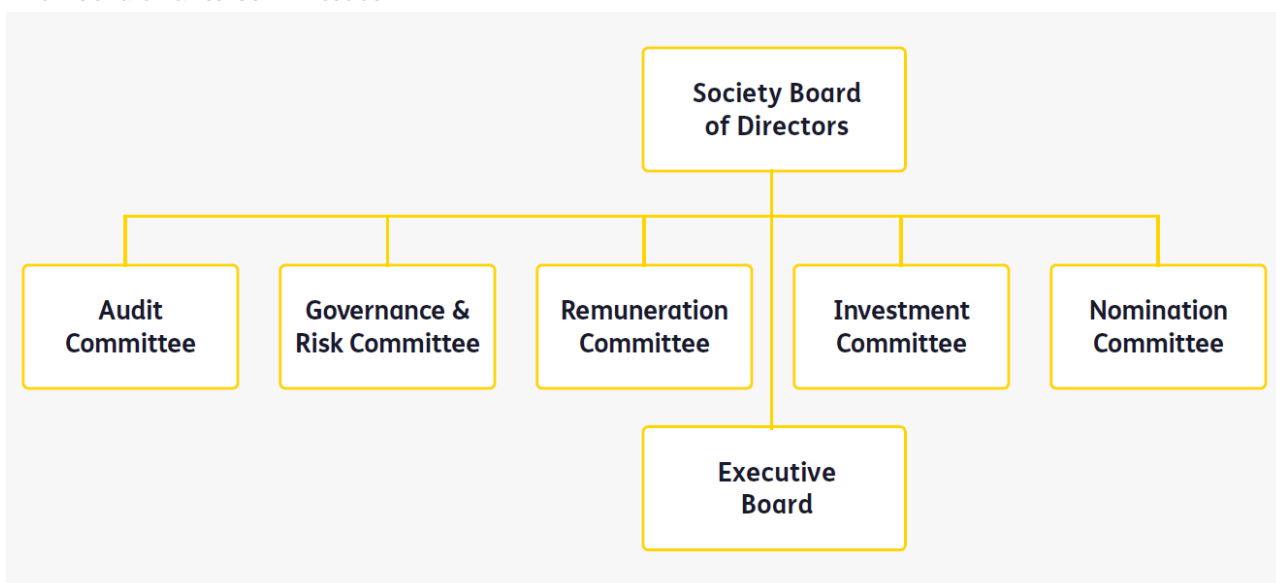
AFM Corporate Governance Code

The Board has considered the AFM Corporate Governance Code 2019, in particular the principles of best practice. 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	<ul style="list-style-type: none"> • 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 Policy 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	<ul style="list-style-type: none"> • The Board operates through clear and established protocols and governance processes. These are set out in the matters reserved to the Board and its Committees' 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, skill, experience 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	<ul style="list-style-type: none"> • The Board is made up of a complementary 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 organisation's 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	<ul style="list-style-type: none"> • 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 specialised additional services provided to members during the pandemic which included waiver of premiums to members struggling, offering short deferred period from their policies, and with the proposed refund of policy premiums to certain 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 12.
5. Remuneration: A board should promote executive remuneration structures	Yes	<ul style="list-style-type: none"> • 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:
aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.		<p>management based on the long-term success of the Society's strategic vision and business plans.</p> <ul style="list-style-type: none"> Annual 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	<ul style="list-style-type: none"> 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 a meaningful annual cycle of stakeholder engagement and continues an ongoing programme of employee consultations and forums and have appointed Helen McEwan, Independent 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 clear and established 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 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 which sets out 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 38. There is also an Executive Board (EB), details of which are set out below.

The Board held eleven formal Board meetings in 2020, including a day devoted to the development of strategy. On top of this the Directors met for twelve additional meetings, which initially took place weekly, to discuss and implement strategy in relation to Covid-19. 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 Chair present. The attendance record during the year of Directors at formal meetings of the Board and its Committees is shown on page 34.

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.
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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 Chair, 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 Chair 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.

Andy Chapman Chief Executive
 John Gunn Finance Director
 Steve Bryan Director of Distribution and Marketing
 Chris Pollard Chief Operating Officer
 Paul Smith Chief Information Officer (appointed 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 July 2020, at which it reviewed each element of the Society's strategy and 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 Chair. The names of the Directors together with brief biographical details are set out from page 31.

The Board considers all 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 Chair of the Society, Wallace Dobbin, was and continues to be considered independent since his appointment.

The Board's Senior Independent Non-Executive Director, David Brand, provides additional independent guidance for the Board Chair and serves as an intermediary for the other Directors when necessary. He also has special responsibility for member relations and communication.

Board Chair and Chief Executive

The Board Chair is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The Board Chair is responsible for setting the Board's meetings agenda and ensuring that adequate time is available for discussion, particularly on strategic, member and risk issues. The Board Chair has no involvement in the day to day business of the Society. The Board Chair 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. The Chief Executive is also accountable to the Board for the financial and operational performance of the Society. To ensure the successful delivery of key targets, the Chief Executive creates a framework of values, organisational objectives and allocates decision making and responsibilities to nominated staff to assist them. The division of

The Executive Board

There is a clear division of responsibilities between the Board Chair, 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 improvement and development, 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:

responsibility between the Board Chair 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 Chair. 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 Chair present, to appraise the Board Chair'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.

For 2020, the Board have undertaken an internal evaluation led by the Board Chair and Company Secretary. The review took place in November and December 2020. The process took the form of a questionnaire, covering general areas of effectiveness, completed by each Board and 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, such as focus on seeking further external education and training, were noted and since been included as part of an action plan.

The evaluation of the performance and contribution of each director was conducted by the Board Chair. 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 Chair's performance was carried out by the Board. Feedback on the Board Chair's performance was obtained from all Non Executive Directors and the results collated and discussed at a meeting without the Board Chair present. The conclusion was that the Board Chair continues to perform effectively and demonstrates independent 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 and inclusion on the Board. 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 46.

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 UK Corporate Governance Code 2018, 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.

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 46. 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 Chair, Chief Executive and Company Secretary are distinct and held by different persons. The Board Chair ensures that the Board receives accurate, timely and clear information sufficient to enable it to fulfil its responsibilities. Under the direction of the Board Chair, 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 Chair 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.

Our stakeholders

The Board's approach to stakeholder engagement

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.

	Why we engage	How we have engaged
Members	Our members are key to the long-term success of the Society, both in terms of retaining existing members and attracting new members. The Exeter is committed to providing quality, appropriate and affordable policies to its members.	<p>The Board seeks to have regular, clear, effective communication and aims to treat members fairly. Members are encouraged to participate at our AGM either in person or through direct e-communication. The Board seeks to ensure all its dealings are fair, transparent, that our products provide members with good value and long-term outcomes.</p> <p>In responding to customers, we seek to make our processes as helpful and informative to the customer as possible, mindful of different customer preferences. This involves ensuring that our customer contact staff are well trained for telephony or email correspondence and making other technology available where possible.</p> <p>We obtain feedback from the way we engage with our customers through periodic market research.</p>
Suppliers & Intermediaries	The Exeter has two main suppliers, who we rely on to provide the exceptional services to our members. Our intermediaries are key to our business to distribute our products. We rely on them to understand our products and our members' needs.	<p>The Board recognises that building trusted partnerships with our suppliers is crucial. Suppliers take many forms, from policy service providers, intermediaries, brokers, etc. We strive to work closely and maintain a good relationship with our intermediaries. This is administered through supplier managers, and the intermediary portal, with regular updates being provided to the Board on key relationships.</p> <p>A number of suppliers take the form of the provision of services or advice as opposed to the supply of goods. For these suppliers we focus on ensuring there is a robust outline of scope for the services required, that the service or advice is fit for purpose and meets the original scope of work. These services are closely monitored and maintained.</p> <p>The Exeter considers broader factors when looking to our partners, recognising the impact suppliers have on the Society. The Board has sought to ensure good working conditions throughout all of its supply chain.</p> <p>The Exeter ensures that it adheres to supplier payment terms.</p>
Colleagues	Our staff are crucial to our business to deliver our strategy and services to our members. It is crucial to the business and to our staff that the positive and inclusive culture we have developed continues.	<p>The Exeter strives to provide a positive and safe working environment, with focus on health, wellbeing, providing an inclusive working environment as well as offering great developmental opportunities.</p> <p>There are various mechanisms in place to ensure engagement with staff, these are:</p> <ul style="list-style-type: none"> • Staff feedback surveys. • Regular staff one to ones and coffee mornings. • Regular employee updates, currently provided via video, to provide updates on business, performance and general updates. • Annual Staff Summit, which was held twice in 2020, to provide support, updates and time to meet the members of the Board informally. • Ensuring robust and relevant employee policies are in place. • Providing performance measurements which are in line with the business strategy and culture. <p>The Board regularly receives updates on the Society's HR strategy and employee matters. Helen McEwan, Independent Non-Executive Director and Chair of the Nomination Committee, was appointed in 2019 as the Board employee representative. Helen regularly attends employee committee meetings, informal video coffee meetings, and the Employee Consultation Forum.</p>
Community & CSR	<p>The local community is made up of the people who live in the area where the business is located. Though not necessarily customers of The Exeter they are all neighbours to the business.</p> <p>We ensure that we are concerned with the local environment, infrastructure and the impact the business has on jobs and prosperity on the local area.</p>	<p>The Exeter endeavours to recruit, where possible, locally, and aim to build a positive relationship with our community. The Children's Hospice South West has been the staff's charity of choice for the last two years. The Exeter Champions Committee and employees have also continued to support various other charities throughout the year.</p> <p>We seek to make a positive difference to the environment and do not send any waste to landfill. Our aim is to continue to work towards reducing our overall emissions.</p>

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 2020 we engaged regularly, through video and web based calls, attending groups including specialist panels.

The regulators expect us to treat vulnerable customers fairly. However, we treat all customers (including members, potential customers, brokers and internal customers) fairly not just to comply with regulation, but because we believe it is the right thing to do and because we genuinely care about them.

Our members are important to The Exeter, and as a Society, we are proud to say that we maintain attention on the fair treatment of all members. In 2020 a member focus group was established for the fair treatment of vulnerable customers. The drivers of vulnerability as set out by the FCA are ill health, detrimental life events, low levels of resilience, and lack of capability. With this in mind, it is clear how when using our services, many of our members may indeed be considered vulnerable. The new forum is a fantastic opportunity for the whole business to come together and focus even more attention on ensuring that, in the FCA's words, vulnerable customers experience outcomes as good as other consumers and to receive consistently fair treatment.

We are committed to engaging our staff in our strategy and the important role they play in delivering it and we believe that companies with high trust and collaborative cultures result in better financial results.

During the year staff were asked how it feels to work for The Exeter using the Great Places to Work Best Workplace Survey. We were delighted to see that even in a challenging year that the response

rate had increased to 97%, by 1% which is a small improvement on last year. The Trust Index score of 93% which was an increase on the 2019 result (88%). This is significantly higher than the 2020 UK medium best workplaces average of 86%. We also retained our strong engagement score of 96%. These results indicate that we are continuing to maintain the strong family culture that is enjoyed by staff and living our values.

The Great Place to Work survey asked staff to comment on a wide range of topics including communication, management, involvement, job security, culture, diversity, recognition, strategy, talent management, teamwork and wellbeing, as well as work environment and processes.

The Exeter also undertake 'pulse surveys' during the year, as an additional and immediate way of receiving staff feedback, we used this method to get feedback during the first lock-down during Covid-19.

The Financial Reporting Council has updated its code of standards, requiring companies to explain how they are considering employee views in Board decisions. We have continued to develop and evolve our various staff forums to ensure they have opportunities to understand and feed into discussion on matters that impact them and the work that they do. The CEO also continues to host his monthly virtual coffee mornings to meet with different members of staff for an informal chat and to allow an open channel for any issues and concerns to be raised. Helen McEwan, Chair of the Nomination Committee, attends a number of the staff forums to ensure staff also have direct access to a member of the Board.

Staff have a confidential line into trained members of the HR team to discuss any issues, concerns or areas of support needed, along with the channel available to them via the Whistleblowing Policy. The Exeter also hosts an annual Staff Summit, this year the Staff Summit was held in February and December 2020. The summit provides all staff with access to the members of the Board in an informal setting.

How the Board considers its principal decisions and how we engage with our stakeholders:

Members	Employees
<p>We treat our members fairly and provide them with quality products, and where possible, tailor our products to our members' needs. We aim to create value for money for all of our members.</p>	<p>The Exeter values its staff and considers these its key asset to the business. Our people are central to the success of the business.</p>
<p>Key areas:</p> <ul style="list-style-type: none"> • Treat our customers fairly • Value for money • Market leading products and services • Long term sustainability of the business and strategy • Good member relationship 	<p>Key areas:</p> <ul style="list-style-type: none"> • Health and wellbeing • Health and safety • Engagement and development • Diversity and inclusion • Positive and enjoyable work environment
<p>How we engage:</p> <ul style="list-style-type: none"> • Annual General Meeting (AGM). • Through direct communication, via emails, video conference calls, telephone or website enquiries. • Through the Annual Report and Accounts. • Correspondence provided via the intermediaries. • Member survey, either through internal and external independent providers. • Feedback sought from members in relation to specific topics, such as diversity and inclusion. • Continual development of technology to assist members during the life of their policy, such as the HealthPlus app. 	<p>How we engage:</p> <ul style="list-style-type: none"> • Regular communication using a mix of channels to encourage two-way dialogue. These include video conference calls, Yammer, video updates and the internal intranet. • Regular performance check-ins and virtual or face to face development conversations. • External independent engagement surveys delivered by Great Place to Work and Investors in People. • Internal pulse surveys were undertaken to gain an immediate feel for the mood of staff directly after the government restrictions in respect of Covid-19. • Providing a dedicated area of the internal intranet for Covid-19, and also for health and wellbeing. • The business listened to feedback from staff and implemented a 'real time' reward system hosted virtually, to reward individuals who were nominated by staff, as going beyond the remit of their job.
<p>How the Board engages and considers this stakeholder:</p> <p>The Board receives reports from the Company Secretary or the Director of Distribution and Marketing.</p> <p>When making strategic decisions, the Board considered how the decision will impact the delivery of long-term member value.</p> <p>In 2020, as a result of feedback, the business moved to implement an electronic authentication process, a response to improving the claims approval process. This ensured claims were processed in approximately 48 hours.</p> <p>The business also made the decision to move to iGPR, electronic reporting and record screening in an effort to speed up the process for the benefit of our members.</p> <p>We do not receive many complaints, but when we do, we take them very seriously. We welcome feedback from our members in any form. Our customer care team are trained to respond efficiently and effectively to resolve any member query as quickly and clearly as possible.</p> <p>Covid-19: The pandemic shifted the Board's immediate priorities, but the Board continued to plan for the longer term and implement the strategic Business Plan, paying particular attention to future risks and a continued positive solvency position.</p>	<p>How the Board engages and considers this stakeholder:</p> <p>The Board acknowledges the importance of attracting, retaining, and developing talent and considers the views of colleagues when making decisions.</p> <p>The Board, through the Nomination Committee regularly considers the topic of inclusion and diversity, and in December 2020 approved the Board Policy, the business framework and website statement.</p> <p>Consideration is also given to staff rewards and bonus during the year, taking into consideration their view. Feedback has also been received and considered as part of any Executive remuneration decisions.</p> <p>The Board receives regular reporting on important matters affecting the staff, including plans to invest in training and development, outcomes of staff surveys and engagement.</p> <p>Whilst the Board has maintained a confidential Whistleblowing Line to record any allegations of wrongdoing, fraud or bribery, there had not been any instances reported during the year.</p> <p>all members of the Board attended both Staff Summits held in 2020 and received positive comments from staff on both occasions.</p> <p>The Board has supported the training and delivery of the staff mental health first aiders.</p>

Community & CSR	Suppliers	Government & Regulators
<p>Supporting our community and respecting the environment are important to us to make a difference. We seek to support the local community through fundraising and direct charitable donations, by staff undertaking community projects in their own and the Society's time, by generally trying to be good corporate citizens in line with the Society's values and objectives.</p>	<p>Working with our outsourcers, intermediaries and service providers is important to the smooth and secure running of the business, to ensure a constant level of quality and support is provided to both our staff and members. Intermediaries are key to our business and we value their role in providing our products to customers.</p>	<p>Ensuring the business is informed of any government, legal or regulatory changes is key to ensuring the Society and our members are kept safe and the products they are provided lead to good long-term outcomes.</p>
<p>Key areas:</p> <ul style="list-style-type: none"> • Addressing the financial impact of climate change and seeking to reduce our carbon footprint as far as is practicable. • Sustainability • Community support through direct funding and charitable fund raising • Providing placements and assistance 	<p>Key areas:</p> <ul style="list-style-type: none"> • Service management of outsourced work • Payment practices • Responsible sourcing • Quality communication between service providers, intermediaries, and outsourcers 	<p>Key areas:</p> <ul style="list-style-type: none"> • Regulatory change (i.e. Brexit, Covid-19 or tax) • Climate and environmental matters • Employee matters • Regulatory consultations
<p>How we engage:</p> <ul style="list-style-type: none"> • Staff fundraising projects and initiatives • Creating local job opportunities • Building on community activity and understanding of local issues and priorities • Collaboration with ESG bodies to improve knowledge to look to make a positive impact on society 	<p>How we engage:</p> <ul style="list-style-type: none"> • Conversations (face to face or virtual) • Training and development of processes • e-communication • Audits • Service level and business development meetings (face to face or virtual) 	<p>How we engage:</p> <ul style="list-style-type: none"> • Responding to regulatory consultations • Meeting and working with regulators • Regulatory returns • Responding to changes in legislation • Participation in government schemes • Participating with working health bodies
<p>How the Board engages and considers this stakeholder:</p> <p>A number of Directors and senior members of staff met with our chosen charity, to discuss ways of providing support, whether through fund raising or voluntary assistance from staff.</p> <p>Staff created their own fundraising schemes to support various local charities. At the start of Covid-19, the staff and their families painted NHS rainbows, to raise money for the Royal Devon and Exeter Hospital.</p> <p>The Board, when making strategic decisions for the business, considers the longer-term impact of each of the areas the business supports locally, and the chosen charity.</p> <p>The Board receives an annual update on the charitable and community initiatives completed in the year.</p> <p>The Board is committed to being a responsible business and to have a positive impact on the lives of our members, colleagues and communities. The Board recognises that expectations around ESG issues will continue to increase and receives regular updates on progress towards the Society's climate change programme.</p>	<p>How the Board engages and considers this stakeholder:</p> <p>Feedback and mutual communication with our intermediaries.</p> <p>Regular feedback and working with our outsource providers to monitor and agree quality and service targets. This was through regular meetings attended by senior management and on occasion, by an Executive Director.</p> <p>Feedback from our intermediaries comes from an active relationship management, benchmarking and annual intermediary events attended by an Executive Director and senior management. This overall picture helps shape our thinking and how we work effectively with brokers and improve services.</p> <p>Audits for risk assessment and policy compliance, this would usually be facilitated through on-site attendance. All audits have been virtual since the government requirements.</p> <p>During the year, the Board reviewed and approved the Modern Slavery Act Transparency Statement and Policy, which can be found on our website.</p> <p>The Board received regular reporting updates from the business areas which interface with suppliers, intermediaries, and service providers. This included reporting from the Internal Audit team in respect of audits carried out on our outsourced partners' operations and seeks evidence of quality assurance</p>	<p>How the Board engages and considers this stakeholder:</p> <p>The Board engages with regulatory bodies to contribute to and implement important key changes in regulation. Details of engagements with regulators are reported to and, when appropriate, discussed by the Board prior to submission to the regulators.</p> <p>During the year, engagement focused on the continuing political uncertainty surrounding the Covid-19 outbreak and ongoing negotiations regarding Brexit. In particular the Board carefully considered and looked for alternative options, working with AXA, for our overseas members who would be impacted by Brexit.</p> <p>The Board is briefed on governmental changes, including matters relating to dealing with the impacts of Covid-19. Especially in relation to employee matters.</p> <p>The Board responds to enquiries from or to regulatory bodies regarding information requests, or regulatory filings and fees.</p> <p>The Board received daily regulatory and governmental updates and reporting since the Covid-19 outbreak.</p>

through compliance with relevant international standards such as ISO27001.

In working closely with our suppliers, we look to obtain good value for our members.

Through regular reporting, the Board considers the impact to suppliers when making key strategic decisions.

In light of the Covid-19 outbreak, the Board received additional reporting regarding the status of suppliers, intermediaries and service providers, to ensure uninterrupted service provision to members.

Inclusion and Diversity

Changing the diversity landscape across an organisation the size of The Exeter requires awareness, action across all levels of the business as well as targeted activity. Building on a sustainable, agile and diverse workforce is key to our strategy. During 2020 steps have been taken to drive diversity and inclusion within the business, this is an area that is being led by the Board. Across The Exeter, the workforce comprises of just over 165 employees with 64% of senior management roles being held by women. As an employer of less than 250 staff, we are not required by law to publish our gender pay but we are reporting this for the first time in the Nomination Committee Report on a voluntary basis and this can be found on page 46.

The Exeter recruitment practices are under review to further create diversity and inclusion opportunities, this includes seeking out and joining organisations that will assist to expand the recruitment pool, alongside opening up community based opportunities and considering the way language is used by the business in its adverts, websites and general communication. The Board is fully supportive of this initiative with the Chair of the Nomination Committee and senior management meeting regularly.

Culture

The Board assesses and monitors culture, and ensures that staff policies, practices and behaviours are aligned with the Society's purpose, value and strategy. The Board monitors and assess culture through the following mechanisms:

- Considers the results of all 'pulse' and external surveys such as the Great Place to Work survey.
- Annually reviews The Exeter's codes of conduct and policies.
- Ensures that the Board and its members regularly meet staff both formally and informally.
- Ensures the Board has an appointed employee focused member who attends and reports back on discussions at regular Employee Consultation Forum meetings.

- Through the Nomination Committee considers, diversity and inclusion, talent development, culture and staff engagement.

The Exeter sets out a consistent level of expectations across all areas of its strategy. These principles help create the culture of trust, inclusion and collaboration. We are confident that this behaviour is thoroughly embedded within the organisation and forms the basis of what is the culture of The Exeter. During the year, Internal Audit undertook a Culture Audit. The result of the audit was that the business was effective with no areas of concern resulting from its findings. It reported that it was pleasing to note that The Exeter was a growing but caring, collaborative, and supportive organisation. This was noted both through staff and customer feedback.

Charity and managing our environmental impact

Over the course of 2020, The Exeter Champions Committee was given a budget to help facilitate the committee's mission statement to support The Exeter's Corporate Social Responsibility Policy through charity giving in the local community and to "Enable people to live the brand, lead by example, provide support and guidance to create a brand led culture people are proud of".

The corporate Charity of the Year for 2020 was Children's Hospice South West (CHSW), as voted for by The Exeter employees. Employees also had the opportunity to apply for funding or pound matching for charitable activities through the Committee's pound matching and community donation schemes.

Through all of the above schemes The Exeter has donated a total of £59,988 to charitable causes, inclusive of the donation made from the AGM.

The following are some of the achievements by the staff and The Exeter Champions Committee:

- Delivered on our commitment to maximise our community and charity support to ensure more benefit to Children's Hospice South West (CHSW), raising and donating in excess of £44,165.

'We are committed to engaging our staff in our strategy and the important role they play in delivering it and we believe that companies with high trust and collaborative cultures result in better financial results'

- Supported the distribution of the CHSW spring newsletter reaching over 3000 of their supporters.
- Continued our sponsorship of the Rainbow Run when it became virtual helping CHSW to raise over £70,000.
- Holding a Christmas Jumper day raising a total of £752 from employee donations.
- The Exeter and staff have donated or raised a total of £64,102 for local charities and community projects (including CHSW). Through which this has helped to support 17 local causes such as providing children with extra learning needs with IT equipment, our local NHS trust and local youth sports clubs.

Community and charity highlights

TOTAL DONATIONS MADE BY THE EXETER

£64,000



Employees and their families raised

£4,113

Corporate charity partner donations

£44,165

Employee nominated charity donations

£15,823



Number of charities supported

12



Number of community groups supported

5

Managing our environmental impact

Climate change is one of the most significant and potentially irreversible risks the world faces, therefore it is of key importance to do all we can to help.

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 encourage staff to conserve energy, minimise waste and recycle waste and work materials where possible. 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. All travel sharing to and from work, or other travel schemes for employees have been affected by Covid-19 as nearly all staff have been working from home since the end of March 2020. We expect that these schemes will run once again in a Covid-19 safe way when there is a return to office by staff.

The business continues to be committed to fully engaging with the Energy Saving Opportunity Scheme Regulations 2019 (ESOS). Last year we reported on the twelve-month period 2018-2019, where 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 2019 Report and Accounts. It has not been possible to commission any external assessments for 2020 due to the government Covid-19 lockdown requirements.

The following table is an overview of the Board’s oversight of environmental and ethical issues, with a view to looking at ways the Society can influence climate change. We are putting together plans to address climate change over the coming years:

Governance	<p>There are a number of key areas of climate change that are reported through to the Board:</p> <ul style="list-style-type: none"> • Climate change risk is included within the ORSA as an emerging risk. • Climate change risk is reported within the routine risk reporting process with risks presented on a risk event radar. • Through the Investment Committee, ESG is looked at regularly, with active engagement with the fund managers. In conjunction with the fund manager, our approach to climate change and ethical issues is being considered with the intention to incorporate ESG into the basis of our investment as part of our Investment Policy. • The business continues to review its governance policies to ensure climate change is considered and factored into the way our staff and the business operates.
Strategy	<ul style="list-style-type: none"> • The Board continues to consider climate change across all areas and activities of the business, including when reviewing its longer-term strategy. • The Society actively tries to mitigate the effects of climate change. This is done by working towards reducing emissions and waste. • It is unlikely that we will be able to operate with zero emissions but are taking every step possible. • We encourage staff to car share or cycle to work, with a view of reducing carbon emissions. Through a cycle to work scheme, staff have been helped by securing discounts and financial assistance to purchase a bicycle. Working with the Devon County Council, staff have also been offered cycle skills training through a webinar. • The business also ensures all office waste is taken away and recycled. No waste is deposited in landfill.
Risk Management	<p>The two classifications relating to climate change risk, as identified by the regulator, that are relevant to The Exeter are:</p> <ol style="list-style-type: none"> 1. Physical Risks – through the direct impact of heatwave, flood, storms, increased weather variability, increasing global temperatures and rising sea levels. 2. Transition Risks – these emanate through the change towards a low carbon economy. There are a number of factors that will influence this risk, these include: development of policy and regulation in relation to climate change, technological development, changing social attitude, litigation against firms who fail to mitigate, adapt or disclose climate related financial risks. <p>The business is building its approach to climate change, the following areas are being factored into the approach:</p> <ul style="list-style-type: none"> • Long-term financial interests of the firm, and how decisions today will affect future financial risks; • Stress and scenario testing for both shorter and longer-term risk horizons; • Uncertainty around the timing and the channels through which the financial risks from climate change may materialise; and • Sensitivity of the balance sheet to changes in key risk drivers and external conditions. <p>These areas will be in consideration of the types of insurance provided by The Exeter, as the business is not directly exposed to underwriting risks outlined above. Although, the business may be exposed minimally to credit and market risk through its investments.</p>
Metrics and Targets	<p>The business currently recycles all its waste from its office and for the 2021 AGM, to further reduce paper usage, the members year under review booklet will be issued via the AGM voting website.</p> <p>The business plans to continue to seek ways to reduce its overall carbon emissions.</p>

Modern anti-slavery statement

The Exeter wants to do all it can to help tackle human trafficking, forced labour, bonded labour and child slavery. We are totally

opposed to such abuses in our direct, indirect and supply chain operations. The business continues to focus on raising awareness of modern slavery issues and encouraging good practices among our suppliers and employees. We have published our 2020

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 2020 we had no breaches.

Board of Directors

Below are details of the members of our Board. 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. The full biographical details of the Board can be found on our website.

All photos of the Board were taken prior to the outbreak of Covid-19.

Director	Wallace Dobbin	David Brand	Keith Baldwin
Appointed to the Board	Board Chair 2013	January 2014	August 2019
NED/ Executive	NED	Senior Independent NED	NED
Committee Chair / Committee member	Nomination and Remuneration	Audit Committee Chair, Investment Committee Chair, Governance & Risk, Nomination and Remuneration.	Audit, Governance & Risk, Investment, Nomination and Remuneration.
Experience	<p>Wallace has extensive experience in corporate strategy, mergers and acquisitions, governance and risk management. He is a qualified Barrister with significant financial service experience that has spanned over several years.</p> <p>Wallace's experience extends to the public sector and includes being a former Vice Chair and Senior Independent Director of the Gloucestershire Hospitals NHS Foundation Trust and a former trustee of the Sir Steve Redgrave Charitable Trust.</p>	<p>David is a qualified actuary and brings to the Board significant expertise in insurance and reinsurance as well as extensive knowledge in finance, risk and governance having held a number of senior leadership positions in the UK life reinsurance arm of the Hannover Re group, including Managing Director. He also previously served as a member of Council of the Institute of Actuaries and on the Health Committee of the Association of British Insurers.</p>	<p>Keith has extensive experience across the financial services arena with expertise in Business Strategy, Corporate Governance, Sales and Marketing and Business Acquisition.</p> <p>His previous roles consist of Deputy Chairman and Chief Executive Officer of Allied Dunbar Assurance and Chief Operating Officer of Zurich (UK, International and Ireland) Life.</p>
Current and previous external appointments	<ul style="list-style-type: none"> Non-Executive Director of FNZ UK Ltd. 	<ul style="list-style-type: none"> Non-Executive Chairman of Countrywide Assured plc Non-Executive Chairman of Movestic Liv based in Sweden. 	<ul style="list-style-type: none"> Chairman of the Board of Trustees of the Jon Egging Trust. Non-Executive Director of General Aviation Safety Council. Liveryman of the Honourable Company of Air Pilots.



Director	Helen M'Ewan	Steve Payne	Andy Chapman
Appointed	September 2016	September 2015	March 2008
NED/ Executive	NED	NED	Chief Executive
Committee Chair / Committee member	Nomination Chair, Audit, Governance & Risk, Investment and Remuneration.	Governance & Risk Chair, Remuneration Committee Chair, Audit, Investment, Nomination and Remuneration.	Investment
Experience	<p>Helen has a wealth of experience across the life and pensions industry with particular expertise in business change, strategy, leadership, marketing and partnership development.</p> <p>Helen was previously Commercial Director at True Potential and Business Development Director with Now Pensions. Helen is also a former Trustee of Edinburgh Young Carers charity.</p>	<p>Steve is a highly experienced actuary who has held a variety of senior management roles responsible for business integration, finance, risk and governance, within the life assurance industry. Steve is also a member of The Exeter.</p> <p>He was previously managing director at Friends Life, Deputy Chief Executive at Revios (UK), and worked for Scor and Hannover Re.</p> <p>Steve was 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.</p>	<p>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.</p> <p>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.</p>
Current and previous external appointments	<ul style="list-style-type: none"> Chief Pensions Officer to the Universities Superannuation Scheme. 	<ul style="list-style-type: none"> Independent Non-Executive Chair at Safe World Insurance Group UK Ltd. Non-Executive Director of Pacific Life Re Limited. 	<ul style="list-style-type: none"> Panel member of the Financial Conduct Authority Smaller Business Practitioner Panel. Member of the Health Committee of the Association of British Insurers (ABI). Chairman of the Northbrook Community Trust.



Director	Steve Bryan	John Gunn	Chris Pollard	Willie Hamilton
Appointed	July 2017	April 2019	April 2019	April 2005
NED/ Executive	Director of Distribution and Marketing	Finance Director	Chief Operating Officer	Medical Director
Committee Chair / Committee member	-	Governance & Risk	-	-
Experience	<p>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.</p> <p>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.</p>	<p>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.</p>	<p>Chris has worked in financial services for over 30 years. He was 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 in developing the Friends Life protection business until successful acquisition by Aviva.</p>	<p>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 his 'services to improving early cancer diagnosis'.</p>
Current and previous external appointments			Member of the Protection Committee of the Association of British Insurers (ABI)	

Isobel Langton

Isobel Langton will succeed Andy Chapman as the new Chief Executive, once regulatory approval has been confirmed. Isobel brings over 30-years of insurance industry experience and is a senior financial services leader, her background is predominantly in protection and pensions. Isobel's most recent position held was as Chief Executive of Royal London's Intermediary Division, where she created and implemented strategy for their protection business and led the pensions business through a period of significant success.

Isobel has a passion for customer service and focus on developing innovative propositions and delivering value for money. She is also committed to the ideals and values of mutuality.

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.

As well as the meeting tabled below, an additional 12 informal meetings were held specifically in respect of Covid-19.

Director	Board ⁽¹⁾	Audit	Governance & Risk	Investment	Nomination	Remuneration
	(11)	(8)	(6)	(4)	(4)	(3)
Wallace Dobbin	11	-	-	-	4	3
Keith Baldwin	11	8	6	4	4	3
David Brand	11	8	6	4	4	3
Helen McEwan	11	8	6	4	4	3
Steve Payne	11	8	6	4	4	3
Andy Chapman	11	-	-	4	-	-
Steve Bryan	11	-	-	-	-	-
John Gunn	11	-	6	-	-	-
Professor Willie Hamilton	11	-	-	-	-	-
Chris Pollard	11	-	-	-	-	-

⁽¹⁾ This included one strategy meeting.

Directors' Report

Members of the Board of Directors

The Board of Directors who held office in 2020 are listed on the inside front cover of this Report, with their resumes on page 31.

Viability statement

The Directors are required to make a statement in the Annual Report regarding the viability of the Society, including an explanation of how they assessed the prospects, the period of time for which they have made the assessment and why they consider that period to be appropriate.

Time horizon

In light of the analysis summarised below, the Board has assessed the Society's current viability, and confirms that the Directors have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the next three years. This is through a combination of the three-year Business Plan and the Own Risk and Solvency Assessment (ORSA), these were both approved by the Board in December 2020. The three-year rolling strategic plan is a formal projection of capital and liquidity based upon profitability forecasts. The availability of the Business Plan gives management and the Board sufficient visibility and confidence on the future operating environment for this time period.

The three-year time frame has also been chosen because:

- it is within the period covered by the formal medium-term plans approved by the Board which contain projections of profitability, cash flows, capital requirements and capital resources;
- it is also within the period over which internal stress testing is carried out; and
- it is representative of the period and level of anticipated regulatory change in the financial services industry.

The Directors are satisfied that this period is sufficient to enable a reasonable assessment of viability to be made.

Considerations

In making its assessment the Board has:

- carried out a robust and detailed assessment of the Society's risk profile, material existing and emerging risks (please see the Principal risks and uncertainties set out on page 12), in particular those risks which management believes could cause the Society's future results of operations or financial condition to differ materially from current expectations or could adversely impact the Society's ability to meet regulatory requirements.
- reviewed how those risks are identified, managed and controlled.
- considered the Business Plan which provides an assessment of forecast up to the end of 2023.
- considered the Society's viability under various stress scenarios to ensure it can meet its liabilities as they fall due for the next twelve months.

- considered the stability of the markets in which it operates, supply chain resiliency and regulatory changes.
- considered factors that may inform the impact of the Covid-19 pandemic, including (among other things), changing macroeconomic variables, further waves of the pandemic, successful deployment of vaccines and emergence of new strains.
- reviewed the draft statutory accounts and the in-depth disclosure of the financial performance of the Society.

The Society's assessment of the Covid-19 pandemic

The Board is mindful of the impact the Covid-19 pandemic may have on the Society. An overview of the Society's approach to Covid-19 during 2020 is set out in the Strategic Review "Our response to Covid-19", which can be found on page 11. Whilst there has been some minor operational disruption from dealing with the restrictions enforced by Covid-19, our assessment has shown that our internal functions and external key outsourcers and suppliers have adapted and that the impact of Covid-19 has not had a significant impact to our viability.

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 Covid-19, we have not seen a material impact on our operations. However as a result of Covid-19, we have seen a decrease in some areas of claims, and as described in more detail in the Strategic Review Report there will be a repayment to PMI members impacted. Furthermore, our investment strategy is to only invest excess assets in riskier investments, such as equities. Our equity investment at the end of February 2021 was £21m (2019: £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.

Given the impact of Covid-19 on the macro-economic conditions in which the Society is operating, additional stress-testing has been carried out on the Society's ability to continue in operation under extreme unfavourable conditions. While the assumptions applied in these scenarios are possible, they do not represent our view of the likely outcome. However, the results of the scenario testing helped inform the Board with their assessment of the viability of the Society.

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 9.

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 £1.20 (2019: £1.10)

Commuted Shares £1.81 (2019: £1.81)

Interest Rates

Ordinary Accounts 0.8% (2019: 0.8%)

Commuting Members and Juveniles 0.8% (2019: 0.8%)

Over 65's 0.8% (2019: 0.8%)

The Terminal Bonus to be paid to all ordinary members whose policies mature or surrender from April 2021 is 130% of the member's dividend account. The equivalent Terminal Bonus rate for April 2020 to March 2021 was 120%. Due to a calculation error, the Terminal Bonus rate actually paid between April 2020 and March 2021 was 80%. We are writing to members impacted and will make a top-up payment so that they are in the same position had this not occurred. The Terminal Bonus rate 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 17 days at 31 December 2020 (2019: 15 days).

Charitable donations and political contributions

Donations totalling £59,988 (2019: £53,140) were made to charities during 2020. As part of the 2020 AGM the Society made a donation to the Children's Hospice South West for every vote cast, this initiative raised £6,865 (2019: £5,582). In addition to this figure, an amount of £1,500 (2019: £1,750) was paid in respect of medical insurance policies that included a hospice donation as a benefit.

No political contributions were made during the year (2019: Nil).

Health, safety and welfare at work

The Exeter places great importance on the health, safety and welfare of its staff. Relevant policies, standards and procedures are reviewed on a regular basis to ensure that any hazards or material risks are removed or reduced to minimise or, where possible exclude the possibility of accident or injury to staff or visitors. The policies, standard procedures are communicated to staff through contracts of employment, Employee Policy Handbook, HR Handbook and briefings. All staff have a duty to exercise responsibility to do everything possible to prevent injury to themselves or others.

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 2020, 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 £56,061 inclusive of VAT in 2020 (£28,562 in 2019).

Independent external auditors

The Audit 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 and retired at the 2020 AGM. They have been replaced by Mazars LLP.

All relevant information has been provided to the firm's independent external auditors. Mazars LLP who were appointed and subsequently approved as the Society's independent external auditors at the Annual General Meeting on 27 August 2020. Mazars LLP are willing to continue in office and a resolution will be proposed at the Annual General Meeting scheduled on 24 June 2021 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). In 2020, the AGM information pack solicited an above average number of questions from Members, which the Board welcomed, considered and provided a response.

Approved on behalf of the Board of Directors:



Wallace Dobbin, BA, Barrister
Board Chair
14 April 2021



Andy Chapman, ACII, APFS
Chief Executive
14 April 2021

Due to Government restrictions in respect of the pandemic, the 2020 AGM could not be opened up for attendance by members. It is hoped that this will not be the case in 2021.

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

In an effort to reduce carbon emissions, the Society will provide an online copy of the year under review booklet to every member, and post a personalised invitation to attend the Annual General Meeting (AGM) along with a Proxy Voting Form. A full copy of the Annual Report and Accounts is available online or by request to the Society. In an effort to facilitate attendance and for the Board to meet directly with members, the AGM will be held in Exeter on 24 June 2021, subject to any government guidelines in respect of the pandemic that may restrict attendance.

At the AGM the Board Chair 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.

Directors' Responsibilities Statement

The following statement should be read in conjunction with the Statement of Independent Auditors' Responsibilities (noted on page 58) 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 Strategic Review, 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 Accounting Standards in conformity with the requirements of the Friendly Societies Act 1992. 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 Accounting Standards, in conformity with the requirements of the Friendly Societies Act 1992, 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, 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 International Accounting Standards, in conformity with the requirements of the Friendly Societies Act 1992, give a true and fair view of the state of affairs and income and expenditure for the Society and the Group;

- the Strategic Review 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.

Board Committee Reports

The Board has five established Committees: Audit, Governance and Risk, Investment, Nomination and Remuneration to undertake a 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

		Total of 8 meetings held in 2020
David Brand	Committee Chair	8
Keith Baldwin	Independent Non-Executive Director	8
Helen McEwan	Independent Non-Executive Director	8
Steve Payne	Independent Non-Executive Director	8

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.

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.
- Reviewed the independent external auditor, its annual audit plan, and audit fees.
- Considered and made the recommendation to the Board to appoint Mazars LLP as the Society's external auditor.
- The Committee reviewed the independent external auditors non-audit fees including reviewing the Society's policy on this.
- Consideration of the impact of the Friendly Societies Act 1992 (Accounts) (Amendment) order 2020 to bring the FSA Act S69 into alignment with the Companies Act Section 15 to afford mutuals the same flexibility when preparing individual or group accounts.
- The Committee regularly reviewed and considered the Actuarial Function report along with the work of the independent With Profits Actuary.
- The Committee regularly reviewed and considered the Internal Audit work plan.
- 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 a review of the Actuarial function, by an independent external advisor, and considered the resulting recommendations.
- The Committee reviewed the new disclosure requirements around the Companies Act S172 reporting, ensuring the directors and Board fully understands its requirements.
- The Committee undertook an external quality assessment at the end of 2019 performed by the Chartered Institute of Internal

Auditors to provide validation of the self-assessment performed by the Chief Internal Auditor of conformance to the global standard, the International Professional Practice Framework. During 2020 the Committee considered and actioned the recommendations resulting from the review.

Committee composition

The Committee comprises, the Committee Chair and three Independent Non-Executive Directors. Invitations to attend Committee meetings are extended on a regular basis to the Board Chair, the Chief Executive, the Finance Director, the Director of Distribution & Marketing, the Chief Operating Officer and the Chief Internal Auditor. Representatives from the independent external auditors and the Chartered Institute of Internal 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 Chair. The Audit Committee Chair 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.

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, 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 2020 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 58.
- 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 58.

- 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 58.

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 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 2020 and several independent external auditors were approached, including PricewaterhouseCoopers LLP. After a thorough tender process Mazars LLP were successfully selected by the Audit Committee and appointed as The Exeter's independent external auditors and the appointment was approved by the members voting at the Annual General Meeting (AGM) on 27 August 2020.

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. Grant Thornton UK LLP provide tax support services to The Exeter, having been appointed in December 2020 to replace Mazars Group.

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 Committee Chair 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 independent external auditor during the year ended 31 December 2020, 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 11 on page 80.

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 2020, 16 Internal Audit engagements were undertaken. At the end of 2019, 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. In 2020 all 13 recommendations for improvement were actioned and delivered in full.



David Brand BA, FIA
Audit Committee Chair
14 April 2021

Governance and Risk Committee

Committee membership and attendance

		Total of 6 meetings held in 2020
Steve Payne	Committee Chair	6
Keith Baldwin	Independent Non-Executive Director	6
David Brand	Senior Independent Non-Executive Director	6
Helen McEwan	Independent Non-Executive Director	6
John Gunn	Finance Director	6

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

Key Committee activities during the year:

- Reviewed and monitored the quarterly Risk Report (including the quarterly Risk Dashboard).
- Reviewed, challenged and made recommendation to the Board of the quarterly Risk Control Self-assessment.
- Reviewed and monitored the IT and Cyber Security bi-annual report and ad-hoc business penetration testing report.
- Reviewed and monitored the quarterly Compliance Function Report.
- Received and reviewed the Distribution and Quality Management Report including the quarterly Change Projects Report.
- Reviewed, challenged and made recommendation for final approval, by the Board, of the 2020 ORSA Report, and its design, objectives, sensitivities and approval process.
- Reviewed, challenged and made recommendation for approval, by the Board, of the Risk Appetite.
- Reviewed, challenged and made recommendation for approval, by the Board, of the Matters Reserved to the Board.
- Reviewed, challenged and made recommendation for approval, by the Board, of all Solvency II policies.
- The Committee addressed the implications of Covid-19 in respect of its impact on the business, its risks and challenges.
- Reviewed and made recommendation for approval, by the Board, of the Committee's Terms of Reference.
- The Committee performed an annual effectiveness review and provided feedback to the Board on any actions resulting from the review.

The Committee, as a result of the pandemic, took immediate action to consider the risks and challenges, for both the short and long-term impact Covid-19 would have on the business, its members and employees. It did this through holding additional meetings to focus on risk management, the economic impact, management of the solvency capital and liquidity resources to ensure the business remained secure, with a strong and robust platform from which The Exeter can continue with its strategic growth post pandemic.

'The Committee, as a result of the pandemic, took immediate action to consider the risks and challenges, for both the short- and long-term impact Covid-19 would have on the business, its members and employees.'

The Committee comprises, the Committee Chair, 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 which included the Head of Change, the Chief Information Officer, 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 Chair.

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 Chair, 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 throughout the year.
- 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.
- Keep under review the risk self-assessment process and make any necessary improvements and recommendations.
- 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 the following:
 - 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 2020, 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 12 and Note 3 of the Financial Statement, on page 73.

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 Chair
14 April 2021

Investment Committee

Committee membership and attendance

		Total of 4 meetings held in 2020
David Brand	Committee Chair	4
Keith Baldwin	Independent Non-Executive Director	4
Helen McEwan	Independent Non-Executive Director	4
Steve Payne	Independent Non-Executive Director	4
Andy Chapman	Chief Executive	4

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 review and impact of Covid-19 on the various investments.
- The Committee performed an annual effectiveness review and provided feedback to the Board on any actions resulting from the review.
- Reviewed the performance and ongoing appointment of the external investment managers.
- Reviewed and made recommendation for approval, by the Board, of the Committee's Terms of Reference.

Committee composition

The Committee comprises, the Committee Chair, 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. The Committee will undertake its detailed three-year review of the appointment of RLAM in 2021.

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 following are the responsibilities of the Committee:

- 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 Chair
14 April 2021

Nomination Committee

Committee membership and attendance

		Total of 4 meetings held in 2020
Helen McEwan	Committee Chair	4
Keith Baldwin	Independent Non-Executive Director	4
David Brand	Senior Independent Non-Executive Director	4
Wallace Dobbin	Board Chair	4
Steve Payne	Independent Non-Executive Director	4

Key Committee activities during the year:

- Leading the appointment of the new CEO.
- Reviewed the Board and Committee Membership.
- Reviewed the quality of diversity and inclusion at Board level and within the business, looking at ways to create meaningful future change.
- Reviewed the Board Diversity & Inclusion Policy and the Diversity & Inclusion website statement which included virtual engagement with individual members of the Society.
- Assisting the HR team with developing a framework for diversity and inclusion.
- Reviewed the succession plans for the Executive, senior management, and key roles within the business along with the approach to succession in light of the strategic plans for the business.
- Reviewed and updated the Annual review of the Committee Terms of Reference.
- The Committee performed an annual effectiveness review and provided feedback to the Board on any actions resulting from the review.

Looking ahead, continuing to consider the long-term succession strategy and 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 throughout 2021. The Committee is also committed to agreeing a three-year plan to promote and increase diversity and inclusion within the organisation and at Board level.

Committee composition and Non-Executive Director Independence

Composition

The Committee comprises, the Committee Chair 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 Chair was considered independent on his appointment in 2013 and, therefore, meets the criteria for membership of this Committee. Half of the Board of Directors, including the Chair, are Independent Non-Executive Directors. The Board through the thorough review and recommendation of the Nomination

Committee, was satisfied that the Board Chair remained independent and appropriate to continue to lead The Exeter, especially through the coming twelve months to provide support to the new CEO in their new role.

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, taking into account the strategic plans of the business, and making recommendations to the Board with regard to any changes.
- Reviewing and managing diversity and inclusion at Board and within the business to assist the HR team to deliver the diversity plan.
- 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 in the short, medium term and emergency plans.
- 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.
- Discussed leadership development of Executives and Senior Management, looking at plans to offer this through a formal programme in 2021.

Selection and appointment process

In identifying suitable candidates for appointment to the Board, the Committee always considers candidates on merit against a role objective criterion. The following is the approach that is used for seeking and evaluating external candidates, including the replacement CEO. Due to Covid-19, the appointment process for the new CEO was completed during lockdown. A number of the interviews including those with the external advisor, with

potential candidates had taken place via video conference. The Committee continued to keep the Board Diversity and Inclusion Policy, and our commitment to support diversity at Board and Executive level, very much in focus during the year's recruitment programmes. On behalf of the Board, the Committee continues to monitor the evolving governance landscape and the Society's ability to meet its challenges in promoting inclusion and diversity, in all its forms, at this level.

is the practice of the committee, led by the Chair, to appoint an external search consultancy to assist in Board appointments to ensure that an extensive and robust search can be made for suitable candidates. Redgrave Partners was appointed to assist with the search and appointment of the new CEO. Redgrave Partners had no other connection or conflict of interest with the Society.

Selection and appointment of the new Chief Executive

An outline of the process followed by the Committee for the selection and appointment of Isobel Langton is set out below. It

Board composition review	<ul style="list-style-type: none"> The Committee discussed the retirement of Andy Chapman and his future desire to retire as Chief Executive. The Committee then reviewed the overall structure, size and composition of the Board and its Committees including the skills and experience, diversity, and tenure of the Directors. The Committee agreed the desirable qualities, having considered the Society's business model, strategy, and external environment.
Role brief development	<ul style="list-style-type: none"> The Committee developed a comprehensive role brief for the Chief Executive position to be filled. The brief was aligned with reference to the skills and experience, Board Diversity and Inclusion Policy, related commitments, and any key corporate governance requirements.
Shortlisting	<ul style="list-style-type: none"> The mandate was given to the external search agency to provide candidates suitable as Chief Executive for an initial long-list of candidates from a broad range of backgrounds. The Chair of the Committee, the Board Chair and the Head of HR worked with the external search agency to prepare a short-list for review by the Committee. The Committee agreed the appropriate candidates to be invited for interview.
Interview	<ul style="list-style-type: none"> A formal multiple-stage interview process was used to assess the candidates, tailored for relevance to the role. Initial interviews were held with the Committee Chair and the Board Chair supported by the Head of HR. A calibration exercise was undertaken to agree candidates to be invited for final interview. Final interviews were held with the members of the Committee with the final two candidates.
Due diligence and recommendation	<ul style="list-style-type: none"> A comprehensive due diligence and referencing process was undertaken. Upon satisfactory completion, the Committee made appointment recommendations to the Board.

Induction process

The Committee, supported by the Company Secretary, oversees the induction programmes of new Directors, which are designed to help establish a broad knowledge and full understanding of the Society's business and challenges, aspirations, and culture. Each programme is tailored to meet a new Director's specific requirements and is phased to allow feedback and further customisation of development activities, where required. Typical induction programmes include:

- individual one-to-one meetings with all Directors and the Company Secretary;
- meetings with members of the Executive Team and senior management;
- meeting with the Society's external auditor, With-Profits Actuary and the brokers;
- being given the option to take a walk around the main head office to meet with members of staff and being introduced informally;
- being provided with a formal external directors training course, provided by the Institute of Directors; and
- access to the Board's online resources, including to Board and Committee minutes, key reference materials, and briefings on market status and competition.

The induction for Isobel Langton has started in 2021 although it has not been possible to complete certain steps due to the outbreak of Covid-19. Most meetings will take place via video calls

and any externally hosted training will recommence once Government guidance permits and it is deemed safe to do so.

Inclusion and Diversity

The Directors recognise the benefits of a diverse Board and embrace inclusion and diversity in the widest sense. In 2020, the Board completed a detailed review of the Board Diversity & Inclusion Policy. This was considered along with the Society wide approach to diversity and inclusion to ensure there is a talent pipeline within the business. The Committee Chair in conjunction with members of senior management have, in 2020, looked at how the Society can drive the overall business approach to diversity and inclusion. This included regular monthly diversity and inclusion meetings, meeting with individual Society members and reviewing internal proposed processes.

The Board commits to having a Board that is well-balanced and has the appropriate skills, knowledge, experience and diversity for the needs of the business. Diversity is considered in the broadest sense the range of human differences, including but not limited to race, ethnicity, gender, gender identity, sexual orientation, age, social class, physical ability or attributes, religious or ethical values system, national origin, neurodiversity, political beliefs and any protected characteristic.

The Committee recognises through its feedback from members that it needs to do more to drive diversity and inclusion at Board and to ensure this filters through the culture of the whole business,

to better reflect the diversity of our members and stakeholders. As part of this drive, the Committee has included diversity and inclusion as a standard meeting agenda item and the Chair of the Nomination Committee holds monthly video conference calls with the business to discuss progress.

The table below sets out the Society's commitment designed to assist delivery against the Board Diversity & Inclusion Policy objectives.

Disclosure	Commitments	Progress to date
Engage with executive search agencies in a manner which enhances opportunities for diverse candidates to be considered for appointment	<p>Only those executive search firms who follow the principles of or are signed up to the the Voluntary Code of Conduct for Executive Search Firms (the Voluntary Code) will be considered when recruiting for a Board position.</p> <p>The Committee will work with the executive search agency to prepare an appropriate role brief, including relevant skills, underlying competencies, and personal capabilities desired, to support the agency in assessing candidates from a broad range of backgrounds.</p> <p>To facilitate the provision of a broad and diverse range of candidates the Committee will require long-lists to be drawn up following consideration of candidates from both within and beyond the corporate mainstream, in line with the requirements of the Voluntary Code.</p>	<p>The Committee met with Redgrave Partners during the year to discuss the recruitment of the Chief Executive role and to develop a comprehensive role brief, free from bias.</p> <p>The long-list approach was carried out for the vacancy recruited for during the year. The Voluntary Code applies equally to executive and non-executive director positions. Where appropriate, the Committee challenge their search consultants as regards the scope of their search and the breadth of the pool from which the long list has been drawn.</p>
Support Board-level diversity throughout the succession planning process	<p>Succession planning will be reviewed, at least annually, by the Committee and will address the need for progressive refreshing of the Board, in accordance with the requirements of the Code.</p> <p>The Committee will assess current individual Board member competencies and develop its understanding of the qualities needed for the Society's continued Board and Committee effectiveness in the longer term. This review will also consider the long-term diversity of the Board.</p> <p>Independent Non-Executive Directors will normally serve no more than nine years to support progressive refreshing of the Board and to maintain appropriate levels of independence. Appointments of Independent Non-Executive Directors for periods beyond nine years will be made only in exceptional circumstances.</p>	<p>The Committee continues to look at Board succession and the skills and experience mix at least annually.</p> <p>Questions intended to elicit the Board's consideration and assessment of its Directors' competencies and diversity makeup and ambition have continued to be included in the Board evaluation conducted internally.</p>
Support efforts to increase diversity in the senior management pipeline towards executive and non-executive Board positions	<p>Senior management succession planning processes will include identification of individuals within the organisation with Board-level potential and will support those individuals to progress their careers.</p>	<p>The Society has reaffirmed its commitment to better gender and diversity and inclusion balance through its Diversity & Inclusion Statement which is published on the Society's main website.</p>

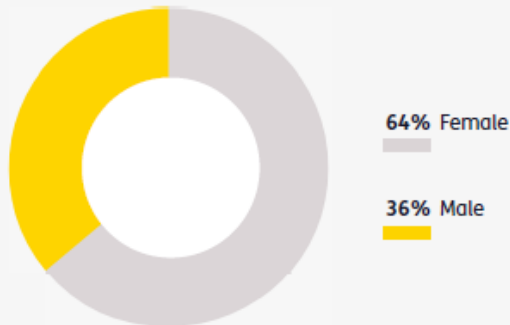
The Committee, through its work with the Board, Executive and Senior Management have agreed a framework, which The Exeter will be initiating during 2021 and onwards. The time-frame for fully implementing the framework and achieving a significant and solid measurable change will likely take time, due to a low turnover of employees within the business. However, placements will be offered where possible, whilst also taking advantage of improved flexible working, should assist to widen our recruitment opportunities.

Gender breakdown

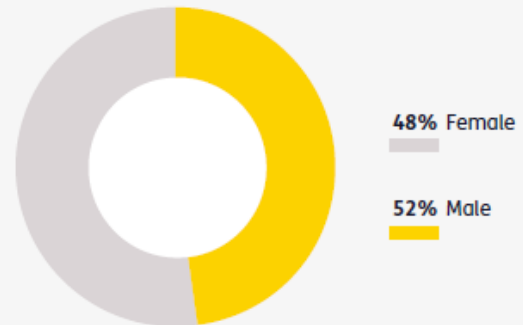
We can report that 54% of all staff are female and, of all staff holding a senior management role, 64% are female. The gender balance at the top of the group has taken time to change because we have maintained a stable senior team. This has changed in 2021 with the appointment of Isobel Langton as Chief Executive. However, the reporting of the gender pay gap metrics for 2020 will be distorted due to the greater presence of men in senior or executive roles.

Diversity and inclusion

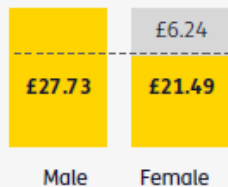
SENIOR MANAGER BY GENDER



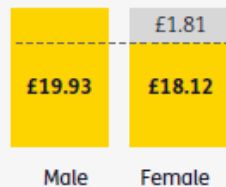
BONUS RECIPIENTS BY GENDER



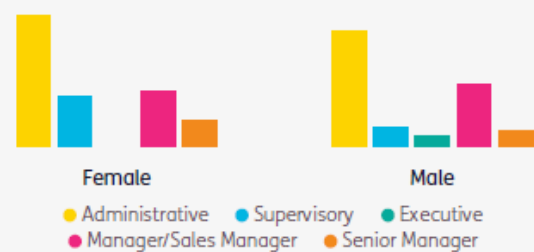
HOURLY MEAN PAY GAP



HOURLY MEDIAN PAY GAP



GRADE BY GENDER (AS AT 31.12.20)



Talent and succession

The Committee is mindful of its responsibilities to consider succession planning for the Board, the Senior Executive and Senior Management team and the Committee also annually reviews the Company's talent pipeline in order to ensure that the Society works towards identifying talented candidates in the short, medium and long-term 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 Directors and 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 2021.



Helen McEwan BA, AFPC
Nomination Committee Chair
14 April 2021

Remuneration Committee

Committee membership and attendance

		Total of 3 meetings held in 2020
Steve Payne	Committee Chair	3
Keith Baldwin	Independent Non-Executive Director	3
David Brand	Senior Independent Non-Executive Director	3
Wallace Dobbin	Board Chair	3
Helen McEwan	Independent Non-Executive Director	3

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

Key Committee activities during the year:

- Reviewed and made recommendation of the Executive Director Bonus Scheme payments 2019/2020.
- Reviewed and made recommendation of the Executive Director Salaries.
- Reviewed and made recommendations to the Board for its approval, for the Remuneration Policy.
- Reviewed and made recommendation for approval, by the Board, of the Committee's Terms of Reference.
- The Committee performed an annual effectiveness review and provided feedback to the Board on any actions resulting from the review.
- Continued the review of the Executive Bonus schemes, supported by Ernst & Young LLP, to ensure bonuses are better aligned with both performance and upcoming regulatory requirements.
- Reviewed the UK Corporate Governance Code 2018 and sought ways to approach and implement a pension realignment between the Executives and all employees.

- Determining the total individual remuneration package of each Executive Director, the Board Chair 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.

Committee composition

The Committee comprises, the Committee Chair 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 service of Ernst and Young LLP as remuneration consultants. Ernst and Young LLP do not have any conflict or potential conflict 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 Chair.
- Review the ongoing appropriateness and relevance of the Remuneration Policy.



Steve Payne, BSc, FIA
Remuneration Committee Chair
14 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 2020. 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 has reviewed the Remuneration Policy and the executive and staff bonus schemes during 2020. The full Remuneration Policy is stated below.

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.	<p>Base salaries take account of:</p> <ul style="list-style-type: none"> • 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). <p>Salaries are usually reviewed annually with changes implemented from 1 April each year.</p>
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.	<p>Corporate and individual performance targets are set by the Remuneration Committee at the start of each year and achievements reviewed after the year end.</p> <p>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.</p>
Pension	To recruit and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society.	<p>The Executive Directors are members of the Society's defined contribution Group Personal Pension Plan, which is available to all employees.</p> <p>Pension entitlements are not included as salary for the purpose of bonus calculations.</p>
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.	<p>Annual fee for Board Chair.</p> <p>Annual fee for Independent Non-Executive Directors. Additional fees paid to the Committee Chair's.</p> <p>Fees are reviewed periodically, with the Board Chair's fee reviewed by the Committee and the Independent Non-Executive Directors' fees reviewed by the Executive Directors to avoid any conflict.</p>

Maximum value potential	Performance metrics	Changes to policy in 2020
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 2020 are provided on page 56.
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 56.
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 54.
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 54.

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%
Steve Bryan (Director of Distribution and Marketing)				
	Minimum	87%	0%	13%
	On Target	47%	47%	6%
	Maximum	32%	63%	5%
John Gunn (Finance Director)				
	Minimum	87%	0%	13%
	On Target	57%	34%	9%
	Maximum	47%	47%	6%
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

Annual Report on remuneration

The following table shows the breakdown of total remuneration for Directors in 2020 together with the prior year comparatives:

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 UK Corporate Governance Code 2018, 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 and has had direct and open dialogue with members on Executive Director remuneration in 2020. The Directors' Remuneration Report is subject to a vote at the Annual General Meeting.

	2020 £000s					2019 £000s				
	Salary / Fees	Benefits / Expenses	Bonus	Society Pension Payment ⁽¹⁾	Total	Salary / Fees	Benefits / Expenses	Bonus	Society Pension Payment	Total
Executive Directors										
Andy Chapman	320	2	255	48	624	311	2	386	47	746
Steve Bryan	194	0	292	29	515	188	0	368	28	584
John Gunn	189	0	141	28	359	183	0	196	27	406
Professor Willie Hamilton	83	0	0	0	83	70	0	0	0	70
Chris Pollard	189	0	62	28	279	153	0	87	12	252
Paul Austin ⁽²⁾	0	0	75	0	75	64	1	137	10	212
Sub-totals	974	2⁽³⁾	824	134	1,935	969	3⁽³⁾	1,174	124	2,270
Non-Executive Directors										
Keith Baldwin	47	0	0	0	48	19	1	0	0	20
David Brand	58	0	0	0	58	56	1	0	0	57
Wallace Dobbin	84	0	0	0	84	81	1	0	0	82
Helen McEwan	52	4	0	0	56	51	4	0	0	55
Steve Payne	58	1	0	0	58	56	4	0	0	60
Sub-totals	299	6⁽⁴⁾	0	0	305	263	11⁽⁴⁾	0	0	274
Totals	1,273	8	824	134	2,239	1,232	14	1,174	124	2,545

⁽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; Andy Chapman, John Gunn, Chris Pollard and Steve Bryan.

⁽²⁾ Paul Austin retired April 2019.

⁽³⁾ Benefits for the Executive Directors relate to the premium paid for an Income Protection Policy.

⁽⁴⁾ 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 1 April 2020) are as follows:

Name	As At April 2020	As At April 2019	Increase
Andy Chapman (Chief Executive)	£322,004	£312,625	3%
Steve Bryan (Director of Distribution and Marketing)	£195,314	£189,625	3%
John Gunn (Finance Director from April 2019)	£190,550	£185,000	3%
Chris Pollard (Chief Operating Officer from April 2019)	£190,550	£185,000	3%
Professor Willie Hamilton (Medical Director)	£48,564	£47,150	3%

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 2020 and 2019 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.
- In 2020, the Remuneration Committee agreed that discretion would be used over this year's bonus payments, bypassing the normal formula of what we've achieved against target. It was agreed that a 25% reduction would be applied to reflect the reduction in expense costs arising as a result of the Covid-19 pandemic that the Committee decided were not within normal management control.

The following table shows the targets that were set for the corporate performance measures in both 2020 and 2019 and the awards made in respect of those measures:

Corporate Performance Measure	2020				2019			
	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	74,910	71,135	95.0%	0.0%	69,403	67,868	97.8%	12.8%
Operating Expenses ⁽¹⁾	20,988	19,046	90.7%	45.0%	18,076	18,214	100.8%	20.0%
Totals				45.0%				32.8%

⁽¹⁾ Operating expenses in this context excludes deferred acquisition costs; product development costs; pension costs; and sundry year end write-offs. The Remuneration Committee agreed that discretion would be used over this year's bonus payments, bypassing the normal formula of what we've achieved against target. It was agreed that a 25% reduction would be applied.

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 2020 and 2019 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 (2019: £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 Chair) 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 Chair
14 April 2021

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

Opinion

We have audited the financial statements of Exeter Friendly Society Limited ("the Society") and its subsidiaries ("the group") for the year ended 31 December 2020 which comprise the Consolidated Statements of Comprehensive Income, the Consolidated Statements of Financial Position, the Consolidated Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Friendly Societies Act 1992.

In our opinion, the financial statements have been prepared in accordance with the requirements of the Friendly Societies Act 1992 and:

- give a true and fair view of the state of the group's and of the Society's affairs as at 31 December 2020 and of the group's and the Society's income and expenditure for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Friendly Societies Act 1992.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Our audit procedures to evaluate the directors' assessment of the group's and the Society's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the group's and the Society's ability to continue as a going concern;
- Reviewing the 'Going Concern and Viability Review' prepared by management for the Board;
- Reviewing regulatory correspondence;
- Reviewing the Group ORSA, which gives a forward-looking assessment of own risks and solvency requirements for the group and the future capital position based on different stresses and scenarios applied by the Board, and contains Reverse Stress and Scenario Tests;
- Considering information obtained during the course of our audit for any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19); and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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 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.

We summarise below the key audit matter in forming our audit opinion above, together with an overview of the principal audit procedures performed to address it and key observations arising from those procedures.

This matter, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
<p>Valuation of the long-term insurance contract asset (gross and net)</p> <p>The group's and the Society's long-term insurance asset, as disclosed in Note 24.2, is significant at £73.8m (2019: £68.2m). It is based on estimates and is subject to inherent variability.</p> <p>The valuation of the long-term insurance asset is subjective, particularly in the context of selecting and applying the assumptions (economic and non-economic) and the methods and approaches used to determine its valuation.</p> <p>We identified a significant risk that the long-term insurance contract asset calculated by management is materially misstated.</p>	<p>In conjunction with our actuarial specialist team members, our procedures to address the valuation of the long-term insurance contract asset risk included, but were not limited to, the following:</p> <ul style="list-style-type: none"> • Reviewing the data extraction processes, reconciliations and controls performed by the Society's actuaries; • Performing consistency checks over the raw data files and the model input data; • Assessing the reasonableness of the assumptions employed in calculating the gross and net long-term insurance contract asset; • Reviewing the models and methodology employed, including reviewing methodology papers produced by management and considering changes in the model and methodology made during the year; and • Gaining an understanding of the results through analysis of the quarterly movements in the best estimate by product. <p>Our observations</p> <p>Based on the work performed, we consider the methodology and assumptions used to value the gross and net long-term insurance contract asset to be appropriate and supported by the evidence obtained.</p>

Our application of materiality and an overview of the scope of our audit

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:

Overall materiality	Overall group and Society materiality: £4.2m.
How we determined it	Materiality was set by reference to the Society's Unallocated Divisible Surplus ("UDS") (of which it represented 2.1%).
Rationale for benchmark applied	<p>The UDS is a measure of accumulated surplus and we have determined, in our professional judgement, it to be one of the principal benchmarks within the financial statements relevant to members in assessing the group's and the Society's financial position and financial performance.</p> <p>Since the UDS of the group is so similar to that of the Society, we used the Society's UDS as the benchmark for both the group and the Society's materiality.</p>
Performance materiality	<p>Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.</p> <p>Performance materiality of £2.7m was applied in the audit of the group and the Society.</p>
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1m for the group and the Society as well as misstatements below these amounts which, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the group and the Society, their environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our group audit scope included an audit of the group and the Society financial statements. All entities within the group were subject to full scope audit and the audits were performed by the group audit team.

At the level of the Society, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Review and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Review and the Directors' Report have been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the Society and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Review or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Society, or returns adequate for our audit have not been received from branches not visited by us; or
- the Society's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the directors are responsible for the preparation of the financial statements and for being satisfied

that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and the Society and their industry, we identified that the principal risks of non-compliance with laws and regulations related to non-compliance with the regulatory requirements of the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements, such as the Friendly Societies Act 1992.

In identifying and assessing risks of material misstatement in respect to irregularities, including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the group and the Society and the industry in which they operate, and considering the risk of acts by the group and the Society which were contrary to the applicable laws and regulations;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as

required by auditing standards), from inspection of the group's and the Society's regulatory and legal correspondence and review of minutes of directors' meetings in the year.

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of the financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to the valuation of the insurance contract asset and significant one-off or unusual transactions; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under 'Key audit matters' within this report.



Sam Porritt (Senior Statutory Auditor)

for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London E1W 1DD

15 April 2021

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

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 27 August 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is one year, covering the year ended 31 December 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Society and we remain independent of the group and the Society in conducting our audit.

Use of the audit report

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

Consolidated Statements of Comprehensive Income

for the year ended 31 December 2020

	Note	Group		Society	
		2020	2019	2020	2019
		£000	£000	£000	£000
Gross earned premiums	4	71,080	67,828	67,952	64,326
Reinsurers' share of gross earned premium	4	(9,685)	(8,028)	(9,685)	(8,028)
Net earned premium		61,395	59,800	58,267	56,298
Investment income	5	2,444	2,587	2,435	2,579
Net gains / (losses) on investments	6	2,908	9,251	2,889	9,246
Other Income					
Reinsurance commission	7	295	274	295	274
Total Income		67,042	71,912	63,887	68,397
Gross benefits and claims	8	(34,670)	(41,032)	(32,927)	(38,165)
Reinsurers' share of gross benefits and claims	8	5,228	3,718	5,228	3,718
Net benefits and claims		(29,442)	(37,314)	(27,700)	(34,447)
Gross change in insurance contract liabilities	9	6,848	6,926	6,732	6,950
Reinsurers' share of gross change in insurance contract liabilities	9	4,367	5,373	4,367	5,373
Net change in insurance contract liabilities		11,216	12,298	11,099	12,322
Investment expenses and charges		(292)	(218)	(292)	(218)
Finance costs	10	(3)	0	(3)	0
Net operating expenses (excluding commission to brokers)	11	(29,065)	(21,657)	(27,965)	(21,650)
Commission and introductory fees to Brokers	11	(13,312)	(14,184)	(13,075)	(13,964)
Bonus and rebates		(591)	(598)	(591)	(598)
Total Benefit, Claims and Expenses		(61,490)	(61,673)	(58,527)	(58,555)
Profit before tax		5,552	10,239	5,360	9,842
Income Tax Expense	14	0	0	0	0
Transfer (to) the Unallocated divisible surplus	22	(5,552)	(10,239)	(5,360)	(9,842)
Result for the year		0	0	0	0
Other Comprehensive Income					
Pensions scheme actuarial (loss) / gain	23.1	(119)	201	(119)	201
Fair value losses of property, plant and equipment	18	(100)	0	(100)	0
Transfer from / (to) the Unallocated Divisible Surplus	23	219	(201)	219	(201)
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 22. 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 65 to 105 form part of these financial statements.

Consolidated Statements of Financial Position

as at 31 December 2020

	Note	Group		Society	
		2020 £000	2019 £000	2020 £000	2019 Restated £000
Assets					
Intangible assets and goodwill	17	5,228	6,557	5,228	6,557
Deferred acquisition costs					
- General business	15	1,779	1,694	1,655	1,556
Investments in group undertakings	16	0	0	25	25
Property, plant and equipment	18	3,556	3,214	3,556	3,214
Post-employment benefits obligations					
- Pension benefit obligation (general business fund)	23.1	961	974	961	974
Insurance contract assets	24	73,798	68,241	73,798	68,241
Loans and other receivables:					
- Insurance receivables	21	14,653	15,305	13,740	13,749
- Amounts due from subsidiary undertakings		0	0	3,502	2,997
- Prepayments and accrued income		485	421	483	419
Financial assets	20	133,016	136,952	130,992	134,947
Cash and cash equivalents		17,311	11,702	17,311	11,702
Total Assets		250,787	245,060	251,250	244,381
Liabilities					
Unallocated divisible surplus	22	201,037	195,703	200,740	195,600
Insurance contract liabilities	24	20,369	21,877	19,468	20,578
Reinsurers' share of insurance contract assets		12,172	16,540	12,172	16,540
Post-employment benefits obligations					
- Pension benefit obligation (long term business fund)	23.2	130	140	130	140
Provisions					
- Provisions	28	6,958	0	6,958	0
Trade and other payables					
- Insurance payables	27	3,042	3,289	2,960	2,688
- Amounts due to subsidiary undertaking		0	0	1,995	1,461
- Other payables including tax and social security	29	3,567	3,202	3,346	3,101
- Accruals and deferred income		3,512	4,309	3,481	4,273
Total Liabilities		250,787	245,060	251,250	244,381

See note 31 for details of a prior period error.

The financial statements beginning on page 62 and the notes on pages 65 to 105 were approved and authorised for issue by the Board of Directors on 14 April 2021 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 2020

	Note	Group		Society	
		2020 £000	2019 £000	2020 £000	2019 Restated £000
Cash flows from operating activities					
Cash generated from / (used in) operating activities	30	4,901	(6,701)	4,910	(6,694)
Dividend income received		521	967	521	967
Interest income received	30	1,923	1,620	1,914	1,613
Interest paid on lease liability	30	(3)	0	(3)	0
Net cash generated from / (used in) Operating Activities		7,342	(4,114)	7,342	(4,114)
Cash flows from investing activities					
Purchases of property, plant and equipment	18	(517)	(259)	(517)	(259)
Movement in term deposits	17	0	3,519	0	3,519
Purchase of intangible assets		(1,292)	(1,617)	(1,292)	(1,617)
Net cash generated from Investing Activities		(1,809)	1,643	(1,809)	1,643
Cash flows from financing activities					
Payment of Lease Liability Principal		(21)	0	(21)	0
Net cash generated from Financing Activities	19	(21)	0	(21)	0
Exchange gains / (losses) on Cash and Cash equivalents		96	(101)	96	(101)
Net increase / (decrease) in cash and cash equivalents		5,609	(2,572)	5,609	(2,573)
Cash and cash equivalents at the beginning of the year		11,702	14,274	11,702	14,274
Cash and cash equivalents at the end of the year		17,311	11,702	17,311	11,702

The notes on pages 65 to 105 form part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

1 Accounting policies

1.1 Basis of preparation and consolidation

The Group's and Society's financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Friendly Societies Act 1992. 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). From the 1 January 2021 the Group will report under UK-adopted international accounting standards.

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 33.

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 Society also holds a Lapse Reinsurance treaty with Hanover Re, this treaty does not impact the best estimate technical provision when reported under IFRS 4.

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 until 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 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. **Details of the key assumptions are contained in Note 26**

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 23.**

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. The key assumption used in the valuation of intangibles is the longevity of the asset, which determines the useful economic life. 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. Indicators of impairment are events or circumstances that indicate the carrying value may not be recoverable. This can include factors such as new strategic projects, or acceleration of system replacement. If any such indication exists, management use their judgement to estimate the asset's recoverable amount.
Details are contained in Note 17

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	Holloway Income Protection products are all reviewable annually.
Life products	Managed Life premiums are guaranteed, but may vary by pre-determined amounts if the policy holder meets certain pre-agreed conditions. Real Life premiums are guaranteed for the life of the contract.
Other income protection	Pure Protection and Bills & Things products are reviewable after the initial 3 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 with reviewable contracts reviewable after the initial 3 years. The Locum product is reviewable after the initial 5 years.

iv Reinsurance

a General Insurance Contracts

The general business is not reinsured.

b Long Term Insurance Contracts

Most of the long-term Income Protection contracts are ceded to reinsurers under contracts to transfer 50% - 85% of the insurance risk. Managed and Impaired Life products are ceded to a reinsurer 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 separate treaty which is likely to result in fewer negative reinsurance reserves on these policies.

The Society also holds a Lapse Reinsurance treaty. This treaty is designed to protect the Society against losses resulting from large lapse events. The events covered are:

- a mass lapse of at least 30% of policies, up to 50% of policies over a one year period; and

- a gradual increase in lapse experience where lapses experience is between 35% and 50% higher than our best estimate assumption, over a 5 year period.

Reinsuring these events also allows us to reduce the capital held for such events.

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 2020 this was 8.25% (2019: 7.65%) 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 2020. 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 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 it 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. Assets held under leases and lease liabilities

At inception of a contract the Group assesses whether a contract is a lease, or contains a lease component. If a contract contains the right to control the use of an asset over a period of time in exchange for consideration, then IFRS 16 is applied.

The Group recognises a right of use asset within Property and Equipment. This asset is initially measured at cost, which comprises the initial amount of the lease liability, less any lease payments made at or before the commencement date plus any initial direct costs incurred. If required under the terms of the contract an estimate of costs required to restore the underlying asset at the end of the lease term is also included.

The right of use asset is depreciated over a straight-line basis from the commencement date until the end of the lease term.

The lease liability is initially measured as the present value of payments due over the lease term that have not been paid at the lease commencement date, discounted at the rate implicit in the lease, or if that rate can't be determined the Group's incremental borrowing rate. Generally, the Group uses the incremental borrowing rate. The liability is subsequently measured at amortised cost.

In determining the lease term the Group considers contractual break clauses. The lease term is identified as the period up to the break clause unless management is reasonably certain that they will not exercise the break.

The incremental borrowing rate is determined by obtaining interest rates from external financing sources for periods equivalent to the lease terms.

Depreciation is recognised within operating expenses, and interest expense on the lease is recognised within finance costs.

IFRS 16 offers recognition exemption for leases where the lessee can determine that the lease is short term in nature, or that the lease is for an underlying asset of low value. The group assesses leases on an individual basis, and where appropriate takes the exemption option. Leases of this type are recognised in profit or loss on a straight-line basis over the lease term.

xii. Intangible assets and goodwill

Intangible assets and goodwill are detailed in note 17.

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.

xiii. Investments in group undertakings

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

xiv. 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.

xv. 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.

xvi. 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).

xvii. 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. If the fair value of the defined benefit scheme is a surplus, the resultant asset is limited to the asset ceiling defined as present value of economic benefits available in the form of future refunds from the plan or reductions in contributions to the plan. 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.

xviii. 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.

xix 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.

xx. 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 24.9.

xxi. 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.

xxii. Strategic divisions

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

Adjustments have been made to restate the assets and liabilities in line with PRA regulations.

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 known 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.

2.2 Capital management - Long term insurance business

	Note	Group		Society	
		2020 £000	2019 £000	2020 £000	2019 £000
Statutory unallocated divisible surplus					
Opening unallocated divisible surplus	22	95,413	92,314	95,413	92,314
Transfer to / (from) Unallocated Divisible Surplus from Statement of Comprehensive Income		21	3,108	21	3,108
Actuarial loss / (gain) on defined benefit pension scheme taken to Statement of Comprehensive Income		2	(8)	2	(8)
Closing unallocated divisible surplus	22	95,436	95,413	95,436	95,413
Reconciliation to Solvency II own funds (unaudited)					
Closing unallocated divisible surplus		95,436	95,413	95,436	95,413
Adjustments required for Solvency II		(4,618)	(7,634)	(4,618)	(7,634)
Own funds under Solvency II		90,818	87,779	90,818	87,779

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 £90.8 million (2019 on a comparative basis: £87.8 million).

2.3 Capital management - General insurance business

	Note	Group		Society	
		2020 £000	2019 £000	2020 £000	2019 £000
Statutory unallocated divisible surplus					
Opening unallocated divisible surplus	22	100,289	92,948	100,187	93,243
Transfer to / (from) Unallocated Divisible Surplus from Statement of Comprehensive Income		4,869	7,252	4,718	6,824
Actuarial loss on defined benefit pension scheme taken to Statement of Comprehensive Income		(121)	209	(121)	209
Fair value gains on property, plant and equipment taken to Statement of Comprehensive Income		(100)	0	(100)	0
Actuarial (loss) on unexpired risk reserve taken to Statement of Comprehensive Income		662	(120)	619	(90)
Closing unallocated divisible surplus	22	105,599	100,289	105,303	100,187
Reconciliation to Solvency II own funds (unaudited)					
Closing unallocated divisible surplus		105,599	100,289	105,303	100,187
Adjustments required for Solvency II		(1,438)	(401)	5,822	(304)
Own funds under Solvency II		104,161	99,888	111,125	99,883

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 £46.4 million (2019: £44.6 million) of the General Reserve has been allocated to cover future underwriting losses arising from these age-at-entry policies. 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 £64.7 million (2019 on a comparative basis: £55.2 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 £3.7 million (2019 on a comparative basis: £3.0 million).

3 Risk management

This section alongside the Risk Management Report on page 12 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 across our general insurance and long term insurance contracts. 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.

Concentration risk is allowed for in the Solvency II calculations using the Standard Formula. The market risk SCR incorporates the risk of any concentration of assets and the catastrophe risk SCR incorporates a concentration of insurance risks.

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 24 sets out the long-term insurance contract liabilities and details the impact of movements during 2020. The table below sets them out by type of contract.

Group	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Holloway income protection	4,715	0	2,891	2,765	0	2,765
Other income protection	(81,032)	15,506	(66,897)	(72,669)	17,567	(55,102)
Term assurance	(5,413)	(3,333)	(8,762)	(6,782)	(1,028)	(7,810)
Total	(81,731)	12,172	(72,768)	(76,687)	16,540	(60,147)
Society	£000	£000	£000	£000	£000	£000
Holloway income protection	4,715	0	2,891	2,765	0	2,765
Other income protection	(81,032)	15,506	(66,897)	(72,669)	17,567	(55,102)
Term assurance	(5,413)	(3,333)	(8,762)	(6,782)	(1,028)	(7,810)
Total	(81,731)	12,172	(72,768)	(76,687)	16,540	(60,147)

The valuation assumptions have been recommended by the Chief Actuary and approved by the Board. See Note 26 for details of assumptions used in the calculation of the long-term business reserve.

ii. General insurance

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

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
UK	3,463	3,532	3,239	3,234
International	452	422	452	422
Total	3,915	3,954	3,691	3,656

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	2018	2019	2020	Total
Estimate of ultimate claims costs				
At end of reporting year	31,064	28,857	21,860	81,781
One year later	30,817	28,667	-	-
Two years later	30,817	-	-	-
Current estimate of cumulative claims incurred	30,817	28,667	21,860	81,344
Cumulative payments to date	(30,817)	(28,667)	(18,169)	(77,653)
Liability recognised in the balance sheet	-	-	3,691	3,691
Reserve in respect of prior years	-	-	-	-
Total reserve included in the balance sheet			3,691	3,691

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 12.

Credit Risk

The Group's maximum exposure to credit risk is detailed below and discussed on page 14. In addition the Group and Society is exposed to credit risk from policyholders through the sale of insurance policies and intermediaries through the cancellation of policies.

On-boarding procedures assess the creditworthiness of new intermediaries, and distribution quality management tools are used to manage any potential concentration risks. No further provision is required over and above the normal provision for doubtful debts.

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 Restated £000
Debt securities - UK Listed securities	111,914	100,424	109,890	98,419
Insurance Receivables	14,653	15,305	13,740	13,749
Cash and cash equivalents	17,311	11,702	17,311	11,702
Total assets bearing credit risk	143,878	127,431	140,940	123,869

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 14.

Group

Maturity profile of financial liabilities 2020	2020 - Group				Total £000
	Within 1 year	1-5 years	Over 5 years	No term	
	£000	£000	£000	£000	
Insurance contract liabilities					
- Insurance contract liabilities (general business fund)	20,369	0	0	0	20,369
- Reinsurers share of insurance contract assets (long term business fund)	3,047	10,995	29,137	(31,007) ⁽¹⁾	12,172
Post-employment benefits obligations					
- Pension benefit obligation (long term business fund)	0	0	130	0	130
Provisions					
- Provisions	6,958	0	0	0	6,958
Trade and other payables					
- Insurance payables	3,041	0	0	0	3,041
- Amounts due from subsidiary undertaking	0	0	0	0	0
- Other payables including tax and social security	10,326	0	0	0	10,326
- Lease liability	80	118	0	0	198
- Accruals and deferred income	3,519	0	0	0	3,519
Total financial liabilities	47,340	11,113	29,267	(31,007)	56,713

Maturity profile of financial liabilities 2019	2019 - Group				Total £000
	Within 1 year	1-5 years	Over 5 years	No term	
	£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
Provisions					
- Provisions	0	0	0	0	0
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
- Lease liability	0	0	0	0	0
- Accruals and deferred income	4,313	0	0	0	4,313
Total financial liabilities	36,207	10,694	25,506	(23,046)	49,361

⁽¹⁾ This represents the reinsurers share of the risk margin and therefore has no duration.

Society

Maturity profile of financial liabilities 2020	2020 - 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)	19,468	0	0	0	19,468
- Reinsurers share of insurance contract assets (long term business fund)	3,047	10,995	29,137	(30,654)	12,525
Post-employment benefits obligations					
- Pension benefit obligation (long term business fund)	0	0	130	0	130
Provisions					
- Provisions	6,958	0	0	0	6,958
Trade and other payables					
- Insurance payables	2,959	0	0	0	2,959
- Amounts due from subsidiary undertaking	1,995	0	0	0	1,995
- Other payables including tax and social security	10,106	0	0	0	10,106
- Lease liability	80	118	0	0	198
- Accruals and deferred income	3,482	0	0	0	3,482
Total financial liabilities	48,094	11,113	29,267	(30,654)	57,820

Maturity profile of financial liabilities 2019	2019 - 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)	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
Provisions					
- Provisions	0	0	0	0	0
Trade and other payables					
- Insurance payables	2,913	0	0	0	2,913
- Amounts due from subsidiary undertaking	1,461	0	0	0	1,461
- Other payables including tax and social security	2,875	0	0	0	2,875
- Lease liability	0	0	0	0	0
- Accruals and deferred income	4,275	0	0	0	4,275
Total financial liabilities	35,627	10,694	25,506	(23,046)	48,781

Fair value estimate - Group

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

2020	Group			Total
	Level 1	Level 2	Level 3	
Assets:	£000	£000	£000	£000
Financial assets at fair value through income:				
- Equity securities	21,102	0	0	21,102
- Debt securities	111,914	0	0	111,914
Total assets at fair value	133,016	0	0	133,016

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

Fair value estimate - Society

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

2020	Society			Total
	Level 1	Level 2	Level 3	
Assets:	£000	£000	£000	£000
Financial assets at fair value through income:				
- Equity securities	21,102	0	0	21,102
- Debt securities	109,890	0	0	109,890
Total assets at fair value	130,992	0	0	130,992

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

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 12

3.4 Strategic & External Risks

The Strategic and External Risks faced by The Exeter are covered in the Risk Management Report on page 12

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 which starts 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	
	2020	2019	2020	2019
	£000	£000	£000	£000
Gross written premiums				
Long term insurance contracts:				
Holloway income protection	2,856	3,028	2,856	3,028
Life products	5,465	2,684	5,465	2,684
Other income protection	23,327	21,137	23,327	21,137
General insurance contracts:				
UK	35,668	37,331	32,821	33,825
International	2,957	3,144	2,957	3,144
Change in gross provision for unearned premiums	807	504	526	508
Gross earned premiums	71,080	67,828	67,952	64,326
Reinsurers' share of gross premiums				
Long term insurance premiums	(9,685)	(8,028)	(9,685)	(8,028)
Net earned premiums	61,395	59,800	58,267	56,298

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	
	2020	2019	2020	2019
	£000	£000	£000	£000
Income from investments at fair value through income:				
Interest income	1,923	1,620	1,914	1,612
Dividend income	521	967	521	967
Total investment income	2,444	2,587	2,435	2,579

6 Net gains / (losses) on investments

	Group		Society	
	2020	2019	2020	2019
	£000	£000	£000	£000
Investments at fair value through income - realised gains / (losses):				
- Debt securities	168	1,932	168	1,932
- Equity securities	2,679	470	2,679	470
Investments at fair value through income - unrealised gains / (losses):				
- Debt securities	3,637	1,684	3,618	1,679
- Equity securities	(3,576)	5,165	(3,576)	5,165
Net gains / (losses) on investments	2,908	9,251	2,889	9,246

7 Reinsurance commission

	Group		Society	
	2020	2019	2020	2019
	£000	£000	£000	£000
Gross reinsurance commission receivable	295	274	295	274
Net reinsurance commission	295	274	295	274

8 Net benefits and claims

	Group		Society	
	2020	2019	2020	2019
	£000	£000	£000	£000
Gross Claims	10,806	7,990	10,806	7,990
Payment of Terminal Bonuses	426	349	426	349
Change in Members Dividend Account excluding Interest & Dividend credited	780	635	780	635
Long term insurance contracts benefits and claims payable	12,012	8,974	12,012	8,974
Gross Claims	22,658	32,058	20,916	29,191
General insurance contracts benefits and claims payable	22,658	32,058	20,916	29,191
Gross benefits and claims	34,670	41,032	32,927	38,165
Reinsurers' share of gross benefits and claims	(5,228)	(3,718)	(5,228)	(3,718)
Net benefits and claims	29,442	37,314	27,700	34,447

9 Net change in insurance contract liabilities

	Group		Society	
	2020	2019	2020	2019
	£000	£000	£000	£000
(Decrease) / Increase in Gross insurance contract liabilities	(7,064)	(6,832)	(6,667)	(6,860)
Change in provision for unearned premium	807	504	526	508
Provision for bonuses and rebates	(591)	(598)	(591)	(598)
Gross change in insurance contract liabilities	(6,848)	(6,926)	(6,732)	(6,950)
Reinsurers' share of gross change in insurance contract liabilities				
Change in long term insurance contract liabilities	(4,367)	(5,373)	(4,367)	(5,373)
Net change in insurance contract liabilities	(11,216)	(12,298)	(11,099)	(12,322)

Further analysis regarding the movement in insurance contract liabilities can be found in Note 24.

10 Finance costs

	Group		Society	
	2020	2019	2020	2019
	£000	£000	£000	£000
Interest expense on lease liabilities	3	0	3	0
Total finance costs	3	0	3	0

11 Net operating expenses

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Acquisition costs (excluding commissions)	13,058	12,456	12,758	12,300
Increase in deferred acquisition costs (excluding commissions)	(82)	(127)	(64)	(123)
Administrative expenses	16,089	9,328	15,271	9,473
Net operating expenses (excluding commission to brokers)	29,065	21,657	27,965	21,650
Commission and introductory fees	13,315	14,586	13,110	14,350
Increase in deferred acquisition costs (commission)	(3)	(402)	(35)	(386)
Commission to brokers	13,312	14,184	13,075	13,964
Net operating expenses (including commission to brokers)	42,377	35,841	41,040	35,614

Net operating expenses include:

Auditors' remuneration:⁽¹⁾

Fees payable to the Society's auditors for the audit of current year financial statements	238 ⁽²⁾	193	193	193
Fees payable to the Subsidiaries auditors for the audit of current year financial statements	15	15	15	15
Fees payable to the Society's auditors for other services pursuant to legislation	0	0	0	0
Other non-audit services not covered above	12 ⁽³⁾	122	12	122
Provision Movement (note 28)	6,958	0	6,958	0
Depreciation of tangible assets (note 18)	266	228	266	228
Depreciation of right to use asset (note 18)	28	0	28	0
Amortisation of intangible assets (note 17)	1,137	1,017	1,137	1,017
Impairment (note 17)	0	0	(519)	519
Loss on disposal of intangible asset (note 17)	0	400	0	400
Loss on intangible asset impairment review (note 17)	1,486	10	1,486	10
Aggregate amount of Directors' Emoluments	1,928	2,277	1,928	2,277

⁽¹⁾ In addition to the amounts disclosed above, expenses relating to audit work of £0 (2019: £9,138) were paid to the auditors in respect of the year ended 31 December 2020

⁽²⁾ Included within this amount are fees of £0k (2019: £23.2k) relating to the 2019 audit which were agreed subsequent to the accounts being signed off.

⁽³⁾ The Society utilised the following services from Mazars during the year; Tax services for the completion for 2019 Corporation Tax Returns (£12k inc VAT). Following the appointment of Mazars in July 2020 an alternative provider for these services will be used.

Provision information is detailed in note 28

12 Employee information

	Group		Society	
	2020 Number	2019 Number	2020 Number	2019 Number
The average number of persons (full-time equivalents) including Executive Directors employed by the Society and subsidiary in the year was:				
Administration	139	124	139	124
Business Development	22	21	22	21
Average full-time equivalents in the year	160	145	160	144
The closing full-time equivalent at 31 December was:	162	145	162	145
Staff costs for the above persons were:				
Wages and salaries	9,575	9,987	9,394	9,928
Social security costs	839	720	812	713
Other pension costs	659	600	651	596
Total staff costs	11,073	11,307	10,857	11,237

The Exeter Cash Plan does not directly employ any staff, however any direct costs associated with administrative activities are recharged from the Society.

13 Directors' emoluments

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

	Group		Society	
	2020 Number	2019 Number	2020 Number	2019 Number
Executive				
£0 - £99,999	1	1	1	1
£200,000 - £299,999	1	1	1	1
£300,000 - £399,999	1	0	1	0
£400,000 - £499,999	0	1	0	1
£500,000 - £599,999	1	1	1	1
£600,000 - £699,999	1	0	1	0
£700,000 - £799,999	0	1	0	1
Total	5	5	5	5
Non-executive				
£10,000 - £49,999	1	1	1	1
£50,000 - £59,999	3	3	3	3
£60,000 - £69,999	0	0	0	0
£70,000 - £79,999	0	0	0	0
£80,000 - £89,999	1	1	1	1
Total	5	5	5	5
	£000	£000	£000	£000
Highest paid director	624	746	624	746
Chairman	84	82	84	82

Defined Contribution Pension benefits were accruing to three Executive Directors as at 31 December 2020 (2019: three). The aggregate amount of pension contributions made by the Society to the Executive Directors was 624 (2019:746). Pension contributions in respect of the highest paid Director for the year amounted to 84 (2019:82).

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 54

14 Taxation

Tax activities relate to the activities of Exeter Cash Plan Holdings Limited, and The Exeter Cash Plan.

14.1 Amounts recognised in profit or loss

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Current Tax expense:				
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% (2019: 19%). The Government has proposed that this rate will remain at 19% until 1 April 2023, when it will increase to 25%.

14.2 Reconciliation of current tax expense

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Profit / (Loss) before tax from continuing operations	712	(122)	712	(122)
Tax at standard corporation tax rate	135	(23)	135	(23)
<i>Effects of:</i>				
Movement in unrecognised deferred tax on tax losses carried forwards	(135)	23	(135)	23
Tax on income for the year	0	0	0	0

Total accumulated tax losses and additional expenses as at the reporting date are £12,576,000 (2019: £13,288,000). These losses may be utilised against future trading profits of The Exeter Cash Plan and have no expiry date.

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

15 Deferred acquisition costs

	Total Group	Total Society
	£000	£000
Cost:		
At 1 January 2020	1,694	1,556
Total acquisition costs deferred		
Commission and introductory fees	1,253	1,178
Other Acquisition costs	526	477
Total acquisition costs amortised		
Commission and introductory fees	(1,250)	(1,143)
Other Acquisition costs	(444)	(413)
At 31 December 2020	1,779	1,655
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

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

16 Investments in group undertakings

The Society investment in subsidiaries can be analysed as follows:

	2020	2019
	General Business Fund	General Business Fund
	£000	£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.

17 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

	2020			2019		
	Goodwill	Software and Licenses	Total	Goodwill	Software and Licenses	Total
Cost:	£000	£000	£000	£000	£000	£000
Cost at 1 January	0	16,339	16,339	400	14,723	15,123
Additions	0	1,292	1,292	0	1,617	1,617
Impairment	0	(1,831)	(1,831)	0	0	0
Disposal	0	0	0	(400) ⁽¹⁾	0	(400)
Cost at 31 December	0	15,800	15,800	0	16,339	16,339
Accumulated Amortisation:						
Provision at 1 January	0	9,783	9,783	0	8,766	8,766
Amortisation	0	1,129	1,129	0	1,017	1,017
Impairment loss	0	8	8	0	0	0
Disposals	0	(348)	(348)	0	0	0
Provision at 31 December	0	10,572	10,572	0	9,783	9,783
Carrying value at 31 December	0	5,228	5,228	0	6,557	6,557

⁽¹⁾ A presentational change has been made to 2019 to show the Goodwill as a disposal. This has arisen as no future benefit will accrue to the Society. The carrying value remains at nil.

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. Software and License costs included costs incurred on developing system functionality in preparation for a migration of legacy products, and work undertaken to enhance the finance system. During 2020 it was decided that neither of these developments were feasible, and this has resulted in an impairment loss.

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

18 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	Right to use Asset £000	Total £000
Cost:						
At 1 January 2020	2,200	908	1,419	658	0	5,185
Additions	0	272	3	225	241	741
Disposals	0	0	0	(24)	0	(24)
Revaluation	(100)	0	0	0	0	(100)
At 31 December 2020	2,100	1,180	1,422	859	241	5,801
Accumulated Depreciation:						
At 1 January 2020	0	908	671	392	0	1,971
Provision for the year	0	29	113	124	28	294
Disposals	0	0	0	(20)	0	(20)
At 31 December 2020	0	937	784	496	28	2,245
Net book value at 31 December 2020	2,100	243	638	363	213	3,556
	Land and buildings £000	Building fit-out costs £000	Equipment, fixtures and fittings £000	Computer equipment £000	Right to use Asset £000	Total £000
Cost:						
At 1 January 2019	2,200	908	1,354	1,181	0	5,643
Additions	0	0	65	194	0	259
Disposals	0	0	0	(717)	0	(717)
At 31 December 2019	2,200	908	1,419	658	0	5,185
Accumulated Depreciation:						
At 1 January 2019	0	908	552	990	0	2,450
Provision for the year	0	0	119	109	0	228
Disposals	0	0	0	(707)	0	(707)
At 31 December 2019	0	908	671	392	0	1,971
Net book value at 31 December 2019	2,200	0	748	266	0	3,214

The Society's premises at Emperor Way were valued as at 31 December 2020 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 £1,406,500.

19 Assets held under leases and lease liabilities

During 2020 the Group leased premises to enable expansion of its head office.

The table below summarises the value of right to use assets and liabilities held by the Group as at 31 December 2020.

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Right to use assets	213	0	213	0
Lease liabilities	(198)	0	(198)	0

The movement in the right to use asset balance is reported within note 18. The maturity analysis of the lease liability is shown within note 3.2.

During the year the Group recognised the following expenses in relation to the right to use asset and lease liability in the Income Statement.

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Interest on lease liabilities - Finance cost	3	0	3	0
Depreciation expense of right to use asset	28	0	28	0

The Group uses an incremental borrowing rate of 3.4%. The lease includes an initial rent concession of 50% from the date of completion for a period of 6 months, and 50% reduction for 3 months if the break clause is not exercised at year 3.

The lease includes break clauses, where the Group expects not to terminate the lease at these break clauses the remaining term is included within the lease .

During the year the Group and Society recognised expenses in relation to leases which meet the criteria for low value exemption. Where this option is taken the lease payments are recognised in profit or loss on a straight-line basis over the lease term. These amounts were immaterial in the year.

20 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.

20.1 Reconciliation of movements per classification in the year

Assets held at amortised cost

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
At 1 January	0	3,519	0	3,519
Movement in short term deposits with a maturity of less than 3 months	0	(3,519)	0	(3,519)
At 31 December	0	0	0	0

Assets held at fair value through income

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
At 1 January	136,952	132,256	134,947	130,256
Additions	23,706	28,438	23,706	28,438
Disposals at cost	(27,704)	(30,592)	(27,704)	(30,592)
Changes in Market value	62	6,850	43	6,845
At 31 December	133,016	136,952	130,992	134,947

20.2 Fair value through income - Group

	2020					
	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	21,102	16,723	0	0	21,102	16,723
	21,102	16,723	0	0	21,102	16,723
Debt securities:						
UK listed	81,210	68,919	30,704	30,328	111,914	99,247
	81,210	68,919	30,704	30,328	111,914	99,247
Total	102,312	85,643	30,704	30,328	133,016	115,971

	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

20.3 Fair value through income – Society

	2020					
	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	21,102	16,723	0	0	21,102	16,723
	21,102	16,723	0	0	21,102	16,723
Debt securities:						
UK listed	79,186	66,924	30,704	30,328	109,890	97,252
	79,186	66,924	30,704	30,328	109,890	97,252
Total	100,288	83,647	30,704	30,328	130,992	113,975

	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

21 Insurance receivables

21.1 Group

2020	Contract Holders	Agents / Brokers / Intermediaries	Reinsurers	Total
	£000	£000	£000	£000
Due as at 31 December 2020 - Less than 30 days in arrears	2,998	86	528	3,612
Due as at 31 December 2020 - More than 30 days in arrears	153	1,434	273	1,860
Not yet due as at 31 December 2020	10,512	0	30	10,542
Provision for impairment as at 31 December 2020	(190)	(1,171)	0	(1,361)
Total insurance receivables	13,473	349	831	14,653

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

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.

21.2 Society

2020	Contract Holders	Agents / Brokers / Intermediaries	Reinsurers	Total
	£000	£000	£000	£000
Due as at 31 December 2020 - Less than 30 days in arrears	2,995	86	528	3,608
Due as at 31 December 2020 - More than 30 days in arrears	142	1,189	273	1,603
Not yet due as at 31 December 2020	9,853	0	30	9,883
Provision for impairment as at 31 December 2020	(184)	(1,171)	0	(1,355)
Total insurance receivables	12,806	103	831	13,740

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	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

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.

22 Unallocated divisible surplus

	Group			Society		
	Long Term Business Reserves	General Business Reserves	Total	Long Term Business Reserves	General Business Reserves	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2020	95,413	100,289	195,702	95,413	100,187	195,600
Transfer from / to Statement of Comprehensive Income	23	5,531	5,554	22	5,337	5,359
Transfer from / to Statement of Other Comprehensive Income	2	(221)	(219)	2	(221)	(219)
At 31 December 2020	95,437	105,599	201,037	95,437	105,303	200,740
At 1 January 2019	92,314	92,948	185,262	92,314	93,243	185,557
Transfer from / to Statement of Comprehensive Income	3,108	7,132	10,241	3,108	6,734	9,842
Transfer from / to Statement of Other Comprehensive Income	(8)	209	201	(8)	209	201
At 31 December 2019	95,413	100,289	195,703	95,413	100,187	195,600

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.

22.1 General business reserve

The general business reserve for the Group can be further analysed as follows:

2020	General Reserve	Revaluation Reserve	Pension Reserve	Group Total
	£000	£000	£000	£000
At 1 January 2020	99,039	276	974	100,290
Property revaluation	0	(100)	0	(100)
Actuarial loss on defined benefit pension scheme	0	0	(121)	(121)
Surplus / (deficit) for the financial year	5,423	0	108	5,531
At 31 December 2020	104,462	176	961	105,599
2019	General Reserve	Revaluation Reserve	Pension Reserve	Total
	£000	£000	£000	£000
At 1 January 2019	91,990	276	680	92,946
Property revaluation	0	0	0	0
Actuarial gain on defined benefit pension scheme	0	0	209	209
Surplus / (deficit) for the financial year	7,049	0	85	7,134
At 31 December 2019	99,039	276	974	100,290

The general business reserve for the Society can be further analysed as follows:

2020	General Reserve	Revaluation Reserve	Pension Reserve	Society Total
	£000	£000	£000	£000
At 1 January 2020	98,938	276	974	100,188
Property revaluation	0	(100)	0	(100)
Actuarial loss on defined benefit pension scheme	0	0	(121)	(121)
Surplus / (deficit) for the financial year	5,229	0	108	5,337
At 31 December 2020	104,167	176	961	105,303
2019	General Reserve	Revaluation Reserve	Pension Reserve	Total
	£000	£000	£000	£000
At 1 January 2019	92,289	276	680	93,245
Property revaluation	0	0	0	0
Actuarial gain on defined benefit pension scheme	0	0	209	209
Surplus / (deficit) for the financial year	6,649	0	85	6,734
At 31 December 2019	98,938	276	974	100,188

22.2 Long term business reserve

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

2020	General Reserve	Pension Reserve	Total
	£000	£000	£000
At 1 January 2020	95,243	170	95,413
Actuarial gain on defined benefit pension scheme	0	2	2
Surplus / (deficit) for the financial year	14	8	23
At 31 December 2020	95,257	180	95,437

2019	General Reserve	Pension Reserve	Total
	£000	£000	£000
At 1 January 2019	92,143	170	92,313
Actuarial loss on defined benefit pension scheme	0	(8)	(8)
Surplus / (deficit) for the financial year	3,100	8	3,108
At 31 December 2019	95,243	170	95,413

23 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.

23.1 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 in factors such as investment returns and mortality 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 2020 is £165,600 including administrative expenses and PPF levies (2019: £165,840).

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 £478,000 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 Broadstone.

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

	2020	2019	2018
	£000	£000	£000
Present value of defined benefit obligation	(9,928)	(8,914)	(8,182)
Fair value of plan assets	10,889	9,888	8,862
Surplus	961	974	680
Impact of asset ceiling	0	0	0
Net asset in statement of financial position	961	974	680

As defined under IFRIC 14, the Society believes that it has an unconditional right to a refund of surplus and thus the gross pension surplus can be recognised where applicable.

ii. Expense recognised in the profit or loss

	2020	2019
	£000	£000
Employers part of current service cost	0	0
Administrative Expenses	(78)	(102)
Interest income	20	21
Past service (cost)	0	0
Gains on settlements	0	0
Total expense recognised in profit or loss	(58)	(81)

iii. Amounts recognised outside profit or loss

	2020	2019
	£000	£000
Actuarial gain	(121)	209
Impact of asset ceiling	0	0
Amount recognised outside profit or loss	(121)	209

iv. Plan assets

	2020		2019		2018	
	Allocation	£000	Allocation	£000	Allocation	£000
Equities	0%	0	0%	0	0%	0
Bonds	0%	0	0%	0	0%	0
Multi-asset fund	65%	7,103	72%	7,080	66%	5,876
LDI Funds	28%	3,055	22%	2,225	28%	2,493
Other	7%	731	6%	583	6%	493
Total	100%	10,889	100%	9,888	100%	8,862

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

	2020 £000	2019 £000
Opening net asset	974	680
Expense charged to profit and loss	(58)	(81)
Gain recognised outside profit and loss	(121)	209
Employer contributions	166	166
Closing net asset	961	974

vi. The movement in the defined benefit obligation during 2020 is as follows:

	Present value of obligation £000	Fair value of plan assets £000	Total £000	Movement in the asset limit £000	Total £000
At 1 January 2020	(8,914)	9,888	974	0	974
Employer's part of current service cost	0	0	0	0	0
Interest expense	(176)	196	20	0	20
Actual return on plan assets	0	964	964	0	964
Actuarial losses - experience on benefit obligation	1	0	1	0	1
Actuarial gains - changes in financial assumptions	(1,054)	0	(1,054)	0	(1,054)
Actuarial gains - changes in demographic assumptions	(32)	0	(32)	0	(32)
Administrative expenses	0	(78)	(78)	0	(78)
Employer contributions	0	166	166	0	166
Benefit payments	247	(247)	0	0	0
As at 31 December 2020	(9,928)	10,889	961	0	961

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

	Present value of obligation £000	Fair value of plan assets £000	Total £000	Movement in the asset limit £000	Total £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
Net operating 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

vii. The significant actuarial assumptions were as follows:

Assumptions	2020	2019	2018
Price inflation (RPI)	2.9% pa	3.0% pa	3.4% pa
Discount rate	1.3% pa	2.0% pa	2.9% pa
Pension increases (in deferment and in payment)	2.9% pa	3.0% pa	3.4% pa
Salary growth	n/a	n/a	n/a
Life expectancy of male aged 65 at balance sheet date	21.9 years	21.8 years	21.9 years
Life expectancy of female aged 65 at balance sheet date	24.2 years	24.0 years	23.8 years
Life expectancy of male aged 65 in 20 years from balance sheet date	23.2 years	23.1 years	23.3 years
Life expectancy of female aged 65 in 20 years from balance sheet date	25.6 years	25.5 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 £1,700k	Increase by £2,271
RPI Inflation	0.50%	Increase by £1,187k	Decrease by £1,034k
Mortality	20% reduction	N/a	Increase by £834k

23.2 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 (2019: 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	2020	2019
	£000	£000
Balance as at 1 January	(140)	(140)
Interest on scheme liabilities	(1)	(1)
Actuarial gain / (loss) for the period recognised in the Statement of Comprehensive Income	2	(8)
	(140)	(150)
Benefit Paid	10	10
Balance as at 31 December 2020	(130)	(140)

The Society's Chief Actuary has determined the amount of the provision required as at 31 December 2020 to meet the expected future liabilities; mortality is unchanged and a discount rate of 0.5% (2019: 1.0%) and pension increases of 3.0% (2019: 3.0%) have been applied.

23.3 Defined contribution scheme

The Society also operates one (2019: one) defined contribution pension scheme, which is open to all eligible employees. The cost of Society contributions for the year ending 31 December 2020 was £660,271 (2019: £553,630) and there were no outstanding contributions (2019: Nil) at the year end date.

24 Insurance contract assets / liabilities

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

	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Long term insurance business Solvency II technical provision (BEL)	(161,154)	44,982	(116,172)	(131,656)	39,586	(92,070)
Long term insurance business Solvency II technical provision (Other)	6	0	6	11	0	11
Long term insurance business Solvency II risk margin	79,417	(32,809)	46,608	54,958	(23,046)	31,912
Total long term insurance provision	(81,731)	12,172	(69,558)	(76,687)	16,540	(60,147)
Long term insurance business members dividend account	7,617	0	7,617	7,805	0	7,805
Long term insurance business claims liabilities	316	0	316	640	0	640
Long term insurance business provision for bonuses and rebates	0	0	0	0	0	0
Total long term insurance liabilities / (assets)	(73,798)	12,172	(61,625)	(68,242)	16,540	(51,702)
General insurance unearned premiums	16,453	0	16,453	17,260	0	17,260
General insurance claims incurred but not reported (IBNR)	2,249	0	2,249	2,516	0	2,516
General insurance other claims liabilities	1,666	0	1,666	1,438	0	1,438
General insurance unexpired risk provision	0	0	0	662	0	662
Total general	20,369	0	20,369	21,877	0	21,877
Total	(53,429)	12,172	(41,256)	(46,365)	16,540	(29,825)

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

	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Long term insurance business Solvency II technical provision (BEL)	(161,154)	44,982	(116,172)	(131,656)	39,586	(92,070)
Long term insurance business Solvency II technical provision (Other)	6	0	6	11	0	11
Long term insurance business Solvency II risk margin	79,417	(32,809)	46,608	54,958	(23,046)	31,912
Total long term insurance provision	(81,731)	12,172	(69,558)	(76,687)	16,540	(60,147)
Long term insurance business members dividend account	7,617	0	7,617	7,805	0	7,805
Long term insurance business claims liabilities	316	0	316	640	0	640
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	(73,798)	12,172	(61,625)	(68,242)	16,540	(57,258)
General insurance unearned premiums	15,777	0	15,777	16,303	0	16,303
General insurance claims incurred but not reported (IBNR)	2,058	0	2,058	2,237	0	2,237
General insurance other claims liabilities	1,633	0	1,633	1,419	0	1,419
General insurance unexpired risk provision	0	0	0	619	0	619
Total general	19,468	0	19,468	20,578	0	20,578
Total	(54,330)	12,172	(42,157)	(47,663)	16,540	(31,123)

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

	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	(76,687)	16,540	(60,147)	(70,678)	21,913	(48,766)
Model Changes	818	(665)	153	(4,916)	1,463	(3,453)
Net change of in-force business	2,647	(8,494)	(5,847)	(5,926)	(6,201)	(12,127)
Impact of change in assumptions	(8,509)	4,792	(3,717)	4,833	(635)	4,199
Balance at 31 December	(81,731)	12,172	(69,558)	(76,687)	16,540	(60,147)
Impact of change in assumptions is made up of:						
Changes in morbidity (other)	(9,160)	4,287	(4,872)	(4,396)	2,716	(1,680)
Changes in lapse rates	3,343	(569)	2,774	10,988	(4,085)	6,903
Revised expenses assumptions	(636)	(83)	(718)	0		0
Changes in discount rates	(4,686)	1,156	(3,530)	(2,691)	618	(2,074)
Change in bonus rates	2,629	0	2,629	964	103	1,067
	(8,509)	4,792	(3,717)	4,864	(648)	4,217
Balance at 31 December is made up of:						
Holloway income protection	4,715	0	4,715	2,765	0	2,765
Other income protection	(81,032)	15,506	(65,527)	(72,669)	17,567	(55,102)
Term assurance	(5,413)	(3,333)	(8,747)	(6,782)	(1,028)	(7,810)
	(81,731)	12,172	(69,558)	(76,687)	16,540	(60,147)

Without reinsurance the long term business provision would reduce by £12.5 million to £(85.3) million (2019: £(76.7) million).

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

	2020 £000	2019 £000
Balance at 1 January	7,805	7,843
Bonus credited during the period	110	90
Dividend credited during the period	551	568
Forfeiture and lapses during the period	(69)	(61)
Death, retirements and surrenders during the period	(780)	(635)
Balance at 31 December	7,617	7,805

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

	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	640	0	640	455	0	455
Claims incurred	10,482	(5,228)	5,254	8,175	(3,718)	4,457
Claims paid during the year	(10,806)	5,228	(5,578)	(7,990)	3,718	(4,272)
Balance at 31 December	316	0	316	640	0	640

Disclosures 24.6 to 24.9 relate to the general insurance business which is not reinsured.

24.6 Movement in general insurance unearned premiums

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Balance at 1 January	17,260	17,764	16,303	16,812
Premiums written in the year	38,626	40,475	35,778	36,969
Premiums earned during the year	(39,433)	(40,979)	(36,304)	(37,478)
Balance at 31 December	16,453	17,260	15,777	16,303

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

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Balance at 1 January	2,516	2,795	2,237	2,504
Movement in claims incurred in prior year	(117)	(350)	(68)	(304)
Movement in claims IBNR in current year	(150)	72	(111)	37
Balance at 31 December	2,249	2,516	2,058	2,237

24.8 Movement in general insurance other claims liabilities

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Balance at 1 January	1,438	1,747	1,419	1,733
Movement in claims received but not yet paid	228	(309)	214	(313)
Balance at 31 December	1,666	1,438	1,633	1,419

24.9 Movement in unexpired risk reserve

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Balance at 1 January	662	542	619	529
Movement in unexpired risk reserve	(662)	120	(619)	90
Balance at 31 December	0	662	0	619

25 Reinsurers' share of insurance contract assets

	Group		Society	
	2020 £000	2019 £000	2020 £000	2019 £000
Balance at 1 January	16,540	21,913	16,540	21,913
Movement in reinsurers share of contract liabilities	(4,368)	(5,373)	(4,368)	(5,373)
Balance at 31 December	12,172	16,540	12,172	16,540

26 Insurance contract valuation assumptions

Long Term insurance contract asset 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 PRA risk-free curve (with no volatility adjustment) for the UK
Allowance for Expenses	£58.84 (2019: £57.86) per policy, inflating at 3.0% (2019: 3.0%) per annum and 5.5% (2019: 6.5%) of future claims. Based on projected expenses for 2020 and budgeted accounts for 2021-2023 and using actuarial judgement.
Allowance for Future Bonus	Based on the maximum sustainable dividend and terminal bonus rates.
Mortality	40% (2019: 40%) of TM92(ult)/TF92(ult) for Professional Income Protection, Income One and Locum Income Protection contracts 50% (2019: 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 prevalence rates for the first six months and inception/termination rates thereafter. The Society sets its own rates for prevalence 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 five years; 200% of the rest of the UK for durations of six 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 nine years, and 100% of Holloway and Pure Protection expected lapses beyond nine years duration. Income One and Income One Plus (level premium): Best estimate based on experience from the last three years for the first five years duration; 100% of age-costed lapse rates for durations of six years and longer. Locum: 100% of Holloway and Pure Protection expected lapses.

Summary of Valuation Basis	
Life Provision	
Method	Gross Premium
Interest Rate	The PRA 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.	£64.4 million (2019: £62.2 million)
Mortality: An instantaneous permanent increase in mortality rates of 15%	£0.5 million (2019: £0.4 million)
An increase in renewal and claims expenses by 10% and an increase in expense inflation rate by 1% pa	£7.6 million (2019: £6.7 million)
Increase in lapses by 50%	£80.5 million (2019: £62.8 million)
An increase in interest rates by 1% pa	£15.0 million (2019: £10.8 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 £18.1 million. (2019: £14.2 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%	£5.7 million (2019: £3.5 million)
An increase in renewal and claims expenses by 10% and an increase in expense inflation rate by 1% pa	£0.7 million (2019: £0.4 million)
Increase in lapses by 50%	£(0.3) million (2019: £(0.1) million)
An increase in interest rates by 1% pa	£(0.4) million (2019: £(0.1) million)

27 Insurance payables

	Group		Society	
	2020	2019	2020	2019
	£000	£000	£000	£000
Due to contract holders	327	411	327	269
Due to agents/brokers/intermediaries	1,847	1,916	1,765	1,457
Due to reinsurers	868	962	868	962
Total insurance payables	3,042	3,289	2,960	2,688

28 Provisions

The Group will recognise a provision if there is a present obligation that has arisen because of a past event, that payment is probable, and that the amount can be reliably estimated.

	Group		Society	
	2020	2019	2020	2019
	£000	£000	£000	£000
Balance as at 1 January 2020	0	0	0	0
Provided during the year	6,958	0	6,958	0
Utilised during the year	0	0	0	0
Balance as at 31 December 2020	6,958	0	6,958	0

The Group has one provision which relates to the PMI rebate of surplus profits arising from Covid-19. The Group has communicated to its PMI members that it intends to make this payment and has created an expectation of settlement. A methodology for calculating this payment has been agreed by the Board and provides a reliable method of calculating the provision on a best estimate basis.

29 Other payables including tax and social security

	Group		Society	
	2020	2019	2020	2019
	£000	£000	£000	£000
Trade payables	797	493	669	493
Tax and social security	1,585	1,617	1,499	1,516
Lease Liabilities	198	0	198	0
Other payables	986	1,092	980	1,092
Total other payables including tax and social security	3,567	3,202	3,346	3,101

30 Cash used in operating activities

	Group		Society	
	2020	2019	2020	2019
	£000	£000	£000	Restated £000
Profit / (loss) for the year before transfer to unallocated divisible surplus	5,552	10,239	5,360	9,842
- Interest received	(1,923)	(1,620)	(1,914)	(1,612)
- Dividends received	(521)	(967)	(521)	(967)
- Net realised and unrealised (gains) / losses on investments	(2,908)	(9,251)	(2,889)	(9,246)
- Purchase of investments at fair value through income	(23,706)	(28,438)	(23,706)	(28,438)
- Sales of investments at fair value through income	30,550	32,994	30,550	32,994
- Foreign Exchange Differences	(96)	101	(96)	101
Non-cash items				
- Expenses deferred during the year	(85)	(529)	(99)	(510)
- Depreciation	266	228	266	228
- Depreciation Lease	28	0	28	0
- Amortisation & impairment loss	1,137	1,017	1,137	1,017
- Impairment in Subsidiary	0	400	(519)	919
- Loss on disposal of Plant, Property, Equipment and Intangibles	1,486	10	1,486	10
Changes in working capital				
Net increase in insurance receivables	651	(626)	8	(634)
Net (increase) / decrease in other prepayments and accrued income	(64)	(16)	(63)	(16)
Net (decrease) / increase in insurance liabilities and associated reinsurance balances	(11,431)	(12,205)	(11,033)	(12,232)
Net increase in pension obligations	(116)	(93)	(116)	(93)
Net (decrease) / increase in insurance payables	(246)	556	273	543
Net decrease / (increase) in amounts due from subsidiary undertakings	0	0	547	(109)
Net increase / (decrease) in provisions	6,958	0	6,958	0
Net increase / (decrease) in trade and other payables	165	393	47	398
Net (decrease) / increase in accruals and deferred income	(795)	1,106	(793)	1,112
Cash generated from / (used in) operations	4,901	(6,701)	4,910	(6,694)

Non-cash financing activities were limited to the acquisition of right-of-use assets. See note 19 for details.

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.

31 Restatement of a prior period error

2019 figures have been restated. This was due to an error in the presentation of cash balances. The funds were previously treated as a cash balance within The Exeter Cash Plan, however bank accounts are maintained by Exeter Friendly Society on behalf of The Exeter Cash Plan.

The effect of the restatement on the 2019 Financial Statements is detailed below.

	Effect on 2019 £000
Statement of Financial Position:	
Increase in Cash and Cash equivalents	1,432
Decrease in amounts due from group undertakings	(1,432)

32 Related party transactions

32.1 Transactions in the year

	2020 £000	2019 Restated £000
Transactions between the Society and other Group Companies		
- Direct costs incurred by the Society recharged to The Exeter Cash Plan	1,068	898
- Direct costs incurred by the Society settled by The Exeter Cash Plan	(1,012)	(923)
Balance outstanding between the Society and other Group Companies		
- Exeter Cash Plan Holdings Limited	3,502	2,983
- The Exeter Cash Plan	(1,966)	(1,419)
- Go Private Limited	(23)	(23)
- Exeter Friendly Members Club Limited	(5)	(5)
Total balances due from / (to) other group companies	1,508	1,537

32.2 Key management compensation

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

	Group		Society	
	2020 £000	2019 Restated £000	2020 £000	2019 Restated £000
Salaries and other short-term employee benefits	3,575	3,987	3,575	3,987
Termination benefits	0	0	0	0
Post-employment benefits	278	258	278	258
Total key management compensation	3,853	4,245	3,853	4,245

32.3 Other related parties

During their term of office in 2020, the Chief Executive and three (2019: three) other executive members of the Board of Directors received free Private Medical Insurance, total claims made under these policies was £2,187 (2019: £8,808). The Chief Executive and two other Directors receive free cover for their spouse on these policies.

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. The Medical Director has a policy for himself and his spouse which is priced free of charge.

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 is a Non Executive Director and Keith Baldwin was a Non-Executive Director. The payments were made under the Society's commercial terms of business and neither party were 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.

33 IFRS developments

Standards, amendments and interpretations effective for 2020, which are considered to have no significant impact on the Society's results, are set out below.

33.1 New standards which are now effective

Amendments to UK accounting standards - UK exit from the European Union

From the 1 January 2021 the Group and Society will report under "UK-adopted international accounting standards".

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 33.2

33.2 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.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform

Effective 1 January 2020. The amendments will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedging relationships directly affected by the interest rate benchmark reform. The Group and Society are not impacted by these changes.

Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' – Definition of Material

Clarity has been provided on the definition of material. The definition effective 1 January 2020 is as follows.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify the definition of material, but will not have a significant impact on the preparation of the financial statements for the Group and Society.

Amendment to IFRS 16 'Covid-19-Related Rent Concessions'

On 28 May 2020 the IASB published an amendment to IFRS 16 that provides an optional exemption for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. This amendment does not impact the Group or Society.

IFRS 3 'Business Combinations'

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

Amendments to IAS 1 and IAS 8 - 'Definition of material'

Effective for annual periods beginning on or after 1 January 2020. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendment of the definition of material will not have an impact on the Group or Society's Financial Statements.

33.3 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 2021 to ensure that the required systems, processes and controls are embedded to ensure technical compliance by the implementation date.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

Effective for periods on or after 01 January 2022. This amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. Managements expectation does not affect the classification. The Group and Society does not expect this change to materially impact the financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform Phase 2

Effective for annual periods beginning on or after 1 January 2021. The amendments will affect entities that apply the hedge accounting requirements to hedging relationships directly affected by the interest rate benchmark reform. The Group and Society are not impacted by these changes.

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