Exeter Friendly Society Limited

Annual Report and Accounts 2021

The Exeter

You matter more.

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 (retired 30 June 2021)*
Isobel Langton	Chief Executive (appointed 6 April 2021)
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 Tel: 0300 123 3201 Email: member@the-exeter.com Website: www.the-exeter.com
With Profits Actuary:	Trevor Fannin, BSc, FIA, Willis Towers Watson (resigned 1 February 2022)
	Wendy Crockford (appointed 1 February 2022)
Independent External Auditors:	Mazars LLP
Bankers:	Barclays PLC
Investment Managers:	Royal London Asset Management Limited
Tax Advisers:	Grant Thornton UK LLP

*Andy Chapman was on garden leave from 6 April 2021 and providing support and assistance where needed.

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Business highlights

KEY NUMBERS

Total numbers of members

108,655

Total value of claims paid

£47.6m

New business sales	Gross premium income	Total group assets
£12m	**£72.2m**	**£268.3m**

Trust pilot trust score**

4.6/5

Local charity support

£78k

HEALTHWise

USAGE INCREASED BY 60%

Top services used

No1 Remote GP 24/7	**No2** Physiotherapy	**No3** Mental health support

*Reserves & solvency margins are a key performance indicator and are reviewed regularly by the Board to ensure we remain financially secure into the future.
**Based on 617 reviews.

Who are we

Our organisational roots trace back to the founding of the Pioneer Friendly Society in 1888 and the Exeter Hospital Aid Society in 1927, meaning we have a proud history and heritage of serving our members' interests as best we can.

The needs of the society have shifted radically through this period, which has witnessed world wars, the advent of the NHS, many new medical breakthroughs, the computer age, the internet era and, most recently, a global pandemic. As the world around us has changed we have constantly had to innovate and adapt to ensure we have a healthy business that is stable and capable of doing the right thing for its members.

The past five years have been a period of unparalleled success in the history of our business. Through delivering our strategy we have continued to innovate and adapt, generating several years of significant growth whilst also navigating the uncertainty and disruption of the COVID-19 pandemic.

Key organisational achievements include:

- 200% new business sales growth in ten years
- Signifcantly stronger market profile and expanded distribution footprint
- Expanded our product range that now incudes specialist life products alongside our enhanced health products
- Consistently winning awards as a protection provider
- Organisational resilience and maturity through sales growth and the distruption of the pandemic
- Exceptional employee engagement scores

Chair's Statement

This will be my last report as Chair of The Exeter. After nine years in the role I have decided that now is the right time to retire. It has been one of the proudest and most significant achievements of my life, leading The Exeter, and I feel enormously privileged and honoured to have chaired this great Society. I know that I am leaving the Exeter in the very capable hands of Isobel Langton, her Executive team and an incredibly strong Board. I have absolutely no doubt that the Society has a very bright future ahead and that it will continue to provide a first class service for our members.

In last year's Chair's statement, I talked of a year unlike any other and looked forward to beginning to get things 'back to normal'. 2021 has continued to be a year filled with great challenge and uncertainty, and now some two years since the start of the global pandemic, we are still learning to live with COVID-19 and its impacts.

It is against this backdrop, that I am proud to introduce to you a set of accounts showing that in 2021, The Exeter had another successful year and demonstrated our strength and resilience, and more importantly, our unwaivering commitment to our members.

The invasion of Ukraine

As I write this, the invasion of Ukraine is unfolding as a truly devastating human tragedy. The Society has made a donation to the Disasters Emergency Committee appeal and we are further supporting our employees in raising additional funds to support the humanitarian crisis. We will continue to help where we can.

A bright future for the Society

Isobel Langton took the reins as our Chief Executive in April 2021. Together with her Executive Team, Isobel has already started to outline a strategic roadmap that will see us build on our success, particularly over the last five years, and to deliver an even more customer-centric experience for our members in the years to come.

I would like to take the opportunity to once again thank Andy Chapman who retired as our Chief Executive in 2021 after 16 years at the helm. Andy left the Society in a strong position, ready to embark on its next chapter.

> 'Isobel has already started to outline a strategic roadmap that will see us build on our success.'

Health Insurance Rebate

Last year we made a commitment that we would give our health insurance members a fair return on their premiums once the impact of the COVID-19 pandemic was clear. With many private hospitals requisitioned by the NHS during the pandemic, we did not receive the expected level of claims across 2020 and as a result, we are returning a total of £5.3 million to our health insurance members.

Our People

Our colleagues at The Exeter are the key to our success and over the past two years they have worked tirelessly to support not only our members, but also each other, through the most challenging of times. We have worked with every employee to shape our future working culture, and it is one that will allow us not only to provide our people with a flexible, balanced working environment but also one that future-proofs the Society for any further business interruption.

We also launched our Inclusion & Diversity Strategy across the Society and joined both the AFM and ABI diversity charters. This has been very well received and builds on our ambition to create a progressive and welcoming workplace where our people can thrive.

Environmental Impact

We recognise that we are approaching a critical moment for climate change, one that will require us to constantly adapt in order to address these challenges. The Board is dedicated to conducting business responsibly and making a meaningful difference in the lives of our members, our colleagues and the wider community. You can read more about this in the strategic report on page 19.

Final words from the Chair

Thank you to our Board of Directors for their counsel and commitment during a challenging year where the COVID-19 disruptions have meant virtual Board and committee meetings are now the norm. My sincere thanks to our Executive Team and all our colleagues, who work so tirelessly on behalf of our members.

Finally, and for the last time, I would like to thank you, our members for your support and we will continue to keep your interests at the heart of everything we do. As we look forward to our future, we will continue to stand by our members, colleagues, advisers and business partners to provide support during these challenging times.

> ‘As we look forward to our future, we will continue to stand by our members, colleagues, advisers and business partners to provide support during these challenging times.’

Wallace Dobbin, BA, Barrister
Board Chair

Message from the Chief Executive

I am delighted to introduce to you my first annual report as your Chief Executive.

First impressions

In my initial weeks it became very clear to me that I had joined an organisation with a real difference, and what sits at the heart of The Exeter is the unwavering teamwork and engagement from all our colleagues. Each and every one of them is focused on the reason why the Society exists, to support you, our members. I am very much looking forward to building on these strong foundations to deliver more value at every opportunity.

A very strong year

Despite the relentless nature of 2021, we saw an increase in our membership numbers and we issued more policies than in previous years. We saw gains in both sales and income, and some reductions in claims and expenses.

While the income protection and life markets continued to flourish, we did see some challenges in the health insurance market. Unsurprisingly, this market has been heavily impacted by the pandemic. Together with the additional pressures now facing the NHS, the landscape of the market itself is changing rapidly and this will be a strong focus for us in the coming year.

Health Insurance Rebate

As our Chair outlined in his statement, we will be delivering on our pledge to give our health insurance policyholders a fair return on their premiums, and I would like to thank you all for your loyalty and patience during what has been an unprecedented and difficult period. We will be sending a rebate to 15,012 of our UK health insurance members and this includes refunding partial premiums to members who cancelled or changed their cover in 2020.

Throughout the pandemic we have invested in providing our customers with health services from home, including virtual access to specialist consultations via our HealthWise app and our clinical support centre. As we head into 2022, we're as committed as ever to delivering the best service to our members and to encourage them to continue to seek the advice and treatment they need.

Strategy for the future

The next five years of our business will be defined by the choices we make in response to some key strategic questions**.** We will continue to deliver the high levels of service our members have come to expect from The Exeter, and will be looking for opportunities to improve these experiences further. We are setting out a blueprint for how we can achieve continued growth and success in a more uncertain world and this will require time and investment in both our digital capabilities and our people.

Our members trust us to insure what matters most to them, in the event of their illness, injury or death and we are committed to continuing to offer insurance solutions that better serve the needs of a wider range of people.

The invasion of Ukraine increases uncertainty and the impact will be felt across the globe. We have responded by supporting our employees in raising funds to support the humanitarian crisis. We also recognise the increased market volatility and inflation risks resulting from the invasion and scenario testing indicates that the strength of our balance sheet will allow us to meet any short term challenges that this brings.

Our Culture and way of working

At The Exeter, we have a healthy, supportive culture, where our colleagues have a shared commitment to delivering the best outcomes for our members. Everyone's contribution is important and valued, and this year, we will be building further on these strong foundations.

The pandemic provided us a unique opportunity to review the way we work at The Exeter and many of our colleagues felt the benefits of having the flexibility of working from home and experienced an improved work-life balance. We have listened to our people and are moving to a blended working model, with increased flexibility for colleagues to choose where they work. Our head office will play a key role in bringing everyone together to collaborate, while continuing to provide a healthy working environment for those who prefer, or need the functionality of an office setting.

> ‘We are setting out a blueprint for how we can achieve continued growth and success in a more uncertain world and this will require time and investment in both our digital capabilities and our people.’

Thank you

The business has been through a significant period of growth and change and over the next 12 months, we will continue to invest in finding ways to support our members, our colleagues, the insurance industry, and the wider community.

Our Chair, Wallace Dobbin, has informed us that he wishes to retire from the Board and will do so once a new Chair has been appointed and approved by the regulator. I would like to thank him for his support and contribution to The Exeter over the last 13 years, and to me personally over the last 18 months, and wish him well in his retirement.

I would also like to thank everyone who has welcomed me to the Society and I am excited for the future ahead of us.

Isobel Langton
Chief Executive

Principal activities and business model

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

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

Update on COVID-19

Throughout the year the Board has considered the Society's business continuity plans to respond to the pandemic and the continuation of colleagues working from home. As part of this it has considered the impact of the current environment on our colleagues and members. The initial focus was on ensuring that the business could continue to deliver first-class service to members. However, the position and opinion of our people was just as important. The Board has received regular updates on how the pandemic has impacted on colleagues, suppliers and agents and on how they are responding to it. The Board has ensured that colleagues have the ability to work from home safely and has also considered the steps being taken to support colleagues' wellbeing and to ensure that the Society's culture is maintained.

Transition from UK adopted IFRS to UK GAAP

The Society has opted to apply UK GAAP in its statutory financial reporting in line with Section 69 of The Friendly Societies Act 1992 amended in 2020 (FSA), which has brought the FSA into alignment with the Companies Act 2006 section 15. This section now allows mutuals the same flexibility to transition to UK Generally Accepted Accounting Principles (UK GAAP). We believe converting our accounting to UK GAAP will align the Group and Society more closely with other insurers in our sector.

These financial statements for the year ended 31 December 2021 have been prepared under UK GAAP for the first time since converting from UK adopted International Financial Reporting Standards (IFRS). Our reporting complies with Financial Reporting Standard (FRS) 102, 'The Financial Reporting standard applicable in the United Kingdom and Republic of Ireland' and FRS 103, 'Insurance Contracts' as issued by the Financial Reporting Council, the Friendly Societies Act 1992 and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (the Regulations).

The previous financial statements for the year ended 31 December 2020 were prepared under UK adopted IFRS and the date of transition to UK GAAP is therefore 1 January 2020 to ensure comparability of results. As a consequence of adopting FRS 102 and FRS 103, some accounting policies have changed to comply with those standards and adjustments have been made to balances on transition. Adjustments on transition have been recognised in the Fund for Future Appropriation and or General Reserves. Further information on these transition adjustments is detailed in Note 32.

Climate Change

In 2021, the Board began to undertake its detailed climate change journey which is anticipated to support the Society in its aim to continue towards a positive social impact. The aim is to ensure we take a holistic view to consider how best to become a more responsible organisation for our members. In all considerations of climate change the Board considers the views of all of its stakeholders including members, customers, colleagues, suppliers, regulators and the communities the Group operates within. It is also considering its reputation, the long-term success of the company and financial strength. Further information on Climate Change and Environmental, Social and Governance (ESG) can be found on page 19.

Member engagement

Working successfully with our business partners is very important to the Society and we aim to maintain a close and collaborative 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 2021 we continued to engage regularly, in person when safe to do so, but also through video and web-based calls, attending group events and taking part in specialist panel discussions.

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.

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. A member focus group is in place 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 that when using our services, many of our members may indeed be considered vulnerable. These meetings are used as an opportunity for the whole business to contribute to ensuring that, in the FCA's words, vulnerable customers experience outcomes as good as other consumers and receive consistently fair treatment.

Our Vulnerable Customers Champions Forum is an opportunity for the Society to work together with an understood focus that ensures, in the FCA's words, "vulnerable customers" needs are recognised, and treated with appropriate care and consideration. On top of this The Exeter became the first insurer to sign up to the Vulnerable Customers Charter, working closely with the UK Financial Vulnerability Taskforce (FVT). Adoption of the Charter allows both firms and individuals to demonstrate their commitment to an independent standard.

Colleague engagement

We are committed to engaging our colleagues 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. The CEO consulted directly with colleagues through the Leaders Forum on various areas of changes being proposed, such as the blended working project designed to move the business to a more agile way of working, and the latest business strategy.

During the year colleagues were asked how it feels to work for The Exeter using the Great Places to Work Best Workplace Survey. In a challenging year, it was pleasing to see that our response rate was very high at 85% (2020: 97%). Our Trust Index Score continued to be very strong at 88%(2020: 93%) which is 23% above the threshold of 65% which is required to officially be certified as a Great Place to Work.

The Great Place to Work survey asked colleagues 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.

As part of decisions made by the Board, consideration is given to all stakeholders, including our colleagues. This is outlined in more detail on page 27. We have continued to develop and evolve our various employee 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 meetings to directly engage with different colleagues 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 Employee Consultation Forums to ensure colleagues also have direct access to a member of the Board.

Colleagues have a confidential line into trained members of the People Team to discuss any issues, concerns or areas of support needed, along with the channel available to them via the Whistleblowing Policy.

Strategic progress

When developing the 2021 Business Plan, the Board considered a wide range of factors including; the future vision of the business, customer needs and expectations, the impact on colleagues, the continued financial strength of the Society and regulatory requirements.

Delivery on our vision depends on us being able to:

- continue organic growth of the IP and Life business;
- increase organic growth of the PMI business;
- develop products to enhance the Society's proposition in our core markets;
- maintain and develop a robust, scalable and 'cost effective' infrastructure; and
- seek to grow the business through merger and acquisition opportunities should they arise.

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

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 2021, 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.

Sales of new PMI policies decreased during 2021 and coupled with no longer having permission to renew policies based in the European Union, resulted in an overall decrease in the number of members, by 1,402, bringing the overall number of PMI members to 21,860 during the year (2020: 23,262). In contrast, IP membership showed a 6,021 increase on the previous year to 55,908 (2020: 49,887) at the year end. Sales of new life protection products showed a significant increase over the last three years and Life cover membership showed a 4,471 increase to 12,845 (2020: 8,374).

HCP sales showed an overall reduction in the number of members to 18,042 in 2021 (2020: 19,773). The cash plan market continues to be dominated by two large insurers with high marketing profiles.

Overall, therefore, the membership base showed an increase on previous years, with total membership of 108,655 (2020: 101,297) at the year end.

Written premium income and sales

Written premium income comprises premiums from new policies sold in the year along with combined premiums of historic sales. In July, the Society launched Income First, its new income protection product combining our Income One and Pure Protection products. This was in response to feedback from advisers, introducing level guaranteed premiums across all occupation classes, together with continuing to offer age-costed options. The new Income First product also offers members an employer change promise.

New PMI sales totalled £2.6 million which represented a 23% decrease on the £3.5 million recorded in 2020. Gross written premium was £34.5 million during the year.

Gross sales of new IP policies were £5.3 million during 2021 (2020: £4.7 million). Taking into account policy lapses during the year this has resulted in an overall gross written IP premium of £28.4 million (2020: £26.2 million). Life sales were £3.5 million (2020: £2.9 million) contributing gross premium written of £7.9m (2020: £5.5m).

The HCP business sales were £534k and in total contributed an amount of £2.8 million (2020: £2.8 million) to The Exeter's written premium income.

Gross premiums written by the Group and Society reported under UK GAAP are found in Note 5 which details premium written for both new business and renewals.

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, our policies are priced to ensure fair premiums for all our members, and at a level that will ensure that the Society is sustainable and able to meet its members obligations and needs in the long-term.

In 2021 we made a commitment that we would provide our health insurance members a fair return on their premiums once the impact of the COVID-19 pandemic was fully understood. With many private hospitals requisitioned by the NHS during the pandemic, we did not receive the expected level of claims across 2020 and 2021 and as a result, the Board agreed that a total of £5.3 million would be returned to our health insurance members.

Under UK GAAP measurement PMI benefits and claims increased by 43.7% to £30.0 million (2020: £20.9 million). Gross IP benefits and claims and life claims totalled £15.6 million (2020: £12.0 million), a 30.3% increase on 2020. On a net basis, after allowing for reinsurance recoveries, there was an increase of 8.1% to £7.3 million (2020: £6.8 million). Benefits paid on the HCP business amounted to £1.9 million, bringing the total claims paid out for the Group to £39.2 million (2020: £29.4 million). This information can be found in note 7.

At Group level the commission payable to intermediaries increased by 13.8% to £14.9 million (2020: £13.3 million). Net operating expenses decreased by 15.2% from £29.1 million to £24.6 million . This information is detailed in Note 9.

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 17 the financial statements.

Movements on reserves and solvency

The Group Fund for Future Appropriations and General Reserves increased by £5.8 million resulting in a combined Group Fund for Future Appropriations of £206.8 million (2020: £201.0 million). This information is detailed in Note 19.

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 know as an 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 appropriate.

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	
	2021	**2020 (Restated)**
	£000	**£000**
Available capital	**109,009**	**104,161**
Capital requirements:		
MCR	6,082	5,314
SCR	24,328	21,254
Available capital as a % of MCR	1792%	1960%
Available capital as a % of SCR	448%	490%

	Long term Business Fund	
	2021	**2020 (Restated)**
	£000	**£000**
Available capital	**95,233**	**90,818**
Capital requirements:		
MCR	16,300	15,523
SCR	65,200	62,095
Available capital as a % of MCR	584%	585%
Available capital as a % of SCR	146%	146%

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	
	2021	2020 (Restated)
	£000	£000
Available capital	**3,652**	3,673
Capital requirements:		
MCR	2,112	2,255
SCR	687	771
Available capital as a % of MCR	173%	163%
Available capital as a % of SCR	532%	477%

Principal risks and uncertainties

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

The Exeter classifies risks using the following categories:

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

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. 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.

Risk Management Report

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 considering 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. Please refer to Note 3 for more detail.

Change in risk level during 2021:	Increased ↑	Static ↔	Decreased ↓

How we manage principal risks

Risk	Risk Management	Change
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: 1. Equity risk 2. Interest rate risk 3. Exchange rate risk	Outlook remains unstable due to potential business failures during and post pandemic plus the effect on government debt of the cost of funding the various schemes and support packages. 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 using investment mandates. Each mandate aims to manage the market risk using some, or all, of the following mechanisms: • Defined performance benchmarks. • Limits on asset allocation by asset type, market capitalisation and geographical spread. • Limits on duration of the fixed interest portfolio. **Equity price risk** The Society employs an external Investment Portfolio Manager and has a policy of only investing in equities out of assets not matching insurance liabilities. Assets required to back insurance liabilities are therefore held in bank deposits; index linked securities; and fixed interest securities. The healthy solvency position of the GBF allows us to continue to invest in some equities for the longer-term investment benefits. The impact of this, means this does increase the volatility of this fund. At the year end, the impact on the General Business Fund of a 1% market movement was £251,920 (2020: £211,018). **Interest rate risk** Due to the nature of its products the Long Term Business Fund is impacted to a greater extent by interest rate movements. Risk mitigation is achieved by matching the duration of investments to the expected cash flow requirements of the Long-Term Business Fund. This asset and liability matching cannot be exact due to the uncertainties involved but is reviewed regularly and adjustments made to the portfolio allocation if required. Interest rate movements would have an impact on asset and liability values and capital requirements. The sensitivity of the Society's net assets after capital requirements also differs between the two funds. At the year end the estimated impact of a 1% increase in interest rates on the General Business Fund is a £200,000 decrease in Solvency II free assets (2020: £100,000 decrease in free assets) and on the Long-Term Business Fund is an increase in Solvency II free assets of £2,200,000 (2020: £3,500,000 increase in free assets). The Exeter Cash Plan has negligible exposure to interest rate movement. The closest	↑

	comparative to Solvency II free assets in the financial statements is the Reserves and Fund for Future Appropriations. **Exchange rate risk** The Society has a number of Private Medical Insurance policies overseas which present an exchange rate risk. The number of policies in Euros have reduced since the implementation of Brexit, therefore this exposure has consequently reduced. This is further mitigated by holding deposits in Euros as a natural hedge against the exchange rate risk. Exchange rate risk also arises from the Society's overseas equity holdings and this risk is managed by limiting the extent of overseas exposure, holding diversified investments and not using such investments to back insurance liabilities. Deposits are held in Euros to match Euro denominated liabilities and for certain policies both the premiums and claims are paid in Euros; therefore, the exposure to exchange rate movements is low. **Invasion of Ukraine** The invasion of Ukraine has been identified as a risk, particularly for equity markets and for increased inflation. Our equity risk is mitigated by our investment strategy of only holding excess assets in equities. At the end of 2021 we held £25m of our excess assets in equities. We hold no assets domiciled in either Russia or Ukraine. Our inflation risk is mitigated by holding index-linked bonds, which at the end of 2021 were £50m. Scenario testing indicates that the strength of our balance sheet will allow us to meet any short term challenges that this brings.	
Credit risk 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.	Assets backing insurance liabilities are invested primarily in gilts and deposits. In addition, the Society has taken the following steps to mitigate credit risk: • Diversified the portfolio of investments to reduce the potential impact of a credit event; • Counterparty limits are in place for each bank deposit and cash equivalents; • Credit rating assessment of counterparties; and • Only reinsurers who match the Society's credit rating requirements are used.	↔
Liquidity risk Liquidity risk is the risk that the Society, although solvent, is unable to meet its obligations as they fall due. The Society's objective on liquidity risk management is to ensure that sufficient funds are available over the short and medium term to meet the needs of the Society. This includes new business costs, planned strategic activities, member withdrawals, claims payments and day to day cash flow requirements.	Liquidity risk is managed as follows: • Budgets are prepared to assess the short-term and medium-term liquidity requirements; • Assets of suitable marketability and maturity are held to meet the member liabilities as they fall due; and • Credit risk of deposit takers is managed by having appropriate counterparty and credit limits in place.	↔

Risks that we incur in the course of normal business

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

Risk	Risk Management	Change
Broker Risk The risk of loss from poor selection or management of third-party introducers of	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 business from individual and group brokerages.	↔

business resulting in high levels of claims and/ or lapses and/or inability to recover commission clawback. There is a potential risk for bad debt from a large single default or systemic economic pressures leading to mass failures in distribution.		
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. This is mitigated by the use and maintenance of appropriate security infrastructure and regularly updated software to the latest versions. This will aid in having secure computers, servers and wireless networks.	←→
Cyber Security Risk	The risk relating to direct or indirect loss arising from inadequate or failed IT systems in terms of architecture, hardware, and/or software. 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. The probability of being affected by a cyber event remains high as guided by National Cyber Crime Security Centre and National Crime Agency whose Global and National threat assessments remain high which is why there is greater risk. Significant progress has been made in 2021 to combat this. The implementation of CIS controls and the appointment of a Cyber Security specialist has assisted with mitigating this. Although the inherent cyber risk is increasing in the probability of attacks happening, there are positive actions we are taking to mitigate our risk.	↑

Strategic & External Risks

Risk	Risk Management	Change
Political, Economic & Environmental Risk Risk arising from changes in government policy, regulation, economic and environmental approaches including the financial impact of climate change. Including: ***COVID-19*** COVID-19 has been identified as having the potential to materially impact: • Insurance risks • Market risk • Operational risks • Strategic risks ***The financial risks of climate change***	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, we do not believe that COVID-19 will have a material adverse impact on The Exeter's financial results or cause The Exeter to be unable to meet its capital requirements. Despite the successful roll out of vaccines for COVID-19 and a (mainly) orderly exit from the EU, economic risks remain. The already persistent inflation along with tax rises will add pressure onto household budgets; which will have an effect on discretionary spending. ***The financial risks of climate change***	↑

With important initiatives from regulators, investors, and corporations, the UK's environmental, social, and governance (ESG) landscape is changing. Climate change policy is constantly evolving, and this has the potential to bring about uncertainties in organisations' risk landscapes. By monitoring the changing legislation, organisations will be in a better position to monitor and respond to emerging risks.

There are two main forms of climate change risk that will impact the society:

1. Physical Risks – these will be impacts upon our members and potential members resulting from changes in climatic conditions, e.g., higher temperatures, rising sea level, more frequent severe weather events etc; and
2. Transitional Risks – these will be impacts associated with the UK becoming a low carbon economy and will range from increased costs for "clean" energy to the impacts on disposable income of members from having to adopt cleaner domestic heating solutions, changed transportation needs, revised diets etc. These changes will also impact UK manufacturers, importers, retailers etc and thus will impact our investment strategy and the returns we expect to make therefrom.

A third form of risk "Liability Risk" is not considered to be a significant potential issue for The Exeter as we do not provide the types of insurance that provide liability cover e.g., Directors' and Officers' and/or professional indemnity insurance. However, we need to remain mindful of this aspect in case a claim is made because we were seen to be supporting a climate change "offender" through investing funds into their business. To overcome this, we will need to work closely with RLAM to ensure that our investment mandate abides by the Solvency II Prudent Person Principle (PRA CP22/19 refers).

Climate related financial risks may impact the size and probability of an insurance claim resulting in greater than expected financial losses. Physical risks may cause business interruption in the supply chain affecting critical business operations.

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. A climate change risk management plan has been reviewed by the board. Risk Management, in conjunction with relevant representatives from the business, will seek to identify those possible areas of our strategy, operations and products that could be impacted by either physical or transition risks. There are three key steps in the development of the climate change risk management plan:

- Identify the broad business and strategic risks;
- Develop a granular view of the risks involved, modelling, where possible, long-term physical and more immediate transition risks. When a lack of observable experience is evident, appropriate scenario analyses should be adopted; and
- Develop a mitigation strategy which may involve physical risk adaptation or changes to the business model and product range to address transition risks.

The Board is dedicated to conducting business responsibly and making a meaningful difference in the lives of our members, co-workers, and communities. It understands that expectations for ESG concerns will continue to rise. However, it is unlikely that any observable changes to experience within our existing product range resulting from the physical impacts of climate change will be seen for some years. Given the annually renewable nature of our General Business Fund Products (PMI and Cash Plan) any changes in experience or policyholder behaviour can be reflected upon renewal. Our Long-Term Fund products (IP and Life) are unlikely to display evidence of changed experience for a good number of years unless there is some form of climatic catastrophe.

Transition risks on the other hand are likely to be observable year on year as the UK seeks to become a low carbon economy. However, unless there is a significant international move to, for example, increase carbon pricing from its current USD20 per ton of CO2 to, say, USD100 per ton, it is difficult to see that transition risks will be sufficiently material to have a meaningful impact upon the Society's financial performance in the short term. In the longer term, the impact on consumers of having to transition away from gas fired central heating systems, petrol and diesel fuelled cars, reduction in meat consumption etc will undoubtedly affect the amount of disposable income available for discretionary purchases such as PMI.

The financial impact of climate change is regarded as an emerging and horizon risk, and it will be managed accordingly. There are a variety of ways in which climate change is transmitted into financial risks. Climate-related financial risks, such as operational, market, insurance, liquidity, and credit risk, will be continuously assessed and monitored within the Society's existing Risk Management Framework. The use of a wider range of data and modelling will continue to strengthen the management of climate risks. This is supported by ongoing integration into the Society's strategic

	plans, operations, compliance, internal audit, and risk management activities.	
Operational Resilience and Business Continuity Management System (BCMS) The PRA/FCA expects all in-scope firms to have identified Important Business Services, set impact tolerances for maximum tolerable disruption, and started testing to an extent to identify any vulnerabilities in meeting the agreed impact tolerances by March 2022. After 31 March 2022, firms must perform more sophisticated mapping and testing so that the changes or investments necessary to be able to remain within impact tolerances for each important business service are in place no later than 31 March 2025. The PRA expect approaches to mapping and scenario testing to evolve over time. A BCMS Steering and Project group involving key stakeholders has been created to oversee this exercise. in conjunction with a review of the Business Continuity Plan and Incident Response. This plan will prepare The Exeter to stay within impact tolerances for important business services, or cope with the effects of an emergency for other services.	The regulators require a self-assessment to be prepared at least annually (and available for inspection if required by the regulators) that sets out our plans to achieve compliance with the new requirements. Our self-assessment will be reviewed by the Board and updated every quarter during 2022.	←→
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.	We continuously monitor the external and internal environments in which we operate in order to identify emerging and horizon risks so that we can better prepare to capitalise on opportunities while minimising the threats to our strategy and operations. The invasion of Ukraine has shocked the world as the humanitarian crisis continues to worsen. Our robust capital position provides us with resilience against the conflict in Ukraine but if the war expands beyond Ukraine that may have adverse implications for our business plans.	←→

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.

1	**Business Line Management**	The Executive Board Commitee and management team are responsible for identifying, monitoring and reporting own risks. This is achieved by using business control frameworks, implementing business processes and adequate internal controls.
2	**Risk Management Function**	Responsible for maintaining the Board's Enterprise Risk Management Framework. The Chief Risk Officer and Head of Compliance provide oversight of the risk and regulatory activities of the 1st line. Reports directly to the Chair of the Governance & Risk Committee. Adviser/consultant to 1st line.
3	**Internal Audit**	Internal Audit provides assurance about design and effectiveness of 1st and 2nd lines. Reports directly to the Chair of the Audit Committee. Adviser/consultant to 1st and 2nd line to improve processes.

External Auditor

Regulator

Building a sustainable future

Tackling climate change is a shared global responsibility and we all have a part to play in this. The Society is both responding to the needs of our members and actively reducing our own environmental impact to help drive the transition to a low carbon economy. In 2021 we began developing our approach and goals for climate change and this will be finalised in 2022. Where we are today with our carbon journey:

Responsible Investment Strategy	As long-term investors looking to build quality in our portfolios, our fund managers consider Environmental, Social and Governance factors (ESG) throughout the investment process. Our Fund Managers use a mix of internal and external research when considering an investee company to ensure our interests in ESG investments are aligned. Where possible, we have avoided investing in areas that we consider harmful and do not match our own policy.
Working from Home	Due to the impact of COVID-19, nearly all colleagues have worked from home for much of the year. This meant we saw a huge reduction in the waste produced within our office and CO2 through reduced commuting and journeys in 2021. Despite this, where the office was open for key workers and those colleagues attending for their wellbeing, all waste was disposed of 100% through using zero waste to landfill service provider.
Our Energy Supply	During 2021 we switched energy supplier to a green tariff which matches 100% of our electricity used with electricity from renewable resources.
Electric Car Charging Point	There is an electric charge point located outside of the office.
Car Share Scheme	The Society implemented a car share scheme a number of years ago for colleagues to share the commute to work. This is currently not being used due to most staff working from home and the impact of government guidelines in respect of COVID-19.
Cycle2Work Scheme	Through the government initiative, the Society offers the scheme to eligible colleagues.
Recycling of our Office	We are proud to report that we made every effort to reuse and recycle all office furniture and carpeting, where disposed of, this was done responsibly. Rather than dispose of our unwanted office furniture as part of the refurbishment of our office, we donated this to local organisations where it can have a second life.

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.

S.172 of the Companies Act 2006 requires Directors to act in the way which they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, Directors should take into account factors which will affect the success of the Group such as the long-term consequences of any decision, the interests of colleagues, the needs of its customers, relationships with suppliers, regulators and other stakeholders and the wider community and the Society's reputation.

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 seven times during the year, including two strategy and planning sessions.

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 colleague 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.

Decision-making and section 172 of the Companies Act

The Exeter's key stakeholders and the way in which we interact and engage with them are shown on page 27. 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 colleagues;
- 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, colleagues 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.

Our members, colleagues and customers are at the heart of our strategy and our strategic objectives directly link into the requirements under s.172:

- Sustainable Growth –the Board is required to consider the long-term consequences of decisions and the needs of our stakeholders.
- Our Member Commitment – the Board is required to put our customers and members at the heart of what we do; it also ensures that suppliers and business partners, including our agents, are fully considered.
- Great Place to Work – the Board is required to consider the needs, wellbeing and expectations of colleagues, including an environment where they will feel included and empowered.

Full details of stakeholder engagement can be found in the Corporate Governance Report, Our Stakeholders on page 27. 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, colleague 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 colleagues	Our colleagues are fundamental to the delivery of our plan. We pride ourselves on being a responsible employer, focused on colleague 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 colleagues receive.

Fostering supplier and Customer relationships	The Society continued its commitment to delivering quality services, value for money and satisfaction to its members, with direct engagement with members. We continue to build our relationships with key strategic and commercial partners, always with a focus on quality of service. This includes Board members regularly meeting with key suppliers. We ensure there is constantly an open and transparent engagement with our regulatory bodies and other stakeholders.
Considering The Exeter's operations on the community and the environment	The Society is committed to providing internships, community sponsorships and charitable engagement. The Exeter supported the Children's Hospice South West for a third and final year. We are building our ESG plan over the next year and look to further manage our sustainable office plan.
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.

Full details on how the Board and the directors have fulfilled their section 172 duties can be found through the Strategic Report and Corporate Governance Report. The following sections have therefore been incorporated by reference into this statement:

Our business model and strategy	Page 10
Corporate Responsibility	Page 31
Risk Management, identifying and managing risk	Page 10
Consideration of stakeholder interests in decision making	Page 22
Board oversight of stakeholders	Page 27
Culture and colleague engagement	Page 10

This Strategic Report on pages 4 to 22 (inclusive) was approved by the Board and signed on its behalf by:

Wallace Dobbin, BA, Barrister
Board Chair
6 April 2022

Isobel Langton
Chief Executive
6 April 2022

Corporate Governance

Corporate Governance Report

Governance

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 2021, 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 2021, the Society continued to follow a corporate governance framework closely aligned to the UK Corporate Governance Code 2018. The Society complied in nearly all areas of the UK Corporate Governance Code 2018, with the exception of the tenure of the Chair of the Board, which has gone beyond the recommended nine years to allow for business and member continuity.

Board Effectiveness

The role of the Board Chair is to maintain high standards of corporate governance and to ensure the Board is equipped to carry out its duties, spending sufficient time on key areas that enable the delivery of the strategic objectives. The corporate governance framework in place defines responsibilities and ensures there are the right systems and controls in place to ensure the Board and its Committees effectively oversee the business, and providing challenge where required. The governance framework supports effective decision-making and assists directors to discharge their statutory duties, in particular, their duty to promote the long-term success of the Society. The Board and its Committees review an annual programme of matters.

The Role of the Board

Leadership

The Board leads the Society's governance structure. It provides stewardship of the business with the purpose of safeguarding its long-term sustainable success, assessing and managing its risk and creating value for the Society's members, colleagues and other stakeholders including contributing to the communities and wider society in which it operates.

Culture

The Board sets the tone of the culture of the Society. An entrepreneurial and customer focused approach has been established with a view on providing a quality product and service to our members.

The Board protects and promotes the culture of the Society in a number of ways, including the use of internal controls and processes, clear communication and feedback, colleague engagement through independent external surveys and an annual employee conference.

Purpose and Values

An essential part of the Board's leadership role is to establish the Society's purpose, define its values whilst promoting and monitoring its culture, ensuring that its obligations to members and other stakeholders are understood and met.

The Society's purpose and values are outlined in the strategic report on page 4.

Group Strategy

The Board approves, has effective oversight of and monitors the implementation of the Society's strategy. The strategy continues to ensure the business remains flexible to our members needs, providing the latest technology and capturing future market opportunities. More details on our business model and strategy can be found in the strategic report on page 4.

Governance and Risk

The Board is responsible for the oversight of risk and for setting the Society's risk appetite. In doing so, it ensures that the necessary resources are in place for the Society to meet its objectives and measure its performance.

The Board has established a robust governance and risk framework which is devised to ensure that the business is being operated and managed appropriately, and that prudent and effective controls are in place to identify emerging and principal risks and to manage or mitigate those risks. Further details on risk management can be found on page 13.

Accountability to our members

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 Board ensure that the Society continues to operate in the interest of its members as a whole, and is collectively accountable to them for the success of the business. In exercising its duty to promote the success of the Society, the Board has regard to its other stakeholders, the environment, the reputation of the Society and the need to act fairly between its members. Stakeholder engagement can be found on page 27.

Management Delegation

The Board delegates the delivery of the strategy and day to day management of the Society to the CEO, who is accountable to the Board for its successful leadership and operations.

Matters Reserved to the Board

The Board has a formal schedule of matters reserved for its decision as follows:

- purpose, strategy and management
- values, culture and stakeholders
- Board membership and other appointments
- financial and other reporting and controls
- audit, risk and internal controls
- contracts and capital structure
- communication
- remuneration
- delegation of authority
- corporate governance and other matters

The Board and its Committees

The Board is responsible for the Society's long-term objectives and strategy with the aim of generating and preserving value over the long-term. In carrying out its responsibilities, the Board considers opportunities and risks to the future success of the business, the sustainability of the business strategy and the Society's governance.

The Board is responsible for monitoring progress made against strategic objectives, approving proposed actions and for ensuring that the appropriate internal controls are in place and that they are operating effectively. The Board is assisted by five principal committees (Audit, Governance & Risk, Nomination, Investment and Remuneration), each of which is responsible for reviewing and dealing with matters within its own terms of reference. The formal terms of reference for the principal committees, approved by the Board can also be found on our website.

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 schedule of matters is reviewed and approved annually by the Board.

The Board held eight Board meetings in 2021, including two meetings devoted to the development of strategy. 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. Meetings between the Chair and Independent Non-Executive Directors, both with and without the presence of the CEO, are scheduled in the Board's annual programme. During the year, the Independent Non-Executive Directors held regular meetings without the presence of the Executives, typically following each Board meeting. These meetings were encouraged by the Chair and provide the Independent Non-Executive Directors with a forum in which to share experiences and to discuss wider business topics, fostering debate in Board and Committee meetings and strengthening working relationships.

The attendance record during the year of Directors at formal meetings of the Board and its Committees is shown on page 38.

The Company Secretary acts as Secretary to the Board and its Committees. Every Director has access to the Company Secretary, who helps to ensure that Board procedures are followed, and that good corporate governance and compliance processes and practices are adhered to. Together with the CEO and the Company Secretary, the Board Chair ensures that the Board and its Committees is kept properly informed and is consulted on all matters reserved to it. Board papers and other information are distributed in a timely fashion to allow Directors to be properly briefed in advance of meetings.

The Board has established a procedure for Directors, if deemed necessary, to take independent professional advice at the Company's expense in the furtherance of their duties.

THE BOARD
The Board comprises the Chair, Executive Directors and Independent Non-Executive Directors, and is responsible for the performance and long term success of the Society, including health and safety, leadership, strategy, values, standards, controls and risk management.

AUDIT COMMITTEE	GOVERNANCE & RISK COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE	INVESTMENT COMMITTEE
Responsible for oversight of the Society's financial reporting and the effectiveness of the internal and external audit functions.	Provide oversight and advice for the current and potential future risk exposures and future risk strategy, including determination of risk appetite. In addition, is responsible for monitoring compliance oversight and the Risk Management Framework.	Ensures the Board has the necessary balance of skills, experience and diversity to oversee the delivery of strategy.	Determines the reward strategy for executive directors and senior management in the context of the wider workforce to ensure reward is aligned to shareholders' interests.	Responsible for determining and agreeing the investment guidelines and policy, including establishing and maintaining ongoing investment limits, credit policies, and external professional advisors.

Roles in the Boardroom

The Board comprises Executive and Independent Non-Executive Directors, such that no one individual or small group of individuals dominates the Board's decision making. The Non-Executive Directors are all deemed independent. Wallace Dobbin has served on the Board for more than nine years from the date of his first appointment, which is identified in the UK Corporate Governance Code as a possible circumstance that could impair a Non-Executive Director's independence. Notwithstanding his length of tenure, the Board has determined that Mr Dobbin retains the necessary independence of character and judgement and there are no relationships or circumstances which are likely to affect or could appear to affect his judgement.

The division of responsibilities between the various roles of the Board members is detailed below, demonstrating a clear division between the role of the Board and Executive management. The role descriptions of the Board Chair, CEO and Senior Independent Non-Executive Director (SID) are regularly reviewed by the Board and are updated as necessary to reflect changes in legislation or best practice.

NON-EXECUTIVE CHAIR Leads the Board and ensures its overall effectiveness in discharging its duties	• shapes the culture in the boardroom and promotes openness, challenge and debate • sets the agenda for Board meetings, focusing on strategy, performance, value creation, risk management, culture, stakeholders and accountability • where appointed, to chair meetings to ensure there is timely information flow before meetings and adequate time for discussion and debate at the meetings • fosters relationships based on trust, mutual respect and open communication inside and outside the boardroom • leads relations with members and stakeholders in order to understand their views on governance and performance against strategy
INDEPENDENT NON-EXECUTIVE DIRECTORS Ensure that no individual or small group of individuals can dominate the Board's decision making	• Independent Non-Executive Directors meeting the independence criteria set out in the Code comprise half of Board membership • provide constructive challenge, give strategic guidance, offer specialist advice and hold executive management to account
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR Provides a sounding board for the Board Chair and serves as an intermediary for other Directors and members	• to act as a sounding board for the Board Chair and to serve as an intermediary for other Directors where necessary. • provides the Board Chair with support in the delivery of objectives, where necessary • works closely with the Nomination Committee, leads the process for the evaluation of the Board Chair and ensures orderly succession of the Board Chair's role • acts as an alternative contact for members, providing a means of raising concerns other than with the Board Chair or senior management
DESIGNATED NON-EXECUTIVE DIRECTOR FOR WORKFORCE ENGAGEMENT	• brings the views and experiences of the workforce into the boardroom • enables the Board to consider the views of the workforce in its discussions and decision making

Provides an effective engagement mechanism for the Board to understand the views of the workforce	
CEO AND EXECUTIVE DIRECTORS Lead the implementation of the Group's strategy set by the Board	• CEO is responsible for delivering the strategy and for the overall management of the Society • CEO leads the Executive Committee and ensures its effectiveness in managing the overall operations and resources of the Society • Executive Directors provide information and presentations to the Board and participate in Board discussions regarding management, financial and operational matters
COMPANY SECRETARY Supports the Chair and ensures Directors have access to the information they need to perform their roles	• provides a channel for Board and Committee communications including Board information and support • advises the Board on corporate governance matters and supports the Board in applying the AFM and UK Corporate Governance Codes and other statutory and regulatory requirements

The Executive Committee

The Society also has an executive management committee, the Executive Committee. This committee was established to support the Chief Executive and to consider various matters for recommendation to the Board and to deal with day to day matters within the authority granted by the 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. The Executive 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 weekly with formal governance meetings taking place monthly when needed and at other times as special business circumstances may dictate. Its work is supported by sub-committees 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 Committee receives regular reports from the Chief Executive on key issues arising from Board meetings including key operational decisions.

Executive Committee members are:

Andy Chapman	Chief Executive (retired 30 June 2021)
Chris Pollard	Chief Operating Officer
Gordon Greig	Strategy and Change Director (appointed 1 January 2022)
Isobel Langton	Chief Executive (appointed 6 April 2021)
John Gunn	Finance Director
Paul Smith	Chief Information Officer
Sally Hodge	Chief People Officer
Socrates Mhlanga	Chief Risk Officer (appointed 1 January 2022)
Steve Bryan	Director of Distribution and Marketing

Regular attendees include the Head of Finance, the Head of Compliance, the Chief Internal Auditor, the With Profits Actuary and the Company Secretary.

Board Strategy Day

In 2021 the Board met in July and November to review each element of the Society's strategy and vision, business plan, IT infrastructure and longer-term strategic opportunities. Key actions from those days 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 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.

In 2021, the Board undertook an internal evaluation led by the Board Chair and Company Secretary. The review took place in November and December 2021. 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 was cohesive with a strong regard and focus on the interests of members and risk. Several minor observations and recommendations, in particular in some areas such as focus on succession planning and the skills and experience of the Board in light of the length of tenure of certain members of the Board, were noted and have 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 Independent 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 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 45.

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 45. 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 individuals. 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.

Conflicts of Interest

As part of their ongoing development, the Executive Directors may take on one external non-executive role on a non-competitor board, for which they may retain the remuneration in respect of the appointment. To avoid any conflict of interest, all appointments are subject to Board approval and the Board monitors the extent of Directors' other interests and the time commitment required to fulfil those interests to ensure that its effectiveness is not compromised.

Each Director has a duty to avoid a situation in which they have or might have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Society. This duty is in addition to the obligation that they owe to the Society to disclose to the Board an interest in any transaction or arrangement under consideration by the Society. The Board follows an established procedure when deciding whether to authorise an actual or potential conflict of interest. Only Independent Directors (i.e. those who have no interest in the matter under consideration) are able to make the relevant decision and, in making the decision, the Directors must act in good faith and in a way they consider will be most likely to promote the Society's success. Furthermore, the Directors may, if appropriate, impose limits or conditions when granting authorisation.

The Board considered and authorised each Director's reported actual and potential conflicts of interest and also considers any changes on an ad hoc basis throughout the year.

COVID-19 and the Board's role

The Board and its Committees have had to adapt to rapidly changing circumstances, new challenges and demands during the COVID-19 pandemic. The Board's role throughout has been to ensure there was a clear focus on our strategic business plan and to continue to support Senior Management to assist them to make quick decisions to respond to changes resulting from the pandemic. At all times, the Board was kept up to date on any changes implemented to support members, colleagues and stakeholders. The Board's interest moved beyond financial performance and focused on the existence of the Society, its vision, purpose, resilience, creating value over time, all this in context of the wider community.

The Board believes in continuing its commitment to a culture of quality and service to its members, colleagues, and its stakeholders.

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.

The views and interests of stakeholders are considered in the development, delivery and oversight of the Society's business model, strategy and culture and, where Board decisions impact stakeholders, management is tasked with ensuring that potential impacts on stakeholders are fully considered and presented to the Board.

Although the Board and its Directors sometimes engage directly with stakeholders, for the most part engagement takes place at an operational level. Because of this, the Board mainly forms views on stakeholders through reports and information presented to it by management. The Board keeps these processes under review to ensure that they remain effective so that the Board continues to have the information it needs to understand the views of stakeholders and to apply this knowledge to discussion and decision making.

The table below gives an overview of how the views and interests of our stakeholder groups are represented or reported at Board level and are factored into the Board's decision-making processes.

	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.	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 virtually. The Board seeks to ensure all its dealings are fair, transparent and that our products provide members with good value outcomes. This year the AGM was open for attendance, but the recommendation was to only attend in person if necessary, this was to preserve the health, safety and wellbeing of everyone. The meeting was live streamed this was to ensure the AGM was widely available for all members to attend and vote. 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 service colleagues are well trained for telephony or email correspondence and making other technology available where possible. One example of responding to the needs of our members was to produce the full AGM information pack in Braille. We obtain feedback from the way we engage with our customers through periodic market research. Understanding what is important to our members is essential to the success of the businesses. Management has well established processes and solutions for capturing market information with respect to changes in business trends. These are reported to the Board by the executive team through the CEO's reports and presentations provided by the management teams.
Suppliers & Intermediaries	The Exeter has two main suppliers, who we rely on to provide exceptional service 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. Other key suppliers are our outsourced IT service support, brokers and reinsurers.	The Board recognises that building trusted partnerships with our suppliers is crucial. Suppliers and outsourcing partners take many forms including member service supplier, IT service providers, intermediaries, brokers and reassurers, etc. We strive to work closely and maintain a good relationship with our intermediaries. This is administered through supplier managers, and Executive Committee members on key relationships. 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. 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. The Exeter ensures that it adheres to supplier payment terms. The Board is kept informed about suppliers and intermediaries and receives reports from the Chief Operating Officer.

		The Board is also provided with reviews of business performance both product and intermediary level. From these reports and those from the CEO and the Director of Distribution and Marketing, the Board is able to form an overall view of the business. Further examples of oversight is through the review of external surveys and results, such as Trust Pilot.
Colleagues	Our colleagues are crucial to our business to deliver our strategy and services to our members. It is crucial to the business and to our colleagues that the positive and inclusive culture we have developed continues.	The Exeter strives to provide a positive, safe working environment, with focus on health, wellbeing, providing an inclusive working environment and offering great developmental opportunities. There are various mechanisms in place to ensure engagement with colleagues, these are: • Colleague feedback surveys. • Regular colleague one to ones and coffee mornings. • Regular colleague updates, currently provided via video, to provide updates on business, performance and general updates. • All colleague conference, which is usually held annually to provide support, updates and time to meet the members of the Board informally. • Ensuring robust and relevant policies are in place. • Providing performance measurements which are in line with the business strategy and culture. The Board regularly receives updates on the Society's People strategy and colleague matters. Helen McEwan, Independent Non-Executive Director and Chair of the Nomination Committee, is appointed as the Board colleague representative. Helen regularly attends colleague committee meetings, informal video coffee meetings, and the Employee Consultation Forum. The CEO provides an update on people matters to the Board at every scheduled meeting. The Board and its Committee has direct access to and receive presentations from the Chief People Officer. The Board retains oversight of colleague matters including health and safety, resource, succession planning, talent development, inclusion and diversity, cultural awareness and reward and retention. The Board is kept informed of the effectiveness of colleague strategies through a range of reports, including colleague engagement surveys.
Community & CSR	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. 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.	The Exeter aims to build a positive relationship with our community. The Children's Hospice South West has been the colleague's charity of choice for the last three years. The Exeter Champions Committee and colleagues have also continued to support various other charities throughout the year. 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. The Board is kept informed of activity through receiving regular reports present to the Governance and Risk Committee, the Nomination Committee and at its Board meetings.
Governments and Regulators	Regional and national government bodies and agencies which implement and enforce applicable laws, regulation and guidance across our industry.	The Head of Compliance, Chief Risk Officer and Company Secretary, and other subject matter experts regularly update the Board and its committees on regulatory developments affecting the Society.

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

Members	Colleagues
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.	The Exeter values its colleagues and considers these its' key asset to the business. Our people are central to the success of the business.
Key areas: • Treat our customers fairly • Value for money • Market leading products and services • Long term sustainability of the business and strategy • Good member relationship	**Key areas:** • Health and wellbeing • Health and safety • Engagement and development • Inclusion and Diversity • Positive and enjoyable work environment
How we engage: • 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 inclusion and diversity. • Continual development of technology to assist members during the life of their policy, such as the HealthWise app.	**How we engage:** • 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. • Providing a dedicated area of the internal intranet for COVID-19, and also for health and wellbeing. • The business listened to feedback from colleagues and implemented a 'real time' reward system hosted virtually, to reward individuals who were nominated by colleagues, as going beyond the remit of their job.
How the Board engages and considers this stakeholder: The Board receives reports from the Company Secretary or the Director of Distribution and Marketing. When making strategic decisions, the Board considered how the decision will impact the delivery of long-term member value. The business also continued to use iGPR, electronic reporting and record screening in an effort to speed up the process for the benefit of our members and provide a simple way for GP's to submit their reports. 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. 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.	**How the Board engages and considers this stakeholder:** The Board acknowledges the importance of attracting, retaining, and developing talent and considers the views of colleagues when making decisions. The Board regularly considers the topic of inclusion and diversity, and in November 2021 re-approved the Exeter Friendly Inclusion and Diversity Policy and website statement. Consideration is also given to colleague 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. The Board receives regular reporting on important matters affecting the colleagues, including plans to invest in training and development, outcomes of colleague surveys and engagement. 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. The Board has supported the training and delivery of the colleague mental health first aiders.

Community & CSR	Suppliers	Government & Regulators
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 colleagues 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.	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 colleagues and members. Intermediaries are key to our business and we value their role in providing our products to customers.	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.
Key areas: • 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	**Key areas:** • Service management of outsourced work • Payment practices • Responsible sourcing • Quality communication between service providers, intermediaries, and outsourcers	**Key areas:** • Regulatory change • Climate and environmental matters • Colleague matters • Regulatory consultations
How we engage: • Colleague 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	**How we engage:** • 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)	**How we engage:** • 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
How the Board engages and considers this stakeholder: A number of Directors and colleagues met with our chosen charity, to discuss ways of providing support, whether through fund raising or voluntary assistance from colleagues. Colleagues created their own fundraising schemes to support various local charities. 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. The Board receives an annual update on the charitable and community initiatives completed in the year. 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.	**How the Board engages and considers this stakeholder:** Feedback and mutual communication with our intermediaries. 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. 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. Audits for risk assessment and policy compliance, this would usually be facilitated through on-site attendance. All audits have been virtual since the government COVID-19 restrictions. During the year, the Board reviewed and approved the Modern Slavery Act 2015 Transparency Statement and Policy, which can be found on our website. The Board received regular reporting updates from the business areas which interface with suppliers, intermediaries, and service providers. This included	**How the Board engages and considers this stakeholder:** 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. The Board is briefed on governmental changes, including matters relating to dealing with the impacts of COVID-19 and in relation to colleague matters. The Board responds to enquiries from or to regulatory bodies regarding information requests, or regulatory filings and fees.

	reporting from the Internal Audit team in respect of audits carried out on our outsourced partners' operations and seeks evidence of quality assurance 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.	

Inclusion and Diversity

Changing the diversity landscape across an organisation the size of The Exeter requires awareness, action across all levels of the business and targeted activity. Building on a sustainable, agile and diverse workforce is key to our strategy. During 2021 steps have been taken to drive inclusion and diversity within the business, this is an area that is being led by the Board. Across The Exeter, the workforce comprises of just over 177 colleagues with 50% of senior management roles being held by women. As an employer of less than 250 colleagues, we are not required by law to publish our gender pay but we are reporting this in the Nomination Committee Report on a voluntary basis and this can be found on page 45.

The Exeter recruitment practices are under review to further create inclusion and diversity 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 communications. The Board is fully supportive of this initiative with the Chair of the Nomination Committee and Senior Management meeting regularly to discuss progress in this vitally important area.

Culture

The Board assesses and monitors culture, and ensures that policies, practices and behaviours are aligned with the Society's purpose, values 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 colleagues both formally and informally.
- Helen McEwan, on behalf of the Board attends and reports back on discussions at regular Employee Consultation Forum meetings.
- Through the Nomination Committee considers, inclusion and diversity, talent development, culture and colleague 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 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 colleague and customer feedback.

Charity and managing our environmental impact

Charity

Over the course of 2021, 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 2021 was Children's Hospice South West (CHSW), as voted for by The Exeter colleagues. Colleagues 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 £78,391 to charitable causes, inclusive of the donation made from the AGM.

The following are some of the achievements by colleagues 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 £66,145.
- In the three years we have partnered with CHSW we have raised over £100,000 in support.
- Sponsored the La La Choirs Christmas Concert helping to raise £13,004.
- The Exeter and colleagues have donated or raised a total of £78,391 for local charities and community projects (including CHSW). This has helped to support 18 local causes such as donating play equipment to Bristol Children's Hospital, and providing funding for an accelerated reading programme at a local primary school.

Community and charity highlights

TOTAL DONATIONS MADE BY THE EXETER

£78,400

Employees and their families raised

£18,960

Corporate charity partner donations

£45,450

Employee nominated charity donations

£13,980

Number of charity and community groups supported

18

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 this end we decided to change energy supplier to British Gas Plus to ensure all our energy comes from 100% renewable energy. To further reduce our impact, we encourage colleagues to conserve energy, minimise waste and recycle waste and work materials where possible. Where feasble we also track our consumption, pursue ongoing improvements in building management, and encourage our colleagues to consider their travel arrangements to and from work, such as car sharing.

The business continues to be committed to fully engaging with the Energy Saving Opportunity Scheme Regulations 2019 (ESOS). In 2020 we reported on the twelve-month period 2018-2019, where Hoare Lea undertook an ESOS assessment of the business, which is required every three years. The usage reported in 2019 was that the yearly building energy has reduced. The next ESOS assessment will be commissioned in 2023.

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	There are a number of key areas of climate change that are reported through to the Board: • 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, it is investigating whether investments can be moved to a suitable ESG based fund. • 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 colleagues and the business operates.
Strategy	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 colleagues to car share or cycle to work, with a view to reducing carbon emissions. Through a cycle to work scheme, colleagues have been helped by securing discounts and financial assistance to purchase a bicycle. Working with the Devon County Council, colleagues 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	The two classifications relating to climate change risk, as identified by the regulator, that are relevant to The Exeter are: 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. The business is building its approach to climate change, the following areas are being factored into the approach: • 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 condition. 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.
Metrics and Targets	The business currently recycles all its waste from its office and for future AGMs, to further reduce paper usage, the members' year under review booklet will be issued via the AGM voting website but is available in a paper copy on request from members. The business plans to continue to focus on ways to reduce its overall carbon emissions.

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 colleagues. We have published our 2021 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 colleagues 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 2021 we had no breaches.

Compliance with the Association of Financial Mutuals Code

The Board has considered the Association of Financial Mutuals (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	• 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	• 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 an Executive Board and 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 next external evaluation has been scheduled for Q4 2022. • 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	• 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 needs 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	• 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 financially, offering short deferred periods for new policies, and with the refund of part of the policy premiums to UK based PMI 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 13.
5.	**Remuneration:** A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.	Yes	• The Society's Remuneration Policy is set out and monitored by the Remuneration Committee. The policy has clear objectives to incentivise management based on the long-term success of the Society's strategic vision and business plans. • Succession planning and retention of talent, at both senior and the operating level of the organisation, continue to be a key area of focus for the Board.
6.	**Stakeholder relationships and engagement:** Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	Yes	• Through the Society's vision and strategy, stakeholder engagement is embedded at all levels of the organisation and externally where applicable. The Board and senior management clearly define and promote the direction of engagement across all areas of the 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 colleague engagement. Isobel Langton has been appointed the champion representative for Inclusion and Diversity.

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.

Director	Wallace Dobbin	David Brand	Helen McEwan
			
Appointed to the Board	Board 2008 Board Chair 2013	January 2014	September 2016
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.	Nomination Committee Chair, Audit, Governance & Risk, Investment and Remuneration.
Experience	Wallace has extensive experience in corporate strategy, mergers and acquisitions, governance and risk management. He is a qualified Barrister with significant financial services experience that has spanned over many years. 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.	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.	Helen has a wealth of experience across the life and pensions industry with particular expertise in strategy, leadership, operations, communications and stakeholder management. Helen was previously Partnerships Director at Aegon, Commercial Director at True Potential and Business Development Director with Now Pensions. Helen is also a former Trustee of Edinburgh Young Carers charity. Helen is passionate about poviding high quality, value for money financial products and services which offer great outcomes for customers.
Current and previous external appointments	• Non-Executive Director of FNZ UK Ltd. • Non-Executive Director of Cocoon Wellbeing Limited • Member of the Board of Trustees of Community Integrated Care	• Non-Executive Chairman of Countrywide Assured plc • Non-Executive Chairman of Movestic Liv based in Sweden.	• Chief Pensions Officer to the Universities Superannuation Scheme.

Director	Keith Baldwin	Steve Payne	Isobel Langton
			
Appointed to the Board	August 2019	September 2015	April 2021
NED / Executive	NED	NED	Chief Executive
Committee Chair / Committee member	Audit, Governance & Risk, Investment, Nomination and Remuneration.	Governance & Risk Committee Chair, Remuneration Committee Chair, Audit, Investment, Nomination and Remuneration.	Investment
Experience	Keith has extensive experience across the financial services arena with expertise in Business Strategy, Corporate Governance, Sales and Marketing and Business Acquisition. 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.	Steve has held a variety of senior roles in the Life and Health insurance industry. He was previously Managing Director for individual and group protection at Friends Life after building a successful life and health business for Bupa. Steve also has Reinsurance experience, most recently as deputy Chief Executive at Revios UK. Responsibilities have included all areas of our business, and significant change management and business integration within the Resolution group. Steve was chair of ILAG (The Investment and Life Assurance Group), a former member of the ABI Protection Committee, and as a qualified Actuary, was twice Chair of the Institute and Faculty of Actuaries Healthcare Conference. Steve is also a policyholder and therefore a member of The Exeter.	Isobel brings over 30- years of insurance industry experience and is a senior financial services leader whose background is predominantly in protection and pensions. Isobel's most recent position 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 creating a great customer service experience with focus on developing innovative propositions and delivering value for money. She is also committed to the ideals and values of mutuality.
Current and previous external appointments	• 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.	• Independent Non-Executive Chair at Safe World Insurance Group UK Ltd.	

Director	John Gunn	Steve Bryan	Chris Pollard	Willie Hamilton
				
Appointed to the Board	April 2019	July 2017	April 2019	April 2005
NED/ Executive	Finance Director	Director of Distribution and Marketing	Chief Operating Officer	Medical Director
Committee Chair / Committee member	Governance & Risk	-	-	-
Experience	John joined the Society as Chief Actuary and Chief Risk Officer in February 2017 and was appointed to the Board as Finance Director in April 2019. John has spent his entire career in Life and Health insurance, joining Scottish Life immediately on graduation from Heriot Watt University. After qualifying as an Actuary in 2004, he spent 10 years working for Royal London's protection businesses in the UK and Ireland in a variety of roles including Head of Pricing, Head of Actuarial and Head of Products. Prior to joining The Exeter, John also worked at Scottish Widows and as General Manager at Omnilife.	Steve joined the Board of the Society in July 2017 as Distribution and Marketing Director. In his role at The Exeter, Steve is responsible for sales, marketing, proposition development and relationship management. Steve has spent his entire career in the Financial Services sector, starting out on the graduate training scheme of Lloyds Bank, having graduated from the University of Leeds in Economics and Accountancy. Subsequently, a distinguished 20-year tenure with Legal & General followed in a variety of roles across the General Insurance and Protection divisions, culminating in Steve heading up Intermediary distribution across both divisions. Steve brings to The Exeter a wealth of experience across Protection, General Insurance, Mortgage and Healthcare markets.	Chris 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.	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'.
Current and previous external appointments			• Member of the Protection Committee of the Association of British Insurers (ABI).	

Directors skills and experience

Below is a general overview of the skills and experience of the Board.

Director	Life, IP and General Insurance	Reinsurance & Underwriting	Medical	Finance	Risk	Actuarial	Compliance	IT	ESG	Marketing /Distribution
Wallace Dobbin	●			●			●		●	●
David Brand	●	●		●	●	●	●		●	
Keith Baldwin	●			●	●		●	●	●	●
Steve Bryan	●						●		●	●
Helen McEwan	●			●			●		●	●
John Gunn	●	●		●	●	●			●	
Willie Hamilton	●		●		●				●	
Isobel Langton	●	●			●		●		●	●
Steve Payne	●	●		●	●	●	●		●	●
Chris Pollard	●	●			●		●	●	●	●

Board and Committee membership attendance record

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

Director	Board[1]	Audit	Governance & Risk	Investment	Nomination	Remuneration
	(8)	(6)	(5)	(4)	(5)	(5)
Wallace Dobbin	8 (8)	-	-	-	5 (5)	5 (5)
Keith Baldwin	7 (7)	6 (6)	5 (5)	4 (4)	5 (5)	5 (5)
David Brand	7 (7)	6 (6)	5 (5)	4 (4)	5 (5)	5 (5)
Helen McEwan	7 (7)	6 (6)	5 (5)	4 (4)	5 (5)	5 (5)
Steve Payne	7 (7)	6 (6)	5 (5)	4 (4)	5 (5)	5 (5)
Andy Chapman[2]	4 (4)	-	-	2 (2)	-	-
Isobel Langton[3]	6 (6)	-	-	2 (2)	-	-
Steve Bryan	7 (7)	-	-	-	-	-
John Gunn	8 (8)	-	5 (5)	-	-	-
Professor Willie Hamilton	7 (7)	-	-	-	-	-
Chris Pollard	7 (7)	-	-	-	-	-

(1) This included two strategy meetings and also one special Sub-Committee of the Board attended by Wallace Dobbin, Andy Chapman and John Gunn.

(2) Andy Chapman retired 30 June 2021

(3) Isobel Langton was appointed 6 April 2021

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 6 meetings held in 2021
David Brand	Committee Chair	6
Keith Baldwin	Independent Non-Executive Director	6
Helen McEwan	Independent Non-Executive Director	6
Steve Payne	Independent Non-Executive Director	6

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.

The Committee's key areas of focus

The Committee has set a set agenda for the year although it adapts this to take account of changes in the business and the Board's strategy to ensure that there is challenge and oversight from an audit perspective and to ensure a strong control environment. The Committee's key areas of focus for 2021 were:

Financial Reporting	• Reviewed the Annual Report and Accounts, monitoring the integrity and any significant issues of the financial statements. • Received reports on the key judgements and accounting policies in the preparation of the financial statements. • Reviewed reports from the external auditor on the financial statements. These covered the significant audit risks, areas of audit focus, appropriateness of any significant management judgements used in preparing the accounts and the effectiveness of systems of internal control. • Reviewed the Society's Going Concern assumption and Viability Statement and confirmed the Directors have carried out a robust assessment of the principal and emerging risks and how they are being managed or mitigated. • Considered the proposed change in accounting practice from IFRS to UK GAAP. This included reviewing advice provided by an independent external advisor. • Provided advice and recommendation on whether the Annual Report and Accounts, taken as a whole, were fair, balanced and understandable, and provided the members with the information necessary to assess the Society's position, performance, business model and strategy. • Made recommendation to the Board, for it to put to the Members for approval at the Annual General Meeting, in relation to the appointment of the independent external auditor.
External auditor	• Approved the external audit plan, the external auditor's terms of engagement and the fees to be paid. • Reviewed and monitored the external auditors, independence, objectivity and effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. • Reviewed and approved the external auditor independence policy relating to non-audit services. • Received and reviewed Mazars year-ending report for the 2021 financial statements.
Internal auditor	• Regularly reviewed and considered the internal audit plan for the year. • Received quarterly internal audit reports, challenged the robustness of their findings and agreed appropriate actions with management. • Reviewed how issues identified for action, whether arising from internal audit reports or from internal control processes, are progressed and reported, ensuring an effective framework for the management of issues within the business. • Reviewed the Chief Internal Auditor's independence, skills and experience to continue in role for another year in accordance with the guidance recommendation from the Internal Audit Financial Services Code of Practice for effective internal audit.
Control oversight	• The Committee regularly reviewed and considered the Actuarial Function report along with the work of the independent With Profits Actuary. • The Committee considered the work of the external With Profits Actuary. In February 2022 the external appointment has been replaced with an internal actuary who took over this responsibility. • Reported to the Board, any identified matters in respect of which it considered that action or improvement was needed and made appropriate recommendations. • Considered and recommended approval of the rebate to PMI members as a result of the impact of COVID-19. • Reviewed and monitored any control findings actions resulting from the independent external audit.
Routine matters	• Conducted an annual review of the Committee's performance. • Reviewed and approved the committee's terms of reference and minutes. • Agenda forward planner for the year ahead reviewed.

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 and Marketing, the Chief Operating Officer and the Chief Internal Auditor. Representatives from the independent external auditors attended 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 Board, 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 line with 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 colleague. 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.

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, are 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 2021 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 65.
- 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 and claims incurred but not settled, 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 65.
- 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 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, re-appointment or removal. These recommendations are then put to the members for approval at the Annual General Meeting (AGM). The Board recommended the re-appointment of Mazars LLP as the Exeter's independent external auditors and the appointment was approved by the members voting at the AGM on 23 September 2021.

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 continue to provide tax support services to The Exeter, having originally 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. Mazars did not provide any non-audit services.

Internal audit

The Audit Committee is required to assist the Board in fulfilling its responsibilities for ensuring the capability of the internal audit function and the adequacy of its resourcing and plans. To fulfil its duties, the Committee reviewed:

- The internal audit's plans and its achievement of the planned activity, including resourcing; and
- The results of key audits and other significant findings, the adequacy of management's response and the timeliness of their resolutions.

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 2021, 11 Internal Audit engagements were undertaken.

David Brand BA, FIA
Audit Committee Chair
6 April 2022

Governance and Risk Committee

Committee membership and attendance

		Total of 5 meetings held in 2021
Steve Payne	Committee Chair	5
Keith Baldwin	Independent Non-Executive Director	5
David Brand	Senior Independent Non-Executive Director	5
Helen McEwan	Independent Non-Executive Director	5
John Gunn	Finance Director	5

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

The Committee's key areas of focus

The Committee's key areas of focus for 2021 were:

Risk	• Reviewed and monitored the quarterly Risk Report (including the quarterly Risk Dashboard). • Reviewed and challenged the Climate Change Risk Management Plan. • Reviewed and made recommendation to the Board in respect of the annual Enterprise Risk Management framework. • Reviewed, challenged and made recommendation to the Board of the bi-annual Risk Control Self-assessment.
Compliance	• Reviewed and monitored the quarterly Compliance Function Report, including impact of regulatory change, progress update. • Reviewed the annual PRA periodic summary meeting review. • Review the FCA returns. • Reviewed and approved the threshold conditions report. • Reviewed the members complaints report.
ORSA and Strategy	• Reviewed, challenged and made recommendations to the Board in respect of the Business and Strategy Plan. • Reviewed the Operational Resilience: Impact on business services and impact tolerances. • Reviewed, challenged and made recommendation for final approval, by the Board, of the 2021 ORSA Report, and its design, objectives, sensitivities and is review and approval process.
Governance and other areas of oversight	• Reviewed, challenged and made recommendation to the Board in respect of the annual Financial Crime Report, Money Laundering Report and the Whistleblowing Report. • Reviewed and monitored the quarterly SII report including any recommendations in relation to SII management actions. • Reviewed and monitored the bi-annual IT and Cyber Security report and ad-hoc business penetration testing report. • Reviewed and monitored the Distribution and Quality Management Report as well as the quarterly Change Office Report. • Reviewed, challenged and made recommendation for approval, by the Board, of the Risk Appetite. • The Corporate Governance Handbook recommending any changes for approval by the Board.
Routine matters	• Reviewed, challenged and made recommendation for approval, by the Board, of all Solvency II policies. • Conducted an annual review of the Committee's performance. • Reviewed and approved the committee's terms of reference and minutes. • Reviewed, challenged and made recommendation for approval, by the Board, of the Matters Reserved to the Board. • Agenda forward planner for the year ahead.

Committee Composition

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 Information Security Manager, 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

The Society remains committed to high standards of business conduct and expects all of its colleagues to act accordingly and has policies in force to assist with this.

- Review the adequacy and security of the Society's arrangements for its colleagues 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 antimony 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 2021, 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 13 and Note 3 of the Financial Statement, on page 85.

Cyber, IT and data

The Committee continued its oversight of the IT controls framework and infrastructure along with the provisions in place to defend against cyber attacks, which are becoming increasingly sophisticated. It also considered the work being undertaken by the business to ensure compliance with GDPR and other regulations.

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 and 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 colleagues 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
6 April 2022

Nomination Committee

Committee membership and attendance

		Total of 4 meetings held in 2021
Helen McEwan	Committee Chair	4
Keith Baldwin	Independent Non-Executive Director	4
David Brand	Senior Independent Non-Executive Director	4
Steve Payne	Independent Non-Executive Director	4
Wallace Dobbin	Board Chair	4

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

The Committee's key areas of focus:

The Committee has set a set agenda for the year although it adapts this to take account of changes in the business and the Board's strategy to ensure that there is challenge and oversight. The Committee's key areas of focus for 2021 were:

Board composition	• Consider and make necessary recommendations to the Board on the retirement of Andy Chapman as CEO. • Formal review of the composition of the Board, including skills, experience, diversity and tenure of the directors. • In line with the selection and appointment procedure, the Committee agreed on a suitable candidate for appointment to the Board. • The Committee made an appointment recommendation to the Board in respect of the new CEO. • The Committee approved a recommendation for the appointment of two senior managers, these being a Strategy and Change Director and the Chief Risk Officer to be appointed to the Executive Board.
Inclusion and Diversity	• A standing agenda item for an update at each meeting in respect of inclusion and diversity was agreed and actioned. • Review and monitor the delivery of the inclusion and diversity framework for the business. • Review and recommendation of the inclusion and diversity website statement. • Recommendation for approval of the Executive responsible for the inclusion and diversity representative for the Society. • Review and challenge of the report in respect of the inclusion and diversity internal audit that had taken place in 2021. • Monitoring of the resulting low-level recommendations in relation to the inclusion and diversity internal audit.
Governance and oversight	• Review and recommend to the Board the annual election and re-election of directors at the 2021 AGM. • Review and recommendations in respect of the Exeter Friendly Society Board and Employee Inclusion and Diversity Policy. • Review of the Executive Board structure including succession planning.
Routine matters	• Conducted an annual review of the Committee's performance. • Reviewed and approved the committee's terms of reference and minutes. • Agenda forward planner for the year ahead.

Looking ahead in 2022, succession strategy at the Board, Executive and Senior Management level will be kept under review. This is an area the Committee is keen to drive forward and ensure all colleagues are provided with the opportunity to develop and succeed at the highest level. The Committee will be considering and will make recommnedation to the Board on the retirement and appointment of the role of the Chair.

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 Chief People Officer who have a standing invitation.

The Committee may take independent professional advice on any matters covered by its terms of reference at the Society's expense. The Committee Chair reports the outcome of meetings to the Board.

Election / re-election of non-executive directors

The Committee members considered the composition of the Board and the time needed to fulfil the roles of Board Chair, Senior Independent Director and Non-Executive Director. The Committee members considered the election/re-election of Directors prior to their recommended approval by shareholders at the AGM.

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:

- Leading the process for Board appointments and making recommendations to the Board.
- 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 any necessary changes.
- Reviewing and managing the Group wide inclusion and diversity plan at Board and across the business to assist in the delivery of the diversity plan.
- Considering plans for orderly 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.
- Keeping under review the leadership needs, both Executive, Independent Non-Executive and Senior Management, to ensure the organisation competes efficiently in the market place, and with making any recommendations to the Board with regards to any changes in the short, medium term and in any circumstance that arises where an immediate change in the Board is required.
- 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 to ensure effective 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.
- Discuss leadership development of Executives and Senior Management.

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.

Selection and appointment of the new Board Member

It is the practice of the committee, led by the Chair, to appoint an independent external search consultancy to assist in Board appointments to ensure that an extensive and robust search can be made for suitable candidates. For example, Redgrave Partners was appointed in 2020 to assist with the search and appointment of the new CEO appointed in 2021. Redgrave Partners had no other connection or conflict of interest with the Society. When fulfilling a Board level appointment the Committee would consider the following:

Board composition	• Discuss and agree the timing, the role description and requirements of an appointed candidate. • Review the overall structure, size and composition of the Board and its Committees including the skills and experience, diversity, and tenure of the Directors currently appointed. • The Committee would agree the desirable qualities, having considered the Society's business model, strategy, and external environment including stakeholders.
Role brief development	• Develop a comprehensive role brief for position to be filled. • The brief would be aligned with reference to the skills and experience, the Exeter Friendly Society's inclusion and diversity Policy, related commitments, and any other key corporate governance requirements.
Shortlisting	• The mandate would be given to the external search agency to provide suitable candidates for an initial long-list of candidates from a broad range of backgrounds. • The Chair of the Committee, the Board Chair and the Chief People Officer would collaborate with the external search agency to prepare a short-list for review by the Committee. • The Committee would then agree the appropriate candidates to be invited for interview.
Interview	• To assess the candidates, a formal multiple-stage interview process would be used, and tailored for relevance to the role. • Initial interviews would be held with the Committee Chair and the Board Chair supported by the Chief People Officer. • To agree on the final candidates invited for final interview, a calibration exercise would be undertaken. • Final interviews held with the members of the Committee with the agreed final two candidates.
Due diligence and recommendation	• A comprehensive due diligence and role referencing process would be undertaken. • Upon satisfactory completion, appointment recommendations would be made to the Board.

Induction process

The Committee, supported by the Company Secretary, oversee the induction programme of any new Director, which is 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 and the investment brokers;
- being given the option to meet with colleagues and being introduced informally;
- being provided with a formal external director training, which has previously been facilitated by the Institute of Directors; and
- access to online resources, including to the Board and Committee minutes, key reference materials, and briefings on market status and competition.

In 2021 Isobel Langton received a full induction. This included meeting all colleagues during the year, which was in person where possible and via video conference call in all other circumstances.

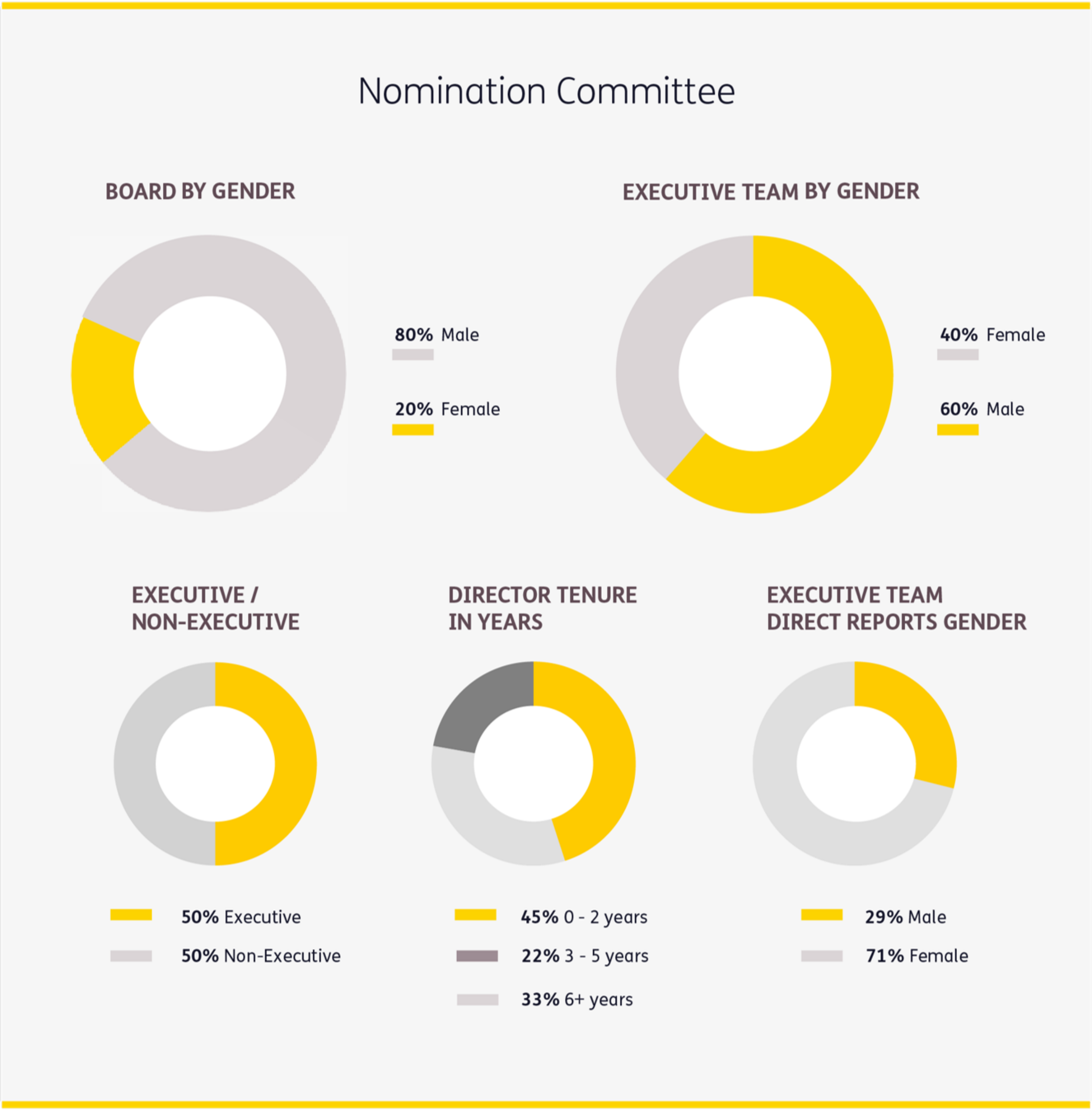
inclusion and diversity

The work of the Committee in driving inclusion and diversity in 2021 continued. The inclusion and diversity monthly meetings remain in place and include attendance from Isobel Langton who was appointed the Inclusion and Diversity Representative.

The Board has pledged to continue to progress our inclusion and diversity agenda. The Society's people and culture are at the heart of the business, through supporting the excellence of operations, their passion for quality of service and determination to ensure members receive the best care possible. It is therefore important that we continue to identify, develop, educate and promote a diverse pool of talent, which we believe will provide the variety of experience and viewpoints that lead to better decision making.

Our focus remains on 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 of 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.

- One of the strengths of our business, comes from being an inclusive and supportive team, where we recognise that individual experiences and views make us unique in the way we come together in our shared values and vision. It is our belief that the more our colleagues reflect the diversity of our stakeholders, including colleagues, members and the communities we operate, the better our business will be to continue to service their needs.
- Diversity of thought, experience and origin leads to increased innovation and creativity, and improved diversity has been shown in recent studies to lead to improved financial performance.
- The Board sets the tone for inclusion and diversity. Its approach to the appointment of new directors reflects our desire to ensure an appropriate balance of experience and backgrounds on the Board. We continue to strive to ensure diversity, in its broadest sense, is in place.



The Committee recognises through its feedback from members that it needs to do more to drive inclusion and diversity at Board and to ensure this cascades through the culture of the whole business, to better reflect the diversity of our members and stakeholders. inclusion and diversity has been added to the Committee meetings as a standard agenda item and the Chair of the Nomination Committee, along with the CEO, holds monthly video conference calls with senior management within the business to discuss progress.

As part of its remit, the Committee reviews the Society's policies on workforce inclusion and diversity, and their objectives and link to the Society's strategy. The Society has always operated an open and inclusive hiring and colleague management practice. The Committee, in reviewing the Society's policies and framework, was satisfied that they supported the development of a more diverse workforce and leadership within the business. The Exeter's inclusion and diversity Policy and Statement can be found on the website.

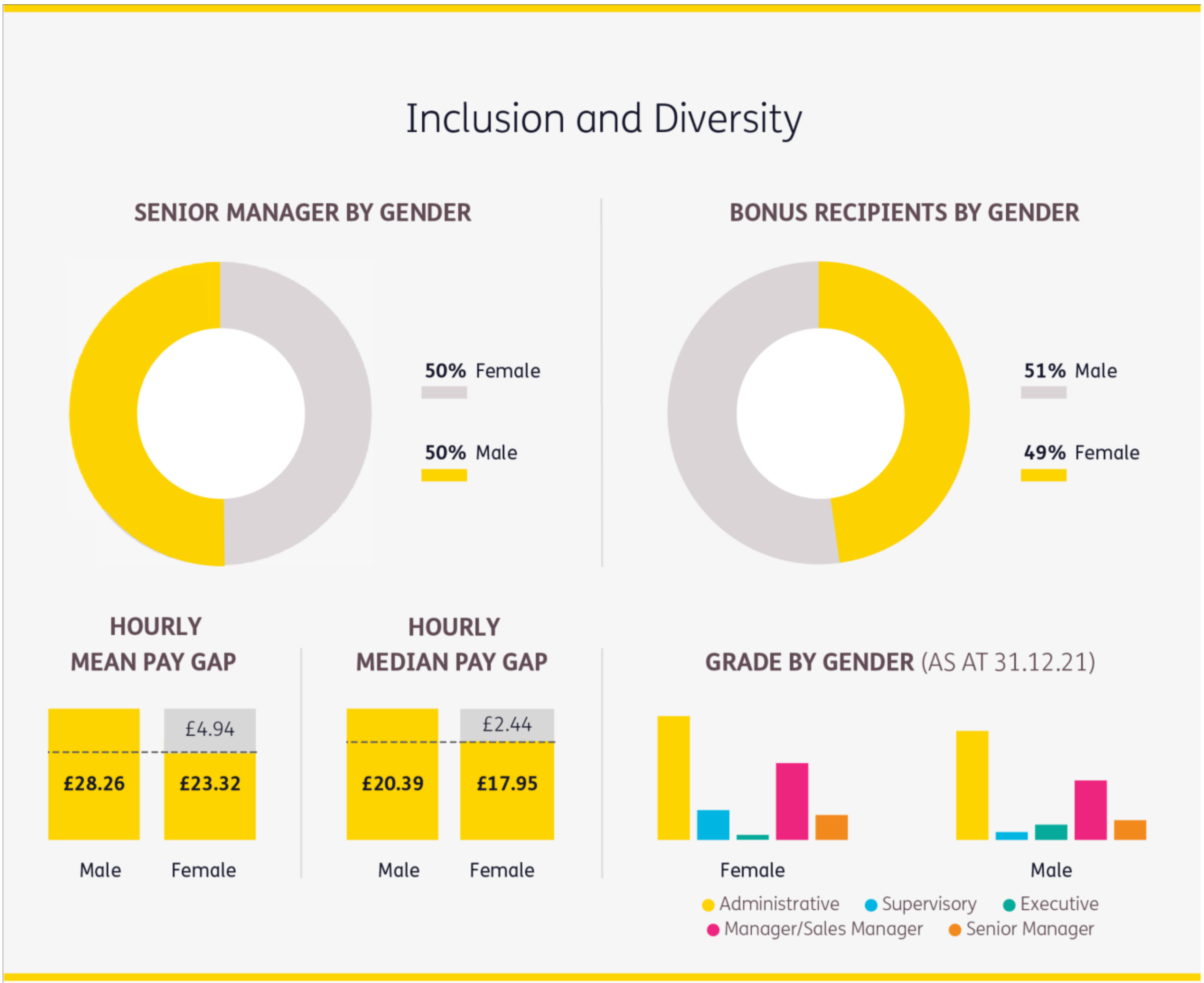
The Committee, through its work with the Board, Executive and Senior Management have agreed a framework, which the Committee continues to build on. The time-frame for fully implementing the framework and achieving a significant and solid measurable change will likely take time, due to a low turnover of colleagues within the business. However, where possible work placements will be offered, whilst also taking advantage of improved flexible working, this should assist to widen our recruitment opportunities. The table below sets out the Society's commitment designed to assist delivery against the Board inclusion and diversity 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	Only those executive search firms who follow the principles of or are signed up to the Voluntary Code of Conduct for Executive Search Firms (the Voluntary Code) will be considered when recruiting for a Board position. 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. 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.	Early in 2022 the Committee met with an executive search firm to discuss and develop the role brief for the Board Chair role. The Committee through its engagement with Redgrave Partners completed the recruitment process of the new CEO. This followed the recruitment process outlined in the 2020 annual report and also above in this report.
Support Board-level diversity throughout the succession planning process	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. 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. 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.	The Committee continues to look at Board succession and the skills and experience mix at least annually. 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.
Support efforts to increase diversity in the senior management pipeline towards executive and non-executive Board positions	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.	The Society has reaffirmed its commitment to better gender and inclusion and diversity balance through its inclusion and diversity Statement which is published on the Society's main website. In 2021 the Society has worked to sign up to the AFM's Mutual Diversity Alliance and the Women in Finance Charter.

Gender breakdown

We can report that 51% of all colleagues are female and, of all colleagues holding a senior management role, 50% are female.

The gender balance at the top of the group has taken time to change because we have maintained a stable senior team. Progress has been made in this area during 2021 with the appointment of Isobel Langton as Chief Executive.



The data used in these charts are as at 5 April 2021.

Talent and succession

The Committee is mindful of its responsibilities to consider succession planning for the Board. The Senior Executive, 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 2022.

Helen McEwan BA, AFPC
Nomination Committee Chair
6 April 2022

Investment Committee

Committee membership and attendance

		Total of 4 meetings held in 2021
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 (retired 30 June 2021)	Chief Executive	2
Isobel Langton (appointed 6 April 2021)	Chief Executive	3

The Committee's key areas of focus

The Committee's key areas of focus for 2021 were:

Investment activity	• The Committee reviewed the investment managers reports and investment summaries, including receiving the annual Investment Management Report.
Internal Reporting and activity	• The Committee reviewed its investment summaries prepared and presented by the Finance Director. • The Committee reviewed its investment guidelines, with a change approved to move some assets to less carbon intensive funds. • To continue monitoring the impact of COVID-19 on the various investments.
Routine matters	• Reviewed the performance and ongoing appointment of the external investment managers, considering their performance, capabilities and overall management costs. • Conducted an annual review of the Committee’s performance. • Reviewed and approved the committee’s terms of reference and minutes. • Agenda forward planner for the year ahead.

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. 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 and detailed three-year review was undertaken in June 2021, and the Committee concluded and recommended the re-appointment of RLAM as the Society’s investment manager.

Responsibilities of the Committee

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

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
6 April 2022

Remuneration Committee

Committee membership and attendance

		Total of 4 meetings held in 2021
Steve Payne	Committee Chair	4
Keith Baldwin	Independent Non-Executive Director	4
David Brand	Senior Independent Non-Executive Director	4
Wallace Dobbin	Board Chair	4
Helen McEwan	Independent Non-Executive Director	4

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

The Committee's key areas of focus

The Committee's key areas of focus for 2021 were:

Remuneration	• Reviewed and made recommendation of the Executive Director Bonus Scheme payments 2020/2021. • Review of the business performance 2021 and proposed bonus scheme final payment. • Reviewed and made recommendation of the Executive Director remuneration. • Continued the review of the Executive Bonus schemes, to ensure bonuses are better aligned with the strategy of the business, its performance and upcoming regulatory requirements.
Governance and other activity	• Review of value create and alignment with the business strategy. • New CEO remuneration arrangements. • Executive and colleague pension alignment review. • Working from home taxation review. • 2021 all colleague pay review and bonus award.
Routine matters	• Conducted an annual review of the Committee's performance. • Reviewed and approved the committee's terms of reference and minutes. • Agenda forward planner for the year ahead.

Committee composition

The Committee comprises, the Committee Chair and four Independent Non-Executive Directors. Regular attendees include the Chief Executive and the Chief People Officer.

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:

- Review the Remuneration Policy for all Executive Directors and the Board Chair.
- Review the ongoing appropriateness and relevance of the Remuneration Policy.
- Determining the total individual remuneration package of each Executive Director, the Board Chair and other designated Senior executives.
- Obtaining 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 colleague 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.
- 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 colleague benefits structures throughout the Society.
- Agree the policy for authorising claims for expenses from the directors.
- Work and liaise as necessary with other Board Committees.

Steve Payne, BSc, FIA
Remuneration Committee Chair
6 April 2022

Directors' Remuneration Report

On behalf of the Board, I am very pleased to present the Directors' Remuneration Report for the year to 31 December 2021. 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 colleagues 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 colleague behaviours which are in the best interests of its members. The Remuneration Committee considers the reward package of other Group colleagues when determining the Executive Directors' remuneration for the year. This includes annual base salary reviews, benefits and bonus schemes.

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 attract and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society.	Base salaries take account of: • Skills and experience; • Salaries across the Society; and • By reference to the published information from comparable organisations in the financial services sector including data from the Willis Towers Watson Financial Services Survey (excluding London). Salaries are usually reviewed annually with changes implemented from 1 April each year.
Benefits	To attract 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 colleagues to share in the success of the Society and is payable upon achievement of a set of defined business and individual performance targets.	Corporate and individual performance targets are set by the Remuneration Committee at the start of each year and achievements reviewed after the year end. The Committee can use its discretion to award or adjust bonuses and awards can be subject to claw-back if performance is misstated, in the event of misconduct or if there has been a major failure of management resulting in substantial damage to the business or reputation of the Exeter Friendly Society Group.
Pension	To attract and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society.	The Executive Directors are members of the Society's defined contribution Group Personal Pension Plan, which is available to all colleagues. Pension entitlements are not included as salary for the purpose of bonus calculations.
Non-Executive Directors		
Fees	To attract and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society without compromising their independence.	Annual fee for Board Chair. Annual fee for Independent Non-Executive Directors. Additional fees paid to the Committee Chairs. 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.

Maximum value potential	Performance metrics	Changes to policy in 2021
No specific cap on salaries. In determining any increases, the rate of increase for other colleagues 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 2021 are provided on page 55.
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 58.
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 56.
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 56.

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 colleagues 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 considers the overall salary budget and percentage increases made to other colleagues 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 colleague within the business. Every colleague 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 colleagues 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 colleague within the business.

Annual bonus

The Company Annual Bonus Scheme applies to all colleagues 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 colleague 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 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
Isobel Langton (Chief Executive)				
	Minimum	87%	0%	13%
	On Target	57%	34%	9%
	Maximum	47%	47%	6%
Andy Chapman (Retiring 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 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 colleagues in the Group. The same principles apply to Remuneration Policy for all colleagues, 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 colleagues is considered.

Consultation with members

The Committee is committed and has had direct and open dialogue with members on Executive Director remuneration in 2021. The Directors' Remuneration Report is subject to a vote at the Annual General Meeting.

Annual Report on remuneration

The following table shows the breakdown of total remuneration for Directors in 2021 together with the prior year comparatives:

	2021 £000s					2020 £000s				
	Salary / Fees	Benefits / Expenses	Bonus	Society Pension Payment[1]	Total	Salary / Fees	Benefits / Expenses	Bonus	Society Pension Payment	Total
Executive Directors										
Isobel Langton[2]	238	0	142	24	**404**	0	0	0	0	**0**
Andy Chapman[3]	332	2	391	44	**770**	320	2	255	48	**624**
Steve Bryan	195	0	439	29	**664**	194	0	292	29	**515**
John Gunn	191	0	234	29	**453**	189	0	141	28	**359**
Chris Pollard	191	0	219	29	**439**	189	0	62	28	**279**
Professor Willie Hamilton	86	0	0	0	**86**	83	0	0	0	**83**
Sub-totals	**1,233**	**2**[4]	**1,426**	**155**	**2,815**	**974**	**2**[4]	**824**	**134**	**1,935**
Non-Executive Directors										
Keith Baldwin	48	0	0	0	**48**	47	0	0	0	**48**
David Brand	58	1	0	0	**59**	58	0	0	0	**58**
Wallace Dobbin	84	0	0	0	**84**	84	0	0	0	**84**
Helen McEwan	53	0	0	0	**53**	52	4	0	0	**56**
Steve Payne	58	2	0	0	**60**	58	1	0	0	**58**
Sub-totals	**301**	**3**[5]	**0**	**0**	**304**	**299**	**6**[5]	**0**	**0**	**305**
Totals	**1,534**	**5**	**1,426**	**155**	**3,119**	**1,273**	**8**	**824**	**134**	**2,239**

(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, Isobel Langton, John Gunn, Chris Pollard and Steve Bryan.

(2) Isobel Langton was appointed in April 2021

(3) Andy Chapman retired June 2021, the table reflects remuneration until November 2021

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

(5) 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 were not increased in 2021. The following table sets out the 2020 and 2021 comparative salaries of the Executive Directors:

Name	As At April 2021	As At April 2020	Increase
Isobel Langton (Chief Executive appointed April 2021)	£322,004	£0	0%
Andy Chapman (Chief Executive, retired from the Board June 2021)	£322,004	£322,004	0%
Steve Bryan (Director of Distribution and Marketing)	£195,314	£195,314	0%
John Gunn (Finance Director)	£190,550	£190,550	0%
Chris Pollard (Chief Operating)	£190,550	£190,550	0%
Professor Willie Hamilton (Medical Director)	£48,564	£48,564	0%

Variable pay - Executive Director Bonus Scheme

Variable pay at Exeter Friendly Society Limited is designed to enable managers and colleagues 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 2021 and 2020 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 have 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.
- In 2021, no adjustments were made to bonus payments.

The following table shows the targets that were set for the corporate performance measures in both 2021 and 2020 and the awards made in respect of those measures:

Corporate Performance Measure	2021				2020 (Restated)			
	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	74,669	73,601	98.6%	17.6%	74,910	71,135	95.0%	0.0%
Operating Expenses[1]	21,100	19,252	91.2%	40.0%	20,988	19,046	90.7%	45.0%
Totals				57.6%				45.0%

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

Pension arrangements

The Executive Directors are members of the Society's defined contribution Group Personal Pension Plan, which is available to all colleagues. 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 2021 and 2020 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

Andy Chapman Chief Executive (who retired 30 June 2021) received £5,000 (2020: £10,000) for attending the Financial Conduct Authority's Smaller Business Practitioner Panel, which the Board has authorised and was retained. No other fees were received by any other executive during the year.

Independent Non-Executive Directors

Independent Non-Executive Directors, including the Board Chair, are remunerated solely by fees. They do not receive any incentive payments 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
6 April 2022

Directors' Report and Statement of Directors' Responsibilities

The following cross-referenced material, is incorporated into this Directors' Report:

- Environmental, Social and Governance (page 31);
- Information on our colleagues (page 10);
- Information on how the directors have engaged with colleagues, have had regard to colleague interests and the effect of that regard on the Society's principal decisions (page 27);
- Information on how the directors have had regard to the need to foster the Society's business relationships with suppliers, customers, members and the effect of that regard, including any principal decisions taken (pages10 and 27); and
- The Corporate Governance Report (page 22).

Members of the Board of Directors

The Board of Directors who held office in 2021 are listed on the inside front cover of this Report, with their resumes on page 35.

Statement of Directors' Responsibilities

The following statement should be read in conjunction with the Statement of Independent Auditors' Responsibilities (noted on page 65) 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 UK 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; and
- 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 the applicable set of accounting standards, in conformity with the requirements of the Friendly Societies Act 1992, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Society and Group and the undertakings included in the consolation taken as a whole;
- the Strategic Report and the Directors' Report includes a fair review of the development and performance of the business, together with a description of the principal risks and uncertainties that it faces; and
- they consider it appropriate to adopt the going concern basis of accounting in preparing them, and have not identified any material uncertainties to the Society's ability to continue to do so for twelve months from the date of approval of the financial statements.

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

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

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

Directors' report and other disclosures

The directors of the Society present their report together with the audited consolidated financial statements for the year ended 31 December 2021. The Directors' report has been prepared in accordance with the requirements of section 415 of the Companies Act 2006 (the Act) and should be read together with the Strategic Report and the Corporate Governance Report.

Principal activities of the Society

The Society comprises of the Exeter Friendly Society Limited and its subsidiaries. The principal activities of the Society are the provision of life and protection insurance. Details of the subsidiaries are set out on page 99.

Corporate Governance

As required by statute the Society complies with the AFM's code on corporate governance. Whilst it is not required to comply with the UK Corporate Governance Code 2018 (the Code), the Board holds the Society to the hights standards of Governance, and as such, the Society has voluntarily decided to comply with the Code. In 2021 the Society was compliant in all but one provision with the Code in 2021. Full details can be found in the Corporate Governance Report, on page 34.

Directors and their interests

The details of the directors who served during the financial year ended 31 December 2021 and up to the date of signing the financial statements are set out on page 2, along with their biographies, which are set out on page 35. In accordance with the Code, all directors retire and stand for re-election at the AGM every year. All eligiable directors will retire and stand for re-election at the 2022 AGM.

In accordance with the rules of the Society, there is a requirement for all conflicts or potential conflicts of directors' interests to be approved. The Board has reviewed the interests of the directors and their connected persons, and no interests during the year were required to be approved. The Board reviews any new or ongoing interest at each Board or Committee meeting. No director has any material interest in any contract with the Society or any subsidiary undertaking, which was significant in relation to the Society's business.

Stakeholder Engagement

The Board is fully engaged to promote the success of the Society as set out in section 172 of the Companies Act 2006 and have acted in accordance with these responsibilities. The Society's largest stakeholder is its members and customers along with the financial advisers that support them, other stakeholders are our suppliers, colleagues and the communities in which we work. Full details of the Society's stakeholder engagement and regard to their interests can be found on page 27.

The Society's assessment of the COVID-19 pandemic

The Board is mindful of the continued impact the COVID-19 pandemic has and may still have on the Society. An overview of the Society's approach to COVID-19 during 2021 is set out on page 10. Whilst there has been some minor operational disruption from dealing with the restrictions enforced by COVID-19, our ongoing 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.

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, 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 colleagues with on-line training. As well as the on-line training, all colleagues 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.

Directors' and Officers' liability insurance

Throughout 2021, the Society has maintained liability insurance cover for its Directors and officers as permitted under Section 106 of the Friendly Societies Act 1992.

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 16 days at 31 December 2021 (2020: 17 days).

Sustainability

The Board is committed to improving its corporate, social and environmental impact and full details on the Society's activities can be found on pages19 and 31.

Charitable donations and political contributions

No political donations were made in 2021 (2020: £nil). Donations totalled £78,391 (2021: £64,102) were made to charities during 2021. As part of the 2021 AGM the society made a donation to the Children's Hospice South West for every vote cast, this initiative raised £5,045 (2020: £6,865). In addition to this figure, an amount of £2,250 (2020: £1,500) was paid in respect of medical insurance policies that included a hospice donation as a benefit.

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 meeting, including several that assess how well the Society is meeting its commitments to treating customers fairly.

The Society actively encourages feedback from 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 AGM information pack and meeting. In 2021 the AGM information pack continued to raise a number of member questions, which the Board welcomed, considered and provided a response.

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: £7.20 this includes a special bonus of £6.00 (2020: £1.20)

Commuted Shares £1.81 (2020: £1.81)

Interest Rates

Ordinary Accounts 1.5% (2020: 0.8%)

Commuting Members and Juveniles 0.8% (2020: 0.8%)

Over 65's 0.8% (2020: 0.8%)

In 2022, the bonus declared on ordinary shares includes a special bonus of £6.00. The £6.00 bonus element is a one-off special payment per share for ordinary members in order to bring the terminal bonus rate back to a natural proportionate level and repay unallocated surplus to ordinary members.

The Terminal Bonus to be paid to all ordinary members whose policies mature or surrender from April 2021 is 90% of the member’s dividend account. The equivalent Terminal Bonus rate for April 2021 to March 2022 was 145%.

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.

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 £95,011 inclusive of VAT in 2020 (£56,061 in 2020). Mr Fannin resigned on 1 February 2022, and was replaced by Wendy Crockford as the With Profits Actuary at the same date. This appointment was approved by the Board.

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.

All relevant information has been provided to the firm's independent external auditors. Mazars LLP who were re-appointed as the Society’s independent external auditors at the Annual General Meeting on 22 September 2021. Mazars LLP are willing to continue in office and a resolution will be proposed at the Annual General Meeting scheduled on 23 June 2022 for their re-appointment.

Annual General Meeting (AGM)

In continuing to reduce carbon emissions, the Society will again provide a personalised postal invitation to those members who have not opted to receive this electronically. The paper pack will not include a copy of the year under review or annual report and accounts, both which can be found online on the Society’s website. A hard copy of these reports is also available upon request to the Society.

For those members with special requirements such as a brail copy of the AGM pack, please contact the Society and this can also be provided.

The AGM of the Society will be held at midday on 23 June 2022 at Lakeside House, Emperor Way, Exeter EX1 3FD. The notice convening the meeting, together with guidance on voting at the AGM, will be sent to all members in advance of the meeting.

At the AGM the Board Chair and Chief Executive each provide a presentation on the main developments in the business and members have the opportunity to raise questions and put forward their views. Subject to government guidelines in respect of the pandemic, all directors of the Board are present at the AGM each year to answer questions.

Statement of Board Responsibilities

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations. Under company 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 Group and of the Group's profit and loss for that period.

Going concern

The Strategic Report provides the Society'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 found on page 11. After making suitable enquiries, the directors are satisfied that the Society has adequate resource to continue in business for at least twelve months from the date of approval of the financial statements and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements. The basis of preparation of the going concern is detailed in Note 1 on page 76.

The uncertainty as to the future impact on the financial performance and cash flows of the Group as a result of COVID-19 has been considered as part of the adoption of the going concern basis in the financial statements of the Group and Society.

Other than a move to home working, we have not seen a material impact on our operations as a result of COVID-19. However, we did see a temporary decrease in UK PMI claims, and as described in more detail in the Strategic Review Report there was a repayment to PMI members at the start of 2022 for those 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 the year-end was £25m (2020: £21m) with the remainder invested in lower risk assets.

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 any 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 Russian invasion of Ukraine has continued to develop. To date, we have not seen any impact on our operations and modest impacts on our balance sheet. Our investment strategy is to only invest excess assets in riskier investments, such as equities. Our equity investment at the end of 2021 was £25m with the remainder invested in lower risk assets. We are also exposed to inflation risk, which is mitigated by holding index-linked bonds, the value of which at the end of 2021 was £50m. Scenario testing indicates that the strength of our balance sheet will allow us to meet any short term challenges that falls in equity values and increases in inflation brings.

The Directors consider it appropriate that the financial statements have been prepared on a going concern basis and also confirm there were not material uncertainties identified for a period of twelve months from the date of approval of the statements.

Viability statement

The Directors have an obligation to confirm that they believe that the Society will be able to continue in operation, and to meet their liabilities as they fall due. This viability statement considers the Society's current financial and strategic position and the potential impact of its principal risks, to explain the directors' assessment of the Society's prospects over a period that they consider to be appropriate.

Assessment of viability

In making their assessment, the Directors have considered the Group's top and emerging risks, and the stress testing activity which has been carried out to assess the potential impact of these risks. When reviewed alongside the Society's strategic plan, and the strength of the Society's current financial position, the Directors conclude that the Society remains viable over a three-year period.

Time horizon

The Directors consider a period of three years to be appropriate. Whilst there is always going to be difficulty in predicting the future path of the UK or the wider global economy with any degree of precision, it strikes the right balance between assessing likely outcomes with the current information we have, whilst accepting a degree of uncertainty. Notwithstanding this, information contained within the outer years of our financial forecasts supports the assessment of the Directors that the Society reasonably expects to remain viable in the longer term.

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), which were both approved by the Board in December 2021. 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.

Consideration of key risks

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 13), 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 2024.
- 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 Directors have considered the impact on the Society's risk profile of the prevailing macroeconomic environment, the changing needs of our members and our work to ensure our processes and systems remain robust. Throughout the year, the Board has considered the principal risks which are most relevant to Society's strategy, which include:

- COVID-19 pandemic – Over the past year, the pandemic created significant uncertainty, given the unprecedented and rapidly evolving nature of the situation. By invoking an incident management response to the pandemic, the Directors balanced three key objectives: maintaining a safe environment for our members and colleagues; supporting our members with their specific needs; and ensuring the Society remains stable and secure.
- Geopolitical and macroeconomic environment – As a UK-focused business, the Society's performance is aligned to the UK's economic conditions. Despite ongoing government intervention, the economic outlook remains uncertain, having been severely impacted by the COVID-19 pandemic. Whilst there remains uncertainty regarding the future profile of interest rates, the Society maintains a robust level of capital and liquidity and regularly undertakes internal stress tests to ensure these are sufficient under a range of severe scenarios.
- Competitive environment and consumer behaviours – The level of competition remains a key consideration. This could be driven by shifting customer behaviours, regulatory changes and continued innovation in the financial services sector, and new participants using price and service advantage to challenge our market share aspirations and profitability.
- Financial crime and cyber security – The Directors continuously monitor the external landscape to identify potential cyber or fraud threats whilst operating and continually improving our key financial crime and cyber controls to protect our members and services.
- Operational resilience – Maintaining resilient systems, infrastructure and processes remains critical as COVID-19 restrictions and changing consumer behaviours influence member needs in accessing our products and services and how they interact with us. We continue to monitor and strengthen our controls environment whilst pro-actively monitoring the resilience of our services to ensure there is no disruption to the services we provide our members.

Stress-testing

Management assessed the financial impact of a number of severe but plausible downside scenarios (both individually and in combination) by overlaying them against the three-year business plan. The most important stress scenarios modelled and their link to the Group's Principal Risks and Uncertainties are detailed below:

- Increase in claims – Insurance Risk.
- Increase or reduction in persistency – Insurance Risk.
- Increase in claims combined with increase or reduction in persistency – Insurance Risk.
- Change in new business volumes – Strategy Risk
- Increased competitor activity – Strategy Risk
- Loss of relationship with key business partner – Operational Risk
- Failure to deliver sustainable cost savings – Operational Risk

In each of these severe but plausible scenarios, the Directors reasonably expect that the Group will continue in operation and be able to meet its liabilities as they fall due over the three-year period considered.

COVID-19

Significant judgement was required to assess the ongoing impact of COVID-19 on the three-year plan. The key assumptions used in this assessment were driven by the most recent experiences the Society has incurred whereby Government lockdowns have not significantly adversely impacted the markets in which the Society operates. Reflecting on the longer-term impact on the business experience, whilst ending a pandemic phase, the business will need to consider further the endemic environment, to ensure we continue to monitor any future potential risks that may be out of our control.

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.

Viability statement

The Board therefore has a reasonable expectation that the Society has adequate resources to continue to operate and to meet its liabilities as they fall due across the three-year review period.

As a consequence of the work performed to support the viability statement above, the Directors also considered it appropriate to adopt the going concern basis in preparing the financial statements which are shown on page 76.

Approved on behalf of the Board of Directors:

Wallace Dobbin, BA, Barrister
Board Chair
6 April 2022

Isobel Langton
Chief Executive
6 April 2022

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 2021 which comprise the Society and Group Consolidated Statements of Income and Expenditure, the Society and Group Statement of Other Comprehensive Income and Expenditure, the Society and Group Statement of Changes in Equity, the Society and Group Balance Sheet, the Society and Group Statement 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 United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group’s and of the Society’s affairs as at 31 December 2021 and of the Group’s and the Society’s income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance 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 Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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, covering the going concern period of 12 months from the date of financial statements;
- Reviewing regulatory correspondence;
- Reviewing the Own Risk and Solvency Assessment, which gives a forward-looking assessment of own risks and solvency requirements and the future capital position based on severe but plausible scenarios applied by the Board, and contains severe but plausible Reverse Stress and Scenario Tests;
- Considering information obtained during the course of our audit and events after balance sheet date for any evidence that would contradict management’s assessment of going concern; 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 opinion above, together with an overview of the principal audit procedures performed to address the matter and our 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
Valuation of the long-term insurance contract asset (gross and net) The Group's and the Society's gross and net long-term insurance asset, as disclosed in Note 21.2, is significant at £92.5m gross and £77.8m net (2020: £73.8m and £61.6m respectively). It is based on estimates and is subject to inherent variability. The valuation of the long-term insurance contract 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. The valuation of long-term insurance contract asset is particularly sensitive to the assumptions for morbidity and persistency. Therefore there is a risk that inappropriate valuation could lead to a material misstatement in financial statements.	In conjunction with our actuarial and IT specialist team members, our procedures to address the valuation of the long-term insurance contract asset included, but were not limited to, the following: • reviewing the model and testing operating effectiveness of key controls over both changes to it and its operation including simplifications and modelling of guarantees; • reviewing the assumptions setting processes, including testing operating effectiveness of key controls and benchmarking against external data as appropriate; • reviewing experience analysis and evaluating assumptions with particular emphasis on newer products; • reviewing expenses assumptions and testing allocation of expenses to fund, product and activity, having regard to consistency with audited data and the robustness of the forecasting process; • reviewing the extraction of policy data through review of IT scripts, creation of model points and data reconciliations; • reviewing the data included in the derivation of the Holloway Bonus, its calculation and considerations relating to treating customers fairly; and • considering the reconciliation of changes in technical provisions and excess assets. **Our observations** Based on the work performed and the audit evidence obtained, we consider that the valuation of the long-term insurance contract asset is reasonable.

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: £4.1m
How we determined it	Materiality was set by reference to the sum of the Society's Fund for Future Appropriations ('FFA') and Reserves (of which it represented 2%).
Rationale for benchmark applied	The sum of the Society's FFA and Reserves was chosen as it is a measure of the accumulated surplus and we have determined, in our professional judgement, it to be the principal benchmark within the financial statements relevant to members in assessing the Group's and the Society's financial position and performance. Since the sum of the FFA and Reserves of the Group is similar to that of the Society, we used the same materiality level for both the Group and the Society.
Performance materiality	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. We set performance materiality at £3.1m, which represents 75% of overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £0.12m as well as misstatements below that amount that, 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 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 our risk assessment, our understanding of the Group and the Society, their environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

Our group audit scope included an audit of the Group and Society financial statements. All non-dormant subsidiaries within the Group were subject to a 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 other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Friendly Societies Act 1992

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with 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 their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report 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; or
- the 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 Statement of Directors' Responsibilities set out on page 60, 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

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.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- 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, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the group companies and the Society are in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant regulatory authorities including correspondence with the PRA and the FCA;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation, pension legislation and the Friendly Societies Act 1992.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks 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 long-term insurance contract asset and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- 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; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and 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 are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available 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 ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2020 and 31 December 2021.

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

Our audit opinion is consistent with our additional report to the Audit Committee.

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.

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
6 April 2022

Consolidated Statements of Income and Expenditure

for the year ended 31 December 2021

Technical Account - General Business		Group		Society	
	Note	2021	2020 (Restated)	2021	2020 (Restated)
		£000	£000	£000	£000
Gross premiums written	5	**35,891**	38,625	**33,228**	35,778
Change in the gross provision for unearned premiums	5	**1,381**	807	**1,266**	526
Earned premiums net of reinsurance		**37,272**	39,432	**34,494**	36,304
Claims incurred, net of reinsurance					
- Gross claims paid	7	**(31,952)**	(22,658)	**(30,030)**	(20,916)
- Change in the provision for claims gross amount	8	(950)	701	**(966)**	584
Net operating expenses	9	**(8,195)**	(15,921)	**(7,288)**	(14,583)
Balance on the general business technical account		**(3,825)**	1,555	**(3,789)**	1,389

Technical Account - Long Term Business		Group		Society	
	Note	2021	2020 (Restated)	2021	2020 (Restated)
		£000	£000	£000	£000
Gross premiums written	5	**36,336**	31,648	**36,336**	31,648
Outwards reinsurance premiums	5	**(11,749)**	(9,685)	**(11,749)**	(9,685)
Earned premiums net of reinsurance		**24,587**	21,963	**24,587**	21,963
Investment Income					
- Income from other investments	6	**662**	819	**662**	819
- Gains on realisation of investments	6	**0**	2,847	**0**	2,847
Claims incurred, net of reinsurance					
- Gross claims paid	7	**(15,648)**	(12,012)	**(15,648)**	(12,012)
- Reinsurers' share	7	**8,312**	5,228	**8,312**	5,228
- Change in the provision for claims gross amount	8	**21,614**	6,148	**21,614**	6,148
- Change in the provision for claims reinsurers' share	8	**(2,610)**	4,367	**(2,610)**	4,367
- Bonus and rebates		**(2,875)**	(591)	**(2,875)**	(591)
Reinsurance commission		**275**	295	**275**	295
Net operating expenses	9	**(31,560)**	(26,473)	**(31,560)**	(26,473)
Investment expenses and charges	6				
- Investment expenses and charges		**(11)**	(1)	**(11)**	(1)
- Losses on realisation of investments		**(35)**	0	**(35)**	0
Unrealised losses on investments	6	**(539)**	(2,575)	**(539)**	(2,575)
Tax attributable to long term business	12	**0**	0	**0**	0
Transfer to the fund for future appropriations	19.2	**(2,171)**	(15)	**(2,171)**	(15)
Balance on the long-term business technical account		**0**	0	**0**	0

Non-Technical Account		Group		Society	
	Note	**2021**	2020	**2021**	2020
		£000	£000	**£000**	£000
Balance on the general business technical account		**(3,825)**	1,555	**(3,789)**	1,389
Balance on the long-term business technical account		**0**	0	**0**	0
Investment income					
- Income from other investments	6	**1,744**	1,626	**1,700**	1,617
Unrealised gains on investments	6	**4,409**	2,636	**4,461**	2,617
Investment expenses and charges					
- Investment expenses and charges		**(297)**	(292)	**(297)**	(292)
Excess of income over expenditure on ordinary activities before tax		**2,030**	5,525	**2,075**	5,331
Tax on excess of income over expenditure on ordinary activities		**0**	0	**0**	0
Excess of income over expenditure on ordinary activities after tax		**2,030**	5,525	**2,075**	5,331

All income and expenditure relates to continuing operations. As a Friendly Society, all net earnings are for the benefit of participating policy holders and are carried forward within the Fund for future appropriations and Reserves.

The notes from page 76 to 120 form part of these financial statements.

Statement of Other Comprehensive Income and Expenditure

for year ended 31 December 2021

	Note	Group 2021 £000	Group 2020 £000	Society 2021 £000	Society 2020 £000
Excess of income over expenditure on ordinary activities after tax		**2,030**	5,525	**2,075**	5,331
Actuarial gain / (loss) on pension scheme	20	**1,161**	(119)	**1,161**	(119)
Unrealised gain / (loss) on property revaluation	19	**438**	(100)	**438**	(100)
Total recognised gain / (loss) in the year		**3,629**	5,306	**3,674**	5,112

Statement of Changes in Equity

For the year ended 31 December 2021

As a Friendly Society, all net earnings are for the benefit of participating policyholders and are carried forward within the Fund for future appropriations and Reserves. Accordingly, the Society has no equity, and a Statement of Change in Equity hasn't been prepared. Movement in reserves is further analyse in note 19.

Balance Sheet

as at 31 December 2021

	Note	Group		Society	
		2021	2020 (Restated)	**2021**	2020 (Restated)
		£000	£000	**£000**	£000
ASSETS					
Intangible assets					
- Intangible assets	15	**2,763**	5,228	**2,763**	5,228
Investments					
- Investments in group undertakings	14	**0**	0	**3,528**	3,528
- Other financial investments	17	**123,926**	133,016	**121,954**	130,992
Insurance contract asset					
- Insurance contract assets	21	**102,468**	81,731	**102,468**	81,731
Debtors					
- Debtors arising out of direct insurance operations	18	**15,008**	14,653	**14,210**	13,740
Other Assets					
- Property and Equipment	16	**3,907**	3,343	**3,907**	3,343
- Cash at bank		**16,252**	17,311	**14,032**	17,311
- Amounts due from subsidiary underakings		**0**	0	**183**	0
- Other	20	**2,200**	961	**2,200**	961
Prepayments and accrued income					
- Accrued interest		**77**	74	**77**	74
- Deferred acquisition costs	13	**1,376**	1,779	**1,277**	1,655
- Prepayments		**368**	410	**358**	406
Total Assets		**268,345**	258,506	**266,957**	258,969

	Note	Group 2021 £000	Group 2020 (Restated) £000	Society 2021 £000	Society 2020 (Restated) £000
LIABILITIES					
Reserves	19.1				
- General Business Fund Reserves		**106,590**	104,559	**106,344**	104,269
- Revaluation reserve		**614**	176	**614**	176
- Pension Reserve		**2,017**	855	**2,017**	855
Fund for future appropriations	19.2	**97,601**	95,430	**97,601**	95,430
Technical provisions	21				
- Provision for unearned premium		**15,072**	16,453	**14,511**	15,777
- Reinsurers share of technical provisions		**14,783**	12,172	**14,783**	12,172
- Unexpired Risk Reserve		**1,161**	0	**1,161**	0
- Claims outstanding		**4,494**	4,231	**4,285**	4,007
- Members' dividend account		**9,143**	7,617	**9,143**	7,617
Provisions for other risks	25	**5,323**	6,958	**5,323**	6,958
Creditors					
- Creditors arising out of direct insurance and reinsurance operations	24	**3,447**	3,042	**3,329**	2,960
- Amounts due to subsidiary undertakings		**0**	0	**28**	1,995
- Other creditors including tax and social security	26	**3,418**	3,369	**3,211**	3,148
- Pension liability	20.2	**120**	130	**120**	130
Accruals and deferred income		**4,562**	3,513	**4,487**	3,475
Total Liabilities		**268,345**	258,506	**266,957**	258,969

See note 30 for details of a prior period error. The financial statements beginning on page 69 and the notes on pages 76 to 120 were approved and authorised for issue by the Board of Directors on 6 April 2022 and were signed on its behalf by:

Wallace Dobbin, BA, Barrister
Board Chair

Isobel Langton
Chief Executive

Statement of Cash Flows

for the year ended 31 December 2021

	Note	Group		Society	
		2021	2020 (Restated)	**2021**	2020 (Restated)
		£000	£000	**£000**	£000
Cash flows from operating activities					
Cash (used in) / generated from operating activities	28	**(2,440)**	4,859	**(4,613)**	4,868
Dividend income received		**555**	521	**555**	521
Interest income received	28	**1,851**	1,923	**1,806**	1,914
Net cash generated (used in) / from operating activities	28	**(34)**	7,303	**(2,252)**	7,303
Cash flows from investing activities					
Purchase of property, plant and equipment	16	**(555)**	(499)	**(555)**	(499)
Purchase of intangible assets	15	**(400)**	(1,292)	**(400)**	(1,292)
Net cash used in investing activities		**(955)**	(1,791)	**(955)**	(1,791)
Exchange rate (losses) / gains on cash and cash equivalents		**(71)**	96	**(71)**	96
Net (decrease) / increase in cash and cash equivalents		**(1,060)**	5,609	**(3,278)**	5,609
Cash and cash equivalents at the beginning of the year		**17,311**	11,702	**17,311**	11,702
Cash and cash equivalents at the end of the year		**16,252**	17,311	**14,032**	17,311

The notes on pages 76 to 120 form part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2021

1 Accounting policies

1.1 Basis of preparation and consolidation

The Group's and Society's financial statements have been prepared in accordance with UK accounting standards, including Financial Reporting Standard (FRS) 102, 'The Financial Reporting standard applicable in the United Kingdom and Republic of Ireland' and FRS 103, 'Insurance Contracts' as issued by the Financial Reporting Council, the Friendly Societies Act 1992 and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (the Regulations).

These financial statements are the Group and Society's first produced using FRS 102 and FRS 103, which was adopted with effect from 1 January 2021 and the date of transition to UK GAAP is therefore 1 January 2020 to ensure comparability of results. . The Group and Society previously prepared financial statements in accordance with UK adopted International Financial Reporting Standards (IFRS). The last financial statements prepared in accordance with IFRS were 31 December 2020. As a consequence of adopting FRS 102 and FRS 103, some accounting policies have changed to comply with those standards resulting in adjustments to balances on transition. Adjustments on transition have been recognised in the Fund for future appropriation and or General reserves. Further information on these transition adjustments is detailed in note 32.

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 profit or loss as permitted by FRS 102. The financial statements produced by subsidiaries for consolidation are prepared using accounting policies consistent with those of the Group.

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.

The Group's principal business activities, risk management approach and risks and uncertainties are described in the Strategic report.

Unless otherwise stated all figures in the financial statements are presented rounded to the nearest thousand pounds.

i Subsidiaries

Subsidiaries are entities controlled by the Group. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity and where the parent owns half or less of the voting power of an entity but it has:

a) power over more than half of the voting rights by virtue of an agreement with other investors;

b) power to govern the financial and operating policies of the entity under a statute or an agreement; and

c) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

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.

ii 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 Selection of accounting policies

Upon transition the Group has been required to make accounting policy choices where required under FRS 102 and 103. The directors have applied judgement in determining the most appropriate policy in the following instances.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	Under UK adopted IFRS the Group and Society had taken the temporary exemption in applying IFRS 9. Under FRS 102 the recognition and measurement requirements of IAS 39 or IFRS 9 are available as an accounting policy choice. The Group and Society will continue to using the recognition and measurement provisions of UK adopted IAS 39 Financial Instruments: Recognition and Measurement.
Investment return allocation	FRS 103 states that for longer term business the investment return (which includes movement in realised and unrealised gains and losses) backing technical provisions which are held within the long term fund for solvency purposes under the PRA rules should first be allocated to the Long-Term Business technical account, the remaining return may be transferred to other parts of the statement of income and expenditure account. If an insurer transacts both general and long term business and opts to allocate based on the longer rate of return it has to be applied to both funds. If allocation is based on investments supporting the Technical Provisions no allocation should be made from the long term technical to long term non technical account. The Group and Society have made an accounting policy choice to not reallocate investment return to other parts of the statement of income and expenditure account.

ii Valuation of long term technical provisions

The Society calculates its long term technical provisions 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 insurance it is the end date.

As income protection business is underwritten at outset, we have considered the contract boundary to be the policy 'retirement' date. Just over 40% of the income protection business (as at 30 September 2021 based on annual premium in force) is written on a reviewable premium basis. Allowance for premium reviewability is made via management actions within SCR stresses. The contract boundary for term assurance business will be the expiry date. Only business incepted at the valuation date is included.

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, FRS 103: Insurance Contracts, prohibits the netting of reinsurance assets against the related insurance liabilities.

Therefore, the Society has calculated both a gross of reinsurance and a net of reinsurance risk margin and the reinsured element to ensure the risk margin is appropriately presented in accordance with FRS 103.

As the valuation methodology is on a best estimate basis with a risk margin, the long term insurance liability can be negative. In our case, the future value of premiums significantly exceeds the cost of claims and expenses and therefore results in a negative position and is therefore disclosed as an asset. The corresponding reinsurance balance is also negative (i.e. the value of reinsurance premiums exceeds reinsurance recoveries) and so 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 but does have a material impact on the Risk Margin and therefore the overall value of insurance contracts when reported under FRS 103.

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 slowly change over time as the proportion of policies covered by this treaty increases. **Details of the key assumptions are contained in Note 23**.

ii Valuation of general insurance technical provisions - claims

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 settled (IBNS) to the Society and claims incurred but note reported to the Group. 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 income and expenditure account in future years. **Details are contained in Note 21.1**.

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 20**.

iv Valuation of intangibles

The Group's policy is to measure 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 looks for indicators 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 15**.

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 FRS 103. 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, Income one Plus, and Income First 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 fund 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 written premiums in the statement of income and expenditure account 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 income and expenditure account 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 is disclosed within Debtors arising out of direct reinsurance operations in the Balance Sheet. Any balance due to the reinsurer in respect of premiums is disclosed within Creditors arising out of direct insurance and reinsurance operations in the Balance Sheet.

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 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 40% 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 reduces the regulatory capital required to be 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. Within the Society Claims incurred but not settled (IBNS) and in Exeter Cash Plan 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 claim is assessed for payment in the claims administration. The IBNR and IBNS 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.

The Society has made a prospective change in accounting estimate which took effect for the 31 December 2021 year end moving towards using IBNS instead of IBNR. Exeter Cash Plan Limited continues to use IBNR. The change in approach was driven by a change in the presentation of data provided by the Society's claims administrator which now reports the date that claims are settled rather than when they are incurred. Given the different data received, it is not possible to calculate the effect of the change on the Society's 31 December 2021 financial statements but it would not be significant.

Claims costs include a reallocation of administration expenses calculated based on a percentage of claims incurred. For the year to 31 December 2021 this was 9.30% (2020: 8.25%) which includes the claims handling fee charged by AXA PPP Healthcare Limited for their services and internal costs.

b Long Term Business Fund

Sickness and Life claims are accounted for on acceptance of the claims notification, and claims payable on maturity, death and surrender are recognised when the payment becomes due. Gross benefits and claims relate to pay-outs in 2021. Any other changes are accounted for in the Gross change in contract liabilities in the statement of income and expenditure account.

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 used for the Long Term Business Fund allows for expected future cash flows, offset by an allowance for a Risk Margin. If we introduced Deferred Acquisition Costs onto the Long Term Business Fund balance sheet we would risk double-counting as the balance sheet would contain both the Deferred Acquisition Cost and the future cash flows that are required to recover acquisition costs. Accordingly, the directors believe that all acquisition costs incurred in the Long Term Business Fund should be expensed immediately.

vii. Investment income

Dividends on equity investments are included in the long term technical account and general business non technical account when dividend is declared. Other investment income is recognised on an accruals basis using the effective interest rate method.

Realised and unrealised gains and losses on investments are taken to the long term technical account, and the general business non technical account. 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.

FRS 103 permits, but does not require, the financial statements to present results based on the longer term rate of investment return. This investment return may be recorded within the general business and long term business technical accounts. If this option is chosen, FRS 103 requires this approach to be pursued consistently for both the general and long-term funds. Alternatively, FRS 103 permits recognition of the investment return on investments backing the general insurance and long-term technical provisions on an actual basis. This option is regarded as a more simplified approach when compared to recognising the investment return basis on the longer term rate. Given that the Society has in place two ring fenced funds (one for General Business and the other for Long-Term Business) backing each of the general and long-term technical provisions, there is no need to allocate investment return from the long-term business technical account to the non-technical account as the investments backing each of the general and long-term insurance liabilities are segregated in ring fenced funds. Consequently, recognising the investment return on an actual basis will not require use of the investment return allocation lines in the prescribed Technical and non-technical account formats (i.e., 'Allocated investment return allocated to the non-technical account' or the 'Allocated investment return transferred from the long-term business technical account').

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 income and expenditure account.

ix. Income Tax

The Society's Private Medical Insurance and Income Protection products are exempt from Corporation 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 arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is recognised on all timing differences at the reporting date.

Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. A deferred tax asset has not been recognised due to the uncertainty of future taxable profits arising.

Premiums where applicable are recorded net of insurance premium taxes.

x. Property 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 through a revaluation reserve.

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

A lease is classed as being an operating or a financing lease, and the classification is based on whether the lease transfers substantially all the risks and rewards of ownership.

Payments made in respect of operating leases are charged to the statement income and expenditure on a straight line basis over the life of the lease, even if the payments are not made on this basis.

Lease incentives received and receivable in relation to an operating lease are accounted for on a straight-line basis over the term of the lease.

xii. Intangible assets

Intangible assets are detailed in note 15.

Software costs are capitalised if it is probable that the asset created will generate future economic value. The expenditure must result in the useful life of the asset being substantially increased beyond the original assessment.

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). Useful lives are determined by considering factors such as the term of the agreement, and the normal life of related *assets*. The amortisation begins when the asset is available for use, and the periods used are reviewed annually.

Intangible assets are reviewed for impairment annually as at the balance sheet date or 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. Impairment losses are recognised in the statement of income and expenditure account.

xiii. Investments in group undertakings

Subsidiaries are held in the Society's Balance sheet 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 profit or loss or at amortised cost, and has chosen to apply the recognition and measurement provisions of IAS 39 and the disclosure requirement of FRS 102.

Financial assets at fair value through profit or loss

The Society classifies all of its investments upon initial recognition as financial assets at fair value through profit or loss and subsequent valuation movements are recognised in the statement of income and expenditure account.

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 profit or loss include listed and unlisted investments, and units in collective investment vehicles. Fair value is based on the bid value at the balance sheet date.

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.

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 income and expenditure account 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 islimited 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 income and expenditure account. Interest to the net benefit liability (asset) is charged on the statement of income and expenditure account. Actuarial gains and losses are disclosed in statement of income and expenditure account. 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 Group. 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 income and expenditure account 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 21.9.

A liability adequacy test is performed at each reporting date.

xxi. Fund for future appropriations and Reserves

Under FRS 102, the Group designates reserves between those classified as liabilities (i.e. the fund for future appropriations) and those which are akin to equity.' The general business fund surplus is designated as general reserves within Reserves and all surplus and deficits of the Group and Society that do not relate to the long term business fund are classified within Reserves in the Balance Sheet.

The fund for future appropriations represents the excess of assets over and above the insurance contract liabilities and other liabilities for long term business that have not been attributed to policy holders as at the balance sheet date. Transfers between the long term technical account and the fund for future appropriations represent the change in these unallocated amounts between balance sheet date.

The General business fund reserves represent the excess of assets over and above the insurance contract liabilities and other liabilities for general business that have not been attributed to policy holders as at the balance sheet date.

2 Capital management

2.1 Capital management

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

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

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

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

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

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

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

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:

The General Fund

	General Business Fund	
	2021	**2020 (Restated)**
	£000	**£000**
Available capital	**109,009**	**104,161**
Capital requirements:		
MCR	6,082	5,314
SCR	24,328	21,254
Available capital as a % of MCR	1792%	1960%
Available capital as a % of SCR	448%	490%

Long Term Fund

	Long term Business Fund	
	2021	**2020 (Restated)**
	£000	**£000**
Available capital	**95,233**	**90,818**
Capital requirements:		
MCR	16,300	15,523
SCR	65,200	62,095
Available capital as a % of MCR	584%	585%
Available capital as a % of SCR	146%	146%

The Exeter Cash Plan

	Exeter Cash Plan	
	2021	2020 (Restated)
	£000	£000
Available capital	**3,652**	3,673
Capital requirements:		
MCR	2,112	2,255
SCR	687	771
Available capital as a % of MCR	173%	163%
Available capital as a % of SCR	532%	477%

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 fund for future appropriation and general reserves. The fund for future appropriations and general reserves represent surplus funds of the Society which have not been allocated to members and is available to meet regulatory and solvency requirements of the Society. Adjustments have been made to restate the assets and liabilities in line with PRA regulations.

2.2 Capital management - Long term insurance business

		Group		Society	
	Note	**2021**	2020	**2021**	2020
Statutory fund for future appropriations		**£000**	£000	**£000**	£000
Opening fund for future appropriations	19	**95,430**	95,413	**95,430**	95,413
Transfer to Fund for future appropriations from Technical Account		**2,171**	15	**2,171**	15
Actuarial loss on defined benefit pension scheme taken to Statement of Other Comprehensive Income		**1**	2	**1**	2
Closing fund for future appropriations	**19**	**97,601**	95,430	**97,601**	95,430
Reconciliation to Solvency II own funds (unaudited)					
Closing fund for future appropriations		**97,601**	95,430	**97,601**	95,430
Adjustments required for Solvency II:		**(2,368)**	(4,612)	**(2,368)**	(4,612)
Own funds under Solvency II		**95,233**	90,818	**95,233**	90,818

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 £97.6 million (2020 on a comparative basis: £90.8 million).

2.3 Capital management - General insurance business

		Group		Society	
	Note	**2021**	2020	**2021**	2020
Statutory reserves		**£000**	£000	**£000**	£000
Opening Reserves	**19**	**105,590**	100,290	**105,300**	100,188
Excess of income over expenditure on ordinary activities after tax		**2,030**	5,519	**2,075**	5,331
Actuarial gain / (loss) on pension scheme		**1,161**	(119)	**1,161**	(119)
Unrealised gain / (loss) on property revaluation	19	**438**	(100)	**438**	(100)
Closing Reserves		**109,219**	105,590	**108,974**	105,300
Reconciliation to Solvency II own funds (unaudited)					
Closing reserves		**109,219**	105,599	**108,974**	105,303
Adjustments required for Solvency II:		(201)	(1,438)	36	5,822
Own funds under Solvency II		**109,019**	104,161	**109,009**	111,125

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 £39.2 million (2020: £46.4 million) of the General Reserve has been allocated to cover future underwriting losses arising from these age-at-entry polices. The Society does not guarantee this level of capital allocation and will be guided by the need to ensure its continued financial well-being and to meet statutory levels of solvency.

Under Solvency II regulations total available capital resources of the Society's general business after adjustments for age at entry policies amounted to £70.9 million (2020 on a comparative basis: £64.7 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 (2020 on a comparative basis: £3.7 million).

3 Risk management

This section alongside the Risk Mangement Report on page 13 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.

The four main risks that customers transfer to us and the associated sub risks are as follows:

Mortality Critical Illness Risk	• Mortality & Critical Illness Pricing & Product Development Risk • Mortality & Critical Illness Other Actuarial Risk
Health Risk (PMI & CP Medical Provider Costs)	• Health Pricing & Product Development Risk
Morbidity Risk	• Morbidity Pricing & Product Development Risk • Morbidity Other Actuarial Risk
Persistency Risk	• Persistency Actuarial risk

One must be cautious of a Risk of loss as a result of inaccurate/excessive reserving, mismatching assets & liabilities, which could lead to incorrect information being supplied to the PRA, Board, Auditors and Members. Ultimately leading to regulatory fines for misleading information.

There is a Risk of loss because of mispricing or sub-optimal product design for Managed Life, Impaired Life, CI, IP & PMI.

Mispriced policies resulting in lack of sales or unsustainable volume of sales could lead to members being disadvantaged; thus, receiving member/broker complaints. In addition, if there are a lack of sales when terms are uncompetitive or unsustainable volume of sales if terms are overly generous; this could have a hit to profitability if under-priced. As a result this could lead to a risk of higher than anticipated lapse rates.

Concentration Risk

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. The Society has historically written a diverse mix of business protecting a diverse group of people and has no material concentrations of risk by product type. However, as the Society has written substantially all of its business in the UK, results are sensitive to demographic and economic changes arising in the UK.

The Governance & Risk Committee considers concentrations of insurance risk to ensure that the concentration is within the Society's overall risk appetite. The Society seeks to mitigate the risk of excess concentrations of risk through the use of reinsurance, portfolio analysis and risk limits. The key risks to the Society's life insurance business are market risks, insurance risks and expense risks, particularly the inflation of expenses. The investment performance, expenses and other risks to the life insurance business are monitored regularly by the Governance & Risk Committee. In the event of an adverse situation arising, the Society takes action to reduce the impact. These actions may include reducing the rates of terminal bonus and/or reversionary bonuses or reducing overheads.

Sensitivity Analysis

The impact on policy reserves of sensitivities to key valuation assumptions are detailed on page 115.

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 21 sets out the long-term insurance contract liabilities and details the impact of movements during 2021. The table below sets them out by type of contract.

	2021			2020		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Group	**£000**	**£000**	**£000**	£000	£000	£000
Holloway income protection	**4,035**	**0**	**4,035**	4,715	0	4,715
Other income protection	**(102,655)**	**20,132**	**(82,523)**	(81,032)	15,506	(65,527)
Term assurance	**(3,848)**	**(5,350)**	**(9,198)**	(5,413)	(3,333)	(8,747)
Total	**(102,468)**	**14,782**	**(87,686)**	(81,731)	12,172	(69,558)
Society	**£000**	**£000**	**£000**	£000	£000	£000
Holloway income protection	**4,035**	**0**	**4,035**	4,715	0	4,715
Other income protection	**(102,655)**	**20,132**	**(82,523)**	(81,032)	15,506	(65,527)
Term assurance	**(3,848)**	**(5,350)**	**(9,198)**	(5,413)	(3,333)	(8,747)
Total	**(102,468)**	**14,782**	**(87,686)**	(81,731)	12,172	(69,558)

The valuation assumptions have been recommended by the Chief Actuary and approved by the Board. See Note 23 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**	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
UK	**3,358**	3,463	**3,150**	3,239
International	**347**	452	**347**	452
Total	**3,704**	3,915	**3,496**	3,691

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 Balance Sheet. An accident year-basis is considered to be most appropriate for the business written by the Society.

Reporting year	2019	2020	2021	Total
Estimate of ulitmate claims costs				
At end of reporting year	28,857	21,860	28,797	79,514
One year later	28,667	22,898	-	-
Two years later	28,667	-	-	-
Current estimate of cumulative claims incurred	28,667	22,898	28,797	80,362
Cumulative payments to date	(28,667)	(22,898)	(25,301)	(76,866)
Liability recognised in the balance sheet	0	0	3,496	3,496
Reserve in respect of prior years	-	-	-	0
Total reserve included in the balance sheet	0	0	3,496	3,496

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 13.

Market Risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Liquidity risk represents the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Ibor reform – Insurers will typically own fixed-rate assets, there are increasing amounts of floating-rate assets particularly in illiquid loan format. In terms of liabilities, the biggest unknown is the future regulatory discount rate that will apply – this could have a material impact on balance sheet valuations and solvency positions. With long-dated liabilities, a small change in the discount rate could have a material impact on the capital position.

Credit Risk

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.

The Group's maximum exposure to credit risk is detailed below and discussed on page 16. 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. An analysis of past due items can be found in note 18.

On-boarding procedures assess the creditworthiness of new intermediaries, and distribution quality management tools are used to manage any potential concentration risks. The risk of non-payment by policy holders is mitigated by policy lapse rules. No further provision is required over and above the normal provision for doubtful debts.

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Debt securities - UK securities	**98,797**	111,914	**96,825**	109,890
Insurance Receivables	**15,008**	14,653	**14,210**	13,740
Cash and cash equivalents	**16,252**	17,311	**14,032**	17,311
Total assets bearing credit risk	**130,056**	143,878	**125,066**	140,940

The Long Term fund invests its assets in the Royal London Investment Grade Short Dated Credit Fund and the Royal London Short Duration Credit Fund. The GBF invests its assets in the Royal London Corporate Bond Fund, the Royal London Investment Grade Short Dated Credit Fund and the Royal London Short Duration Credit Fund.

Royal London Investment Grade Short Dated Credit Fund

The Fund's investment objective is to achieve a total return over the medium term (3–5 years) by investing at least 80% in investment-grade bonds. Of these, at least 70% will be short-dated (bonds that will reach maturity within five years).

At 31 December 2021, the credit quality of the fund was split as follows:

	General Business Fund	Long Term Business Fund
AAA	10.1%	10.1%
AA	6.9%	6.9%
A	22.9%	22.9%
BBB	60.1%	60.1%

Royal London Short Duration Credit Fund

The Fund's investment objective is to achieve a total return (combination of capital growth and income) over the medium term (3-5 years) by investing at least 80% in sterling-denominated bonds, of which at least 70% will be short duration (5 years or less). At 31 December 2021, the credit quality of the fund was split as follows:

	General Business Fund	Long Term Business Fund
AAA	4.8%	4.8%
AA	3.8%	3.8%
A	16.4%	16.4%
BBB	52.23%	52.3%
BB and below	11.9%	11.9%
Unrated	10.8%	10.8%

Liquidity Risk

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

The tables below summarise the maturity profile of the financial liabilities and obligations 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 16.

Group

Maturity profile of financial liabilities and obligations 2021	2021 - Group				
	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)	19,938	0	0	0	**19,938**
- Reinsurers share of insurance contract assets (long term business fund)	3,647	11,699	31,156	(31,720)[1]	**14,783**
Post-employment benefits obligations					
- Pension benefit obligation (long term business fund)	0	0	120	0	**120**
Provisions					
- Provisions	5,323	0	0	0	**5,323**
Trade and other payables					
- Insurance payables	3,447	0	0	0	**3,447**
- Amounts due from subsidiary undertaking	0	0	0	0	**0**
- Other payables including tax and social security	7,339	0	0	0	**7,339**
- Lease liability	85	35	0	0	**120**
- Accruals and deferred income	24	0	0	0	**24**
Total financial liabilities	**39,802**	**11,735**	**31,276**	**(31,720)**	**51,093**

Maturity profile of financial liabilities and obligations 2020	2020 - Group				
	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)	20,369	0	0	0	**20,369**
- Reinsurers share of insurance contract assets (long term business fund)	3,047	10,995	29,137	(31,007)	**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	85	120	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**

[1] This represents the reinsurers share of the risk margin and therefore has no duration.

Society

Maturity profile of financial liabilities and obligations 2021	2021 - Society Within 1 year £000	1-5 years £000	Over 5 years £000	No term £000	Total £000
Insurance contract liabilities					
- Insurance contract liabilities (general business fund)	19,169	0	0	0	**19,169**
- Reinsurers share of insurance contract assets (long term business fund)	3,647	11,699	31,156	(31,720)	**14,783**
Post-employment benefits obligations					
- Pension benefit obligation (long term business fund)	0	0	120	0	**120**
Provisions					
- Provisions	5,323	0	0	0	**5,323**
Trade and other payables					
- Insurance payables	3,329	0	0	0	**3,329**
- Amounts due from subsidiary undertaking	28	0	0	0	**28**
- Other payables including tax and social security	8,534	0	0	0	**8,534**
- Lease liability	85	35	0	0	**120**
- Accruals and deferred income	4,492	0	0	0	**4,492**
Total financial liabilities	**44,607**	**11,735**	**31,276**	**(31,720)**	**55,897**

Maturity profile of financial liabilities and obligations 2020	2020 - Society Within 1 year £000	1-5 years £000	Over 5 years £000	No term £000	Total £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	85	120	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**

Fair value estimate - Group

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

	Group			
2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through income:				
- Equity securities	25,129	0	0	**25,129**
- Debt securities	98,797	0	0	**98,797**
Total assets at fair value	**123,926**	**0**	**0**	**123,926**

	Group			
2020	**Level 1**	**Level 2**	**Level 3**	**Total**
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**

Fair value estimate - Society

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

	Society			
2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through income:				
- Equity securities	25,129	0	0	**25,129**
- Debt securities	96,825	0	0	**96,825**
Total assets at fair value	**121,954**	**0**	**0**	**121,954**

	Society			
2020	**Level 1**	**Level 2**	**Level 3**	**Total**
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**

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 13.

3.4 Strategic & External Risks

The Strategic and External Risks faced by The Exeter are covered in the Risk Management Report on page 13.

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 13.

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 Strategic divisions

The Group has two strategic divisions, the General Business Fund and the Long Term Business Fund.

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 5 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.

The Society and the Group are not required to apply IFRS 8 Operating Segments so the above information has been provided on a voluntary basis. It does not meet the disclosure requirements of IFRS 8 Operating Segments.

5 Net earned premium

		Group		Society	
		2021	2020	**2021**	2020
		£000	£000	**£000**	£000
Long Term Business - Gross Premiums Written					
	Holloway income protection	**2,650**	2,856	**2,650**	2,856
	Life products	**7,904**	5,465	**7,904**	5,465
	Other income protection	**25,782**	23,327	**25,782**	23,327
Gross premiums written		**36,336**	31,648	**36,336**	31,648
Outward reinsurance premiums		**(11,749)**	(9,685)	**(11,749)**	(9,685)
Earned premiums net of reinsurance		**24,587**	21,963	**24,587**	21,963
General Business - Gross Premiums Written					
	UK	**34,141**	35,668	**31,478**	32,821
	International	**1,750**	2,957	**1,750**	2,957
Gross premiums written		**35,891**	38,625	**33,228**	35,778
Change in gross provision for unearned premiums		**1,381**	807	**1,266**	526
Total earned premiums		**37,272**	39,432	**34,494**	36,304

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

6 Investment return

	Group				Society			
	General Fund		Long Term Fund		General Fund		Long Term Fund	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Income from investments at fair value:								
Interest income	1,189	1,105	**662**	819	**1,145**	1,095	**662**	819
Dividend income	555	521	**0**	0	**555**	521	**0**	0
Net gains on realisation of investments - debt securities	**0**	0	**0**	2,847	**0**	0	**0**	2,847
Total investment income	**1,744**	1,626	**662**	3,665	**1,700**	1,617	**662**	3,665
Investment expenses and charges								
Losses on realisation of investments - debt securities	**0**	0	**(35)**	**0**	**0**	0	**(35)**	0
Investments management expenses	**(297)**	(292)	**(11)**	(1)	**(297)**	(292)	**(11)**	(1)
Total investment expenses	**(297)**	(292)	**(46)**	(1)	**(297)**	(292)	**(46)**	(1)
Unrealised gain / (loss) on investments - debt securities	**937**	3,627	**(539)**	**11**	**989**	3,608	**(539)**	11
Unrealised gain / (loss) on investments - equities	**3,472**	(991)	**0**	**(2,585)**	**3,472**	(991)	**0**	(2,585)
Total investment return	**4,409**	2,636	**(539)**	(2,575)	**4,461**	2,617	**(539)**	(2,575)

7 Net benefits and claims

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Long term fund:				
Gross Claims	**13,578**	10,806	**13,578**	10,806
Payment of Terminal Bonuses	**720**	426	**720**	426
Change in the members' dividend account excluding interest & dividend credited	**1,350**	780	**1,350**	780
Long term insurance contracts benefits and claims payable	**15,648**	12,012	**15,648**	12,012
General fund:				
Gross Claims	**31,952**	22,658	**30,030**	20,916
General insurance contracts benefits and claims payable	**31,952**	22,658	**30,030**	20,916
Total gross benefits and claims	**47,600**	34,670	**45,678**	32,927
Reinsurers' share of gross benefits and claims	**(8,312)**	(5,228)	**(8,312)**	(5,228)
Net benefits and claims	**39,288**	29,442	**37,366**	27,700

8 Net change in insurance contract liabilities

General Fund

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Decrease in Gross insurance contract liabilities	**(431)**	(1,508)	**(299)**	(1,110)
Change in provison for unearned premium	**1,381**	807	**1,265**	526
Gross change in insurance contract liabilities	**950**	(701)	**966**	(584)

Long Term Fund

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Decrease in Gross insurance contract liabilities	**(18,739)**	(5,556)	**(18,739)**	(5,556)
Provision for bonuses and rebates	**(2,875)**	(591)	**(2,875)**	(591)
Gross change in insurance contract liabilities	**(21,614)**	(6,148)	**(21,614)**	(6,148)
Reinsurers' share of gross change in insurance contract liabilities				
Change in long term insurance contract liabilities	**2,610**	(4,367)	**2,610**	**(4,367)**
Net change in insurance contract liabilities	**(19,004)**	(10,515)	**(19,004)**	(10,515)

Further analysis regarding the movement in insurance contract liabilities can be found in Note 21.

9 Net operating expenses

General Fund

	Group		Society	
	2021	2020 (Restated)	**2021**	2020 (Restated)
	£000	£000	**£000**	£000
Acquisition costs (excluding commissions)	**4,264**	3,817	**3,979**	3,516
Increase / (decrease) in deferred acquisition costs (excluding commissions)	**139**	(82)	**121**	(64)
Administrative expenses	**1,884**	9,633	**1,448**	8,816
Net operating expenses (excluding commission to brokers)	**6,287**	13,368	**5,547**	12,267
Commission and introductory fees	**1,644**	2,556	**1,483**	2,350
Increase / (decrease) in deferred acquisition costs (commission)	**265**	(3)	**257**	(35)
Commission to brokers	**1,909**	2,553	**1,740**	2,316
Net operating expenses (including commission to brokers)	**8,195**	15,921	**7,288**	14,583

Long Term Fund

	Group		Society	
	2021	2020 (Restated)	**2021**	2020 (Restated)
	£000	£000	**£000**	£000
Acquisition costs (excluding commissions)	**9,521**	9,242	**9,521**	9,242
Administrative expenses	**8,772**	6,426	**8,772**	6,426
Net operating expenses (excluding commission to brokers)	**18,293**	15,668	**18,293**	15,668
Commission and introductory fees	**13,267**	10,805	**13,267**	10,805
Commission to brokers	**13,267**	10,805	**13,267**	10,805
Net operating expenses (including commission to brokers)	**31,560**	26,473	**31,560**	26,473

Net operating expenses include:				
Auditors' remuneration:				
Fees payable to the Society's auditors for the audit of current year financial statements	**218**	193	**215**	193
Fees payable to the Subsidiaries' auditors for the audit of current year financial statements	**43**	15	**43**	15
Other services not covered above	**0**	12	**0**	12
Total auditors' remuneration	**261**	220	**258**	220
Provision Movement	**(1,635)**	6,958	**(1,635)**	6,958
Operating lease rentals	**77**	28	**77**	28
Depreciation of tangible assets (note 16)	**400**	266	**400**	266
Disposal of tangible assets (note 16)	**58**	4	**58**	4
Amortisation of intangible assets (note 15)	**1,009**	1,137	**1,009**	1,137
Loss on intangible asset impairment review (note 15)	**0**	1,486	**0**	1,486
Intangible asset write-off (note 15)	**1,857**	0	**1,857**	0
Intangible asset - change in UEL	**5**	0	**5**	0
Aggregate amount of Directors' Emoluments	**2,635**	1,928	**2,635**	1,928

Provision information is detailed in note 25.

10 Employee information

	Group		Society	
	2021	2020	**2021**	2020
	Number	Number	**Number**	Number
The average number of persons (full-time equivalents) including Executive Directors employed by the Society and subsidiary in the year was:				
Administration	**141**	139	**141**	139
Business Development	**22**	22	**22**	22
Average full-time equivalents in the year	**163**	160	**163**	160
The closing full-time equivalent at 31 December was:	**166**	162	**166**	162
Staff costs for the above persons were:	**£000**	£000	**£000**	£000
Wages and salaries	**11,551**	9,575	**11,366**	9,394
Social security costs	**869**	839	**848**	812
Other pension costs	**756**	659	**741**	651
Total staff costs	**13,176**	11,073	**12,955**	10,857

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

11 Directors' emoluments

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

	Group		Society	
	2021 Number	2020 Number	**2021 Number**	2020 Number
Executive				
£0 - £99,999	**1**	1	**1**	1
£200,000 - £299,999	**0**	1	**0**	1
£300,000 - £399,999	**0**	1	**0**	1
£400,000 - £499,999	**3**	0	**3**	0
£500,000 - £599,999	**0**	1	**0**	1
£600,000 - £699,999	**1**	1	**1**	1
£700,000 - £799,999	**1**	0	**1**	0
Total	**6**	5	**6**	5
Non-executive				
£10,000 - £49,999	**1**	1	**1**	1
£50,000 - £59,999	**2**	3	**2**	3
£60,000 - £69,999	**1**	0	**1**	0
£70,000 - £79,999	**0**	0	**0**	0
£80,000 - £89,999	**1**	1	**1**	1
Total	**5**	5	**5**	5

Defined Contribution Pension benefits were accruing to three Executive Directors as at 31 December 2021 (2020: three). The aggregate amount of pension contributions made by the Society to the Executive Directors was £770k (2020:£624k). Pension contributions in respect of the highest paid Director for the year amounted to £84k (2020:£84k).

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 53.

12 Income Tax

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

All of the Society's income and gains are exempt from UK Corporation Tax, giving a nil tax charge.

12.1 Amounts recognised in profit or loss

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£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% (2020: 19%). This will increase to 25% from 1 April 2023.

12.2 Reconciliation of current tax expense

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Surplus / (Deficit) before tax from continuing operations	**2,030**	5,525	**2,075**	5,331
Tax at standard corporation tax rate	**386**	1,050	**394**	1,013
Effects of:				
Effect of the Society's business being tax exempt	**(394)**	(915)	**(394)**	(1,013)
Movement in unrecognised deferred tax on tax losses carried forwards	**8**	(135)	**0**	0
Tax on income for the year	**0**	0	**0**	0

Total accumulated tax losses as at the reporting date is £12,584,000 (2020: £12,576,000). These losses may be utilised against future trading profits of The Exeter Cash Plan and have no expiry date.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. A deferred tax asset has not been recognised because it is not probable that the unrelieved tax losses will be recovered.

13 Deferred acquisition costs - General business fund

		Total Group £000	Total Society £000
Cost:			
At 1 January 2021		**1,779**	**1,655**
Total acquisition costs deferred			
	Commission and introductory fees	988	921
	Other Acquisition costs	388	356
Total acquisition costs amortised			
	Commission and introductory fees	(1,253)	(1,178)
	Other Acquisition costs	(526)	(477)
At 31 December 2021		**1,376**	**1,277**
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

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

14 Investments in group undertakings

The Society investment in subsidiaries can be analysed as follows:

	2021	2020 (Restated)
	General Business Fund	General Business Fund
	£000	£000
Cost at 1 January	**5,852**	5,852
Additions	**0**	0
Disposals	**0**	0
Cost at 31 December	**5,852**	5,852
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	**3,528**	3,528

All investments in subsidiaries are held within the General Business Fund. All balances eliminate on consolidation. Please see note 30 for details of a prior period error.

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.

15 Intangible assets

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

	2021		2020	
	Software and Licenses	**Total**	Software and Licenses	Total
Cost:	**£000**	**£000**	£000	£000
Cost at 1 January	15,800	15,800	16,339	16,339
Additions	400	400	1,292	1,292
Impairment	0	0	(1,831)	(1,831)
Disposals and Write-offs	(2,689)	(2,689)	0	0
Cost at 31 December	**13,511**	**13,511**	15,800	15,800
Accumulated Amortisation:				
Provision at 1 January	10,572	10,572	9,783	9,783
Amortisation	1,004	1,004	1,129	1,129
Impairment loss	5	5	8	8
Disposals and Write-offs	(832)	(832)	(348)	(348)
Provision at 31 December	**10,748**	**10,748**	10,572	10,572
Carrying value at 31 December	**2,763**	**2,763**	5,228	5,228

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. At the Balance Sheet date a review is carried out of all assets looking for indicators of impairment. Both internal and external factors are considered, and the management team use their judgement and apply prudence when completing impairment reviews. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

The Society performed a review of expenditure previously capitalised as software development. This review identified that there was insufficient evidence to support the capitalisation and as a result net £1.8m has been written off to the Technical Account in these Financial Statements.

Any amortisation or impairment charges are recognised in the General and Long term fund Technical Accounts within Net Operating Expenses.

16 Property and equipment

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

	Buildings	Building fit-out costs	Equipment, fixtures and fittings	Computer equipment	Total
	£000	£000	£000	£000	£000
Cost:					
At 1 January 2021	2,100	1,180	1,422	859	5,560
Additions	0	388	143	24	555
Disposals	0	0	(61)	(19)	(80)
Revaluation	400	0	0	0	400
At 31 December 2021	**2,500**	**1,567**	**1,504**	**864**	**6,435**
Accumulated Depreciation:					
At 1 January 2021	0	937	784	496	2,217
Provision for the year	38	104	108	151	400
Revaluation adjustment	(38)	0	0	0	(38)
Disposals	0	0	(32)	(19)	(51)
At 31 December 2021	**0**	**1,041**	**860**	**628**	**2,528**
Net book value at 31 December 2021	**2,500**	**526**	**644**	**236**	**3,907**

	Buildings	Building fit-out costs	Equipment, fixtures and fittings	Computer equipment	Total
	£000	£000	£000	£000	£000
Cost:					
At 1 January 2020	2,200	908	1,419	658	5,185
Additions	0	272	3	225	499
Disposals	0	0	0	(24)	(24)
Revaluation	(100)	0	0	0	(100)
At 31 December 2020	**2,100**	**1,180**	**1,422**	**859**	**5,560**
Accumulated Depreciation:					
At 1 January 2020	0	908	671	392	1,971
Provision for the year	0	29	113	124	266
Disposals	0	0	0	(20)	(20)
At 31 December 2020	**0**	**937**	**784**	**496**	**2,217**
Net book value at 31 December 2020	**2,100**	**243**	**638**	**363**	**3,343**

At the Balance Sheet date a review is carried out of all assets looking for indicators of impairment. Both internal and external factors are conisdered, and the managment team use their judgement and apply prudence when completing impairment reviews.

The Society's premises at Emperor Way were valued as at 31 December 2021 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 £1,370,000.

17 Financial assets

In accordance with UK GAAP 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 except the Index Linked Gilts in the General Fund 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. Index Linked assets within the General Fund are valued at the mid price multiplied by an index factor that takes into account inflation.

The composition and nature of the assets held are set out below.

17.1 Reconciliation of movements per classification in the year

Assets held at fair value through income

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
At 1 January	**133,016**	136,952	**130,992**	134,947
Additions	**4,097**	23,706	**2,075**	23,706
Disposals at fair value	**(17,022)**	(30,550)	**(15,000)**	(30,550)
Changes in Market value	**3,834**	2,908	**3,886**	2,889
At 31 December	**123,926**	133,016	**121,954**	130,992

17.2 Fair value through income - Group

	2021					
	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	25,129	17,278	0	0	25,129	17,278
	25,129	**17,278**	**0**	**0**	**25,129**	**17,278**
Debt securities:						
UK	83,006	69,804	15,791	15,954	98,797	85,758
	83,006	**69,804**	**15,791**	**15,954**	**98,797**	**85,758**
Total	**108,135**	**87,083**	**15,791**	**15,954**	**123,926**	**103,036**

	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	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**

17.3 Fair value through income – Society

	2021					
	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	25,129	17,278	0	0	25,129	17,278
	25,129	**17,278**	**0**	**0**	**25,129**	**17,278**
Debt securities:						
UK listed	81,034	67,782	15,791	15,954	96,825	83,736
	81,034	**67,782**	**15,791**	**15,954**	**96,825**	**83,736**
Total	**106,163**	**85,061**	**15,791**	**15,954**	**121,954**	**101,015**

	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**

18 Debtors arising out of direct insurance and reinsurance operations

18.1 Group

2021	Contract Holders £000	Agents / Brokers / Intermediaries £000	Reinsurers £000	Total £000
Due as at 31 December 2021 - Less than 30 days in arrears	13,331	333	700	14,364
Due as at 31 December 2021 - 30 days or more in arrears	146	1,208	682	2,036
Provision for impairment as at 31 December 2021	(187)	(1,205)	0	(1,392)
Total debtors arising out of direct insurance and reinsurance operations receivables	**13,290**	**336**	**1,382**	**15,008**
2020	**Contract Holders £000**	**Agents / Brokers / Intermediaries £000**	**Reinsurers £000**	**Total £000**
Due as at 31 December 2020 - Less than 30 days in arrears	13,510	86	558	14,155
Due as at 31 December 2021 - 30 days or more in arrears	153	1,434	273	1,860
Provision for impairment as at 31 December 2020	(190)	(1,171)	0	(1,361)
Total debtors arising out of direct insurance and reinsurance operations receivables	**13,473**	**349**	**831**	**14,653**

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 General and Long Term Technical accounts.

18.2 Society

2021	Contract Holders	Agents / Brokers / Intermediaries	Reinsurers	Total
	£000	£000	£000	£000
Due as at 31 December 2021 - Less than 30 days in arrears	12,783	84	700	13,567
Due as at 31 December 2021 - 30 days or more in arrears	142	1,208	682	2,032
Provision for impairment as at 31 December 2021	(185)	(1,205)	0	(1,390)
Total debtors arising out of direct insurance and reinsurance operations receivables	**12,740**	**87**	**1,382**	**14,210**

2020	Contract Holders	Agents / Brokers / Intermediaries	Reinsurers	Total
	£000	£000	£000	£000
Due as at 31 December 2020 - Less than 30 days in arrears	12,848	86	558	13,492
Due as at 31 December 2021 - 30 days or more in arrears	142	1,189	273	1,603
Provision for impairment as at 31 December 2020	(184)	(1,171)	0	(1,355)
Total debtors arising out of direct insurance and reinsurance operations receivables	**12,806**	**103**	**831**	**13,740**

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 General and Long Term technical accounts.

19 Reserves and Fund for future appropriations

The fund for future appropriations and reserves 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.

19.1 General business reserve

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

2021	Group			
	General Reserve	Revaluation Reserve	Pension Reserve	Total
	£000	£000	£000	£000
Balance as at 1 January 2021	104,559	176	855	105,590
Revaluation adjustment	(38)	38	0	0
Transfer to statement of other comprehensive income	2,068	400	1,161	3,629
Balance as at 31 December 2021	**106,590**	**614**	**2,017**	**109,219**

	Society			
	General Reserve	Revaluation Reserve	Pension Reserve	Total
	£000	£000	£000	£000
Balance as at 1 January 2021	104,269	176	855	105,300
Revaluation adjustment	(38)	38	0	0
Transfer to statement of other comprehensive income	2,113	400	1,161	3,674
Balance as at 31 December 2021	**106,344**	**614**	**2,017**	**108,974**

2020	Group			
	General Reserve	Revaluation Reserve	Pension Reserve	Total
	£000	£000	£000	£000
Balance as at 1 January 2020	99,039	276	974	100,290
Transfer to / (from) statement of other comprehensive income	5,520	(100)	(119)	5,301
Balance as at 31 December 2020	**104,559**	**176**	**855**	**105,590**

	Society			
	General Reserve	Revaluation Reserve	Pension Reserve	Total
	£000	£000	£000	£000
Balance as at 1 January 2020	98,938	276	974	100,188
Transfer to / (from) statement of other comprehensive income	5,331	(100)	(119)	5,112
Balance as at 31 December 2020	**104,269**	**176**	**855**	**105,300**

19.2 Fund for future appropriations

The fund for future appropriations can be analysed as follows:

2021	Group	Society
	£000	£000
Balance as at 1 January 2021	95,430	95,430
Transfer to technical account long term business	2,171	2,171
Balance as at 31 December 2021	**97,601**	**97,601**

2020	Group	Society
	£000	£000
Balance as at 1 January 2020	95,413	95,413
Transfer to technical account long term business	17	17
Balance as at 31 December 2020	**95,430**	**95,430**

20 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.

20.1 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. Following the valuation as at 1 January 2018 by an independent qualified actuary, and 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 initial results of the funding valuation as at 1 January 2021 show a surplus in the scheme. The amount of total employer contributions paid to the scheme during 2021 is £165,600 including administrative expenses and PPF levies (2020: £165,600).

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 £419,000 at the year-end.

Actuarial gains and losses are recognised immediately through the statement of 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

	2021	2020
	£000	£000
Present value of defined benefit obligation	**(9,141)**	(9,928)
Fair value of plan assets	**11,341**	10,889
Surplus	**2,200**	961
Net asset in balance sheet	**2,200**	961

As defined under Section 28 "Employee Benefits" in FRS 102, 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 income and expenditure

	2021	2020
	£000	£000
Employers part of current service cost	**0**	0
Administrative Expenses	**(102)**	(78)
Interest income	**14**	20
Total expense inlcuded in income and expenditure	**(88)**	(58)

iii. Amounts recognised outside income and expenditure

	2021	2020
	£000	£000
Actuarial gain	**1,161**	(121)
Amount recognised outside income and expenditure	**1,161**	(121)

iv. Plan assets

	Allocation	**£000**	Allocation	£000	Allocation	£000
Multi-asset fund	**71%**	**8,057**	65%	7,103	72%	7,080
LDI Funds	**25%**	**2,800**	28%	3,055	22%	2,225
Other	**4%**	**484**	7%	731	6%	583
Total	**100%**	**11,341**	100%	10,889	100%	9,888

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 asset

	2021	2020
	£000	£000
Opening net asset	**961**	974
Expense charged to income and expenditure	**(88)**	(58)
Gain recognised outside income and expenditure	**1,161**	(121)
Employer contributions	**166**	166
Closing net asset	**2,200**	961

vi. The movement in the net defined benefit asset during 2021 is as follows:

	£000	£000	£000	£000	£000
At 1 January 2021	(9,928)	10,889	961	0	**961**
Employer's part of current service cost	0	0	0	0	**0**
Interest expense	(127)	141	14	0	**14**
Actual return on plan assets	0	589	589	0	**589**
Actuarial losses - experience on benefit obligation	201	0	201	0	**201**
Actuarial gains - changes in financial assumptions	357	0	357	0	**357**
Actuarial gains - changes in demographic assumptions	14	0	14	0	**14**
Administrative expenses	0	(102)	(102)	0	**(102)**
Employer contributions	0	166	166	0	**166**
Benefit payments	342	(342)	0	0	**0**
As at 31 December 2021	**(9,141)**	**11,341**	**2,200**	**0**	**2,200**

The movement in the net defined benefit asset during 2020 is as follows:

	£000	£000	£000	£000	£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)**
Net operating 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**

vii. The significant actuarial assumptions were as follows:

Assumptions	**2021**	2020	2019
Price inflation (RPI)	3.3% pa	2.9% pa	3.0% pa
Discount rate	1.90%	1.3% pa	2.0% pa
Pension increases (in deferment and in payment)	3.3% pa	2.9% pa	3.0% pa
Life expectancy of male aged 65 at balance sheet date	21.9 years	21.9 years	21.8 years
Life expectancy of female aged 65 at balance sheet date	24.3 years	24.2 years	24.0 years
Life expectancy of male aged 65 in 20 years from balance sheet date	23.2 years	23.2 years	23.1 years
Life expectancy of female aged 65 in 20 years from balance sheet date	25.7 years	25.6 years	25.5 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.

	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1.00%	(33)	38
RPI Inflation	0.50%	15	(13)
Mortality	20.00%	n/a	49

20.2 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 (2020: 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.

	£000	£000
Balance as at 1 January	**(130)**	(140)
Interest on scheme liabilities	**0**	(1)
Actuarial gain for the period recognised in the Statement of Comprehensive Income	**0**	2
	(130)	(140)
Benefit Paid	**10**	10
Balance as at 31 December 2021	**(120)**	(130)

The Society's Chief Actuary has determined the amount of the provision required as at 31 December 2021 to meet the expected future liabilities; mortality is unchanged and a discount rate of 1.0% (2020: 0.5%) and pension increases of 3.0% (2020: 3.0%) have been applied.

20.3 Defined contribution scheme

The Society also operates one (2020: one) defined contribution pension scheme, which is open to all eligible employees. The cost of Society contributions for the year ending 31 December 2021 was £707,435 (2020: £660,271) and there were no outstanding contributions (2020: Nil) at the year end date.

21 Insurance contract assets / liabilities

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

	2021			2020		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Long term insurance business Solvency II technical provision (BEL)	**(185,638)**	**48,485**	**(137,153)**	(161,154)	44,982	(116,172)
Long term insurance business Solvency II technical provision (Other)	**5**	**0**	**5**	6	0	6
Long term insurance business Solvency II risk margin	**83,165**	**(33,702)**	**49,462**	79,417	(32,809)	46,608
Total long term insurance contract asset	**(102,468)**	**14,783**	**(87,685)**	(81,731)	12,172	(69,558)
Long term insurance business members dividend account	**9,143**	**0**	**9,143**	7,617	0	7,617
Long term insurance business claims liabilities	**789**	**0**	**789**	316	0	316
Long term insurance business provision for bonuses and rebates	**0**	**0**	**0**	0	0	0
Total long term insurance liabilities / (assets)	**(92,536)**	**14,783**	**(77,754)**	(73,798)	12,172	(61,625)
General insurance unearned premiums	**15,072**	**0**	**15,072**	16,453	0	16,453
General insurance claims incurred but not settled / reported	**2,966**	**0**	**2,966**	2,249	0	2,249
General insurance other claims liabilities	**739**	**0**	**739**	1,666	0	1,666
General insurance unexpired risk provision	**1,161**	**0**	**1,161**	0	0	0
Total general	**19,938**	**0**	**19,938**	20,369	0	20,369
Total	**(72,599)**	**14,783**	**(57,816)**	**(53,429)**	12,172	(41,256)

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

	2021			2020		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Long term insurance business Solvency II technical provision (BEL)	**(185,638)**	**48,485**	**(137,153)**	(161,154)	44,982	(116,172)
Long term insurance business Solvency II technical provision (Other)	**5**	**0**	**5**	6	0	6
Long term insurance business Solvency II risk margin	**83,165**	**(33,702)**	**49,462**	79,417	(32,809)	46,608
Total long term insurance contract asset	**(102,468)**	**14,783**	**(87,685)**	(81,731)	12,172	(69,558)
Long term insurance business members dividend account	**9,143**	**0**	**9,143**	7,617	0	7,617
Long term insurance business claims liabilities	**789**	**0**	**789**	316	0	316
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	**(92,536)**	**14,783**	**(77,754)**	(73,798)	12,172	(61,625)
General insurance unearned premiums	**14,511**	**0**	**14,511**	15,777	0	15,777
General insurance claims incurred but not settled / reported	**2,786**	**0**	**2,786**	2,058	0	2,058
General insurance other claims liabilities	**711**	**0**	**711**	1,633	0	1,633
General insurance unexpired risk provision	**1,161**	**0**	**1,161**	0	0	0
Total general	**19,169**	**0**	**19,169**	19,468	0	19,468
Total	**(73,368)**	**14,783**	**(58,585)**	(54,330)	12,172	(42,157)

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

	2021			2020		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Balance at 1 January	**(81,731)**	**12,172**	**(69,558)**	(76,687)	16,540	(60,147)
Model Changes	**(769)**	**387**	**(382)**	818	(665)	153
Net change of in-force business	**(19,414)**	**262**	**(19,152)**	2,647	(8,494)	(5,847)
Impact of change in assumptions	**(555)**	**1,962**	**1,406**	(8,509)	4,792	(3,717)
Balance at 31 December	**(102,468)**	**14,783**	**(87,685)**	(81,731)	12,172	(69,558)
Impact of change in assumptions is made up of:						
Changes in morbidity (other)	**(5,056)**	**3,174**	**(1,882)**	(9,160)	4,287	(4,872)
Changes in lapse rates	**(93)**	**(85)**	**(178)**	3,343	(569)	2,774
Revised expenses assumptions	**(565)**	**(59)**	**(624)**	(636)	(83)	(718)
Changes in discount rates	**5,605**	**(1,068)**	**4,538**	(4,686)	1,156	(3,530)
Change in bonus rates	**(447)**	**0**	**(447)**	2,629	0	2,629
	(556)	**1,962**	**1,406**	(8,509)	4,792	(3,717)
Balance at 31 December is made up of:						
Holloway income protection	**4,035**	**0**	**4,035**	4,715	0	4,715
Other income protection	**(102,655)**	**20,132**	**(82,523)**	(81,032)	15,506	(65,527)
Term assurance	**(3,848)**	**(5,350)**	**(9,198)**	(5,413)	(3,333)	(8,747)
	(102,468)	**14,783**	**(87,685)**	(81,731)	12,172	(69,558)

Without reinsurance the long term business provision would reduce by £14.8 million to £(102.5) million (2020: £(85.3) million).

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

	2021	2020
	£000	£000
Balance at 1 January	7,617	7,805
Bonus credited during the period	152	110
Dividend credited during the period	2,762	551
Forfeiture and lapses during the period	(38)	(69)
Death, retirements and surrenders during the period	(1,350)	(780)
Balance at 31 December	**9,143**	**7,617**

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

	2021			2020		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Balance at 1 January	**316**	**0**	**316**	640	0	640
Claims incurred	**14,051**	**(8,312)**	**5,739**	10,482	(5,228)	5,254
Claims paid during the year	**(13,578)**	**8,312**	**(5,266)**	(10,806)	5,228	(5,578)
Balance at 31 December	**789**	**0**	**789**	316	0	316

Disclosures 21.6 to 21.9 relate to the general insurance business which is not reinsured.

21.6 Movement in general insurance unearned premiums

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Balance at 1 January	**16,453**	17,260	**15,777**	16,303
Premiums written in the year	**35,891**	38,626	**33,228**	35,778
Premiums earned during the year	**(37,272)**	(39,433)	**(34,494)**	(36,304)
Balance at 31 December	**15,072**	16,453	**14,511**	15,777

21.7 Movement in general insurance claims incurred but not reported / settled (IBNR / IBNS)

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Balance at 1 January	**2,250**	2,517	**2,058**	2,237
Movement in claims incurred in prior year	**1,045**	(117)	**1,057**	(68)
Movement in claims IBNR / IBNS in current year	**(330)**	(150)	**(330)**	(111)
Balance at 31 December	**2,966**	2,249	**2,786**	2,058

21.8 Movement in general insurance other claims liabilities

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Balance at 1 January	**1,666**	1,438	**1,633**	1,419
Movement in claims received but not yet paid	**(927)**	228	**(922)**	214
Balance at 31 December	**739**	1,666	**711**	1,633

21.9 Movement in unexpired risk reserve

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Balance at 1 January	**0**	662	**0**	619
Movement in unexpired risk reserve	**1,161**	(662)	**1,161**	(619)
Balance at 31 December	**1,161**	0	**1,161**	0

A liability adequacy test is performed at each reporting date.

22 Reinsurers' share of insurance contract assets

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Balance at 1 January	**12,172**	16,540	**12,172**	16,540
Movement in reinsurers share of contract asset	**2,611**	(4,368)	**2,611**	(4,368)
Balance at 31 December	**14,783**	12,172	**14,783**	12,172

23 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	£60.25 (2020: £58.84) per policy, inflating at 3.0% (2020: 3.0%) per annum and 4.5% (2020: 5.5%) of future claims. Based on projected expenses for 2021 and budgeted accounts for 2022-2024 and using actuarial judgement.
Allowance for Future Bonus	Based on the maximum sustainable dividend and terminal bonus rates.
Mortality	40% (2020: 40%) of TM92(ult)/TF92(ult) for Professional Income Protection, Income One and Locum Income Protection contracts 50% (2020: 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 smaller volumes). The Society uses prevelance rates for the first six months and inception/ termination rates thereafter. The Society sets its own rates for prevelance and inceptions and a multiple of CMIR12-T for terminations depending on the product and the duration of claims in line with experience.
Persistency and Lapses	Holloway, Pure Protection and Pure Protection Plus: Best estimate based on the Society's experience over the last three years for these products. Bills & Things: Experience has been analysed separately for Northern Ireland (NI) and the rest of the UK: a) NI: Best estimate based on the last three years of experience for durations of one to five years; 200% of the rest of the UK for durations or 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. Income First: Best estimate of each occupational class based on experience from Pure Protection Plus and Income One Plus products. 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.	£63.8 million (2020: £64.4 million)
Mortality: An instantaneous permanent increase in mortality rates of 15%	£0.5 million (2020: £0.5 million)
An increase in renewal and claims expenses by 10% and an increase in expense inflation rate by 1% pa	£8.1 million (2020: £7.6 million)
Increase in lapses by 50%	£85.4 million (2020:£80.5 million)
An increase in interest rates by 1% pa	£16.7 million (2020: £15.0 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 £15.0 million. (2020: £18.1 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%	£8.0 million (2020: £5.7 million)
An increase in renewal and claims expenses by 10% and an increase in expense inflation rate by 1% pa	£1.0 million (2020: £0.7 million)
Increase in lapses by 50%	£(0.3) million (2020: £(0.3) million)
An increase in interest rates by 1% pa	£(0.6) million (2020: (£0.4) million)

24 Creditors arising out of direct insurance and reinsurance operations

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Due to contract holders	**364**	327	**363**	327
Due to agents/brokers/intermediaries	**2,072**	1,847	**1,955**	1,765
Due to reinsurers	**1,011**	868	**1,011**	868
Total creditors arising out of direct insurance and reinsurance operations	**3,447**	3,042	**3,329**	2,960

25 Provisions and contingent liabilities

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.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but payment is not probable or the amount cannot be reasonably estimated.

In the course of conducting business the Group receives complaints which in some instances can result in legal action. Management are confident that adequate provisions have been established where appropriate and no material loss will arise in this respect.

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.

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Balance as at 1 January 2021	**6,958**	0	**6,958**	0
Movement during the year	**(1,635)**	6,958	**(1,635)**	6,958
Utilised during the year	**0**	0	**0**	0
Balance as at 31 December 2021	**5,323**	6,958	**5,323**	6,958

26 Other creditors including tax and social security

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Trade payables	**417**	797	**297**	669
Tax and social security	**1,550**	1,585	**1,466**	1,499
Other payables	**1,451**	986	**1,448**	980
Total other creditors including tax and social security	**3,418**	3,368	**3,211**	3,148

27 Commitments under operating leases

The total lease payments recognised as an expense in the year were £77k (2020 £28k).

The Group and Society have the following minimum lease payments under non cancellable operating leases.

	2021	2020
	£000	£000
Operating leases which expire:		
- within one year	**85**	85
- between one and five years	**35**	120
- in more than five years	**0**	0

28 Cash used in operating activities

	Group		Society	
	2021	2020 (Restated)	**2021**	2020 (Restated)
	£000	£000	**£000**	£000
Surplus / (deficit) for the year before transfer to reserves and fund for furture appropriations	**4,201**	5,537	**4,245**	5,343
- Interest received	**(1,851)**	(1,923)	**(1,806)**	(1,914)
- Dividends received	**(555)**	(521)	**(555)**	(521)
- Net realised and unrealised losses on investments	**(3,834)**	(2,908)	**(3,886)**	(2,889)
- Purchase of investments at fair value through income	**(4,097)**	(23,706)	**(2,075)**	(23,706)
- Sales of investments at fair value through income	**17,022**	30,550	**15,000**	30,550
- Foreign Exchange Differences	**71**	(96)	**71**	(96)
Non-cash items				
- Expenses deferred during the year	**404**	(85)	**378**	(99)
- Depreciation	**400**	266	**400**	266
- Amortisation & impairment loss	**1,009**	1,137	**1,009**	1,137
- Impairment in Subsidiary	**0**	0	**0**	(519)
- Loss on disposal of Property, Equipment and Intangibles	**1,886**	1,486	**1,886**	1,486
Changes in working capital				
Net (decrease) / increase in insurance receivables	**(353)**	651	**(469)**	8
Net decrease / (increase) in prepayments and accrued income	**39**	(63)	**45**	(61)
Net decrease in insurance liabilities and associated reinsurance balances	**(16,560)**	(11,431)	**(16,428)**	(11,033)
Net increase in pension obligations	**(87)**	(116)	**(87)**	(116)
Net increase / (decrease) in insurance payables	**405**	(247)	**370**	273
Net (increase) / decrease in amounts due from subsidiary undertakings	**0**	0	**(2,149)**	547
Net (decrease) / increase in provisions	**(1,635)**	6,958	**(1,635)**	6,958
Net increase in trade and other payables	**50**	165	**63**	47
Net increase / (decrease) in accruals and deferred income	**1,045**	(794)	**1,010**	(793)
Cash (used in) / generated from operations	**(2,440)**	4,859	**(4,613)**	4,868

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.

29 Related party transactions

29.1 Transactions in the year

The Society is exempt from disclosing related party transactions with other companies that are wholly owned within the Group (FRS 102.33.1A) .

29.2 Key management compensation

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

	Group		Society	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Salaries and other short-term employee benefits	**4,914**	3,575	**4,914**	3,575
Post-employment benefits	**344**	278	**344**	278
Total key management compensation	**5,258**	3,853	**5,258**	3,853

29.3 Other related parties

During their term of office in 2021, the retiring Chief Executive Andy Chapman, the Chief Executive and three (2020: three) other executive members of the Board of Directors received free Private Medical Insurance, total claims made under these policies was £2,646 (2020: £2,187). At the year end there were no claims outstanding. The Chief Executive, retiring Chief Executive and two other Directors receive free cover for their spouse on these policies.

The retiring Chief Executive Andy Chapman has two policies with the Society for immediate family members which are priced at 50% of standard terms (£1,012 per year). One other Director receives free cover for an immediate family member.

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.

30 Prior period error

The 2020 numbers have been restated. This is due to an error in the presentation of the amounts transferred to Exeter Cash Plan Holdings to facilitate the purchase of The Exeter Cash Plan. The balance was previoulsy treated as an intercompany balance rather than an investment in subsidiary.

The effect of the restatement on the 2020 Financial Statements is shown below.

	Effect on 2020 £000
Balance Sheet:	
Increase in investment in Subsidiary	3,502
Decrease in intercompany debtor	(3,502)

31 Events after the reporting period

The Russian invasion of Ukraine has been identified as a non-adjusting post Balance Sheet event, and we are monitoring its impact on the Society. There is uncertainty over the magnitude of market movements and inflation from this event. The Society is unable to estimate the full financial impact at this stage, however we have modelled a stressed scenario and it is the best estimate of the Directors that the Society will be able to satisfy its regulatory solvency requirements.

32 Transition to UK GAAP

These financial statements are the Group and Society's first produced using FRS 102 and FRS 103, which was adopted with effect from 1 January 2021 and the date of transition to UK GAAP is therefore 1 January 2020 to ensure comparability of results. The Group and Society previously prepared financial statements in accordance with UK adopted International Financial Reporting Standards (IFRS). The last financial statements prepared in accordance with IFRS were 31 December 2020.

The Friendly Societies Act (FSA) 1992 amended in 2020 has bought the FSA Act S69 into alignment with the Companies Act 2006 Section 15 to afford mutuals the same flexibility to change from preparing individual / group accounts in accordance with international accounting standards to individual / group accounts per section 395 and 403 of the Companies Act. This change has enabled the Group to transition to UK Generally Accepted Accounting Principles (UK GAAP). Converting to UK GAAP aligns the Group more closely with other insurers in our sector.

As a result of the transition there are some changes to accounting policy. These are set out below and the adjustments have been recognised in the Fund for future appropriation.

Leases	IFRS 16 requires all leases to be recognised on the balance sheet (other than certain low value or short term leases) through the recognition of a right to use asset and a lease liability. Under UK GAAP a lease is classed as either an operating or finance lease. The classification is largely based on the risks and reward of ownership. Leases classified as operating leases are not included on the balance sheet Leases classified as operating leases are expensed on a straight line basis over the lease term. This change impacts leases held for office space.

The Group and Society has made the following accounting policy choices on transition.

Applying IFRS 9 Financial instruments with IFRS 4 insurance contracts	Under UK adopted IFRS the Group and Society had taken the temporary exemption in applying IFRS 9. Under FRS 102 the recognition and measurement requirements of IAS 39 or IFRS 9 are available as an accounting policy choice. The Group and Society will continue to report using IAS 39.
Investment return	FRS 103 states that for longer term business the investment return (which includes movement in realised and unrealised gains and losses) backing technical provisions which are held within the long term fund for solvency purposes under the PRA rules should first be allocated to the Long-Term Business technical account, the remaining return may be transferred to other parts of the statement of income and expenditure account. If an insurer transacts both general and long term business and opts to allocate based on the longer rate of return it has to be applied to both funds. If allocation is based on investments supporting the Technical Provisions no allocation should be made from the long term technical to long term non technical account. The Group and Society have made an accounting policy choice to not reallocate investment return to other parts of the statement of income and expenditure account.

Reconciliation of the fund for future appropriations and reserves

A first time adopter of FRS 102 is required to produce a reconciliation showing the impact of transition of equity (FRS 102 35.13b). As a Friendly Society the closest approximation is the surplus that was disclosed as UDS (unallocated divisible surplus) under UK adopted IFRS. Under UK GAAP this is the FFA (Funds for future appropriation) for Long Term Business and Reserves for General insurance.

	Group		Society	
	31 Dec 2020	01 Jan 2020	31 Dec 2020	01 Jan 2020
	£000	£000	£000	£000
UDS reported under IFRS	201,037	195,702	200,740	195,600
Leases adjustment[(1)]	(17)	0	(17)	0
FFA and Reserves under UK GAAP[(2)]	201,020	195,702	200,730	195,600

(1) Lease adjustment comprises the removal of the depreciation and right of use assets recognised under IFRS 16, interest on the releated lease liabilities and recognition of operating lease rentals in accordance with FRS 102

(2) This represents the total of General Business Reserves (Note 19.1) and FFA (Note 19.2)

The removal of the right to use asset includes the removal of depreciation on the right to use asset held under IFRS 16, and interest on the related liabilities.

UK GAAP requires a reconciliation of an entity's profit or loss determined under the previous financial reporting framework in its most recent financial statements to the equivalent under UK GAAP. As a Friendly Society the profit or loss after transfer to the UDS / FFA is nil. Therefore, to show a meaningful comparison the following is a reconciliation of the transfer to FFA and Reserves.

	Group	Society
	2020	2020
	£000	£000
Transfer (to) UDS for the financial year under IFRS	(5,333)	(5,141)
Leases adjustment[1]	17	17
Transfer to the FFA and Reserves under UK GAAP	(5,316)	(5,124)

[1] Lease adjustment comprises the removal of the depreciation and right of use assets recognised under IFRS 16, interest on the releated lease liabilities and recognition of operating lease rentals in accordance with FRS 102

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