# Exeter Friendly Society Limited

Annual Report and Accounts 2023

The Exeter

You matter more.

# Exeter Friendly Society Limited

| | |
|---|---|
| **Board:** | |
| **Peter Hubbard, BSc, FCA** | Board Chair and Independent Non-Executive Director |
| **David Brand, BA, FIA** | Senior Independent Non-Executive Director (retired 30 June 2023) |
| **Keith Baldwin** | Independent Non-Executive Director |
| **Suzanne Clark, BEng, FCA, MCSI** | Independent Non-Executive Director (appointed 1 August 2023) |
| **Kelvin Malayapillay, BEng, ACGI, MSc, Dip IC, MBA, PCiC** | Independent Non-Executive Director (appointed 1 August 2023) |
| **Helen McEwan, BA, AFPC** | Independent Non-Executive Director (appointed as Senior Independent Director and Deputy Chair 30 June 2023) |
| **Steve Payne, BSc, FIA** | Independent Non-Executive Director |
| **Isobel Langton** | Chief Executive |
| **John Gunn, BSc, FFA** | Executive Director |
| **Michael Payne, MBA, FFA** | Executive Director (appointed 2 October 2023) |
| **Steve Bryan, BA** | Executive Director |
| **Professor Willie Hamilton, CBE, MD, BSc, FRCP, FRCGP** | Medical Director |
| **Zoe Kubiak, MSc, FCG** | Company Secretary |
| **Registered Office:** | Lakeside House, Emperor Way,<br>Exeter EX1 3FD<br><br>Tel: 0300 123 3201<br>Email: member@the-exeter.com<br>Website: www.the-exeter.com |
| **With Profits Actuary:** | Wendy Crockford, BSc, FIA |
| **Independent External Auditors:** | Mazars LLP |
| **Bankers:** | Barclays PLC |
| **Investment Managers:** | Royal London Asset Management Limited |
| **Tax Advisers:** | Grant Thornton UK LLP |

# Contents

# Strategic Report

## Who we are

We are a protection and health insurer with a heritage dating back to 1888.

Our multi-award-winning products help protect our members and their families against the financial impact of ill health and include:

- Income protection, which provides a monthly payment should someone be unable to work if they are ill or suffer an injury.
- Life insurance, designed to include as many customers as possible, and to help those living with serious or multiple health conditions get the valuable cover they need to protect loved ones in the event of death.
- Health insurance, offering fast access to medical treatments and care at an affordable price.

A critical part of what makes The Exeter different is our mutuality. We don't exist to make profits for shareholders, instead, we reinvest them into the business for the benefit of those who rely on us. As a result, the interests of our members are the key consideration whenever we make decisions.

The needs of our members have shifted radically during our history, which has witnessed world wars, the advent of the NHS, many new medical breakthroughs, the computer age, the internet era, a global pandemic and more recently renewed global unrest. 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.

Our strategic ambition is to:

1. Continue to deliver a sustainable future for The Exeter and to take care of its members;
2. Be clear on what we stand for and be the best at what we do; and
3. Maintain our unique place in our markets.

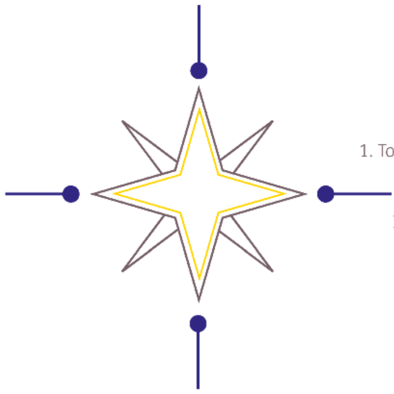
We want more people to have the confidence that their livelihoods, lifestyles and loved ones are protected in the event of their illness, injury or death.

We are committed to creating inclusive and accessible insurance solutions that better serve the needs of a wider range of people.

**Our Purpose**
**To provide more people with more peace of mind in a more uncertain world**

**Our Brand Promise**

The Exeter
You matter more.



**Our Commitments**

1. To us, you're more than a customer, you're a member
2. We put people before profit
3. Our measure of success is the claims we pay
4. We do more to cover more people
5. We take care of you

**Our Vision**
**To stand out as the insurer people trust most to deliver true peace of mind**

We aspire to hold an unrivalled reputation for the sense of assurance and confidence we inspire, and the loyalty and trust we earn, from our customers.

Our size as an organisation is no barrier to the size of the reputation we continue to build for ourselves.

## Key Numbers

Total numbers of members
**138,321**
2022 - 116,115

Total value of claims paid
**£48m**
2022 - £45m

New business sales
**£31.3m**
2022 - £15.5m

Gross premium income
**£103.4m**
2022 - £80.3m

Total group assets
**£274.8m**
2022 - £237.6m

Trust pilot trust score*
**4.2/5**
2022 - 4.4/5

Financial Adviser Service Awards
**4 star**
2022 - 4 star

Charity support
**£51.6k**
2022 - 112k

Colleague engagement
**83%**
2022 - N/A

HEALTHWise

**USAGE INCREASED BY 131%**

Top services used

**No1**
Remote GP 24/7

**No2**
Physiotherapy consultations

**No3**
Mental health support

*Based on 768 reviews.

## Chair's Statement


It is with great pleasure that I present our 2023 annual report, my second annual report as your Chair. Under the strong leadership of Isobel Langton and her executive team, the Exeter has not only achieved a solid year of growth but has maintained focus on its resources to ensure continuous improvement of the Group and Society.

### Our Performance

We enjoyed a successful year with our performance remaining strong and we welcomed a record number of new members to the benefits of mutuality. Our brand presence and advocacy have continued to thrive with an excellent 4.2 trust rating with Trustpilot and the retention of our 4-star rating at the Financial Adviser Service Awards.

Demand for Healthcare insurance remained high across the whole market in 2023 as NHS waiting lists continue to grow, as does the need for Private Health Insurance. The overall protection market has remained quite static post-COVID, with the increase in cost of living impacting customer demand. However, sales of Income Protection, continue to grow steadily.

### Consumer Duty

A hugely positive shift for our industry last year was the introduction of the FCA's consumer duty, requiring all financial services institutions to put their customers' needs first and to provide clear and transparent information and outcomes across financial services. We have always been committed to our consumers, and providing the best products and services possible, the investment we continue to make to improve our products and services, and how we promote them. This gives me confidence that we always strive to act in accordance with the best interests of our members, and continuing this momentum, will benefit both our business and our stakeholders.

### Uncertain Times

At the time of writing, the escalating tensions in the Middle East and the ongoing Russia-Ukraine conflict continue to drive uncertainty and potential disruption to the global economy. We continue to monitor the situation. At an economic level, continued high inflation, high-interest rates and general pressures on living costs mean that our members may have to make sacrifices and we ask any member who is struggling to meet their premium payments to contact us as soon as possible so that we can do our best to support you.

### Our Board

Our Board comprises of elected Directors who continue to deliver value to members by providing strong and effective governance. This requires a Board that possesses the balance of skills and experience to foresee the challenges and seize the opportunities inherent in this increasingly complex environment.

Our Board has undergone a few changes this year. I was delighted to welcome three new board members in 2023, Suzanne Clark, Kelvin Malayapillay and Michael Payne, each bringing a wealth of experience to help us deliver more for our members. At the same time, we were sad to say farewell to David Brand, who stepped down at our July 2023 AGM. During David's tenure, the business grew substantially, and his calm and experienced input will be missed by everyone. We wish him well for the future.

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

I am always happy to hear directly from you with your feedback, you can email me at chair@the-exeter.com.

**Peter Hubbard**
Board Chair

# Message from the Chief Executive

Our strategy is to grow The Exeter sustainably whilst delivering our customer value proposition to our members. We recognise that the experience we offer and the value we bring to our members is central to that and this sits at the core of our strategy.

This year we have made significant investment across the organisation to improve the experience for all our key stakeholders and I'd like to take this opportunity to highlight some of this activity;

## For our Members

Once again, we saw an increase in our membership numbers, which stand at over 138,321 (2022: 116,115) and we issued more policies than in previous years, an increase on last year of 22,206 policies.

Making a claim when a misfortune occurs is the core purpose of all our policies and member trust hinges on the fulfilment of those claims. In 2023, we continued to invest in this key area and will do so over the next three years. This investment will allow us to improve and simplify the claims process, ensuring those in need are able to get support as quickly as possible.

Through our HealthWise app, we provided members access to almost 3,000 medical appointments ranging from remote GP appointments, mental health support to dietitian consultations. We also made enhancements to our HealthWise benefit meaning members can now access remote GP appointments as often as they need, a new Health MOT service, and a repeat NHS prescription service.

## For our Advisers

Our partnerships with advisers and adviser firms across the UK are also central to our work. I would like to thank all advisers who worked with us in 2023, helping us to provide cover to those in need and supporting us with feedback as we continue to improve experiences for our customers.

In 2023, we focused on supporting advisers with their own learning and development through a range of continuous professional development and learning materials, delivering bespoke webinars and attending more than 100 national events.

## For our Colleagues

As I've highlighted in previous years, our people are without doubt our biggest asset and we would not have such strong member and adviser advocacy without the consistent and genuine support of our people. I'm immensely proud of their efforts in going above and beyond for our members, and I can't thank them enough for their dedication throughout the year.

For our colleagues this year we have supported them with over 5,000 hours of training and development. We've continued to successfully embed a new values framework providing a clear focus on delivering for our customers and growing our business in a way that embraces the skills of our teams and makes The Exeter an engaging place to work for everyone.

## For our Community

This year we developed a formal Environmental, Social and Governance (ESG) strategy to determine our social priorities and reduce the impact on our environment.

We also expanded our involvement within key working groups to create a stronger industry for the future with colleagues from The Exeter now holding key roles within The Diversity & Inclusivity Finance Forum, The Women in Protection Network and The Association of Financial Mutuals.

Together with colleagues, we've continued our charitable giving to both the FORCE cancer charity and other causes which are important to colleagues, with over £51,658 (2022: £112,075) being raised and donated.

Most importantly, during all this, our members remain at the heart of everything we do. Whether it be product development, claims innovation or service delivery, our members have always been and remain at the forefront of every decision we make.

**Isobel Langton**
Chief Executive

## Principal Activities and Business Model

Our principal activities are the provision of Income Protection (IP), Private Medical Insurance (PMI) and Life Insurance (Life) to our members. We also offer Health Cash Plans (HCP) through a subsidiary company, The Exeter Cash Plan.

The Group's insurance businesses consist of both general and long-term elements, the former represented by its books of PMI and HCP, and the latter through its IP and Life businesses. All insurance policies are underwritten by The Society and sales of new policies are distributed primarily through financial advisers and broker networks, with this making up 99% of our new business.

During 2023, our PMI business benefitted from a surge in demand due to the well-documented issues surrounding the lack of accessible medical provision in the UK. The Exeter's strong proposition and service levels meant we were well-placed to support this demand.

The protection market faced a number of challenges during 2023 including the cost-of-living crisis and higher levels of mortgage interest rates.  A significant proportion of protection sales are linked to mortgages, and we are looking to develop this area of the business over the coming year.

### Geopolitical Tensions

The escalating tensions in the Middle East and the ongoing Russia-Ukraine conflict have elevated geopolitical risks, heightened national security threats to countries in those regions and disrupted the global energy market, which have contributed to cost inflation, economic and cyber-security risks. While we have no direct operation or investments in these areas, we are exposed to the impact they have on the wider global economy and hence continue to monitor these. Inflation and economic risk factors are significant components of our risk management. As such we believe we understand the short-term risks and related impacts and have controls in place to help mitigate them. However, the long-term impacts remain uncertain, and this area will continue to be monitored closely.

### Climate Change

Since 2022, when the Board agreed to its original sustainable business framework to support its aim to continue to make a positive social impact, detailed analysis has been undertaken to identify risks and opportunities. In line with the revised framework and formal Environmental, Social and Governance (ESG) strategy, work has begun towards becoming ISO 14001 accredited. It's hoped this will improve our environmental performance through more efficient use of resources and reduction of waste, and while setting minimum standards with our supply chain management.

In its considerations of climate change the Board's aim has been to balance the views of all of its stakeholders including members, colleagues, suppliers, regulators and the communities the business operates within. It also considered its reputation, the long-term success and its financial strength. The full Climate Change and Environmental, Social and Governance report can be found on page 14.

### Supplier and Member Engagement

Working successfully with our business partners and suppliers is very important and we aim to maintain a close and collaborative relationship. To do this we have dedicated internal managers who meet with key suppliers and partners at least once a month to discuss levels of service and ways to continue to improve the strong service we provide to our members. During 2023 we continued to engage regularly, attending group events and taking part in specialist panel discussions with our suppliers and members. In addition, a head of Procurement & Supplier Management has been appointed to work across the organisation to support the management of the procurement process and supplier relationship management.

We develop relationships with our members based on mutual trust and our ability to strive to effectively meet their needs. We seek to operate in a way that allows us to work closely with our members and use feedback from them as an opportunity to inform us of our levels of service and to continue to provide improvements.

We strive to treat all members fairly. This includes ensuring our more vulnerable members receive the assistance they need in all contact we have with them. We do this, not only to comply with regulations, but because we believe it is the right thing to do, and because we genuinely care about our members. We have a specific committee whose sole focus is the fair treatment of members and in particular vulnerable members. The Customer Forum has ownership of activities for a number of areas of improvement such as ensuring policies are agreed upon, successful delivery of change initiatives and ongoing consideration of matters relevant to our vulnerable charter commitments and consumer duty regulations.

We strive to maintain a higher standard of care around culture and behaviour, including ensuring strategies, governance, leadership and people policies reflect good customer outcomes. The Board has appointed the Chair of the Governance & Risk Committee to be the Consumer Duty champion. The new duty aligns with the work already being implemented by the business with respect to its purpose, vision and strategic objectives.

As a society, we are living with complex illnesses for longer periods. The provision of adequate financial protection against the risk of ill health is therefore more important than ever. The purpose of our Real Life product is to help those customers suffering from multiple or serious health conditions access cover that would normally result in a premium loading, exclusion or customers being excluded from standard plans.

### Colleague engagement

We are committed to engaging our colleagues in our strategy and the crucial role they play in delivering it. We believe that companies with high trust and collaborative cultures achieve better financial results for themselves and their members.

As part of Board decision-making, consideration is given to all stakeholders, including our colleagues. This is outlined in more detail on page 29. We have continued to support our various colleague forums to ensure they have opportunities to understand and play an active role in matters that impact them and the work that they do. The CEO and the Chair also host meetings to directly engage with colleagues for an informal chat and to allow an open channel for any issues and concerns to be raised. The Senior Independent non-executive director, Helen McEwan, attends a number of the Employee Consultation Forums to ensure colleagues have direct access to an independent member of the Board. Having a designated non-executive colleague champion directly engaging with colleagues promotes a culture of openness, inclusivity and transparency.

Colleagues have access to a confidential line to 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 Whistle-blowing Policy. Colleagues also had direct access to our independent directors, in particular the Chair of the Governance & Risk Committee, as part of the Whistle-blowing policy. For most of 2023 the position of the Whistle-blowing Champion was held by the Chair of the GRC, the role moved to the Chair of the Audit Committee on 20 December 2023.

## Strategic Progress

The Board and the Executive Team continue to work closely together to monitor, review and update both our strategy and ambition. The starting point for this work is our purpose and vision:

- Our purpose is to provide more people with more peace of mind in a more uncertain world.
- Our vision is to stand out as the insurer people trust most to deliver true peace of mind.

Our history shows that we've always been a purposeful and principled company, driven by the right intentions for our members. Clearly setting out our purpose and vision provides the underlying principles that will guide us as we move forward and in a constantly changing and uncertain world.

This creates more clarity around who we are, what's most important to us and deepens the connection with our members and each other.

Our strategic ambition is to:

- Build a strong and sustainable future for The Exeter and its members;
- Be clear on what we stand for and be the best at what we do; and
- Continue to secure our unique place in our markets.

This doesn’t mean we are aiming to be the biggest, or achieve a certain scale, rather our focus is on being the very best we can be at what we do, guided by our purpose and vision.

It is also important to us and our members that we are clear on the value that we bring to them through our overall experience and proposition. We believe this value is built on three core themes:

- Inclusion – we strive to provide protection cover, choice and options for as many people as possible;
- Service is not just a product – it's everything we do to ensure we provide our members with a quality service and helpful experience; and
- We know what’s important – reflecting our deep understanding of our members and their changing needs.

Our initial strategic priorities have been aligned to the first stages of achieving our strategic ambition, building the strong foundations we need to achieve our longer term goals.

## Raising the Bar in Member Experience

We recognise the critical role that the experience our members have with us plays in our future success, and we are striving to raise the bar further in the experience we offer. We believe that this will create compelling reasons for members to come to us and stay with us and that delivering a consistently excellent customer experience will further enhance our reputation for our genuine commitment to members.

We also extend this thinking to our intermediary partners, seeking to deepen trust and grow the breadth of our relationships, actively seeking ways to support them.

## Building the Future-ready Organisation

As the environment around us and the markets we are in continue to rapidly change and evolve, even more so following the global pandemic, it has never been more important for us to be more responsive and adaptable to change and to manage constantly changing risks. New structures, processes, ways of working and streamlined governance will build our capability to be more flexible and more effective, enabled through new, technologies to help increase speed and improve efficiency.

## Unleash our Culture

Our colleagues are a great source of strength for us and their continued engagement, support and trust will be critical to achieving our strategic ambition. We are creating the mindset, environment and conditions where our colleagues feel empowered and inspired to do their best work in service of our members. Our focus is also increasingly on evolving how we lead, involve, engage and communicate with each other, adapting to the needs of modern hybrid working.

## Business Plan

Our business plan for the coming years reflects the continued investment in our systems and people that are core to delivering our strategy. The plan is focused on growing sustainably whilst improving our efficiency through improved systems and people capabilities supporting a controlled cost base.

Overall the plan is aimed at generating and preserving value for our members over the long-term, providing a firm capital base on which to support future growth.

## Key Performance Indicators and Strategic Scorecard

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. In addition, a strategic scorecard has been developed that enables the Board and all colleagues to see, at a glance, the progress being made against our business plan and strategic goals.

The strategic scorecard contains measures covering the Business Plan and the three Strategic Priorities across members, colleagues and the organisation itself. The metrics have been chosen as being the most relevant measures of achievement against strategic targets and performance of products against expected results.

## Membership and Members

Membership is key to The Exeter as it reflects the scale of the business; the long-term ability to continue to provide services to members depends upon membership being stable or growing. Overall, therefore, the membership base showed an increase on previous years, where total membership was 138,321 (2022: 116,115) at the year-end.

| | 2023 | 2022 | Movement | % |
|---|---|---|---|---|
| General Business Membership | 40,225 | 24,725 | 15,500 | 62.7% |
| Long Term Business Membership IP | 62,733 | 59,450 | 3,283 | 5.5% |
| Long Term Business Membership Life | 20,087 | 15,979 | 4,108 | 25.7% |
| Society Membership | 123,045 | 100,154 | 22,891 | 22.9% |
| Cash Plan Membership | 15,276 | 15,961 | (685) | (4.3%) |
| Group membership | 138,321 | 116,115 | 22,206 | 19.1% |

## Written Premium Income and Sales

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

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

| | **New Business 2023 £** | New Business 2022 £ | **Increase / Decrease** | **Gross Written Premium 2023 £** | Gross Written Premium 2022 £ | **Increase / Decrease** |
|---|---|---|---|---|---|---|
| PMI | **21.3m** | 5.7m | **272.7%** | **53.6m** | 36.1m | **48.3%** |
| Income Protection | **5.5m** | 5.4m | **1.8%** | **34.4m** | 31.5m | **9.1%** |
| Life Protection | **4.1m** | 3.5m | **18.0%** | **12.9m** | 10.2m | **9.1%** |
| Health Cash Plan | **397k** | 408k | **(2.7%)** | **2.5m** | 2.5m | **(0.7%)** |

## Claims and Expenses

The Exeter's policies are designed to pay claims for the benefit of members and therefore, we consider this to be 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 the business remains sustainable and able to meet its members' needs in the long term.

At the Group level the commission payable to intermediaries increased by 42.5% to £21.7 million (2022: £15.4 million). Net operating expenses increased by 16.9% from £28.4 million to £33.5 million. This information is detailed in Note 9.

The total claims paid out for the Group in 2023 was £40.2m (2022: £36.4m). This information can be found in note 7.

| **Claims (net)** | **2023 £** | 2022 £ | **Increase / Decrease** |
|---|---|---|---|
| PMI | **30.9m** | 27.8m | **11.0%** |
| Income Protection and Life Protection | **7.3m** | 6.7m | **9.3%** |
| Health Cash Plan | **1.9m** | 1.8m | **5.1%** |

## Asset and Liability Movements

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

Investment markets have been volatile during 2023 resulting in unrealised gains on investments. Interest rates have increased considerably throughout the year, resulting in a reduction in the value of our bond investments. Where we apply asset-liability matching, this has been effective as the net loss is offset by the movement in reserves.

An analysis of the Group and Society's financial assets can be seen in Note 17 of the financial statements.

## Financial Reinsurance

During the year, financial reinsurance was used to provide a financing arrangement that covers new business sales of Real Life products. It has been agreed that the reinsurer will pay a proportion of the initial commission on covered policies in exchange for proportion of cashflows arising from those policies, until the borrowing plus interest is repaid, with a maximum repayment term of 12 years. Full details of the financing arrangement are detailed in Note 24.

## Movements on Reserves and Solvency

The Group Fund for Future Appropriations and General Reserves increased by £16 million resulting in a combined Group Fund for Future Appropriations and General Reserve of £190.2 million (2022: £173.8 million). This information is further 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 for the long-term business fund.

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

- Minimum Capital Requirement ("MCR") which is the level calculated by a prescribed standard formula below which a company must not fall to remain compliant.
- Solvency Capital Requirement ("SCR") which is a requirement (also calculated by prescribed standard formulae) which creates a threshold for Regulatory intervention if it is breached.
- Companies are also required to assess their own capital requirement based on a forward-looking assessment of future capital requirements known as an Own Risk and Solvency Assessment ("ORSA").
- The ORSA is a strategic Board tool that is used by The Exeter to ensure that the business is managed in a way that considers and takes account of all perceived risks. The ORSA may introduce higher capital requirements if the Board believes 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 Exeter 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 Group's investment strategy, pricing strategy or restricting new business 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 (unaudited)

| | General Business Fund | |
|---|---|---|
| | **2023** | **2022** |
| | **£000** | **£000** |
| **Available capital** | **84,613** | **87,780** |
| Capital requirements: | | |
| MCR | 4,394 | 5,307 |
| SCR | 17,574 | 21,229 |
| **Available capital as a % of MCR** | 1926% | 1654% |
| **Available capital as a % of SCR** | 481% | 414% |

## Long Term Business Fund (unaudited)

| | Long term Business Fund | |
|---|---|---|
| | **2023** | **2022** |
| | **£000** | **£000** |
| **Available capital** | **97,147** | **80,988** |
| Capital requirements: | | |
| MCR | 14,663 | 13,797 |
| SCR | 58,653 | 55,188 |
| **Available capital as a % of MCR** | 663% | 587% |
| **Available capital as a % of SCR** | 166% | 147% |

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 are set out below:

| | Exeter Cash Plan | |
|---|---|---|
| | **2023** | 2022 |
| | **£000** | £000 |
| **Available capital** | **3,152** | 3,323 |
| Capital requirements: | | |
| MCR | 2,359 | 2,325 |
| SCR | 642 | 661 |
| **Available capital as a % of MCR** | 134% | 143% |
| **Available capital as a % of SCR** | 491% | 503% |

## 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 an assessment of the principal risks facing The Exeter, including those that would threaten its business model, good customer outcomes, future performance, solvency, or liquidity.

The Exeter classifies risks using the following risk profile elements:

- Insurance Risks
- Capital Risks
- Liquidity Risks
- Operational Risks
- Strategic 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's determined to be the most appropriate and includes principal risks that the Society and Group are exposed to and the way we manage them. An enterprise-wide risk management (ERM) framework has been adopted 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. This is outlined later in this report.

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 Committee receives regular risk management reports, and the Chief Risk Officer also reports directly to the Chair of the Governance & Risk Committee.

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 is taken to address any issues. In addition, the Board has established its risk preference for all risk categories 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

| Risk Profile Element | Update |
|---|---|
| **Insurance**<br><br>Risks of underestimating or overstating future insurance liabilities:<br><br>• Mortality<br>• Morbidity<br>• Lapse<br>• Reinsurance<br>• Underwriting Philosophy<br>• Pricing | 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, lapse, price, and expense variances. General insurance risk arises primarily from variations in claim quantities or values and also from lapse, pricing and expense variations.<br><br>Systems are in place to measure, monitor and control exposure to all these risks. These are documented in policies and procedures for underwriting, pricing, claims and reinsurance. The Board's Governance & 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. |
| **Capital**<br><br>The risk that there is not enough capital to run the business in line with regulatory requirements:<br><br>• Solvency<br>• Reserving<br>• Investment<br>• Interest Rates<br>• Credit<br><br>**Liquidity**<br><br>The inability to meet financial obligations when they become due because of insufficient cashflow:<br><br>• Liquidity<br>• Funding<br>• Asset Liability Matching | The Exeter is exposed to a range of financial risks through its financial assets, including; financial liabilities, insurance contract liabilities or assets, climate change transition and physical, and associated reinsurance balances. In particular, the key financial risk is that in the long-term its investments are insufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk include; investment risk, funding risk, solvency risk, liquidity risk, interest risk, reserving risk, and credit risk, which also encompasses concentration and counterparty risks.<br><br>Systems and processes are in place to measure, monitor and control exposure to all risks through strong financial risk management. This is through the following: quarterly validation/monitoring checks on the data, capital requirements and risk margin and technical provisions, ORSA reviews and stress/scenario testing. |

| Risk Profile Element | Update |
| --- | --- |
| **Operational**<br><br>Risks of losses caused by flawed or failed processes, policies, systems, or events that disrupt business operations:<br><br>• People<br>• Systems<br>• Processes<br>• 3rd parties/Suppliers<br>• Information<br>• Regulatory and compliance<br>• Physical | The Exeter is exposed to disruption in normal business operations. The risk of loss resulting from ineffective, inadequate, or failed internal processes, systems, 3rd party and supply management, changes to regulatory and compliance requirements, information security, or external events can disrupt the flow of business operations. The losses can be directly or indirectly financial, customer impact and reputational damage.<br><br>This is managed through having regularly reviewed policies, procedures, process maps, business continuity planning and operational resilience plans, which are regularly tested. Operational risk is also tested both qualitatively and quantitatively through the ORSA process. |
| **Strategic**<br><br>Risks that external events and the decisions we make lead to poor outcomes:<br><br>• Decision-making<br>• Competition Activity<br>• Transformation implementation<br>• Distribution<br>• Proposition<br>• Environmental | Strategic risk refers to the internal and external events that may make it difficult, or even impossible, for an organisation to achieve their objectives and strategic goals. These risks can have severe consequences that impact organisations in the long-term. This risk would be considered external when an organisation has little or no control over if, when or how it might occur. The strategic risk exposure arises from poor decision-making, competitor activity, poor transformation implementation, distribution, and proposition. The causes of these potential risk events are managed through monitoring the political, technological, social, legal, and environmental regulatory and economic landscape.<br><br>These can be mitigated through implementing good data strategy and policies, MI reviews and reporting, agile approach to change, developing strong internal capability and leadership. |

## The Three Lines of Defence

The business continues to operate a three lines of defence risk management model with the business, headed up by the Executive Committee, being the first line of defence (LoD), the Risk Management and Compliance functions as the second LoD and Internal Audit providing the third LoD. The Chief Risk Officer (2nd LoD) reports directly to the Chair of the Governance & Risk Committee whilst the Head of Internal Audit (3rd LoD) reports directly to the Chair of the Audit Committee to ensure independence.

Everyone within The Exeter is responsible for identifying, communicating, and managing risks within their day-to-day activities.

## Climate Change and Environmental, Social and Governance (ESG)

At The Exeter, sustainability starts with our purpose: 'To provide more people with more peace of mind in a more uncertain world.' This commitment has helped us to continue to drive our Environmental, Social and Governance (ESG) strategy in 2023 as it is a key component of our long-term value and business resiliency. We have partnership with an independent specialist in this field to assist us in our ESG journey.

We reconfirmed our ESG Strategy in 2023: The Exeter is committed to doing all we can to make a positive impact on society. As a mutual, we exist for the benefit of our members and it's our responsibility to be the Society they would like us to be.

Being a responsible business means identifying and actively managing the ESG risks and opportunities we face. Our key priorities remain:

- Being there for our members;
- Valuing our colleagues;
- Operating our business responsibly and protecting the environment; and
- Supporting our communities.

Tackling climate change is a shared global responsibility and we all have a part to play in this. We are responding to the needs of our members and actively reducing our own environmental impact to help drive the transition to a low-carbon economy.

### Climate Risk Report

Without coordinated action, climate change poses a significant risk to our planet, people and economies. The science on climate change is clear. Sustainability is intrinsic to the way we conduct business and our long-term success, while also within our culture. Changes in the climate are expected to have both acute physical effects (like more severe and frequent climate change-related events). At the same time, attempts to limit global warming to an increase of less than 2°C are expected to lead to dramatic action and changes in policy to rapidly lower $CO_2$ emissions.

We are continuing to work towards reporting under the Taskforce for Climate-Related Financial Disclosures (TCFD) and the Streamlined Energy and Carbon Reporting (SECR), which was created by the global Financial Stability Board to promote financial transparency related to climate risks. Nevertheless, we have chosen to describe the journey we are on when it comes to climate change, using the TCFD structure and content.

This year, we have continued our progress towards understanding, reporting on and managing climate change risk, so we can be transparent about efforts to minimise our environmental impact. This matches our ambition to have a positive impact on our local environment and be seen as an ethical employer and supplier. It also makes us more attractive to would-be members and employees, who rightly expect organisations to make a determined effort to limit climate change.

| **Strategy** | **Reporting** |
|---|---|
| **The resilience of our strategy to different climate-related scenarios including a 2°c or lower scenario** | The material climate-related risks and opportunities, short, medium and long-term have been identified (including extreme weather events and transition to a lower carbon economy).<br><br>The key climate-related opportunities have also been identified. Primarily the opportunity to fulfil our purpose, and that we expect customers to be more likely to choose companies showing leadership on ESG and climate issues. As an insurance company focusing on healthcare and protection, we are particularly aware of the inextricable link between the health of the planet, human health and healthcare.<br><br>The impact of these risks and opportunities were modelled in 2023 the results have been reviewed and will be monitored by the Governance & Risk Committee. |
| **Risk Management** | |
| **Our processes for:**<br><br>**a) identifying and assessing climate-related risks;**<br><br>**b) managing climate-related risks; and**<br><br>**c) how our processes are integrated into our overall risk management.** | The Group uses an Enterprise Risk Management (ERM) framework to identify and monitor risks. Regular reports are provided to the Governance & Risk Committee as well as the Board. The ERM framework and ORSA reflect the risks related to climate change. |
| **Metrics and Targets** | |
| **Metrics used to assess our climate-related risks and opportunities in line with strategy and risk management processes**<br><br>**Scope 1, 2, and if appropriate scope 3 greenhouse gas (GHG) emissions, and the related risks** | In 2023, Carbon Footprint, our external independent consultants, facilitated two scenario analysis workshops to identify significant climate-related risks and opportunities. The scenario analysis was based on the recommendations published by the Task Force on Climate-related Financial Disclosures (TCFD) guidance within ISO 14091 (2021). The workshops were attended by a variety of representatives from The Exeter's senior management team and the scenario analysis was successfully completed with a management plan proposed. These were presented to, and approved by, the Board in December 2023 for embedding in our Enterprise Risk Management (ERM) Framework. For more information, please see the Risk Report, page 12. |

| | |
|---|---|
| **Targets to manage our climate-related risks and opportunities and performance against these targets** | At the end of 2023, Carbon Footprint was engaged again to review our Greenhouse Gas (GHG) emissions. Sourcing reliable and meaningful data continues to be one of the challenges we face and Carbon Footprint have made a number of positive recommendations and actions for 2024.<br><br>The Exeter's environmental targets and metrics are set out in this report and include our action plan to transition to a lower carbon business as net zero in our direct operations. |
| **Governance** | |
| **Board oversight of climate-related risks and opportunities**<br><br>**Management's role in assessing and managing climate-related risks and opportunities** | The Board is ultimately responsible for the climate change plan and ESG framework. The Governance & Risk Committee and the Board receive regular updates on climate change and ESG.<br><br>The Investment Committee monitors and keeps under review investments made, this is through the use of the approved Investment Guidelines. ESG and green investments are key topics reviewed regularly by the Committee.<br><br>The Executive Committee is accountable for the executive leadership and development of the ESG programme and the ESG Management Committee.<br><br>An ESG Management Committee, consisting of executives and senior management, has been established to provide oversight and advice to the Board on their climate change and ESG responsibilities. |

## Climate Reporting

Our sustainability and carbon management consultant, Carbon Footprint, identified a number of suitable carbon off-setting initiatives, which are verified carbon standards projects, for The Exeter to support.

Carbon Footprint has independently assessed The Exeter's Greenhouse Gas (GHG) emissions in accordance with the UK Government's 'Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance'.

The GHG emissions have been assessed following the GHG Protocol Corporate Reporting standard and have used the 2023 emission conversion factors published by the Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy & Industrial Strategy (BEIS). The assessment follows dual reporting where the location-based and market-based approach for assessing Scope 2 emissions from electricity usage. The financial control approach has been used.

## Target Setting and Recommendations

The forecast of GHG emission, independently assessed by Carbon Footprint, for The Exeter until 2050 using the dataset for the year ending 2023, and based on an active market-based approach, indicates that The Exeter can achieve the following:

- 50% reduction in emissions per £M turnover/employee by 2030.
- 90% reduction in emissions per £M turnover/employee by 2045.

The total location-based carbon footprint for The Exeter for the year ending 31 December 2023 was 223.07 tonnes $CO_2$e (2022: 187.32 tonnes $CO_2$e), and the market-based total is 164.04 tonnes $CO_2$e (2022: 129.46 tonnes $CO_2$e). This was due to business travel reverting back to normal levels after the impact of the pandemic limiting customer and employee meetings. The table below sets out the Energy and Greenhouse Report detailed results of The Exeter's carbon footprint assessment by scope and source activity. The following are recommendations that are being pursued as part of the 2024 continuous improvements being made in the business.

- Evaluate the effectiveness of using remote meetings and consider balancing travel to meetings with online meetings to where possible reduce the requirement for grey fleet travel.
- Continue to install EV charging points at work and ensure these are available for all colleagues. This will encourage and enable colleagues to switch to low carbon electric vehicles.
- Where possible extending the life of our computing hardware, with an aim to purchase models with sufficient capability to continue in operation longer and invest in hardware maintenance.
- Encourage all homeworkers to transition to 100% renewable tariffs to reduce market-based emissions and increase the sustainability of their homes.

## Energy and Greenhouse Gas Report

The table below summarises the GHG emissions for reporting year: 1 January 2023 to 31 December 2023. As a business we have been assessing our carbon emissions since 1 January 2022 and have provided this baseline year and last year's assessment results for comparison.

| Scope | Emission Source | Location Based $tCO_2e$ | Market Based $tCO_2e$ |
|---|---|---|---|
| **Scope 1** | No Emission Sources | 0.00 | 0.00 |
| **Scope 1 Sub Total** | | **0.00** | **0.00** |
| **Scope 2** | Electricity | 44.48 | 0.00 |
| **Scope 2 Sub Total** | | **44.48** | **0.00** |
| **Scope 3** | 3.1 Paper | 4.88 | 4.88 |
| | 3.1 Water | 0.05 | 0.05 |
| | 3.2 Computing | 45.59 | 45.59 |
| | Scope 1 and 2 WTT | 9.86 | 0.00 |
| | 3.3 Transmission & distribution | 4.70 | 0.00 |
| | 3.5 Waste | 0.14 | 0.14 |
| | 3.5 Wastewater | 0.05 | 0.05 |
| | 3.6 Grey Fleet (employee-owned vehicles) | 53.62 | 53.62 |
| | 3.6 Hire Cars | 1.63 | 1.63 |
| | 3.7 Home working | 58.09 | 58.09 |
| **Scope 3 Sub Total** | | **178.61** | **164.05** |
| **Total tonnes of $CO_2e$** | | 223.07 | 164.04 |
| **Tonnes of $CO_2e$ per employee** | | 1.02 | 0.75 |
| **Tonnes of $CO_2e$ per £ million turnover** | | 2.35 | 1.73 |
| **Scope 3 Screening Sub Total** | | **2,380.49** | |
| Total tonnes of $CO_2e$ | | 2,603.56 | 2,544.53 |
| Total Energy Consumption (kWh) | | 405,145 | 405,145 |

[1] There is no scope 1 assessed.
[2] Based on 218 employees in 2023, taken as an average throughout the year.
[3] Based on a forecast turnover of £94.99m for 2023.

| [1]Activity | 2023 | 2022 |
|---|---|---|
| Total energy consumed (kWh) | 405,145 | 372,971 |
| Total Gross Location-Based Emissions ($tCO_2e$) | 88.28 | 77.35 |
| **Total Gross Market-Based Emissions ($tCO_2e$)** | **43.80** | **34.59** |
| **Total Net Market-Based Emissions ($tCO_2e$)** | **43.80** | **34.59** |
| **Intensity ratio: $tCO_2e$ (gross Scope 1 & 2, market-based) per £M revenue** | **0.00** | **0.07** |

[1]Recalculated to only include SECR Elements as required under SECR legislation.

## Our priorities

### Being there for our members

Our commitment - we believe that it is important for us to behave in such a way that means we are a responsible corporate citizen. This is our aim and we believe our members would expect this from us.

Planned measurement:

- Increase member engagement through direct communication, media, website and the AGM.
- Measurable targets in respect of customer service levels, complaints and quality of products.
- Through constantly learning from our limited number of upheld complaints so ensure we act in line with the expectations of our members.

### Valuing our colleagues

Our commitment - to become a more inclusive company and break down all barriers to employment, making sure all of our colleagues feel at home, share in the success of the business and build great skills.

Planned measurement:

- Delivery of the Inclusion, Diversity and Equity Plan across the business.
- Improve the balance of gender pay.
- Improve the number of learning and skills hours utilised.

A key initiative for 2023 was to 'create and implement a new engagement tool to track and monitor engagement, morale and organisational health'. To achieve this, we decided to move from 'Great Place to Work' to 'People Insight'. The move gives us the ability to create bespoke questions to ensure leaders can measure their teams results, driving responsibility, accountability and opportunity to build specific action plans to improve engagement and colleague experience at The Exeter. People Insight will be used for both our annual colleague engagement survey and our monthly colleague pulse surveys.

During the year colleagues were asked how it feels to work for The Exeter. The 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 the work environment and processes. The annual engagement survey result for 2023 was 93% (2022: no comparative data is available due to a change in survey provider) of our colleagues responding to the survey.

To encourage colleagues to feel empowered and take ownership of their own performance and development, our annual performance plans for 2023 were improved to ensure a stronger focus on the 'what' and 'how' of their performance and capture the knowledge, skills or behaviours they want to develop or improve in line with their goals / future career aspirations.

Our leaders have also been provided with a leadership development group, to help them evolve and develop, which is a programme tied to our leadership framework and strategy. Several of our colleagues have accepted mentoring from both members of the Board and external leaders to assist with leadership development.

We strive to help colleagues feel confident and to have conversations about their wellbeing by providing Mental Health First Aiders, access to the Employee Assistance Programme (EAP) and many other options.

To ensure our colleagues can find the work-life balance that suits them, we introduced a Holiday Buying and Selling (salary sacrifice) scheme giving colleagues the opportunity to buy or sell up to one week's extra holiday to use within the year and increased all colleagues annual leave allowance.

## Operating our Business Responsibly and Protecting the Environment

Our commitment – strive to tackle climate change by reducing carbon emissions and risks from our business, our investments and supply chains.

Planned measurement:

- Continue to achieve 100% renewable electricity usage and a reduction of overall usage.
- Aim to reduce our GHG emissions, waste, water and travel emissions.
- Responsible investing and looking to transition to as full a sustainable Investment Policy as possible.

We understand there is an urgent need for action on climate change. Identification of potential impact and aiming to deliver on a series of initiatives to help reduce our direct impact on society is a priority.

We continue to achieve 100% renewable electricity usage through our energy provider and look for ways to reduce our usage. The business is considering the installation of Solar Panels in 2024 to help lower our GHG emissions: the estimated $CO2$ saving is 6 tonnes per year, which equates to driving 45,000 miles in a car or planting 232 trees to offset the carbon.

To further improve our environmental performance, we have initiated the journey to get ISO 14001 accredited. This will also help us set out our minimum standard with our supply change management and it is a reciprocal standard. Many of our key partners and suppliers are already ISO 14001 certified.

## Supporting our Communities

Our commitment – We believe that we should create and retain close relationships between our business and the communities where we live and work. This means sharing our time, knowledge and expertise through fundraising and colleagues providing actual hands-on support.

Measurement:

- Increased charitable support, outlining additional charitable work supported, noting that these are both national and local charities.
- Improve our community commitment by supporting local ventures.
- Supporting an apprentice scheme or local education schemes.

In 2023, we donated a total of £2,747 towards community projects including the rejuvenation of a village's primary school play area, supported a primary school's fundraising fayre for new iPads and school books, and assisted with the purchase of new sports uniforms for local teams.

We also offer Volunteer Leave to colleagues who wish to do volunteer work within the community or for charitable institutions. In 2023, several of our colleagues volunteered to work in the FORCE Cancer Charity Garden, planting, pruning bushes and shrubs, sanding down and repainting furniture, cleaning the patio and clearing away a lot of rubbish.

## Charity

In 2023, the Charity & Community team were given a budget "to support The Exeter's Corporate Social Responsibility Policy through charity giving in the local community".

We continued to support FORCE Cancer Charity, our Corporate Charity of the Year for 2023, as voted for by The Exeter colleagues. Colleagues also had the opportunity to apply for community funding or pound matching for charitable activities through the Pound Matching and Community Project donation schemes. We also offer colleagues the opportunity to sign up to Payroll Giving so they can support charities that have a personal meaning to them. We helped to support 11 different causes through 15 employee applications.

Through all of the above schemes, The Exeter donated a total of £51,658 (2022: £112,075) to charitable causes. The corporate donation was lower in 2023 due to the huge effort and amount raised in 2022, in particular the amount raised for the FORCE Cancer Charity of £59,057 and £30,000 to Ukraine DEC.

The following are some of the fundraising achievements by colleagues:

- Total donation by employees and their families £844 (2022: £7,543 including sums for Ukraine DEC)
- Total corporate charity partner donations £46,620 (2022: £43,657)
- Total employee nominated charity donations £3,938 (2022: £13,013)

## Governance

Our commitment – We are committed to effective corporate governance for the benefit of our members, customers, colleagues and other stakeholders based on the principles of fairness, transparency and accountability. Structures, rules and processes are designed to enable proper conduct of business by defining the powers and responsibilities.

Measurement:

- Integrity and ethics – we conduct our business transparently, ethically, and with the utmost integrity. These values extend throughout our supply chain, including requiring our intermediaries to accept the same values, ensuring trust and accountability.
- Adherence to laws and regulations – we're committed to strict adherence to all relevant laws and regulations. This commitment ensures that our operations are carried out responsibly and ethically.
- Conflict-free practices – we declare any potential conflicts of interest and refrain from giving or receiving illegal or inappropriate inducements, further fortifying our commitment to ethical practices.

To bring to life our commitment to good governance and compliance, we ensure all colleagues attest to our Code of Conduct. The Code of Conduct outlines our policies and expectations of colleagues on a number of topics including bribery and corruption, conflicts of interest, data protection, information security and our whistleblowing process. Our modern slavery act statement sets out our zero-tolerance approach to slavery and human trafficking within the business and in relation to our supply chain and vendors.

Our ESG Management Committee, a subcommittee of the Executive Committee, oversees the delivery and implementation of our climate change plans and ESG programme, providing regular updates to the Governance & Risk Committee and the Board.

## Our inclusion, diversity and equality ("IDE")

The work of the Board in driving inclusion, diversity and equity continued through 2023. The Board has pledged to continue to progress our inclusion, diversity and equity agenda. The Exeter's people and culture are at the heart of the business, through supporting the excellence of operations, their passion for quality of service and their 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.

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.

The Board is mindful of its responsibilities to consider succession planning for not only the Board but also for its Executive Team and senior management. The Executive, Senior Management team and the Nomination Committee annually review The Exeter's talent pipeline in order to ensure that the business works towards identifying talented candidates in the short, medium and long-term for all key roles.

The Board recognises through its feedback from members that it needs to continue to drive inclusion, diversity and equity, in particular at the Board level and to ensure this cascades through the culture of the whole business, to better reflect the diversity of our members and stakeholders. Inclusion, diversity and equity continues as a Nomination Committee standard agenda item and the Chair of the Nomination Committee, along with the CEO, holds monthly meetings with senior management within the business to discuss progress. The Executive Committee hold a leadership meeting once a month to ensure focus on people discussion, to consider the people strategy, people impact of the business strategy transformation initiatives, to ensure all messaging is joined up within the business.

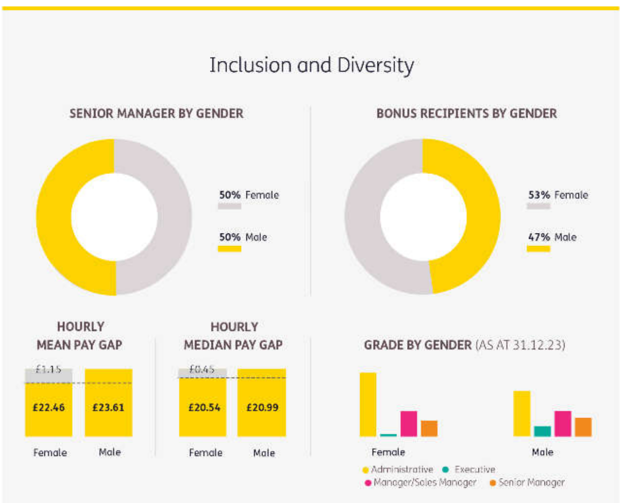
As part of its remit, the Nomination Committee reviews the Group's policies on workforce inclusion, diversity and equity, and their objectives and link to the Group's strategy. The Group has always operated an open and inclusive hiring and colleague management practice. The Board, in reviewing the Group's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

The table below sets out the Group's commitments designed to assist delivery of the inclusion, diversity and equity 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.<br><br>The Nomination 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 who will assist the business in building upon and reinforcing our culture.<br><br>To facilitate the provision of a broad and diverse range of candidates the Nomination 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 2023, the Committee met with an executive search firm to discuss and develop the role brief for the Audit Committee Chair and Senior Independent Non-Executive Director.<br><br>The search for a replacement Non-Executive Director was completed with a formal appointment of Suzanne Clark, Audit Committee Chair and independent Non-Executive Director on 1 August 2023. Kelvin Malayapillay has also been appointed as an independent Non-Executive Director on 1 August 2023.<br><br>Helen McEwan was promoted to Senior Independent Non-Executive Director on 30 June 2023. |
| 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 UK Corporate Governance Code 2018 ("the Code").<br><br>The Committee will assess current individual Board member competencies and develop its understanding of the qualities needed for the Group's continued Board and Committee effectiveness in the longer term. This review will also consider the long-term diversity of the Board.<br><br>Independent Non-Executive Directors will normally serve no more than nine years to support the 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.<br><br>We partnered with Demyst Board Evaluation to conduct an external evaluation of the Board in line with the UK Corporate Governance Code 2018 ("the Code"). |
| Support efforts to increase diversity in the senior management pipeline towards executive and non-executive Board positions | Senior management succession planning processes will include the identification of individuals within the organisation with Board-level potential and will support those individuals to progress in their careers. | The Exeter continues its commitment to better gender and inclusion, diversity and equity balance through its inclusion, diversity and equity statement which is published on the website at www.the-exeter.com.<br><br>In 2021 The Exeter signed up to the AFM's Mutual Diversity Alliance and the Women in Finance Charter. |

## Gender breakdown

We can report that 53% of all colleagues are female and, of all colleagues holding a senior management role, 55% are female. The gender balance at the top of the Group has taken time to change because we have maintained a stable Board and senior team. Please refer to the Nomination Committee Report for the gender breakdown of the Board. The chart to the right sets out our senior management by gender, bonus recipients by gender, the hourly mean and median pay gap and grade by gender.



## 172(1) Directors' Duties Statement

While the Group continues to report under the Friendly Societies Act 1992, 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. This includes a fundamental duty to promote the success of the Society and Group for the benefit of its members as a whole. This duty is central to the Board's decision-making processes and outcomes.

In making decisions, the directors consider what is most likely to promote the success of the Society and Group for its members in the long term, as well as the interests of colleagues and the Group's other stakeholders. The directors understand the importance of taking into account the views of stakeholders and the impact of any decisions on local communities, the environment, including climate change, and the Group's reputation.

### General confirmation of Directors' duties

The Directors are fully aware of and understand their duties. The Board has a clear framework for determining the matters within its remit and has approved Terms of Reference for the matters delegated to its Committees. When making decisions, each director ensures that they act in the way they consider, in good faith, would most likely promote the Group and Society's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to Section 172(1) (a) to (f).

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

| Section 172 | Find out more |
|---|---|
| (a) The likely consequence of any decision in the long term | • Strategic Report: Page 4<br>• Consideration of stakeholders interests: Page 21 |
| (b) The interests of our colleagues | • Chief Executive's review: Page 7<br>• Stakeholder engagement: Page 29<br>• Colleague engagement: Page 30<br>• Consideration of stakeholder interests: Page 21<br>• Remuneration Committee report: Page 55<br>• Ethics and integrity: Page 16 |
| (c) The need to foster our business relationships with suppliers, customers and others | • Strategic report: Page 4<br>• Stakeholder engagement: Page 29<br>• Consideration of stakeholder interests: Page 21 |
| (d) The impact of the our operations on the community and environment | • Strategic report: Page 4<br>• Stakeholder engagement: Page 29<br>• TCFD and ESG reporting: Page 14<br>• Consideration of stakeholder interests: Page 21 |
| (e) The desirability of maintaining a reputation for high standards of business conduct | • Risk management: Page 12<br>• Consideration of stakeholder interests: Page 21<br>• Audit Committee report: Page 42<br>• Ethics and integrity: Page 16 |
| (f) The need to act fairly among our members | • Strategic report: Page 4<br>• Stakeholder engagement: Page 29<br>• Consideration of stakeholder interests: Page 21<br>• Remuneration Committee report: Page 55 |

### *(a) The likely consequence of any decision in the long term*

The directors continue to recognise how the Group and its operations are viewed by different stakeholders and have factored this into the creation of the three-year and longer-term business plan and strategy. The directors have taken decisions during 2023 that they believe best promote the Group's long-term success for the benefit of its members as a whole.

Furthermore, the strategic objectives, 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 the regulation and The Exeter's ORSA.

### *(b) The interests of our colleagues*

The directors recognise that our colleagues are fundamental to the future growth and success of the Group. That success depends on attracting, retaining and motivating colleagues. The Board and management actively engaged with colleagues throughout the year and once a year invited all colleagues to attend a forum.

### *(c) The need to foster our business relationships with suppliers, customers and others*

In addition to members and colleagues, the directors recognise the benefits of engaging with a broad range of stakeholders including suppliers, customers, governments, regulators, non-government organisations, and communities. Developing and delivering our strategy depends on building and maintaining constructive and positive relationships among these stakeholders.

The directors continue to build our relationships with key strategic and commercial partners, always with a focus on the quality of service. This includes Board members regularly meeting with key suppliers. The directors ensure there is constantly open and transparent engagement with our regulatory bodies and other stakeholders.

### *(d) The impact of our operations on the community and environment*

The directors appreciate that collaboration with charities, non-government organisations and community groups helps to create stronger communities and provide insights that enable the Board to understand our impact on the community and environment, and the consequences of decisions made in the long term. 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.

### *(e) The desirability of the maintaining a reputation for high standards of business conduct*

The Exeter aims to meet the changing needs of its customers and to enable the transition to a lower carbon future. The business continually reviews its minimum expectations for all those we work with or alongside. The Board also annually approves the Modern Anti-Slavery Statement, to ensure that its high standards are maintained both within the business and its supply chains.

### *(f) The need to act fairly among our members*

The Exeter continued its commitment to delivering quality services, value for money and satisfaction to its members, with direct engagement with members.

After weighing up all relevant factors, the directors consider which course of action best promotes the long-term success of the Group and Society, taking into consideration the impact on stakeholders. In doing so, the directors act fairly towards all members.

### Principal decision making

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: the CEO Report, the Distribution and Marketing Report, the Operations Report, the 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 Group and Society. Each Committee Chair also provides an update on the decisions made at the 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.

For each principal decision made by the Board, the following was taken into consideration:

- Stakeholders' interests and what influence this had on the decision;
- The impact on risk management of our principal or emerging risks;
- The consequence for the Group and Society’s long-term success; and
- The impact on affected stakeholders and (where relevant) the environment.

The table below provides a further example of the mechanism used by the Board in their decision making:

| The principal decision considered by the Board | How stakeholders and other factors were considered |
|---|---|
| Holding the 2023 Annual General Meeting (AGM) in person, or video conference or as a hybrid meeting | Consideration has been given to the impact on members of only providing an in-person meeting or whether to extend the ability for a hybrid meeting to be available for all members. The decision was taken to consider the broader impact of making the meeting as accessible as possible.<br><br>The risk impact of holding a hybrid meeting was considered minimal. However, there was some slight reputational risk to the Group for not making this meeting accessible to all.<br><br>The impact on the environment was also considered and holding the meeting as a hybrid meant that members could attend with little $CO_2$ impact by attending online. |
| Review and approval of the business plans and strategy | Stakeholders' interests, including those members, customers and colleagues, are reflected in the business strategy plan which filters through the business and to our members through the delivery of the strategic long, medium and short-term aspirations. The risk to the strategic plans is the potential failure to deliver, this may occur if remedial actions are not taken and could impact all stakeholders. As part of the risks assessed for this decision, environmental issues were identified as a low risk to the sustainability of the Group and Society and stakeholders' interests. |
| Review and approval of the Holloway Bonus | The Board considered all aspects, actuarial and technical in relation to the decision on setting the level of bonus for its Holloway members, including the interests of our wider members. The Board considered the risk of non-payment or not setting the bonus at the right level to sustain future payments and growth. |
| Operational Resilience | The Governance & Risk Committee received regular updates on the operational resilience as part of the regular Chief Risk Officer Report. |
| Board succession planning | The Board, through the Nomination Committee, reviewed its succession plans. In 2023 the Board considered those independent non-executives reaching their full nine-year term on the Board as well as the skills and experience of the Board as a whole. In the year, David Brand retired, Suzanne Clark, Kelvin Malayapillay and Michael Payne were appointed. As part of the appointment process, various stakeholders were consulted. |

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

**Peter Hubbard**
Board Chair
26 March 2024

**Isobel Langton**
Chief Executive
26 March 2024

# Corporate Governance

## Corporate Governance Report

### Governance

Good corporate governance is essential to the Board's commitment to running the business in the best interests of its members. Through the year ended 31 December 2023, The Exeter has complied with the AFM Corporate Governance Code 2019 (“the AFM Code”) and additionally voluntarily applied all relevant areas of the FRC UK Corporate Governance Code 2018 ("the Code").

### Governance Reforms

The Board and its committees continue to monitor developments in governance, particularly the revisions in the UK Corporate Governance Code 2024.

## Board Effectiveness

The Board Chair is responsible for maintaining high standards of corporate governance and ensuring 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 defines responsibilities and ensures there are the right systems and controls in place to allow the Board and its Committees to effectively oversee the business, and provide challenge where required. The governance framework supports effective decision-making and assists directors in discharging their statutory duties, in particular, their duty to promote the long-term success of the business. The Board and its Committees review an annual programme of matters.

## The Role of the Board

#### Leadership

The Board leads the Group and 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 Group and 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 business. An entrepreneurial and customer-focused approach has been established with a view to providing a quality product and service to our members.

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

#### Purpose and Values

An essential part of the Board’s leadership role is to establish the Group and 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 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 Group strategy. The strategy continues to ensure the business remains responsive 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 & Risk

The Board is responsible for the oversight of risk and for oversight of the Group's risk appetite. In doing so, it ensures that the necessary resources are in place 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 12.

#### 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 business continues to operate in the interests of its members as a whole and is collectively accountable to them for the success of the business. In exercising its duty, the Board has regard to its other stakeholders, the environment, the reputation of the Group and Society and the need to act fairly towards its members.

Stakeholder engagement can be found on page 29.

**Management Delegation**

The Board delegates the delivery of the strategy and day-to-day management of the Group and 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 oversight
- 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 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 governance.

The Board is responsible for monitoring progress made against strategic objectives, approving proposed actions, and 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 at www.the-exeter.com.

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 seven Board meetings in 2023, including one meeting devoted to the development of strategy. In addition, the independent Non-Executive Directors met on one occasion without the Executive Directors. 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 Board meetings. These meetings were encouraged by the Chair and provided 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 40.

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 are 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 an established procedure for Directors, if deemed necessary, to take independent professional advice at the Society's expense in the furtherance of their duties.

| THE BOARD |
| --- |
| The Board comprises the Chair, Executive Directors and Independent Non-Executive Directors, and their biographies can be found on page 37. It is responsible for establishing the purpose, values, strategies and objectives to generate and preserve value over the long term for members and to contribute to the wider society. It is assisted by five principal committees (Audit, Governance & Risk, Nomination, Remuneration and Investment), each of which has responsibilities delegated by the Board as set out in its own terms of reference. |

| AUDIT COMMITTEE | GOVERNANCE & RISK COMMITTEE | NOMINATION COMMITTEE | INVESTMENT COMMITTEE | REMUNERATION COMMITTEE |
| --- | --- | --- | --- | --- |
| Responsible for oversight of the Group and Society's financial reporting and the effectiveness of the internal and external audit functions.<br><br>See pages 42 to 45. | 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.<br><br>See pages 46 to 48. | Ensures the Board has the necessary balance of skills, experience and diversity to oversee the delivery of the Group's strategy.<br><br>See pages 49 to 52. | Responsible for determining and agreeing the investment guidelines and policy, including establishing and maintaining ongoing investment limits, credit policies, and external professional advisors.<br><br>See pages 53 to 54. | Determines the reward strategy for executive directors and senior management in the context of the wider workforce to ensure reward is aligned to members' and stakeholders' interests.<br><br>See pages 55 to 56. |

## Roles in the Boardroom

The Board comprises executive and non-executive directors, which ensures that no individual or small group of individuals dominates the Board's decision-making. All non-executive directors are considered independent. The Chair was also considered to be independent on appointment.

The division of responsibilities between the various roles of the Board members is detailed below, demonstrating a clear division between the roles 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**<br><br>Leads the Board and ensures its overall effectiveness in discharging its duties. | • Shapes the culture in the boardroom and promotes openness, challenge and debate.<br>• Sets the agenda for Board meetings, focusing on strategy, performance, value creation, risk management, culture, stakeholders and accountability.<br>• Where appointed, to chair meetings to ensure there is timely information flow before meetings and adequate time for discussion and debate at the meetings.<br>• Fosters relationships based on trust, mutual respect and open communication inside and outside the boardroom.<br>• Leads relations with members and stakeholders in order to understand their views on governance and performance against strategy. |
| **INDEPENDENT NON-EXECUTIVE DIRECTORS**<br><br>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 the Board membership.<br>• Provide constructive challenge, give strategic guidance, offer specialist advice and hold executive management to account.<br>• Ensures that no individual or small group of individuals dominate the Board's decision-making. |
| **SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR**<br><br>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.<br>• Provides the Board Chair with support in the delivery of objectives, where necessary.<br>• 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.<br>• Acts as an alternative contact for members, providing a means of raising concerns other than with the Board Chair or senior management. |
| **CEO AND EXECUTIVE DIRECTORS**<br><br>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 and Group.<br>• CEO leads the Executive Committee and ensures its effectiveness in managing the overall operations and resources of the Society and Group.<br>• Executive Directors: provide information and presentations to the Board and participate in Board discussions regarding management, financial and operational matters. |

| | |
|---|---|
| **DESIGNATED NON-EXECUTIVE DIRECTOR FOR WORKFORCE ENGAGEMENT**<br><br>Provides an effective engagement mechanism for the Board to understand the views of the workforce. | • Brings the views and experiences of the workforce into the boardroom.<br>• Enables the Board to consider the views of the workforce in its discussions and decision-making. |
| **COMPANY SECRETARY**<br><br>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.<br>• Advises the Board on corporate governance matters and supports the Board in applying the AFM, the UK Corporate Governance Code and other statutory and regulatory requirements. |

## Board Activities

Matters reserved for the Board

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

- purpose, strategy and oversight
- 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 matters reserved for the Board are reviewed annually as part of the governance controls to ensure that they continue to be fit for purpose. They were last reviewed in September 2023.

The Board had a full agenda during the year as set out in the table below:

| | March | June | July | October | November | December |
|---|---|---|---|---|---|---|
| **Purpose, Strategy and implementation** | | | | | | |
| CEO's review, covering financial performance, health and safety performance, ESG, people and cultural indicators, initiatives and performance Group CFO's report including performance | x | x | | x | | x |
| M&A, disposals and other capital expenditure | | x | | x | x | x |
| Strategy Review, budget and three-year business plan | x | x | x | x | x | x |
| Financial Reporting | x | x | | x | | x |
| Distribution and marketing report | x | x | | x | | x |
| Strategy and change report and any funding requests | x | x | | x | x | x |
| ESG review, policy, and results | x | x | | x | | x |
| **Risks and Compliance** | | | | | | |
| Annual review of the Enterprise Risk Management (ERM) framework | X | X | | X | | X |
| ERM Report | x | x | | x | | x |
| Compliance reporting including, complaints, regulatory reviews and customer duty | x | x | | x | | x |
| ORSA and solvency reviews | | | | x | x | x |
| **Governance** | | | | | | |
| Review of full-year results including going concern, viability statement | x | | | | | |
| Approval of Holloway Bonus | x | | | | | |
| Review of AGM documents | | x | | | | |
| Approval of Corporate Governance Handbook | | | | | x | |
| Approval of Board appointments and director role changes | | x | x | | | |
| Review of Committee reports | x | x | | x | x | x |
| Approval of various policies | x | x | | x | x | x |
| Pension effectiveness | | | | | x | |
| **Effectiveness** | | | | | | |
| Annual Board performance review and outturn | x | x | | x | | x |
| Approval of Directors' conflicts of interest | | | | x | | x |

## The Executive Committee

The Society also has an executive management committee, the Executive Committee (or "ExCo"). 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. This is not a formal Board committee and has no independent non-executive director members. 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 and at other times as special business circumstances may dictate. Its work is supported by subcommittees which focus their attention on key issues such as operational improvement and development, good customer outcomes, 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:

| | |
|---|---|
| Isobel Langton | Chief Executive |
| Steve Bryan | Director of Distribution and Marketing |
| Gordon Greig | Strategy and Change Director |
| John Gunn | Finance Director |
| Sally Hodge | Chief People Officer |
| Claire Hird | Customer Service Director (appointed 1 January 2023) |
| Socrates Mhlanga | Chief Risk Officer |
| Michael Payne | Commercial Director (appointed 2 October 2023) |
| Paul Smith | Chief Information Officer (resigned 31 December 2023) |
| Ali Law | Chief Information Officer (appointed 1 February 2024) |

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

## Our Executive Team

**Isobel Langton**
Chief Executive Officer

**Steve Bryan**
Director of Distribution & Marketing

**Gordon Greig**
Strategy & Change Director

**John Gunn**
Finance Director

**Sally Hodge**
Chief People Officer

**Claire Hird**
Customer Service Director

**Michael Payne**
Commercial Director

**Socrates Mhlanga**
Chief Risk Officer

**Ali Law**
Chief Information Officer

**Professor Willie Hamilton**
Chief Medical Officer

## Board Strategy Day

The Board met in July 2023 to review in detail each element of the Group and Society's strategy and vision, business plan, IT infrastructure and longer-term strategic opportunities. Key actions 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 performance 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. Executive Directors are evaluated within the performance evaluation framework for employees generally and by the Remuneration Committee in the context of their remuneration.

In accordance with the Code, the Board engaged Demyst Board Sciences ("Demyst") to conduct an in-depth and independent external review of the Board's performance during the year, and of the five Board committees. Demyst had no prior relationships with the Society or any Board members.

The review entailed:

- the completion of initial scoping and risk appetite questionnaires by all directors;
- a review of a full annual cycle of Board and committee information;
- a review of governance documentation and certain disclosures;
- in-depth interviews with each Board director, the Executive Committee members, key employees and Board advisors, and the external auditor;
- a deeper review of one recent strategic decision, which was the formulation and adoption of the new strategy for the Society;
- the observation of one meeting of the Board and each of the committees; and
- data analysis from the questionnaires, interviews and meeting observation.

Demyst reviewed and reported on a wide range of performance areas, including:

- the clarity and alignment of The Exeter's strategy, values and culture with its purpose statement;
- Board composition, succession & readiness for future demands;
- Board roles, induction arrangements & the Board's continuing development;
- the balance of power within the Board, and diversity of thought and risk appetites;
- the breadth and relevance of Board topics;
- the Board's interface with executive leadership and organisational governance;
- the quality of Board information;
- the findings from the deeper review of the Society's main strategic decision;
- the Board's relational dynamics;
- the quality of decision-making and supervision;
- the alignment of real decision-making with the Society's risk framework; and
- stakeholder views of the Board's role and performance.

Demyst reported that the Board is highly capable, with reserves of untapped potential. The standout characteristic is the strength of the Board's relational dynamics. Another major strength is the close alignment between the Society's purpose statement, its vision and strategy. Board cohesion is high.

The Board and each committee are skilfully led. There is an open and progressive vision for the Board's development. During important debates, dissenting voices are sought and amplified, giving permission for robust challenge. This enables the opportunity for deeper thinking and more robust debates on certain of the more important issues and decisions.

The most important recommendations from the review are listed below.

- Streamline board reporting: Demyst recommended a comprehensive redesign of Board reporting, along with a reduction in meeting packs sizes to enhance clarity and efficiency.
- Clarifying certain executive and non-executive responsibilities: Ensuring there is no cross-over of responsibilities and duties. Transferring responsibilities to the appropriate committees will improve governance and oversight.
- Strengthen board cohesion: While current levels of cohesion within the Board are good, there are further opportunities to deepen trust and collaboration between executive and non-executive members, fostering a more unified and effective decision-making environment.
- Enhance Board performance: Demyst presented various ideas and strategies to leverage latent capabilities and boost the Board's performance and functionality.
- Develop a dedicated AI strategy: Recognising the Society's progress in AI, Demyst recommended the creation of a comprehensive AI strategy to operate alongside the primary business strategy to provide more assurance around future-readiness.

During 2024, the Board intends to look at Demyst's recommendations as part of an action tracker, and where possible deliver on the recommendations. These matters, together with the regular work of the Board will inform the Board's agenda for the coming year.

## 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, inclusion and equity 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 49.

Directors must be authorised by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) as part of the qualification of the Senior Managers Regime for the functions they are performing within the Group and Society, and comply with the rules, principles and standards of conduct laid down by those respective authorities.

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

## 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, Senior Management and key individuals within the business as well as the provision of key information about the Group and Society.

Further detail regarding the appointment and induction of Executive and independent Non-Executive Directors can be found on page 49. 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 Group and Society provide the resources required for developing directors' knowledge and capabilities through continued personal development and membership of professional bodies.

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 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.

There is an established procedure for directors, if deemed necessary, to seek independent professional advice at the Society's expense in the furtherance of their duties.

## 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 Group or Society. This duty is in addition to the obligation that they owe to the Group or Society to disclose to the Board an interest in any transaction or arrangement under consideration by the Group or 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 Group or Society's success. Furthermore, the directors may, if appropriate, impose limits or conditions when granting authorisation.

There is a process for dealing with the situation where a director has a conflict of interest. As part of this process, the Board:

- considers each conflict situation separately on its particular facts;
- considers the conflict situation in conjunction with the rest of the conflicted director's duties under the Companies Act 2006;
- keeps records and Board minutes as to authorisations granted by directors and the scope of any approvals given; and
- regularly reviews conflict authorisation.

## Our stakeholders

## The Board's approach to stakeholder engagement

The Board fully 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 Group and 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 the 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 Group or 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 and live-streamed to enable all members to attend and vote.<br><br>In responding to members, we seek to make our processes as helpful and informative to the member as possible, mindful of different member preferences. This involves ensuring that our member 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. |

| | Why we engage | How we have engaged |
|---|---|---|
| | | Communication has been through emails, video conference calls, telephone or website.<br><br>We obtain feedback from the way we engage with our members through periodic market research.<br><br>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.<br><br>There has been continued and evolving development of technology to assist members during the life of their policy, such as the HealthWise app.<br><br>Other examples of how we have engaged in the year are:<br><br>• Annual member policy information and correspondence<br>• Annual Report and Accounts<br>• Correspondence via intermediaries<br>• Gathering insights from print and social media<br>• Member survey, either through internal or external independent providers |
| **Suppliers & Intermediaries** | The Exeter has three key main suppliers, who we rely on to provide exceptional service to our members.<br><br>Our intermediaries are key to our business in distributing our products. We rely on them to understand our products and our members' needs.<br><br>Other key suppliers are our outsourced IT service support, intermediaries and reinsurers. | The Board recognises that building trusted partnerships with our suppliers is crucial. Suppliers and outsourcing partners take many forms including member service suppliers, IT service providers, intermediaries 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.<br><br>A number of suppliers provide 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.<br><br>The Exeter considers broader factors when looking to our partners, recognising the impact suppliers have on the Group and Society. The Board has sought to ensure good working conditions throughout all of its supply chain.<br><br>The Exeter ensures that it adheres to supplier payment terms.<br><br>The Board is kept informed about suppliers and intermediaries.<br><br>The Board is also provided with reviews of business performance at both product and intermediary levels. 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.<br><br>Further examples of oversight are through the review of external surveys and results.<br><br>Other ways of engagement have been through:<br><br>• Regular open dialogue<br>• Collecting feedback from surveys<br>• Hosting online forums, summits and training events |
| **Colleagues** | Our colleagues are vital 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 a focus on health, wellbeing, providing an inclusive working environment and offering great developmental opportunities.<br><br>Regular communication using a mix of channels to encourage two-way dialogue. This includes the use of video conference calls, an internal messaging system, and the internal intranet. |

| | Why we engage | How we have engaged |
|---|---|---|
| | | Regular performance check-ins and virtual, or face-to-face development conversations take place.<br><br>There are various mechanisms in place to ensure engagement with colleagues, these are:<br><br>• Colleague feedback surveys.<br>• Regular colleague one-to-ones and coffee mornings.<br>• Regular colleague updates, currently provided via video, to provide updates on business, performance, and general updates.<br>• All colleague conference, which is usually held annually to provide support, updates, and time to meet the members of the Board informally.<br>• Ensuring robust and relevant policies are in place.<br>• Providing performance measurements which are in line with the business strategy and culture.<br><br>The Board regularly receives updates on the 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.<br><br>The CEO provides an update on people matters to the Board at every scheduled meeting. The Board and its Committee have direct access to and receive presentations from the Chief People Officer.<br><br>The Board retains oversight of colleague matters including health and safety, resource levels, succession planning, talent development, inclusion, diversity and equity, cultural awareness, reward and retention.<br><br>The Board is kept informed of the effectiveness of colleague strategies through a range of reports, including colleague engagement surveys.<br><br>The business listened to feedback from colleagues and now have a 'real-time' reward system, to reward individuals who were nominated by colleagues. |
| **Community & CSR** | The local community is made up of the people who live in the area where the business is located. Though not necessarily members of The Exeter they are all neighbours to the business.<br><br>We ensure that we are concerned with the local environment, infrastructure, and the impact the business has on jobs and prosperity in the local area. | The Exeter aims to build a positive relationship with our community. FORCE Cancer Charity has been the colleagues' charity of choice for the last year. FORCE Cancer Charity provides free support and information to anyone affected by cancer at their centre in Exeter and at local community hospitals.<br><br>Colleague fundraising projects and initiatives.<br><br>Creating, where possible, local job opportunities.<br><br>Building on community activity and understanding of local issues and priorities.<br><br>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.<br><br>We have collaborated with an independent organisation, Carbon Footprint and other ESG bodies to improve knowledge to look to improve our contribution to make a positive impact on society and our community.<br><br>The Board is kept informed of activity through receiving regular reports presented to the Governance & Risk Committee, the Nomination Committee and at its Board meetings. |
| **Governments and Regulators** | We seek to comply, where appropriate, with regional and national government bodies and agencies which implement and enforce applicable laws, regulations, and guidance across our industry. | The Head of Compliance, Chief Risk Officer, Company Secretary, and other subject matter experts regularly update the Board and its committees on regulatory developments affecting the Group or Society.<br><br>The Chair, Head of Compliance and Company Secretary have regularly scheduled meetings with the regulators and other bodies such as The Association of British Insurers (ABI). |

| | Why we engage | How we have engaged |
|---|---|---|
| | | Key activities include:<br><br>• Responding to regulatory consultations<br>• Meeting and working with regulators<br>• Regulatory returns<br>• Responding to changes in legislation and regulation<br>• Participation in government schemes<br>• Participating with working health organisations |

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

The examples below give an insight into how the Board has had regard for the interests of its stakeholders in some of its decision-making processes during the year.

| Members |
|---|
| We treat our members fairly and provide them with a quality service. Members are vital for the long-term continuation of the business. |
| **Key aims:**<br><br>• Treat our members fairly<br>• Value for money<br>• Market-leading products and services<br>• Long-term sustainability of the business and strategy<br>• Good member relationship |
| **How the Board engaged with and considered this stakeholder:**<br><br>The Board receives reports from the Company Secretary and the Director of Distribution and Marketing.<br><br>When making strategic decisions, the Board considered how the decision will impact the delivery of long-term member value.<br><br>The business also continued to use intelligent general practitioner reporting ("iGPR"), electronic reporting and record screening to speed up the process for the benefit of our members and provide a simple way for GPs to submit their reports.<br><br>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 member care team are trained to respond efficiently and effectively to resolve any member query as quickly and clearly as possible. |

| Colleagues |
|---|
| The Exeter values its colleagues and considers these its' key assets to the business. Our people are central to the success of the business. |
| **Key aims:**<br><br>• Health and wellbeing<br>• Health and safety<br>• Engagement and development<br>• Inclusion, Diversity and Equity<br>• Positive and enjoyable work environment |
| **How the Board engaged and considered this stakeholder:**<br><br>The Board acknowledges the importance of attracting, retaining, and developing talent and considers the views of colleagues when making decisions.<br><br>The Board regularly considers the topic of inclusion, diversity and equity, and in 2023 re-approved the Society's IDE Policy and website statement.<br><br>Consideration is also given to colleague rewards and bonuses during the year, taking into consideration their view. Feedback has also been received and considered as part of any Executive remuneration decisions.<br><br>The Board receives regular reports on important matters affecting colleagues, including plans to invest in training and development, outcomes of colleague surveys and engagement.<br><br>While the Board has maintained a confidential Whistleblowing Line to record any allegations of wrongdoing, fraud or bribery, there were no instances reported during the year.<br><br>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. 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, and by aiming to be good corporate citizens in line with our 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 members. | 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:** | **Key areas:** | **Key areas:**<br><br>• Regulatory change |

| Community & CSR | Suppliers | Government & Regulators |
|---|---|---|
| • Addressing the financial impact of climate change and seeking to reduce our carbon footprint as far as is practicable<br>• Community support through direct funding and charitable fund raising<br>• Providing placements and assistance | • Service management of outsourced work<br>• Payment practices<br>• Responsible sourcing<br>• Quality communication between service providers, intermediaries, and outsourcers | • Climate and environmental matters<br>• Colleague matters<br>• Regulatory consultations |
| **How the Board engages and considers this stakeholder:**<br><br>A number of Directors and colleagues met with our chosen charity, FORCE, to discuss ways of providing support, whether through fundraising or voluntary assistance from colleagues.<br><br>Colleagues created their own fundraising schemes to support various local charities.<br><br>The Board receives an annual update on the charitable and community initiatives completed in the year.<br><br>The Board is committed to being a responsible business and to having 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 our climate change programme.<br><br>The business has engaged independent providers to assist with the calculation and assessment of the Society's impact on our planet. In January 2024 a separate advisor was appointed to review our supplier chain and assess whether the business could become ISO 14001 certified.<br><br>During the year, the Board reviewed and approved the Modern Slavery Act 2015 Transparency Statement and Policy, which can be found on our website at www.the-exeter.com.<br><br>Work towards achieving ISO 14001 the international standard for environmental management systems to assist in managing environmental impact and improve sustainability. | **How the Board engages and considers this stakeholder:**<br><br>Feedback and mutual communication with our intermediaries.<br><br>Regular feedback and working with our outsource providers to monitor and agree on quality and service targets. This was through regular meetings attended by senior management and on occasion, by an Executive Director.<br><br>Feedback from our intermediaries comes from 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.<br><br>Audits for risk assessment and policy compliance, would usually be facilitated through on-site attendance.<br><br>The Board received regular reporting updates from the business areas which interface with suppliers, intermediaries, and service providers. This included reporting from the Internal Audit team in respect of audits carried out on our outsourced partners' operations and seeking evidence of quality assurance through compliance with relevant international standards such as ISO27001.<br><br>In working closely with our suppliers, we look to obtain good value for our members.<br><br>Through regular reporting, the Board considers the impact on suppliers when making key strategic decisions. | **How the Board engages and considers this stakeholder:**<br><br>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.<br><br>The Board responds to enquiries from or to regulatory bodies regarding information requests, or regulatory filings and fees. |

## Inclusion, Diversity and Equity

### Board diversity and inclusion

At the Board level, the approach to appointing new directors reflects the Committee's objective to ensure there is always an appropriate balance of experience and backgrounds on the Board. Great emphasis is placed on ensuring that Board membership embodies diversity in its broadest sense. For this reason, members of the Board are drawn from a wide range of disciplines, industries and cultures.

During the year, the Nomination Committee received regular updates on the Inclusion, Diversity and Equity ("IDE") activities. The workstreams being undertaken across the business to recruit, develop, and retain a diverse talent pool were considered.

The Board supports the initiatives taking place across the business to improve IDE, including work to further strengthen the pipeline, improve access to opportunities and any barriers to progression. Other areas of focus are the evolution of the learning platform and offerings to support the development of strategic capabilities underpinning the delivery of the business strategy, continued focus on positive mental health and overall well-being of colleagues, and encouragement of colleagues to use their two paid annual volunteering days.

Across The Exeter, the workforce comprises of just over 200 colleagues with 55% 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 do so on a voluntary basis as part of our reporting in the Climate Change and Environmental, Social and Governance (ESG) report, this can be found on page 14.

The Exeter recruitment continues to support seeking out and joining organisations that assist in expanding 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 these initiatives and the Chair of the Nomination Committee, the senior independent director, the CEO and Senior Management meet monthly to discuss progress in this important area.

## Culture

Our caring, committed culture makes us a better business. Openness, trust and accountability are fundamental to the way we work, and we ensure that our colleagues are treated fairly and with respect, have opportunities to grow and develop, and work in a positive, supportive environment. Providing opportunities for all means we value having a diverse and inclusive workforce at all levels and we are determined to support our colleagues to break through traditional gender, ethnicity and socio-economic barriers that might exist in society.

Our colleagues are at the heart of our business and as such the Board considers it essential that policies, practices and behaviours are aligned with our purpose, values and strategy. The aim is to provide a culture in which our colleagues thrive and feel valued for who they are and what they bring to The Exeter. Through an inclusive culture, we promote a workplace where our people and partners can speak up and be heard. Our values, commitments and code of conduct guide the decisions, actions and behaviours of our colleagues and serve as a foundation for the way we conduct ourselves.

The Board monitors and assesses culture through the following mechanisms:

- Considers the results of all internal 'pulse' and external colleague surveys.
- Annually reviews The Exeter's code of conduct and policies.
- Ensures that the Board and its members regularly meet colleagues both formally and informally.
- Helen McEwan, Independent Non-Executive Director, is appointed with responsibility for colleague engagement, on behalf of the Board attends and reports back on discussions at regular Employee Consultation Forum meetings.
- The Nomination Committee considers, throughout the year, inclusion, diversity and equity, talent development, culture and colleague engagement.
- External resource have been used to provide some guidance and insight.

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.

## Modern anti-slavery statement

The Exeter opposes all forms of human trafficking, forced labour, bonded labour and child slavery 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 2023 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.

A policy and a register of gifts, entertainment and hospitality we receive or provide is in place. We have processes for reporting and reviewing breaches of our policies. In 2023 we had no breaches (2022: 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 we have applied these principles:

| Principle | | Applied | How Applied |
|---|---|---|---|
| 1. | **Purpose and leadership:** An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose. | Yes | • The Group and Society's purpose and vision (page 4) were reviewed and updated as part of the 2023-2025 strategy review. The first year of the 2023-2025 strategy was successfully delivered in 2023, including membership growth, income growth and development of our customer value proposition.<br>• Through the leadership of the Board, a clear vision for the Group and Society's purpose and overall values is articulated which defines the strategy and culture of the organisation. Through internal consultation, this has been embraced at all levels.<br>• The protocols are in place including the Corporate Governance and Policy handbooks.<br>• Through learning which supports the right culture to bring the values to life to create the conditions for continued success, through equipping colleagues to take advantage of new technology and efficient ways of working to deliver the overall purpose and vision across the organisation. |
| 2. | **Board composition:** Effective board composition requires an effective chair and a 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.<br>• The Board is supported by an Executive Committee, an Executive Management Team and internal operational committees, including, the Risk, Security, ESG, Employee Consultation, Proposition Governance and Distribution Quality Management, Health and Safety and other Committees.<br>• Board effectiveness is measured through routine internal evaluations of the Board and its Committees, with an independent external evaluation having taken place in December 2023.<br>• The Board composition is balanced between Executive and Independent Non-Executive Directors. Longevity, diversity, skill, experience and continued independence of non-executives are continually monitored with an annual evaluation. |
| 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 directors use various board and committee reports, to understand the business and any required decisions. These include the Head of Internal Audit presenting to the Audit Committee on a regular basis, and regular risk reporting. The combination of both sets of reports provides assurance and highlights areas of improvement within the business.<br>• Through the Company Secretary, the Board is given necessary training and learning support, policies along with management information. This has enabled Directors to fulfil their roles and align their decisions and thinking in line with the success and vision of the organisation. Non-executives are also asked to attend external seminars and conferences where possible and appropriate.<br>• All directors and non-executive directors complete an annual fit and proper person test to ensure that they remain suitable and able to carry out their roles and to provide transparency with regard to any potential conflicts of interest.<br>• Terms of reference are in place for each of the Board's sub-committees and are subject to annual review with any recommended changes submitted for Board approval. |
| 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 a clear definition of the Group company's vision and strategy, the Board's decisions are always focused on delivering quality long-term, and sustainable value to its members.<br>• Principal risks have been identified with a robust monitoring, mitigation and reporting system in place. These have been articulated and reported in the Risk Management Report on page 12.<br>• Using the Own Risk and Solvency Assessment (ORSA) report and business planning, the Board debates the risk appetite, carries out scenario testing and identifies how any potential threats can be successfully managed and converted into opportunities.<br>• Investment has been made to increase resources in managing risk over recent years, including increased third-party risk assessments being undertaken for cyber security. |
| 5. | **Remuneration:** A board should promote executive remuneration structures aligned to the long-term sustainable success of an | Yes | • The Group'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 sustainable success of the Society's strategic vision and business plans. |

| Principle | | Applied | How Applied |
|---|---|---|---|
| | organisation, taking into account pay and conditions elsewhere in the organisation. | | • Succession planning and retention of talent, at both senior and the operating levels of the organisation, continue to be a key area of focus for the Board.<br>• Employees and executive directors are remunerated based on market rates and bonuses are paid based on the business strategy and personal achievement to create a common goal. |
| 6. | **Stakeholder relationships and engagement:** Directors should foster effective stakeholder relationships aligned with the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when making decisions. | Yes | • Through the Group and Society's vision and strategy, stakeholder engagement is embedded at all levels of the organisation and externally where applicable.<br>• The Board and senior management clearly define and promote the direction of engagement across all areas of the organisation.<br>• The Board promotes a meaningful annual cycle of stakeholder engagement and continues an ongoing programme of employee consultations and forums with Helen McEwan, Independent Non-Executive Director has responsibility for colleague engagement. Isobel Langton has been appointed the champion for inclusion, diversity and equity.<br>• The Board also has appointed Steve Payne as the Consumer Duty champion. |

# 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, at the following address www.the-exeter.com.

**The Exeter Board Committee Membership Key**

A Audit Committee
B Board
G Governance & Risk Committee
I Investment Committee
N Nomination Committee
R Remuneration Committee

Chair
Senior Independent Non-Executive Director
Independent Non-Executive Director


B G N R

**Appointment:** Appointed to the Board in August 2022 as Board Chair and Independent Non-Executive Director.

**Key skills and competencies:** Peter has served in both executive and non-executive roles in the regulated environment and brings with him a strong background in leadership. He is a Chartered Accountant by profession and has taken the Advanced Management Programme at Harvard Business School.

**Current external appointments:** Peter is currently the Chair of the Dudley Building Society.

**Previous experience:** Being a Chartered Accountant by profession, Peter has worked at Ernst & Young and Kidsons**.** Peter is the former Non-Executive Chair at Co-operative Insurance. Former Non-Executive Director of Q-Metric, The Chartered Insurance Institute, Keoghs, AXA PPP and AXA Art. He has held senior executive positions as Group Chief Executive for the UK General Group of businesses; Chief Executive of AXA Insurance and Managing Director of e-commerce at Lloyd's Banking Group and Planning and Strategy Director at Lloyds Retail Bank.


A G I N R

**Appointment:** Appointed to the Board in September 2016 and as Senior Independent Non-Executive Director in July 2023.

**Key skills and competencies:** Helen brings a wealth of experience from the life and pensions industry. She is highly regarded for her astute commercial acumen coupled with her extensive leadership, operations and stakeholder management expertise.

**Current external appointments:** Helen is currently Chief Pensions Officer to the Universities Superannuation Scheme and Trustee to the Legal & General Master Trust.

**Previous experience:** Helen spent many successful years at global insurer Aegon UK, where her roles included Director of Banks, Partnerships Director and Head of International Sales. Helen has also worked with a broad range of diverse financial organisations, including Fintech, True Potentialand Auto-enrolment specialist at Now Pensions. Helen is passionate about providing high-quality, value-for-money financial products and services which offer great outcomes for customers.


A G I N R

**Appointment:** Appointed to the Board in September 2015 as Independent Non-Executive Director.

**Key skills and competencies:** Steve is a qualified Actuary who brings a wealth of knowledge and experience within the Life and Health Insurance industry to the board. He has held multiple senior management roles in the Life Assurance industry.

**Current external appointments:** Steve serves as the Chair Non-Executive Director of Safe World Insurance Group (UK) LTD where he was appointed to their Board in June 2019.

**Previous experience:** Steve has had several senior roles across the financial services and life assurance industry. These include being Managing Director for Protection at Friends Life, a FTSE100 company, where he led the integration of the protection businesses of AXA, Friends Provident and Bupa. Prior to this, he was Chief Executive of Bupa Protection and has been Chair of The Investment and Life Assurance Group, a member of the ABI Protection Committee, and twice Chair of the Institute and Faculty of Actuaries Healthcare Conference. He was also Non-Executive Director of Pacific Life Re until January 2021.


A G I N R

**Appointment:** Keith was appointed to the Board in August 2019 as Independent Non-Executive Director.

**Key skills and competencies:** Having extensive experience across the financial services sector, Keith has particular expertise in Business Strategy, Corporate Governance, Sales and Marketing, and Business Acquisition.

**Current external appointments:** Keith is currently a Non-Executive Director of General Aviation Safety Council and Liveryman of the Honourable Company of Air Pilots.

**Previous experience:** Keith has held previous roles as Deputy Chair and Chief Executive Officer of Allied Dunbar Assurance, Chief Operating Officer of Zurich (UK, International and Ireland) Life, and as Non-Executive Director of Quilter Financial Planning. Keith suffers from dyslexia but has never let it hold him back. He started his career selling life insurance door-to-door, working his way up to Deputy Chair and Chief Executive Officer of Allied Dunbar Assurance.


A G I N R

**Appointment:** Kelvin was appointed to the Board in August 2023 as an Independent Non-Executive Director.

**Key skills and competencies:** Kelvin has over 20 years in the financial services industry. He has expertise in business strategy, executive coaching, and acts as an advisor to established and start-up firms.

**Current external appointments:** Kelvin currently holds Non-Executive Director roles with Tune Protect Group, one of Asia's largest travel insurers, its Middle East joint venture TPEMEIA, and the Teachers Building Society.

**Previous experience:** Kelvin has held a number of roles within his 20-plus years of time in the financial services industry including Retail Bank Strategy Director at Lloyds Banking Group, the Group Strategy Director at LV and has also launched businesses in personal loans and direct-to-consumer life insurance. His other areas of experience include being an executive coach.


A G I N R

**Appointment:** Suzanne was appointed to the Board in August 2023 as Independent Non-Executive Director and Chair of the Audit Committee.

**Key skills and competencies:** Suzanne has over 30 years of internal audit and risk management experience in the financial services industry. She is a qualified and skilled chartered accountant who is also a chartered member of the Chartered Securities and Investment Institute.

**Current external appointments:** Suzanne is Non-Executive Director and Audit Committee Chair at HBL UK Bank and at the Leeds Teaching Hospitals NHS Trust.

**Previous experience:** Prior to joining The Exeter, Suzanne was the Chief Internal Auditor at Peel Hunt, a UK Investment Bank, and has held senior roles at the Bank of England along with several other financial institutions including Chief Internal Auditor at the Yorkshire Building Society.


B I

**Appointment:** Isobel was appointed Chief Executive in April 2021.

**Key skills and competencies:** Isobel has over 30 years of experience in the insurance industry. She is passionate about the vital role the protection and health industry provides in ensuring that people have the financial resilience to withstand some of the worst things life can throw our way. Isobel has a drive for excellent customer service and identifies its value in ensuring great outcomes.

**Current External Appointments:** Isobel is a fellow of the Royal Society of Art and a Trustee of the Lusitano Breed Society GB.

**Previous experience:** Isobel has a wealth of experience in the protection and pension industry having held several senior positions at both Irish Life and Royal London. A move to Royal London allowed Isobel to build her passion for Customer Services where she held a number of senior positions and successfully integrated the customer service functions of Royal London and United Assurance Group. In 2014 Isobel was appointed Chief Executive of their Intermediary Division, where she created and implemented strategy for both the protection and pension business, leading them through a period of significant success.


B
G

**Appointment:** John was appointed to the Board as Finance Director in April 2019.

**Key skills and competencies:** John has spent his entire career in Life and Health insurance, starting immediately upon graduation from Heriot-Watt University. He brings his career-long experience to our board and is a qualified actuary.

**Current External Appointments:** N/A

**Previous experience:** John's career began in the Life and Health Industry where after qualifying as an actuary in 2004, he spent 10 years working in a number of positions in Royal London's protection business including Head of Pricing, Head of Actuarial, and Head of Products. Prior to joining The Exeter, John worked at Scottish Widows and as General Manager at Omnilife. He joined the Society in February 2017 as Chief Actuary and Risk Officer.


B

**Appointment:** Steve was appointed as Director of Distribution and Marketing in July 2017.

**Key skills and competencies:** Steve has spent his entire career in the Financial Services sector. He has a degree in Economics and Accountancy from the University of Leeds and brings to our Board his experience across the Protection, General Insurance, Mortgage and Healthcare markets.

**Current External Appointments:** N/A

**Previous experience:** Steve's lifelong career in the Financial Services sector began with the graduate training scheme at Lloyd's Bank. Subsequently, a 20-year long tenure with Legal & General followed in a variety of roles across the General Insurance and Protection divisions, culminating in Steve heading up the Intermediary Distribution across both divisions.


B

**Appointment:** Michael was appointed as Executive Commercial Director in October 2023.

**Key skills and competencies:** Michael has over 30 years experience in the Insurance, Asset Management, and Wealth Management industries. He is a qualified actuary and has held numerous senior positions throughout his career.

**Current External Appointments:** Michael currently holds a Non-Executive Director role at Glasgow Clyde College.

**Previous experience:** Michael joined The Exeter from KPMG where he served as Director in the Insurance Consultant practice. Michael has previously held roles as Customer & Innovations COO and Customer Distributions CFO at M&G, a Portfolio Actuarial and Operations Director at Prudential Assurance, in addition to time at fellow mutual Scottish Friendly where he was Actuarial Director. He has previously held Non-Executive Director roles at M&G Wealth Advice LTD, Prudential International Assurance, and was a member of Prudential's Independent Governance Committee.


B

**Appointment:** Willie is the Medical Director and was appointed to the Board in April 2005.

**Key skills and competencies:** Willie qualified in Medicine from the University of Bristol in 1982 and has an extensive research career focusing mainly on improving cancer diagnosis.

**Current external appointments:** Willie is the Professor of Primary Care Diagnostics at the University of Exeter Medical School. Willie has also been the Chief Medical Officer for Liverpool Victoria for over twenty years.

**Previous experience:** Willie has a rich career in medical research and has received several accolades during his distinguished career. He has won Research Paper of the Year twice and has 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 an investigation of suspected cancer, and sits on several Department of Health Committees relevant to cancer. In 2019 Willie was awarded a CBE in the New Year's Honours list for his 'services to improving early cancer diagnosis'.

## Directors skills and experience

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

| Director | Life, IP and General Insurance | Reinsurance | Medical | Financial / Audit / Investment / Pension | Risk / Compliance | Actuarial | Senior Executive / Chair | Cybersecurity / IT | ESG | Marketing / Distribution / Underwriting |
|---|---|---|---|---|---|---|---|---|---|---|
| Peter Hubbard | • | • | • | • | • | | • | • | • | • |
| Keith Baldwin | • | | | • | • | | • | • | • | • |
| Suzanne Clark | • | | • | • | • | | • | • | • | • |
| Steve Bryan | • | | | | • | | • | • | • | • |
| Helen McEwan | • | | | • | • | | • | • | • | • |
| John Gunn | • | • | | • | • | • | | | • | |
| Willie Hamilton | • | | • | | • | | • | | • | |
| Isobel Langton | • | • | | | • | | • | | • | • |
| Kelvin Malayapillay | • | • | | | • | | • | • | • | • |
| Michael Payne | • | • | | • | • | • | • | | • | |
| Steve Payne | • | • | • | • | • | • | • | • | • | • |

## 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 invited as a member of the Board or Committee to attend during the year.

| Director | Board[1] | Audit | Governance & Risk | Investment | Nomination | Remuneration |
|---|---|---|---|---|---|---|
| | (7) | (7) | (5) | (4) | (7) | (3) |
| Peter Hubbard | 7(7) | - | - | 4(4) | 7(7) | 3(3) |
| Keith Baldwin | 7(7) | 7(7) | 5(5) | 4(4) | 6(7) | 3(3) |
| David Brand[2] | 3(3) | 4(4) | 2(2) | 2(2) | 4(4) | 1(1) |
| Suzanne Clark[3] | 3(3) | 3(3) | 3(3) | 2(2) | 3(3) | 2(2) |
| Kelvin Malayapillay[3] | 3(3) | 3(3) | 3(3) | 2(2) | 3(3) | 2(2) |
| Helen McEwan | 7(7) | 7(7) | 5(5) | 4(4) | 7(7) | 3(3) |
| Steve Payne | 7(7) | 7(7) | 5(5) | 4(4) | 6(7) | 3(3) |
| Isobel Langton | 7(7) | - | - | 4(4) | - | - |
| Steve Bryan | 7(7) | - | - | - | - | - |
| John Gunn | 7(7) | - | 5(5) | - | - | - |
| Michael Payne[4] | 3(3) | - | - | - | - | - |
| Professor Willie Hamilton | 6(7) | | | | | |

(1) This included one strategy meeting

(2) David Brand retired on 30 June 2023

(3) Suzanne Clark and Kelvin Malayapillay were appointed on 1 August 2023

(4) Michael Payne was appointed on 2 October 2023

## Committee Reports

The Board has five established Committees: Audit, Governance & 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, which can be found at the following address: www.the-exeter.com.

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*

Suzanne Clark was appointed Chair of the Audit Committee in October 2023 and is currently serving as an independent non-executive for HBL Bank UK and Leeds Teaching Hospitals NHS Trust as Audit Chair. She is a chartered accountant and is considered by the Board to have recent and relevant financial experience and to be competent in auditing and accounting.

Committee membership comprises the Chair of the Committee and all of the non-executive directors (other than the Chair of the Board). Each member of the Committee has appropriate financial and commercial experience gained in a wide remit of complex organisations, combined with a sound understanding of the Group and Society's business, and as such considered by the Board to be competent to provide effective challenge to management. Committee meeting numbers and attendance can be found on page 40.

Members of the Committee are appointed by the Board following a recommendation by the Nomination Committee. The Committee meets at least three times a year. The Chair of the Committee reports to the Board on Committee activities and engages regularly with key individuals involved with the Society's governance and attends the AGM to respond to any member questions that may be raised on the Committee's activities. The Chair also has regular meetings with the external Senior Statutory Audit Partner and the Head of Internal Audit. These meetings address the level of support and information exchange and provide an opportunity for participants to raise any concerns directly with the Committee Chair.

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 Commercial Director, the Head of Internal Audit and the Medical Director. Representatives from the independent external auditors regularly attended meetings by invitation. Other senior managers are invited to attend as required and include the Head of Finance to present such reports as are required for the Committee to discharge its duties. The Company Secretary, who acts as Secretary to the Committee, attends all meetings of the Committee.

The Committee is authorised to seek external legal and independent professional advice as it sees fit. The terms of reference of the Audit Committee are reviewed annually to ensure they continue to be fit for purpose. They were last reviewed in December 2023. The review concluded that the terms of reference of the Committee as amended continue to reflect best practice. A copy of the terms of reference can be found on our website, at www.the-exeter.com.

The Committee has an annual agenda which is aligned to the terms of reference and key events in the Society's financial calendar. The agenda is flexible enough to include additional topics of particular importance to the Committee and to allow it to respond to emerging issues.

**A brief summary of the Audit Committee's activities during 2023**

- Reviewed the Annual Report and Accounts, financial returns and 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 adequacy and effectiveness of the internal control systems, including the key internal controls over financial reporting, and providing assurance to the Board.
- Reviewed the going concern and viability statements.
- Monitored and reviewed the role, mandate, independence and effectiveness of the Internal Audit function.
- Approved the external audit plan, the external auditor's terms of engagement and the fees to be paid.
- Reviewed and approved the Internal Audit Charter. A copy of the Internal Audit Charter can be found on our website www.the-exeter.com.
- Reviewed and the considered reports on the results of internal audit's work.
- Considered feedback from the internal evaluation process.
- Recommended changes to the Committee terms of reference to the Board for approval.
- Advised the Board on how it has discharged its responsibilities and considering whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and providing assurance to the Board.

**Membership**

Suzanne Clark (Chair) (appointed to the Committee on 1 August and as Chair on 10 October 2023)
David Brand (resigned as Chair and Committee member on 30 June 2023)
Keith Baldwin
Kelvin Malayapillay (appointed 1 August 2023)
Helen McEwan (Chair from 30 June to 10 October 2023)
Steve Payne

### *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 internal control environment. The Committee's key areas of focus and consideration for 2023 were:

| | |
|---|---|
| **Financial Reporting** | • Considered whether the description of the performance of the Group and the Society in the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the position and performance, business model and strategy and provide advice, reassurance and recommendations.<br>• Provided advice, reassurance and recommendations on the clarity of disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements and guidelines.<br>• Reviewed the significant transactions, accounting matters, and key judgements and estimates used in preparing the 2023 Annual Report and Accounts and in particular management's assumptions underpinning the going concern and viability statements.<br>• Considered the external auditor's report on the financial statements. Covering 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 controls.<br>• Confirmed the Directors have carried out a robust assessment of the principal and emerging risks and how they are being managed or mitigated.<br>• Made a recommendation to the Board, in relation to the appointment of the independent external auditor to be put to the Members for approval at the Annual General Meeting. |
| **External auditor** | • Approved the external audit plan, the external auditor's terms of engagement and the fees to be paid.<br>• Reviewed and monitored the external auditors, independence, objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.<br>• Reviewed and approved the external auditor independence policy relating to non-audit services. |
| **Internal auditor function** | • Approved the internal audit plan and regularly monitored progress in its completion. Key areas of focus in the plan were cyber and information security and consumer duty.<br>• Received quarterly internal audit reports, considered the results of Internal Audit's work and the appropriateness of the actions to be taken by management.<br>• Reviewed how actions to strengthen the internal control environment arising from internal audit reports, are progressed and reported, ensuring an effective framework for the management of issues within the business.<br>• Reviewed the Head of Internal Audit's independence, skills and experience and the self-assessment of the function's conformance to the Institute of Internal Auditors (IIA) standards and the Internal Audit Financial Services Code of Practice to ensure an effective internal audit function. |
| **Control oversight** | • Reviewed regularly and considered the Actuarial Function report along with the work of the independent With Profits Actuary.<br>• Reviewed the implementation of actions identified by the external auditor in their management representation letter to strengthen internal controls.<br>• Reported to the Board, any matters where it considered that action or improvement was needed and made appropriate recommendations. |
| **Routine matters** | • An external independent annual review of the Committee's performance was undertaken in 2023.<br>• Reviewed and approved the Committee's terms of reference and minutes.<br>• Agreed the agenda forward planner for the year ahead. |

## *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:

- 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 provide the information necessary for members to assess the position, performance, business model and strategy; and
- any correspondence from regulators in relation to the Group and 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 2023 accounts and how these were addressed were as follows:

- Insurance contract assets (Long Term Business Fund) – the calculation of the long-term insurance liabilities is an area 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 69.
- Insurance contract liabilities (General Business Fund) – while 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 69.
- 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 overall 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 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 as well as being responsible for the re-tendering selection process. The Committee's 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 28 June 2023.

The Audit Committee also reviews and sets the terms, areas of responsibility and scope of the audit as set out in the external auditor's engagement letter including the overall work plan for the forthcoming year, together with the associated fee proposal and cost-effectiveness of the audit.

During the year, the Committee considered the effectiveness of the external audit process, whether the agreed audit plan for the financial year ended 31 December 2023 had been fulfilled, and the reasons for any variation from the plan.

In assessing the independence and objectivity of the external auditor, the Committee takes into account the assurances and information provided by the external auditor, including a written disclosure of the relationships (including the provision of non-audit services) that could have an impact on the external auditor's independence and objectivity, and the safeguards put in place to address such concerns. The Committee has concluded that Mazars remained independent of the Group for the year under review.

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 for the engagement of the independent external auditors for non-audit work.

### *Non-audit Fees*

The Committee makes any choice based on what it considers to be in the Group and Society's best interest overall, 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. Due regard is given to potential independence issues if the work is placed with the 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 an auditor.

The independent external auditors are not normally engaged to provide any other services in line with current standards and Mazars did not provide any non-audit services for the period under review (2022: nil).

### *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.

During the year the Committee appointed a new Head of Internal Audit who reports to the Chair of the Audit Committee and has a secondary operational reporting line to the Chief Risk Officer.

The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Internal Audit function, including its resources, plans and performance as well as the degree to which the function is free from management or other restrictions. To help the Committee gain assurance that the Internal Audit function is independent, the Committee met with the Head of Internal Audit once during the year under review without the presence of management and is satisfied that the Internal Audit function has adequate standing and is free from management influence or other restrictions.

The Committee reviewed and approved the Group's annual internal audit plan. The plan is designed with reference to the Group and Society's principal risks. Further information on the principal risks is available on pages 12 to 13.

The Committee remains satisfied that the Internal Audit function has the necessary resources, objectivity, and competency to fulfill its mandate.

The Committee monitored the effectiveness and performance of the Internal Audit and reviewed the function's self-assessment of conformance to the Institute of Internal Auditors (IIA) standards and the Internal Audit Financial Services Code of Practice. The function has a Quality Assurance and Improvement Plan to ensure the quality of work undertaken.

The Committee receives regular updates on the internal audit's progress against its plan, the implementation of actions to strengthen the internal control environment and the effectiveness of the internal control environment.

### *Fair, balanced and understandable Annual Report and Accounts*

The Code provides that the Board should provide a fair, balanced and understandable assessment of the Group and Society's position and prospects in its Annual Report and Accounts. At the Board's request, the Committee has reviewed the 2023 Annual Report and Accounts to determine whether it considers the Annual Report and Accounts, taken as a whole, meets this standard and provides the information necessary for members to assess the Group and Society's position and performance, business model and strategy. The Committee has concluded that this requirement has been met.

Throughout the Annual Report and Accounts, performance during the year is presented against a mix of financial and non-financial measurements, which the Board and executive management consider best reflect the Group and Society's strategic priorities. The Committee has considered these measurements and is satisfied that the information will help to convey an understanding of the performance and the culture of the business, and of the drivers which contribute to its success, and will be of interest to stakeholders.

## *Priorities for 2024*

Looking forward, the Audit Committee will build on existing work, as well as:

- Continue to monitor developments within financial reporting and the introduction of the new global Internal Auditing Standards; and
- Appoint an independent third party to undertake an external quality assessment of internal audit

**Suzanne Clark**
Audit Committee Chair
26 March 2024

## Governance & Risk Committee

### *Governance*

Nearly 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. Committee meeting attendance can be found on page 40. Invitations to attend Committees are extended on a regular basis to the Board Chair, the Chief Risk Officer and the Head of Compliance.

Regular attendees are the Chief Executive, the Director of Distribution and Marketing, the Medical Director and the Chief Risk Officer. Other senior managers are invited to attend as requested which include the Information Security Manager, the Strategy and Change Director and the Head of Compliance.

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.

### *Role of the Committee*

The Committee's full terms of reference, which are reviewed by the Committee and submitted to the Board for approval on an annual basis, are available on the Society's website at www.the-exeter.com.

The Committee ensures and provides assurance to the Board that the risk management strategy and governance arrangements are appropriate to its business, its market and meet the requirements of the regulatory regime.

A summary of responsibilities are as follows:

- Review and advise the Board on the overall risk appetite, tolerance and strategy throughout the year including material risk identification.
- Oversee and advise the Board on new risks, 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.
- Advise and make necessary recommendations to the Board on proposed strategic transactions.
- 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.
- 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.

**A brief summary of the Governance & Risk Committee's activities during 2023**

- Monitored and reviewed the effectiveness of the risk management systems and internal controls. This remains a development journey.
- Continued to have a strong focus, conducted a robust assessment of key risks, including cyber, ESG and economic climate. Furthermore, the Committee considered detailed mitigation measures in relation to cyber risks.
- Reviewed and recommended for approval the annual ORSA report.
- Monitored and reviewed the effectiveness of the Compliance function. Keeping regulatory change and reporting under constant evaluation.
- Conducted an assessment in respect of the Consumer Duty. The Chair of the Committee was approved as the Consumer Duty Champion.
- Considered feedback from the internal evaluation process.
- Recommended changes to the Committee terms of reference to the Board for approval.

**Membership**

Steve Payne (Chair)
Keith Baldwin
Suzanne Clark (appointed 1 August 2023)
Helen McEwan
Kelvin Malayapillay (appointed 1 August 2023)
David Brand (resigned on 30 June 2023)
John Gunn

### *The Committee's key areas of focus*

The Committee's key areas of focus for 2023 were:

| | |
|---|---|
| **Risk** | • Reviewed and monitored the quarterly Risk Report (including the quarterly Risk Dashboard).<br>• Reviewed and challenged the Climate Change Risk Management Plan and risk scenarios.<br>• Reviewed and made recommendations to the Board in respect of the annual Enterprise Risk Management framework.<br>• Reviewed, challenged and made recommendations to the Board of the bi-annual Risk Control Self-assessment.<br>• Reviewed and monitored the implementation plan for Consumer Duty.<br>• Provided challenge and oversight for cyber security, including more frequent reporting. Further details of this can be found later in this report. |
| **Compliance** | • Reviewed and monitored the quarterly Compliance Function Report, including the impact of regulatory change, and progress updates.<br>• Reviewed the annual PRA periodic summary meeting review.<br>• Reviewed the FCA returns.<br>• Reviewed and approved the threshold conditions report.<br>• Reviewed the members' complaints report. |
| **ORSA and Strategy** | • Reviewed, challenged and made recommendations to the Board in respect of the Business and Strategy Plan.<br>• Reviewed the Operational Resilience: Impact on business services and impact tolerances.<br>• Reviewed, challenged and made recommendations for final approval, by the Board, of the 2023 ORSA Report, and its design, objectives, sensitivities and review and approval process. |
| **Governance and other areas of oversight** | • Reviewed, challenged and made recommendations to the Board in respect of the annual Financial Crime Report, Money Laundering Report and the Whistleblowing Report.<br>• Considered and agreed to include the Whistleblowing report under the responsibilities of the Audit Committee and the Chair of the Audit Committee to become the key contact and Whistleblowing Champion.<br>• Reviewed and monitored the quarterly SII report including any recommendations in relation to SII management actions.<br>• Reviewed and monitored the bi-annual IT and Cyber Security report and ad-hoc business penetration testing report.<br>• Reviewed and monitored the Distribution and Quality Management Report as well as the quarterly Strategy and Change Report.<br>• Reviewed, challenged and made recommendations for approval, by the Board, of the Risk Appetite.<br>• The Corporate Governance Handbook recommending any changes for approval by the Board. |
| **Routine matters** | • Reviewed, challenged and made recommendations for approval, by the Board, of all Solvency II policies.<br>• Conducted an annual review of the Committee's performance.<br>• Reviewed and approved the committee's terms of reference and minutes.<br>• Reviewed, challenged and made recommendations for approval, by the Board, of the Matters Reserved to the Board.<br>• Set the agenda forward planner for the year ahead. |

## *Whistleblowing and Fraud*

The Committee during the year received updates on any allegations of theft or fraud in the businesses, with individual updates being given to the Committee, as needed, in more serious cases. The Group 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. The following are areas noted by the Committee:

- Review the Group or 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 Group or Society's anti-money laundering systems and controls, including its arrangements for colleagues and contractors to raise any concerns, in confidence, about possible wrongdoing.

The Group's Anti-fraud Policy has been communicated to all colleagues and states that all colleagues have a responsibility for fraud prevention and detection. Any suspicion of fraud should be reported immediately and will be investigated vigorously. The Governance & Risk Committee reviewed all instances of fraud perpetrated against the Group and the action taken by management both to pursue the perpetrators and to prevent reoccurrences.

The Board approved, for good governance, to transfer the Whistleblowing responsibility to the Audit Committee, effective from 20 December 2023. The Terms of Reference and responsibilities, have been updated to reflect this change. The Audit Committee Chair has been appointed as the designated Whistleblowing Champion from that same date.

## *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 & 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 Group or Society. This process is regularly reviewed by the Board. Any risk-related issues are investigated, and additional compliance or internal audit resources are allocated as needed.

In 2023, the Board approved the updated Risk Appetite and Risk Register, which are regularly reviewed and form the basis of discussion and decision-making. Further details for the Risk Appetite, Risk Register and key risks affecting the business are set out in the Risk Report on page 12 and Note 3 of the Financial Statement, on page 91.

Assessment of principal risks The directors confirm that, during the year, the Board has carried out a robust assessment of the principal and emerging risks, including those that could threaten its business model, future performance, and solvency or liquidity. A description of these principal and emerging risks and how they are being managed and mitigated is set out on pages 12 to 13.

During the year, the Board reviewed the effectiveness of the systems of risk management and internal control processes to ensure that they remain robust. The review included:

- a risk management review, a comprehensive process identifying the key external and operational risks and the controls and activities in place to mitigate them; and
- an assessment of internal control, which, provides assurance to the Board around the control environment and processes in place, specifically those relating to internal financial control

The Board evaluated the effectiveness of management's processes for monitoring and reviewing risk management and internal control. No significant failings or weaknesses were identified by the review and the Board is satisfied that, where areas of improvement were identified, processes are in place to ensure that remedial action is taken and progress monitored. The Board confirmed that it was satisfied with the outcome of the review of the effectiveness of the systems and processes.

### *Cyber, IT and data*

Due to the general global upward trend in global cyber attacks, the Committee increased 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.

We continually assess cyber risks, monitor and manage the maturity of its enterprise infrastructure, platforms and security controls to ensure that it can effectively prevent, detect and respond to current or future cyber-attacks.

Appropriate crisis management procedures are in place to manage issues in the event of a cyber incident occurring. The response protocols in place are supported by using industry-standard tooling, experienced IT and security professionals, and external partners to mitigate potential impacts. Assurance is provided by regular monitoring which is designed to prevent and defend against cyber threats and other risks.

We rely on a variety of digital and technology platforms to manage and deliver services and communicate with colleagues, members, intermediaries, advisors and suppliers. The business continues to be focused on the need to maximise the effectiveness of its information systems and technology as a business enabler. As such, we continue to invest in technology and specialist resources in order to further strengthen its platforms, cyber-security defences and controls to prevent and detect cyber threats and respond to attacks in order to mitigate the risk of operational disruption, technology failure, unauthorised access to and/or loss of data.

Systems have been designed and implemented to block phishing emails, increased awareness campaigns, and provided cyber training to help colleagues identify these types of attacks.

### *Compliance*

The Committee provides oversight of the Group's governance and regulatory compliance arrangements and monitors their ongoing 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 Group 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).

**Steve Payne, BSc, FIA**
Governance & Risk Committee Chair
26 March 2024

## Nomination Committee

### *Governance*

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. Committee meeting attendance can be found on page 40. Members of the Committee are appointed by the Board. The Committee meets at least twice a year. The Chair of the Board acts as Chair of the Committee, except when the Committee is dealing with the succession of the Chair of the Board. On these occasions, the meetings will usually be chaired by the Senior Independent Director (SID). The Chair of the Committee reports to the Board on Committee activities and attends the AGM to respond to any shareholder questions that might be raised on the Committee's activities.

Only members of the Committee have the right to attend meetings. Other individuals, such as the Chief Executive Officer (CEO), the Chief People Officer (CPO), the Distribution and Marketing Director and, when required, external advisers may be invited to attend all or part of any meeting, as and when appropriate. The Company Secretary, who acts as secretary to the Committee, attends all meetings of the Committee.

The Committee is authorised to seek external legal or independent professional advice as it sees fit. The terms of reference of the Nomination Committee are reviewed annually to ensure that they continue to be fit for purpose. These were last reviewed in October 2023. The review concluded that the terms of reference continue to be fit for purpose. A copy of the terms of reference can be found on our website at www.the-exeter.com.

### *Primary responsibilities*

In accordance with its terms of reference, the Nomination Committee's primary responsibilities included:

- leading the process for Board appointments (both executive and non-executive) and making recommendations to the Board;
- reviewing regularly the Board structure, size and composition (including skills, knowledge, experience and diversity) and recommending any necessary or desirable changes;
- ensuring effective succession plans are in place for the Board and senior management and overseeing the development of a diverse pipeline for orderly succession based on merit and objective criteria, with due regard to diversity of age, gender, ethnicity, sexual orientation, disability, educational, professional and socio-economic background, cognitive and personal strengths; and
- making recommendations to the Board on the Board's policy on boardroom inclusion, diversity and equity, its objectives and linkage to strategy, how it has been implemented and progress on achieving its objectives.

### *Board changes during 2023*

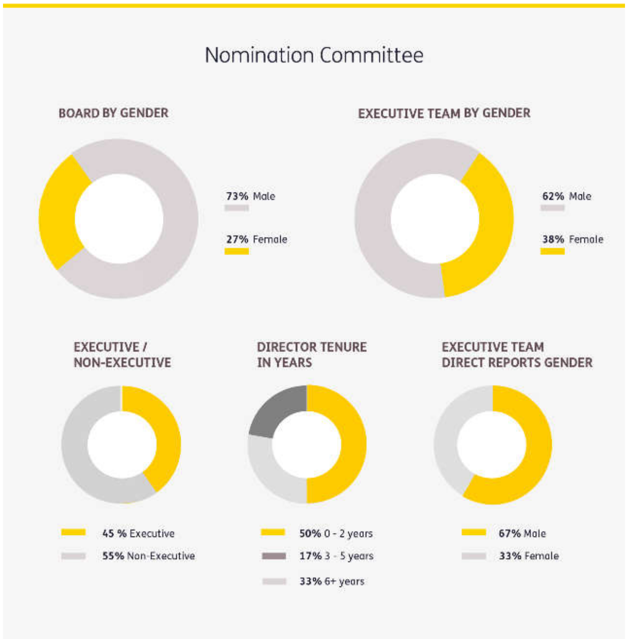
On 1 August Suzanne Clark and Kelvin Malayapillay were both appointed, and Michael Payne was also appointed on 2 October 2023. The process of appointment is noted below. David Brand who has served as a non-executive director since 2 January 2014 retired from the Board on 30 June 2023. The process of appointment is noted below.

**A brief summary of the Nomination Committee's activities during 2023**

- Reviewed the size, composition, diversity and skills of the Board and its Committees.
- Considered feedback from the internal evaluation process.
- Dedicated significant time to succession planning for the Board, the Executive Committee and senior management.
- Recommended to the Board approval of the appointment of two new non-executive directors and an executive director to the Board.
- Recommended changes to the Inclusion, Diversity and Equity Policy to the Board for approval.
- Recommended changes to the Committee terms of reference to the Board for approval.

**Membership**

Peter Hubbard (Chair)
Keith Baldwin
Suzanne Clark (appointed 1 August 2023)
Kelvin Malayapillay (appointed 1 August 2023)
Helen McEwan
David Brand (resigned on 30 June 2023)
Steve Payne




### *Time commitment, election/re-election of non-executive directors, training and development*

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. In line with its terms of reference, the Committee performed an annual review of the time required from the Chair of the Board, SID and non-executive directors to perform their duties. As part of this process, the Committee reflected on directors' attendance at meetings and their availability at other times during the year.

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, with the exception of Steve Payne who is stepping down from the Board, will be standing for election or re-election at the Annual General Meeting in June 2024.

In consultation with the Chair of the Board, the Committee also considered the training that had been received by directors in the year, including the training session led by the IT Security team, and regulatory and governance updates from the Company Secretary and other in-house and external subject matter experts and advisers. Future training needs are regularly considered and addressed as required.

### *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 2023 were:

| | |
|---|---|
| **Board composition** | • Considered and made necessary recommendations to the Board on the retirement of Steve Payne as non-executive director.<br>• Formally reviewed the composition of the Board, including skills, experience, diversity and tenure of the directors. Including consideration of the appointment requirements of the Board and its Committees.<br>• In line with the selection and appointment procedure, the Committee agreed on a suitable candidate for appointment to the Board.<br>• The Committee made an appointment recommendation for the appointment of Suzanne Clark and Kelvin Malayapillay as non-executive directors and Michael Payne as executive director, upon confirmation of approval from the regulator. |
| **Inclusion, Diversity and Equity** | • A standing agenda item for an update at each meeting in respect of inclusion, diversity and equity was agreed upon and actioned.<br>• Review and monitor the delivery of the inclusion, diversity and equity framework for the business.<br>• Review and recommendation of the inclusion, diversity and equity website statement.<br>• Future IDE integration and plans. |
| **Governance and oversight** | • Review and recommend to the Board the future annual election and re-election of directors at the 2023 AGM.<br>• Review and recommendations in respect of the Exeter Friendly Society Board and Employee Inclusion, Diversity and Equity Policy.<br>• Review of the Executive Committee and senior management structure including succession planning. |
| **Routine matters** | • An independent external review of the Committee's performance. Assessed the recommendations resulting from this review.<br>• Reviewed and approved the Committee's terms of reference and minutes.<br>• Agenda forward planner for the year ahead. |

### *Board succession planning*

Succession planning is a core element of the Committee's work. When assessing succession plans for the Board, the Committee considers and evaluates the skills, knowledge and experience of its directors to ensure that the Board and its committees are well placed to discharge their duties, considering the need for diversity to reflect a broad range of backgrounds, experience and views.

The tenure of independent non-executive directors is also reviewed regularly to facilitate future refreshing of the Board and to maintain an appropriate balance. From these reviews, the Committee determines the skills, experience, and attributes of new appointees to ensure the Board and its committees continue to operate effectively.

### *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. The appointment process is led by the Chair of the Board, except where the appointment is for their successor when it is usually led by the Senior Independent Non-Executive Director (SID).

Before an appointment of a director is made, the Nomination Committee agree a candidate specification setting out the role and capabilities required. The Board promotes an environment which is supportive of individuals from diverse backgrounds, and in identifying suitable candidates, the following process is followed:

| | |
|---|---|
| **Board composition** | • Discuss and agree on the timing, the role description and requirements of an appointed candidate.<br>• 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.<br>• The Committee would agree on 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 the position to be filled.<br>• The brief would be aligned with reference to the skills and experience, the Exeter Friendly Society’s Inclusion, Diversity and Equity 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.<br>• 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.<br>• The Committee would then agree on 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.<br>• Initial interviews would be held with the Committee Chair and the Board Chair supported by the Chief People Officer.<br>• To agree on the final candidates invited for the final interview, a calibration exercise would be undertaken.<br>• Final interview is held with the members of the Committee with the agreed final two candidates.<br>• The other Board members would also be invited at this stage to meet with the final candidates. |
| **Due diligence and recommendation** | • A comprehensive due diligence and role referencing process would be undertaken.<br>• Upon satisfactory completion, appointment recommendations would be made to the Board for approval of the candidate. |

Depending on the strategic and succession plans, where appropriate, the Committee will expand its search to consider individuals who may not have direct experience, but who have experience in leading complex, global-scale organisations. The Committee believes that this broad approach ensures the best possible chance of attracting a diverse pool of candidates.

During the year, the Committee launched a recruitment process to facilitate the appointment of two additional non-executive directors in support of the Board’s succession plans and strategic aims. The selection process was led by the Chair of the Board who was assisted by the Chief People Officer. The Committee also used the services of an executive search firm to identify suitable candidates. The executive search agency used was independent of and have no other links with the Group or its directors.

### *Induction process*

The Committee Chair, 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 Group and Society's business, challenges, aspirations, and culture. The induction process is structured in a way that ensures the new director has a strong foundation and the necessary information to understand the business, and to be effective in the role.

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 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 2023 Suzanne Clark, Kelvin Malayapillay and Michael Payne 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.

### *Senior management succession planning*

The Committee oversees the development of a strong and diverse pipeline of high-calibre individuals capable of discharging executive-level responsibilities. The succession planning process includes a review of talent at senior-level. This enables the Committee to monitor and evaluate the strength of the talent pipeline, its composition, its diversity and the training and development needs within the Group’s senior leadership. At its meeting in December 2023, the Committee reviewed the revised plan for succession and the new leader's development programme, both of which, are aligned with the leadership framework and business strategy.

### *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 review 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.

### *Inclusion, diversity and equity*

At the Board level, the approach to appointing new directors reflects the Committee’s objective to ensure there is always an appropriate balance of experience and backgrounds on the Board. Great emphasis is placed on ensuring that Board membership embodies diversity in its broadest sense. For this reason, members of the Board are drawn from a wide range of disciplines, industries and cultures. The Board IDE Policy is available on our website at www.the-exeter.com.

The Committee reviews the Group’s policy on workforce IDE, and its objectives and links to strategy. During the year, the Committee received an update on the Group’s IDE activities from the Chief People Officer. The workstreams being undertaken across the Group to recruit, develop and retain a diverse talent pool were considered, including the strategy.

**Peter Hubbard**
Nomination Committee Chair
26 March 2024

## Investment Committee

### *Governance*

Helen McEwan was appointed Chair of the Committee on 30 June 2023. Membership comprise of the Chair of the Committee and all non-executive directors. Membership of the Committee comprises the Chair of the Committee, the independent non-executive directors and the CEO. Regular attendees are the Board Chair, the Commercial Director, the Finance Director and representatives from the Investment Managers, Royal London Asset Management Limited (RLAM). Committee meeting attendance can be found on page 40.

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. The Board believes members have the necessary range of expertise to provide effective challenge to management. The Chair of the Committee reports to the Board on Committee activities and attends the AGM to respond to any shareholder questions that might be raised on the Committee's activities.

The Committee is authorised to seek external legal or independent professional advice as it sees fit. The terms of reference of the Nomination Committee are reviewed annually to ensure that they continue to be fit for purpose. These were last reviewed in October 2023. The review concluded that the terms of reference continue to be fit for purpose. A copy of the terms of reference can be found on our website, www.the-exeter.com.

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 but revisited in September 2022, and the Committee concluded that RLAM continued to perform well and be a good fit with the Society's investment strategy, in particular as RLAM remained a market leader in areas such as corporate bonds and greener investments. The next detailed review will take place in 2024.

### *Role of the Committee*

A summary of the Committee's responsibilities as follows:

- 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.
- Review the capabilities, performance and costs of the fund manager, at least every three years, and make appropriate recommendations to the Board.

**A brief summary of the Investment Committee's activities during 2023**

- Reviewed and monitored the investments against approved guidelines. Reported on any variation and action taken.
- Determined counterparty limits and credit rating requirements.
- Reviewed the performance of the Investment Fund Managers.
- Recommended changes to the Investment Guidelines.
- Recommended changes to the Committee terms of reference to the Board for approval.
- Considered feedback from the internal evaluation process.

**Membership**

Helen McEwan (Chair) (appointed 30 June 2023)
David Brand (resigned on 30 June 2023 as Chair and Committee member)
Keith Baldwin
Suzanne Clark (appointed 1 August 2023)
Kelvin Malayapillay (appointed 1 August 2023)
Helen McEwan
Steve Payne
Isobel Langton

### *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 2023 were:

| | |
|---|---|
| **Investment activity** | • Reviewed the investment managers' reports and investment summaries, including receiving the annual Investment Management Report.<br>• Considered the move to greener investment funds.<br>• Monitored the performance of the investment manager and investments to ensure these were consistent with the investment guidelines.<br>• Reviewed RLAM's compliance with the Stewardship Code, reporting the outcome to the Board. |
| **Internal Reporting and activity** | • Reviewed the investment summaries prepared and presented by the Finance Director.<br>• Reviewed the investment guidelines, with a change approved to move some assets to less carbon-intensive funds.<br>• Monitored the economic impact on the various investments, including increasing interest rates, inflation and general unrest in the Middle East and Ukraine. |
| **Routine matters** | • Reviewed the performance and ongoing appointment of the external investment managers, considering their performance, capabilities and overall management costs.<br>• Conducted an annual review of the Committee's performance.<br>• Reviewed and approved the Committee's terms of reference.<br>• Set the agenda forward planner for the year ahead. |

**Helen McEwan**
Investment Committee Chair
26 March 2024

## Remuneration Committee

### *Committee membership and attendance*

All members of the Committee are Independent Non-Executive Directors. Membership of the Committee comprises the Chair of the Committee and all the independent non-executive directors. The Board believes members have the necessary range of expertise to provide effective challenge to management. Committee meeting attendance can be found on page 40.

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. The Chair of the Committee reports to the Board on Committee activities and attends the AGM to respond to any shareholder questions that might be raised on the Committee's activities.

The Committee is authorised to seek external legal or independent professional advice as it sees fit. The terms of reference of the Nomination Committee are reviewed annually to ensure that they continue to be fit for purpose. These were last reviewed in October 2023. The review concluded that the terms of reference continue to be fit for purpose. A copy of the terms of reference can be found on our website, www.the-exeter.com.

### *Role of the Committee*

The Committee determines the Society's Remuneration Policy and is responsible for setting remuneration terms and conditions of employment for the Chair of the Board, executive directors and the Executive Committee. The Committee ensures that members of the Executive Committee are appropriately incentivised to drive the Group's performance and are rewarded for their contribution to the long-term sustainable success of the business by designing, monitoring and assessing incentive arrangements, including setting stretching targets and assessing performance and outcomes.

The Committee reviews remuneration arrangements for other senior executives within the Group and has regard to the remuneration philosophy of the organisation when developing policy and considering executives' packages, monitoring the relationship between executive remuneration arrangements and those of the wider workforce.

A summary of the Committee's responsibilities as follows:

- Overall responsibility for Remuneration strategy and policy.
- 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, 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 ensure that failure is not rewarded and to mitigate any loss is fully recognised.
- Oversee any major changes in colleague benefits structures.
- Agree on the policy for authorising claims for expenses from the directors.

### *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 brief summary of activities for 2023 were:

**A brief summary of the Remuneration Committee's activities during 2023**

- Determined the Executive and employee compensation including pay increases, termination and bonus awards.
- Determined the Chair Fee.
- Keeping under review the changes in regulation in particular seeking ways to determine how to appropriately align the executive and employee pension scheme.
- Reviewed and approved the 2023 Directors' Remuneration Report
- Recommended changes to the Committee terms of reference to the Board for approval.

**Membership**

Steve Payne (Chair)
Keith Baldwin
Suzanne Clark (appointed 1 August 2023)
Peter Hubbard
Helen McEwan
David Brand (resigned on 30 August 2023)
Kelvin Malayapillay (appointed 1 August 2023)

| | |
|---|---|
| **Remuneration** | • Reviewed and made recommendations the Executive Director Bonus Scheme payments for 2022 and 2023.<br>• Reviewed the business performance for 2022 and 2023 and proposed bonus scheme final payment.<br>• Reviewed and made recommendations for the Executive Director's remuneration.<br>• 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.<br>• Reviewed the CEO remuneration arrangements.<br>• Reviewed the Chair Fee. |
| **Other activity** | • Reviewed value creation and alignment with the business strategy.<br>• Reviewed and approved the Executive and colleague pension alignment.<br>• Approved the 2023 all colleagues' pay review and bonus award. |
| **Governance** | • Reviewed and approved the Directors' Remuneration Report<br>• Conducted an annual review of the Committee's performance.<br>• Reviewed and approved the Committee's terms of reference and minutes.<br>• Set the agenda forward planner for the year ahead. |

**Steve Payne, BSc, FIA**
Remuneration Committee Chair
26 March 2024

# Directors' Remuneration Report

On behalf of the Board, I am very pleased to present the Directors' Remuneration Report for the year to 31 December 2023. 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 Group and 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 Group and 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 and hence its members;
- Performance-related rewards form part of the total remuneration package;
- The remuneration package is competitive in the market in which it operates;
- Failure is not rewarded; and
- Contractual terms are agreed which ensure that, on termination, payments are fair to the individual.

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 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 all 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 Group and Society. | Base salaries take into account of:<br><br>• Skills and experience;<br>• Salaries across the Group; and<br>• 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).<br><br>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 Group and 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 Group and 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 are reviewed after the year-end.<br><br>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 Group and Society. |
| 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 defined contribution Group Personal Pension Plan, which is available to all colleagues.<br>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 Group or Society without compromising their independence. | Annual fee for Board Chair.<br><br>Annual fee for Independent Non-Executive Directors.<br>Additional fees paid to the Committee Chairs.<br><br>Fees are reviewed periodically, with the Board Chair's fee reviewed by the Committee and the Independent Non-Executive Directors' fees reviewed by the Chair and Executive Directors to avoid any conflict. |

| Maximum value potential | Performance metrics | Changes to policy in 2023 |
|---|---|---|
| No specific cap on salaries.<br>In determining any increases, the rate of increase for other colleagues is considered. | Personal and corporate performance and the levels of increase throughout the Group and Society are considered when deciding whether a salary increase should be awarded. | No changes.<br>Details of how the policy on base salaries has been implemented in 2023 are provided on page 59. |
| No pre-determined maximum. | None. | No changes. |
| Reviewed and determined by the Committee annually.<br>The maximum bonus opportunity for Executive Directors is 200% of base salary.<br>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 variable pay policies have been implemented during the year are provided on page 62. |
| A maximum 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.<br>Details of the pension contributions made during the year are provided in the table on page 61. |
| No specific cap on fees. However, fee levels are benchmarked against market levels. | None. | No changes.<br>Details of the fees paid during the year are provided on page 61. |

## Comparability of policy across the Group

The following notes outline any differences in the 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 the 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 seniority of the colleague within the business. Pension contributions and colleague levelling up will be reviewed and a programme to align Executive, Senior Management and all colleague pension benefits.

### *Annual bonus*

The Annual Bonus Scheme ("the 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 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 and ensures complete independence when advising on specific cases.

## 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% |
| 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% |
| Michael Payne (Commercial Director) | | | | |
| | Minimum | 87% | 0% | 13% |
| | On Target | 57% | 34% | 9% |
| | Maximum | 47% | 47% | 6% |

## Executive Directors' recruitment and service contracts

When recruiting Directors, the 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

The Committee is aware of the potential disconnect which can be created if Executive Director remuneration is set in isolation and therefore is updated during the year with details of the pay and employment conditions in the wider workforce. In particular, the Committee is made aware of general salary increases, base level salary in relation to the wider market, general benefit provision and the proposed level of annual bonuses. Where possible the Committee consults with colleagues with regard to pay, this is usually through the regular employee consultation forum.

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 the 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

Where possible and appropriate, the Board is committed and has direct and open dialogue with members on Executive Director remuneration. The Directors' Remuneration Report is subject to a vote at the Annual General Meeting.

## Annual Report on remuneration

The following table shows the breakdown of total remuneration for Directors in 2023 together with the prior year comparatives:

| | 2023 £000s | | | | | | 2022 £000s | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary / Fees | Benefits / Expenses | Bonus | Society Pension Payment[1] | Termination Benefits | Total | Salary / Fees | Benefits / Expenses | Bonus | Society Pension Payment[1] | Termination Benefits | Total |
| **Executive Directors** | | | | | | | | | | | | |
| Steve Bryan | 212 | 0 | 630 | 32 | 0 | **874** | 200 | 0 | 478 | 30 | 0 | **708** |
| John Gunn | 212 | 0 | 343 | 32 | 0 | **587** | 198 | 0 | 248 | 30 | 0 | **476** |
| Isobel Langton | 353 | 0 | 511 | 53 | 0 | **917** | 332 | 0 | 176 | 50 | 0 | **558** |
| Michael Payne[2] | 54 | 0 | 28 | 0 | 0 | **82** | 0 | 0 | 0 | 0 | 0 | **0** |
| Professor Willie Hamilton | 95 | 0 | 0 | 0 | 0 | **96** | 93 | 0 | 0 | 0 | 0 | **93** |
| Chris Pollard[3] | 0 | 0 | 170 | 0 | 0 | **170** | 103 | 0 | 117 | 29 | 224 | **473** |
| Andy Chapman[4] | 0 | 0 | 276 | 0 | 0 | **276** | 0 | 0 | 216 | 0 | 0 | **216** |
| **Sub-totals** | **926** | **0** | **1,958** | **117** | **0** | **3,002** | **926** | **0** | **1,235** | **139** | **224** | **2,524** |
| **Non-Executive Directors** | | | | | | | | | | | | |
| Keith Baldwin | 53 | 2 | 0 | 0 | 0 | **55** | 49 | 1 | 0 | 0 | 0 | **50** |
| David Brand | 32 | 0 | 0 | 0 | 0 | **32** | 60 | 1 | 0 | 0 | 0 | **61** |
| Peter Hubbard | 93 | 4 | 0 | 0 | 0 | **97** | 26 | 2 | 0 | 0 | 0 | **28** |
| Helen McEwan | 58 | 2 | 0 | 0 | 0 | **60** | 54 | 3 | 0 | 0 | 0 | **57** |
| Steve Payne | 64 | 2 | 0 | 0 | 0 | **66** | 60 | 2 | 0 | 0 | 0 | **62** |
| Kelvin Malayapillay[5] | 22 | 1 | 0 | 0 | 0 | **23** | 0 | 0 | 0 | 0 | 0 | **0** |
| Suzanne Clark[6] | 24 | 1 | 0 | 0 | 0 | **25** | 0 | 0 | 0 | 0 | 0 | **0** |
| Wallace Dobbin[7] | 0 | 0 | 0 | 0 | 0 | **0** | 87 | 0 | 0 | 0 | 0 | **87** |
| **Sub-totals** | **346** | **12**[8] | **0** | **0** | **0** | **358** | **336** | **9**[8] | **0** | **0** | **0** | **345** |
| **Totals** | **1,273** | **12** | **1,958** | **117** | **0** | **3,360** | **1,262** | **9** | **1,235** | **139** | **224** | **2,869** |

(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; Isobel Langton, John Gunn, and Steve Bryan.

(2) Michael Payne: Appointed 2 October 2023

(3) Chris Pollard Resigned 30 June 2022

(4) Andy Chapman retired June 2021, the table reflects deferred bonus payments

(5) Kelvin Malayapillay: Appointed 1 August 2023

(6) Suzanne Clark: Appointed 1 August 2023

(7) Wallace Dobbin: retired 31 December 2022

(8) 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 following table sets out the 2022 and 2023 comparative salaries of the Executive Directors:

| Name | As At April 2023 | As At April 2022 | Increase |
|---|---|---|---|
| Isobel Langton (Chief Executive) | £358,450 | £335,000 | 7% |
| Steve Bryan (Director of Distribution and Marketing) | £215,070 | £201,000 | 7% |
| John Gunn (Finance Director) | £215,070 | £201,000 | 7% |
| Professor Willie Hamilton (Medical Director) | £54,750 | £50,391 | 9% |

## 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).

In 2022, the corporate performance measures were Net Earned Premium (after reinsurance impact) and Operating Expenses (excluding commission to brokers).

The corporate performance measures were updated in 2023 and now use a balanced scorecard approach. The components of this approach are

- Delivery of technology transformation (40% weight)
- New business value-create (30% weight)
- Financial Adviser Service Award (20% weight)
- People transformation (10% weight)

The planned targets for all measures were agreed by the Board following approval of the updated three-year Business Plan at the beginning of the relevant year.

| 2023 | | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| Component | | Weight | Performance (on target =100%, maximum = 200%) | Contribution to performance | Component | Weight | Performance (on target =100%, maximum = 200%) | Contribution to performance |
| Technology Transformation | | 40% | 87.5% | 35% | Net Earned Premium | 50% | 100% | 50% |
| New Business Value Create | | 30% | 200% | 60% | Operating Expenses | 50% | 100% | 50% |
| Financial Adviser Service Award | | 20% | 84% | 17% | | | | |
| People Transformation | | 10% | 75% | 7% | | | | |
| Total | | | | 119% | Total | | | 100% |
| Remuneration Committee Override | | | | 1.08 | Remuneration Committee Override | | | 1.25 |
| Corporate Award (target = 100%) | | | | 130% | Corporate Award (target = 100%) | | | 125% |

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.

Recent examples of where the Remuneration Committee over-riding used its discretion to adjust the calculated bonus are:

- 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 the 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 2022, the Remuneration Committee agreed on a multiplicative uplift of 25% to all bonus levels to reflect an exceptional year.
- In 2023, the Remuneration Committee agreed on a multiplicative uplift of 8% to all bonus levels to reflect exceptional new business performance against a backdrop of significant investment across the organisation to improve the experience for our members, our advisers, and our colleagues.

### *Pension arrangements*

The Executive Directors are members of the 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 on behalf of the Executive Directors in both 2023 and 2022 was 15% of the 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 for themselves, their spouse or partner and dependent children.

### *External fees received*

No external fees were received by any 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 Chair, the Chief Executive and the 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
26 March 2024

# Directors' Report and Statement of Directors' Responsibilities

The Directors present their report, together with the audited consolidated financial statement, for the year ended 31 December 2023. The Directors' Report comprises pages 64 to 66 and the other sections and pages of the Annual Report and Accounts cross referenced below which are incorporated by reference. The Corporate Governance statement comprises pages 23 to 34 (inclusive). In line with common practice, certain disclosures normally included in the Directors' Report have instead been integrated into the Strategic Report (pages 4 to 22 (inclusive))

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

- Environmental, Social and Governance (page 14);
- Risk Management Report (page 12);
- Information on our colleagues (page 16);
- 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 29);
- Business relationships with suppliers, customers, members and the effect of that regard, including any principal decisions taken (pages 29 and 33);
- Directors' Responsibility Statement (page 64); and
- The Corporate Governance Report (page 23).

## Members of the Board of Directors

Details of the directors, with their biographies, can be found on pages 37 to 40. The following director changes occurred during 2023:

| | |
|---|---|
| David Brand | Stepped down from the Board on 30 June 2023 |
| Suzanne Clark | Appointed to the Board on 1 August 2023 |
| Kelvin Malayapillay | Appointed to the Board on 1 August 2023 |
| Michael Payne | Appointed to the Board on 2 October 2023 |

Steve Payne who has served as a non-executive director, will be retiring from the Board at the conclusion of the AGM on 26 June 2024.

## Statement of Directors' Responsibilities

The following statement is made by the Directors to explain their responsibilities for the preparation of the financial statements.

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

Friendly Society law requires the Directors to prepare, for each financial year, financial statements comprising a balance sheet and an income and expenditure account. Under that law the Directors have prepared the financial statements in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" (United Kingdom) and 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 and the Group as at the end of the financial year and the income and expenditure of the Society and the Group 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 confirms that, to the best of their knowledge:

- the Group and 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 include a fair assessment 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 Group and 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 and the Group'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 and Group'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

### *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, protection insurance and the subsidiary activities continue to be the underwriting of health insurance business.

### *Corporate Governance*

The Society complies with the AFM's Code on corporate governance. While it is not required to comply with the UK Corporate Governance Code 2018 (the Code), the Board holds the Society to the highest standards of Governance, and as such, the Society has voluntarily decided to comply with the Code. At 31 December 2023, the Society was compliant. Full details can be found in the Corporate Governance Report, on page 23.

### *Directors and their interests*

The details of the directors who served during the financial year ended 31 December 2023 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 37. In accordance with the Code, all directors retire and stand for re-election at the AGM every year. All eligible directors will retire and stand for re-election at the 2024 AGM, except for Steve Payne, who will retire from the Board.

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 has 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 29.

### *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 and 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 and the Group is fully committed to conducting business with high ethical standards and provide all colleagues with online training. As well as the online training, all colleagues are provided with the employee Policy Handbook, which contains among other policies, Whistleblowing, ESG, Conflicts of Interest, Anti-Bribery, Modern Anti-Slavery and Gifts, Entertainment and Hospitality.

In addition, all colleagues are required to complete an e-learning course on the various key policies and areas of risk, such as anti-bribery, whistleblowing, ESG, cyber security, among others as well as attesting once a year to the Code of Conduct.

### *Directors' and Officers' liability insurance*

Throughout 2023, the Society has maintained liability insurance cover for its Directors and officers as permitted under Section 106 of the Friendly Societies Act 1992. This cover remains in force at the date of this report. The Society arranges directors' and officers' liability insurance to cover certain liabilities and defence costs that an indemnity does not meet. The insurance policies do not provide any protection in the event of a director or officer being found to have acted fraudulently or dishonestly in respect of the Society or its subsidiaries.

### *Creditor payment policy*

Our policy is, where possible, to agree on 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 13 days at 31 December 2023 (2022: 13 days).

### *Environmental, Social and Governance*

The Board is committed to improving its corporate, social and environmental impact and full details on the Society's activities can be found on page 14.

### *Charitable donations and political contributions*

No political donations were made in 2023 (2022: £nil). Donations totalling £51,658 (2022: £112,075) were made to charities during 2023. In addition to this figure, an amount of £3,500 (2022: £3,560) was paid in respect of medical insurance policies that included 14 hospice donations 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 meetings, including several that assess how well the Society is meeting its commitments to good customer outcomes.

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 notice of meeting. In 2023 the AGM information pack continued to raise a number of member questions, which the Board welcomed, considered and provided a response to.

### Bonuses to Holloway plan policyholders (Long Term Business Fund)

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

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

### Bonus Declaration

Ordinary Shares: £1.60 (2022: £1.60)

Commuted Shares: £1.83 (2022: £1.82)

### Interest Rates

Ordinary Accounts 6.0% (2022: 4.2%)

Commuting Members and Juveniles: 1.5% (2022: 1.5%)

Over 65's: 1.5% (2022: 1.5%)

The Terminal Bonus to be paid to all ordinary members whose policies mature or surrender from April 2024 will be 80% of the member’s dividend account. The equivalent Terminal Bonus rate for April 2023 to March 2024 was 80%.

The total of all dividend accounts is the Members Dividend Account, which is held at face value as a liability in the Long Term Business Fund.

### 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

The Group With-Profits Actuary was Wendy Crockford during the year. In compliance with Section 77 of the Friendly Society's Act 1992, Mrs Crockford has confirmed that neither she nor her family have any pecuniary interest in the Society, in respect of her role as the Fund’s Actuary.

### Independent external auditors

The Audit Committee oversees the Group'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 reappointed as the Group's independent external auditors at the Annual General Meeting on 26 June 2023. Mazars LLP are willing to continue in office and a resolution will be proposed at the Annual General Meeting scheduled on 26 June 2024 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 of which can be found online on the Society’s website at www.the-exeter.com. A hard copy of these reports is also available upon request to the Society.

For those members with special requirements such, as a Braille copy of the AGM pack, please contact the Society so this can be arranged for you.

The AGM of the Society will be held at midday on 26 June 2024 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. All directors of the Board are present at the AGM to answer questions.

## Statement of Board Responsibilities

### Going concern

The Strategic Report provides the 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 12. After making suitable enquiries, the directors are satisfied that there are adequate resources 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 81.

The Russian invasion of Ukraine has continued and the Israel-Hamas conflict is ongoing, causing increased geopolitical instability in the wider Middle East. We have not seen and do not expect any impact on our operations, and we have considered potential impacts on our balance sheet through our investments. Our investment strategy is to invest only excess assets in investments, such as equities. Our equity investment at the end of 2023 was £8m (2022: £27m) with the remainder invested in lower-risk assets. Further information on the Group's investments is detailed in note 3.2. The reduction in value during 2023 is due to the sale of most of our equities following a review of our asset-liability matching. We are also exposed to inflation risk, which is increased due to supply-side risks. For some of our liabilities, we mitigate this risk by holding index- linked bonds to match those liabilities. The value of these index- linked bonds at the end of 2023 was £31m (2022: £30m). 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 no 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 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 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 strategic plan, and the strength of the 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. While 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 2023. The three-year rolling strategic plan is a formal projection of capital and liquidity based on profitability forecasts. The availability of the Business Plan gives management and the Board sufficient visibility and confidence in 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 Group's risk profile, material existing and emerging risks (please see the Principal risks and uncertainties set out on page 12), in particular those risks which management believes could cause the future results of operations or financial condition to differ materially from current expectations or could adversely impact the Group or 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 2026.
- 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 from approval of thse financial statements.
- Considered the stability of the markets in which it operates, supply chain resiliency and regulatory changes.
- 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 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 the strategy, which include:

- Geopolitical and macroeconomic environment – As a UK-focused business, the performance is aligned to the UK's economic conditions. Whilst there remains uncertainty regarding the future profile of interest rates, there remains 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. We continue to monitor and strengthen our control 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 expense efficiencies – 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.

## 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 81.

Approved on behalf of the Board of Directors:

**Peter Hubbard**
Board Chair
26 March 2024

**Isobel Langton**
Chief Executive
26 March 2024

# 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 2023 which comprise the Group and the Society Consolidated Statements of Income and Expenditure, the Group and the Society Statements of Other Comprehensive Income and Expenditure, the Group and the Society Balance Sheets, the Group and the Society Statement of Cash Flows and notes to the consolidated 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 2023 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 each continue as a going concern;
- Inspecting the ‘Going Concern and Viability Review’ prepared by management for the Board, covering the going concern period of 12 months from the date of approval of the financial statements and challenging management’s inputs derived from the Group Own Risk and Solvency Assessment Report and Business Plan;
- Inspecting regulatory correspondence for the Society with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA);
- Inspecting the Group Own Risk and Solvency Assessment Report, which gives a forward-looking assessment of own risks and solvency requirements and the future capital position based on modelled scenarios applied by the Board, and contains severe but plausible Reverse Stress and Scenario Tests;
- Evaluating the business plan for the Group by challenging the appropriateness of management’s assumptions and judgements made in their business plan. In doing so, key assumptions such as forecast growth were agreed to relevant market data and the historical accuracy of management forecasts were reviewed;
- Inspecting the board minutes of the Society for the year and up to the date of approval of the financial statements;
- 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 each 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, was communicated to the Audit Committee through our Audit Completion Report.

| Key Audit Matter | How our scope addressed this matter |
| --- | --- |
| **Valuation of the gross long-term insurance contract asset**<br><br>The valuation of the Group's and the Society's gross long-term insurance asset, as disclosed in Note 1.2ii, Note 21 and Note 23, is significant at £127,104k (2022: £92,887k). It is based on estimates and is subject to estimation uncertainty.<br><br>The valuation of the long-term insurance contract asset is subjective, particularly selecting and applying the assumptions (economic and non-economic) and the methods and approaches used to determine its valuation.<br><br>The valuation of the long-term insurance contract asset is particularly sensitive to the assumptions for morbidity and persistency.<br><br>Consequently, if either of these assumptions were inappropriate, it could lead to a material misstatement in the financial statements. | In conjunction with our actuarial specialist team members, our procedures to address the valuation of the gross long-term insurance contract asset included, but were not limited to, the following:<br><br>In conjunction with our actuarial specialist team members, our procedures to address the valuation of the gross long-term insurance contract asset included, but were not limited to, the following:<br><br>• considering the model governance and assessing the appropriateness of the design and implementation of key controls around reserving by assessing appropriateness of the documentation of model changes and the completeness and execution of regression testing over these;<br>• evaluating the morbidity assumptions by sample testing individual contracts to validate the accuracy of the proposed inception basis for the most material products. This included investigating any anomalies or deviations from the proposed assumption rate;<br>• evaluating the persistency assumptions by conducting a 'goodness of fit' test to confirm the appropriateness of the proposed basis;<br>• evaluating the mortality assumptions by conducting a 'goodness of fit' test to confirm the appropriateness of the proposed basis;<br>• assessing the robustness of the design and execution of the experience analysis process and challenging management on expert judgements made;<br>• recalculating expenses assumptions and testing the allocation of expenses to fund, product and activity, having regard to consistency with audited data and the robustness of the forecasting process;<br>• testing accuracy and completeness between the starting point (e.g. administration system output) and the end point (e.g. model point files) used for the valuation;<br>• critically assessing the model changes by reviewing the regression test results to determine if the impacts are in line with expectations from the Society's initial estimates;<br>• challenging the calculations performed by management in the setting of the bonus rates and the calculation of the sustainable bonus rates for Holloway by undertaking independent recalculations of the bonus rates; and<br>• confirming the reconciliation of changes in technical provisions and excess assets to the accounts.<br><br>**Our observations**<br><br>Based on the work performed and the audit evidence obtained, we consider that the valuation of the gross 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: £3,806k (2022: £3,474k). |
| 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%) (2022: 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 Society's financial position and performance.<br><br>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.<br><br>We set performance materiality at £2,854k (2022: £2,605k), which represents 75% (2022: 75%) of overall materiality.<br><br>When determining performance materiality, we considered our knowledge of the Group and the Society, the overall control environment, as well as the number, nature and size of misstatements identified in previous audits. |
| Reporting threshold | We agreed with the directors that we would report to them misstatements identified during our audit above £190k (2022: £174k) 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 the 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 the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 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:

- adequate accounting records have not been kept by the Group and the Society; or

- the Group and Society consolidated 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 64, 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 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 considered that non-compliance with the laws and regulations of the Prudential Regulation Authority (PRA)and the Financial Conduct Authority (FCA) 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 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 the PRA and the FCA;
- Reviewing minutes of directors' meetings in the year and up to the date of issue of the audit report; and
- Discussing amongst the engagement team the laws and regulations 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 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 valuation of the long-term insurance contract asset, significant one-off or unusual transactions and the completeness and accuracy of new business premiums.

Our 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;
- Considering the rationale for any changes to historical methodologies or assumptions used for significant accounting estimates; and
- Performing the work set out under 'Key audit matters' within this report over the valuation of the long-term business provision.

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 remains 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 four years, covering the years ended 31 December 2020 to 31 December 2023.

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
30 Old Bailey
London
EC4M 7AU
26 March 2024

# Consolidated Statements of Income and Expenditure

## for the year ended 31 December 2023

| Technical Account - General Business | Notes | Group | | Society | |
|---|---|---|---|---|---|
| | | 2023 | 2022 | 2023 | 2022 |
| | | £000 | £000 | £000 | £000 |
| Premiums written | 5 | 56,081 | 38,628 | 53,608 | 36,136 |
| Change in the provision for unearned premiums | 5 | (8,413) | (2,508) | (8,418) | (2,469) |
| **Earned premiums** | | 47,668 | 36,120 | 45,190 | 33,667 |
| Claims incurred | | | | | |
| - Claims paid | 7 | (32,828) | (29,663) | (30,963) | (27,888) |
| - Change in the provision for claims amount | 8 | (2,516) | (234) | (2,530) | (256) |
| **Total claims incurred** | | (35,344) | (29,897) | (33,493) | (28,144) |
| **Net operating expenses** | 9 | (17,734) | (10,991) | (16,727) | (10,067) |
| **Balance on the general business technical account** | | (5,410) | (4,768) | (5,030) | (4,544) |

| Technical Account - Long Term Business | Notes | Group | | Society | |
|---|---|---|---|---|---|
| | | 2023 | 2022 | 2023 | 2022 |
| | | £000 | £000 | £000 | £000 |
| Gross premiums written | 5 | 47,332 | 41,779 | 47,332 | 41,779 |
| Outwards reinsurance premiums | 5 | (15,535) | (13,577) | (15,535) | (13,577) |
| **Earned premiums net of reinsurance** | | 31,797 | 28,202 | 31,797 | 28,202 |
| Investment Income | | | | | |
| - **Income from other investments** | 6 | 146 | 326 | 146 | 326 |
| Unrealised gains on investments | 6 | 803 | 0 | 803 | 0 |
| Claims incurred, net of reinsurance | | | | | |
| - Gross claims paid | 7 | (15,659) | (15,298) | (15,659) | (15,298) |
| - Reinsurers' share | 7 | 8,287 | 8,554 | 8,287 | 8,554 |
| - Change in the provision for claims gross amount | 8 | 35,089 | 1,158 | 35,089 | 1,158 |
| - Change in the provision for claims reinsurers' share | 8 | (4,798) | (1,864) | (4,798) | (1,864) |
| - Bonus and rebates | | (872) | (808) | (872) | (808) |
| **Total claims incurred** | | 22,047 | (8,258) | 22,047 | (8,258) |
| **Net operating expenses** | 9 | (37,416) | (32,635) | (37,416) | (32,635) |
| Investment expenses and charges | | | | | |
| - Investment expenses and charges | | (5) | (17) | (5) | (17) |
| - Value adjustment on financial liability financing | | (334) | (103) | (334) | (103) |
| - Losses on realisation of investments | | (632) | (218) | (632) | (218) |
| **Total investment expenses and charges** | 6 | (971) | (338) | (971) | (338) |
| Unrealised losses on investments | 6 | 0 | (826) | 0 | (826) |
| Tax attributable to long term business | | 0 | 0 | 0 | 0 |
| **Excess of income over expenditure / (excess of expenditure over income)** | | 16,406 | (13,529) | 16,406 | (13,529) |
| (Transfer to) / transfer from the fund for future appropriations | | (16,406) | 13,529 | (16,406) | 13,529 |
| **Balance on the long-term business technical account** | | 0 | 0 | 0 | 0 |

| Non-Technical Account | | Group | | Society | |
|---|---|---|---|---|---|
| | | 2023 | 2022 | 2023 | 2022 |
| | Notes | £000 | £000 | £000 | £000 |
| Balance on the general business technical account | | (5,410) | (4,768) | (5,030) | (4,544) |
| Balance on the long-term business technical account | | 0 | 0 | 0 | 0 |
| Investment income | 6 | | | | |
| - Income from other investments | | 2,166 | 1,679 | 2,093 | 1,630 |
| Unrealised losses on investments | 6 | (1,507) | (17,361) | (1,580) | (17,161) |
| Investment expenses and charges | 6 | | | | |
| - Investment expenses and charges | | (235) | (269) | (235) | (269) |
| - Gains on realisation of investments | | 5,655 | 2,471 | 5,655 | 2,471 |
| Impairment of investment in subsidiary | 14 | 0 | 0 | (200) | (243) |
| Excess of income over expenditure / (excess of expenditure over income) on ordinary activities before tax | | 668 | (18,248) | 703 | (18,116) |
| Tax on excess of income over expenditure on ordinary activities | | 0 | 0 | 0 | 0 |
| **Excess of income over expenditure / (excess of expenditure over income) on ordinary activities after tax** | | 668 | (18,248) | 703 | (18,116) |

All income and expenditure relate to continuing operations. 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.

The notes from pages 81 to 128 form part of these financial statements.

# Statements of Other Comprehensive Income and Expenditure

## for the year ended 31 December 2023

| | | Group | | Society | |
|---|---|---|---|---|---|
| | | **2023** | 2022 | **2023** | 2022 |
| | **Notes** | **£000** | £000 | **£000** | £000 |
| Excess of income over expenditure / (excess of expenditure over income) on ordinary activities before tax | | **668** | (18,248) | **703** | (18,116) |
| Actuarial loss on pension scheme | 20 | **(559)** | (1,275) | **(559)** | (1,275) |
| Unrealised (loss) / gain on property revaluation | | **(106)** | 44 | **(106)** | 44 |
| **Total recognised gain / (loss) in the year** | | **3** | (19,479) | **38** | (19,347) |

# Statement of Changes in Equity

## For the year ended 31 December 2023

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 analysed in note 19.

# Balance Sheets

## as at 31 December 2023

| | Notes | Group 2023 £000 | Group 2022 £000 | Society 2023 £000 | Society 2022 £000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Intangible assets** | | | | | |
| - Intangible assets | 15 | **4,679** | 2,146 | **4,679** | 2,146 |
| **Investments** | | | | | |
| - Investments in group undertakings | 14 | **0** | 0 | **3,083** | 3,284 |
| - Other financial investments | 17 | **81,555** | 97,593 | **79,711** | 95,821 |
| **Insurance contract asset** | | | | | |
| - Insurance contract assets | 21 | **136,960** | 102,837 | **136,960** | 102,837 |
| **Debtors** | | | | | |
| - Debtors arising out of direct insurance operations | 18 | **27,358** | 18,162 | **26,558** | 17,349 |
| **Other Assets** | | | | | |
| - Property and Equipment | 16 | **3,109** | 3,604 | **3,109** | 3,604 |
| - Cash at bank | | **10,673** | 8,748 | **9,128** | 6,931 |
| - Amounts due from subsidiary undertakings | | **0** | 0 | **37** | 62 |
| - Pension Scheme Surplus | 20 | **519** | 1,031 | **519** | 1,031 |
| **Prepayments and accrued income** | | | | | |
| - Accrued interest | | **79** | 68 | **79** | 68 |
| - Deferred acquisition costs | 13 | **9,493** | 2,861 | **9,414** | 2,746 |
| - Prepayments | | **402** | 536 | **395** | 522 |
| **Total Assets** | | **274,827** | 237,586 | **273,672** | 236,401 |

| | Notes | Group | | Society | |
|---|---|---|---|---|---|
| | | **2023** | 2022 | **2023** | 2022 |
| | | **£000** | £000 | **£000** | £000 |
| **LIABILITIES** | | | | | |
| **Reserves** | 19.1 | | | | |
| - General Business Fund reserve | | **89,010** | 88,342 | **88,931** | 88,228 |
| - Revaluation reserve | | **552** | 658 | **552** | 658 |
| - Pension reserve | | **167** | 720 | **167** | 720 |
| **Fund for future appropriations** | 19.2 | **100,492** | 84,093 | **100,492** | 84,093 |
| **Technical provisions** | 21 | | | | |
| - Provision for unearned premiums | | **25,993** | 17,580 | **25,399** | 16,981 |
| - Reinsurers' share of technical provisions | | **21,444** | 16,647 | **21,444** | 16,647 |
| - Unexpired Risk reserve | | **1,858** | 922 | **1,858** | 922 |
| - Claims outstanding | | **6,377** | 4,861 | **6,205** | 4,675 |
| - Members' dividend account | | **9,236** | 9,267 | **9,236** | 9,267 |
| **Financial Liability - Financing** | 24 | **3,531** | 1,278 | **3,531** | 1,278 |
| **Creditors** | | | | | |
| - Creditors arising out of direct insurance and reinsurance operations | | **4,066** | 3,728 | **4,020** | 3,663 |
| - Amounts due to subsidiary undertakings | | **0** | 0 | **28** | 28 |
| - Other creditors including tax and social security | 27 | **4,339** | 4,115 | **4,235** | 3,997 |
| - Pension liability | 20 | **90** | 90 | **90** | 90 |
| **Accruals and deferred income** | | **7,672** | 5,285 | **7,484** | 5,154 |
| **Total Liabilities** | | **274,827** | 237,586 | **273,672** | 236,401 |

The financial statements beginning on page 74 and the notes on pages 81 to 128 were approved and authorised for issue by the Board of Directors on 26 March 2024 and were signed on its behalf by:

**Peter Hubbard**
Board Chair
26 March 2024

**Isobel Langton**
Chief Executive
26 March 2024

# Statement of Cash Flows

## for the year ended 31 December 2023

| | | Group | | Society | |
|---|---|---|---|---|---|
| | | 2023 | 2022 | 2023 | 2022 |
| | Notes | £000 | £000 | £000 | £000 |
| **Cash flows from operating activities** | | | | | |
| Cash generated from / (used in) operating activities | 29 | **1,273** | (9,933) | **1,617** | (9,480) |
| Dividend income received | 29 | **414** | 411 | **414** | 411 |
| Interest income received | 29 | **1,898** | 1,594 | **1,826** | 1,544 |
| **Net cash generated from / (used in) operating activities** | | **3,585** | (7,928) | **3,857** | (7,525) |
| **Cash flows from investing activities** | | | | | |
| Purchase of property and equipment | 16 | **(4)** | (158) | **(4)** | (158) |
| Purchase of intangible assets | 15 | **(3,758)** | (99) | **(3,758)** | (99) |
| **Net cash (used in) investing activities** | | **(3,762)** | (257) | **(3,762)** | (257) |
| **Cash flows from financing activities** | | | | | |
| Increase in financial liability - financing | | 2,113 | 648 | 2,113 | 648 |
| **Net cash generated from financing activities** | | **2,113** | 648 | **2,113** | 648 |
| **Exchange rate (loss) / gain on cash and cash equivalents** | | **(11)** | 33 | **(11)** | 33 |
| **Net increase / (decrease) in cash and cash equivalents** | | **1,925** | (7,504) | **2,197** | (7,101) |
| **Cash and cash equivalents at the beginning of the year** | | **8,748** | 16,252 | **6,931** | 14,032 |
| **Cash and cash equivalents at the end of the year**[1] | | **10,673** | 8,748 | **9,128** | 6,931 |

[1] Cash and cash equivalents consist solely of cash at bank, of which £2.9m was held with AXA (2022: £2.2m)

The notes on pages 81 to 128 form part of these financial statements.

### Analysis of change in net debt

| | | Cash Flows | | |
|---|---|---|---|---|
| **Group** | **At 1 Jan 2023** | **Cash** | **Non-cash** | **At 31 Dec 2023** |
| | **£000** | **£000** | **£000** | **£000** |
| **Cash and cash equivalents** | 8,748 | 1,925 | **0** | 10,673 |
| **Financial Liabilities - Financing (note 24)** | | | | |
| Financial liability - financing | **(1,176)** | (1,594) | (334) | (3,104) |
| Value adjustment on financial liability - financing | **(102)** | 0 | (325) | (427) |
| | **(1,278)** | **(1,594)** | **(659)** | **(3,531)** |
| **Total** | **7,470** | **331** | **(659)** | **7,142** |

| **Society** | **At 1 Jan 2023** | **Cash** | **Non-cash** | **At 31 Dec 2023** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| **Cash and cash equivalents** | 6,931 | 2,197 | **0** | 9,128 |
| **Financial Liabilities - Financing (note 24)** | | | | |
| Financial liability - financing | **(1,176)** | (1,594) | (334) | (3,104) |
| Value adjustment on financial liability - financing | **(102)** | 0 | (325) | (427) |
| | **(1,278)** | **(1,594)** | **(659)** | **(3,531)** |
| **Total** | **5,653** | **603** | **(659)** | **5,597** |

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2023

## 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).

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 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

The directors have applied judgement in determining the most appropriate policies.

## ii Valuation of long term technical provisions

The Group 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 the income protection business is underwritten at the outset, we have considered the contract boundary to be the policy 'retirement' date. Around 35% of the income protection business (as at 31 December 2023 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 Group 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 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 Group (negative reserves). Allowance is made however for negative reinsurance reserves where there is an expected cash outflow due to the reinsurer. The Group has two main reinsurance contracts with Pacific Life Re and Swiss Re. The Group 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 Group'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 an initial reinsurance commission to be paid to the Group. 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. Since 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**.

The effect of assumptions will have an impact in both the current and future years.

## 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 Group and claims incurred but not 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**.

The effect of assumptions will have an impact in both the current and future years.

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

The value of pension obligations is determined using an actuarial valuation. This involves making assumptions about interest rates, expected returns, longevity and future benefit indexation. Due to the long term nature of these obligations, the estimates are subject to significant uncertainty. **Details of the key pension assumptions are contained in Note 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 uses their judgement to estimate the asset's recoverable amount. **Details are contained in Note 15**.

### v. The age at entry management account

The Age at Entry Management Account (AEMA) represents funds set aside to compensate for the ageing of the Age at Entry book and it is gradually released over time as the associated business runs off. The AEMA is not recognised as a liability of the Group or Society. However, internally we deduct it from available assets in our ORSA calculations. The AEMA is a discretionary amount and does not belong to the Age at Entry members, retaining the Society's right to reduce it or change the methodology if circumstances dictate. We ensure that any such changes are fully justified and are not made arbitrarily. The AEMA provides a stable and predictable means of managing the Age at Entry business in run-off.

## 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 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, with 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 policyholder meets certain pre-agreed conditions.<br><br>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.<br><br>The Professional Income Protection and Income One products have guaranteed premiums.<br><br>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. |

## 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 holds a Lapse Reinsurance treaty which 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 system. 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.

Claims costs include a reallocation of administration expenses calculated based on a percentage of claims incurred. For the year to 31 December 2023, this was 9.33% (2022: 9.62%) which includes the claims handling fee charged by AXA PPP Healthcare Limited for their services and internal costs.

### *b Long Term Business Fund*

All claims are accounted for on acceptance of the claims notification. Gross benefits and claims relate to payouts in 2023. 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 non-technical account when a 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 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 the 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 the 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's end. Exchange differences are taken to the statement of income and expenditure account.

## ix. Income Tax

The Society's Private Medical Insurance and 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, and is not discounted.

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. All other Property Plant and Equipment are measured under the cost model with depreciation being charged on a straight line basis over the useful life of the asset.

| | |
|---|---|
| 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, and will be in the range of 3 to 10 years. 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. Investments in subsidiary undertakings are assessed for impairment when there are indicators of impairment. These indicators include when the net assets of the subsidiary undertaking fall below the carrying amount of the investment in the group undertaking.

## 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 asset - financing***

A financial asset is recognised in respect of amounts receivable from the reinsurer which is included within 'Other financial investments - financial reinsurance' and is measured at fair value through profit or loss.

## 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. Financial Liability - Financing

On 22 October 2022, the Society entered into a contract which has the legal form of a (re)insurance contract but does not meet the definition of an insurance contract under FRS 103.

The arrangement had an effective date of July 2022 and covers new business sales of the Real Life product for a period of three and a half years from July 2022 to December 2025. The reinsurer will pay a proportion of the initial commission on covered policies in exchange for a proportion of cashflows arising from those policies, until the borrowing plus interest is repaid, with a maximum repayment term of 12 years (until expiry on 31 December 2034). Interest is applied using a 3-month compound SONIA plus a fixed spread. Since the contract does not transfer significant insurance risk, it is accounted for as a financial liability under 'xvii. Financial Liability - Financing' and is recorded at fair value through profit or loss.

The fair value of the liability is the reserve held for future repayments. This reserve is calculated on a basis consistent with Solvency II and represents the present value of future expected cash outflows to service the debt. Fair value movements, including accrued interest, are recognised within the 'Value adjustment on financial liability financing' in the Technical Account - Long term business.

A financial asset is recognised in respect of amounts receivable from the reinsurer which is included within 'Other financial investments'. This is also measured at fair value through profit or loss.

The impact of this arrangement on the Group financial statements is disclosed in note 24.

## xviii. 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 is limited to the asset ceiling defined as the 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. Interest to the net benefit liability (asset) is charged on the statement of income and expenditure account. Actuarial gains and losses are disclosed in the statement of income and expenditure. 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.

## xix. Provisions

Provisions are recognised when the Society or Group 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.

## xx 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 either as an operating expense or in the case of receivables, premium income.

## xxi. 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 on insurance liabilities to ensure that the carrying amount of liabilities (less related intangible assets) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. This test is performed separately for the General Business Fund and the Long Term Business Fund. Any shortfall is charged immediately to the Statement of Comprehensive Income.

## xxii. 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 policyholders 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 dates.

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 policyholders as at the balance sheet date.

## xxiii. Holloway policies - the members' dividend account

Our Holloway policies are Income Protection plans which are designed to provide the member with a source of income if they are unable to work as a result of an accident, illness or injury. There is also an investment element to Holloway policies which provides an annual bonus to our members as well as an annual interest payment based on the member’s bonus pot.

Holloway members will receive an annual bonus depending on the level of income protection benefit they have. This is determined by the number of ‘units’ (also known as shares) the member has and each unit is worth a certain ‘dividend’ (an amount). The bonus amount is calculated as of 31 December each year and this is announced by letter to the member the following spring.

Holloway members also receive an annual interest payment added to the bonus, which is based on their bonus pot as of 31 December. If the member cancels the policy before 31 December of the previous year, then the amount of interest will be calculated on a pro-rata basis.

If a Holloway policy is terminated because of death, maturity or cancellation, a terminal bonus is added to the policy's bonus amount. If the policy is cancelled before the maturity age, then the member will lose their last 2 years' dividend bonus.

The Members Dividend Account is the total of the bonus pots across all Holloway members.

# 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.

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

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

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

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

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

The Society has entered into a financial reinsurance agreement see note 24. This generates both an asset and a liability on our balance sheet and does not materially change our available solvency capital.

The Group 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 (unaudited)**

| | General Business Fund | |
|---|---|---|
| | **2023** | **2022** |
| | **£000** | **£000** |
| **Available capital** | **84,613** | **87,780** |
| Capital requirements: | | |
| MCR | 4,394 | 5,307 |
| SCR | 17,574 | 21,229 |
| **Available capital as a % of MCR** | 1926% | 1654% |
| **Available capital as a % of SCR** | 481% | 414% |

**Long Term Fund (unaudited)**

| | Long term Business Fund | |
|---|---|---|
| | **2023** | **2022** |
| | **£000** | **£000** |
| **Available capital** | **97,147** | **80,988** |
| Capital requirements: | | |
| MCR | 14,663 | 13,797 |
| SCR | 58,653 | 55,188 |
| **Available capital as a % of MCR** | 663% | 587% |
| **Available capital as a % of SCR** | 166% | 147% |

**The Exeter Cash Plan (unaudited)**

| | Exeter Cash Plan | |
|---|---|---|
| | **2023** | 2022 |
| | **£000** | £000 |
| **Available capital** | **3,152** | 3,323 |
| Capital requirements: | | |
| MCR | 2,359 | 2,325 |
| SCR | 642 | 661 |
| **Available capital as a % of MCR** | 134% | 143% |
| **Available capital as a % of SCR** | 491% | 503% |

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 for 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 are 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 | **2023** | 2022 | **2023** | 2022 |
| **Statutory fund for future appropriations** | | **£000** | £000 | **£000** | £000 |
| Opening fund for future appropriations | | **84,093** | 97,601 | **84,093** | 97,601 |
| Transfer to / (transfer from) the fund for future appropriations | | **16,406** | (13,529) | **16,406** | (13,529) |
| Actuarial (loss) / gain | | **(7)** | 21 | **(7)** | 21 |
| **Closing fund for future appropriations** | | **100,492** | 84,093 | **100,492** | 84,093 |
| **Reconciliation to Solvency II own funds (unaudited)** | | | | | |
| Closing fund for future appropriations | | **100,492** | 84,093 | **100,492** | 84,093 |
| **Adjustments required for Solvency II:** | | **(3,345)** | (3,105) | **(3,345)** | (3,105) |
| **Own funds under Solvency II** | | **97,147** | 80,988 | **97,147** | 80,988 |

The capital statement above has been prepared on an aggregate basis, for the total Long Term Insurance Fund based on current accounting principles. The total available capital resources of the Society's long term insurance business amounted to £100.5 million (2022: £84.1 million).

## 2.3 Capital management - General insurance business

| | Note | Group | | Society | |
|---|---|---|---|---|---|
| | Note | **2023** | 2022 | **2023** | 2022 |
| **Statutory reserves** | | **£000** | £000 | **£000** | £000 |
| Opening Reserves | | **89,718** | 109,219 | **89,605** | 108,974 |
| Excess of income over expenditure / (excess of expenditure over income) | | **668** | (18,248) | **703** | (18,116) |
| Actuarial loss on pension scheme | | **(553)** | (1,297) | **(553)** | (1,297) |
| Unrealised (loss) / gain on property revaluation | | **(106)** | 44 | **(106)** | 44 |
| **Closing Reserves** | | **89,727** | 89,718 | **89,649** | 89,605 |
| **Reconciliation to Solvency II own funds (unaudited)** | | | | | |
| Closing reserves | | **89,727** | 89,718 | **89,649** | 89,605 |
| **Adjustments required for Solvency II:** | | **(1,963)** | 1,386 | **(5,036)** | (1,825) |
| **Own funds under Solvency II** | | **87,765** | 91,104 | **84,613** | 87,780 |

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 the 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 £28.5 million (2022: £29.3 million) of the General Reserve has been allocated to cover future underwriting losses arising from these age-at-entry policies. The Society does not guarantee this level of capital allocation and will be guided by the need to ensure its continued financial well-being and to meet statutory levels of solvency. Under Solvency II regulations total available capital resources of the Society's general business after adjustments for age-at-entry policies amounted to £56.7 million (2022 on a comparative basis: £58.1 million).

## 2.4 Capital management - Cash plan business

The cash plan operations are conducted through The Exeter Cash Plan, 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 £3.1 million (2022: £3.3 million).

# 3 Risk management

This section alongside the Risk Report on page 12 summarises the principal risks that the Society is exposed to and the way the Society manages them.

## 3.1 Risks Customers transfer to the Group (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 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 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 insurance risks and the associated sub-risks are as follows:

| | |
|---|---|
| **Mortality Critical Illness Risk** | • Mortality & Critical Illness Pricing & Product Development Risk<br>• 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<br>• Morbidity Other Actuarial Risk |
| **Persistency Risk** | • Persistency Actuarial risk |

One must be cautious of the risk of loss as a result of inaccurate/excessive reserving and 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, Real Life, Impaired Life, CI, IP & PMI.

Mispriced policies resulting in a lack of sales or unsustainable volume of sales could lead to members being disadvantaged; thus, receiving member/broker complaints. In addition, if there are is 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 and Group 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 substantially all of its business has been written 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 Group'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 bonuses and/or reversionary bonuses or reducing overheads.

### Sensitivity Analysis

The impact on policy reserves of sensitivities to key valuation assumptions is detailed on page 123.

## i. Long term insurance

On life and income protection business, the Group 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 2023. The table below sets them out by type of contract.

| | | 2023 | | | 2022 | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| **Group (note 21.3)** | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Holloway income protection | **5,096** | **0** | **5,096** | 4,585 | 0 | 4,585 |
| Other income protection | **(122,918)** | **26,186** | **(96,732)** | (96,718) | 21,994 | (74,724) |
| Term assurance | **(19,138)** | **(4,742)** | **(23,880)** | (10,704) | (5,347) | (16,051) |
| **Total** | **(136,960)** | **21,444** | **(115,516)** | (102,837) | 16,647 | (86,190) |
| **Society (note 21.3)** | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Holloway income protection | **5,096** | **0** | **5,096** | 4,585 | 0 | 4,585 |
| Other income protection | **(122,918)** | **26,186** | **(96,732)** | (96,718) | 21,994 | (74,724) |
| Term assurance | **(19,138)** | **(4,742)** | **(23,880)** | (10,704) | (5,347) | (16,051) |
| **Total** | **(136,960)** | **21,444** | **(115,516)** | (102,837) | 16,647 | (86,190) |

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:

| | **Group** | | **Society** | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| UK | **5,561** | 4,021 | **5,389** | 3,835 |
| International | **197** | 157 | **197** | 157 |
| **Total** | **5,758** | 4,178 | **5,586** | 3,992 |

The development of insurance liabilities provides a measure of the Society and Group'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** | **2021** | **2022** | **2023** | **Total** |
|---|---|---|---|---|
| Estimate of ultimate claims costs | | | | |
| At the end of the reporting year | 28,797 | 27,326 | 32,665 | 88,788 |
| One year later | 29,854 | 27,217 | | |
| Two years later | 29,854 | | | |
| Current estimate of cumulative claims incurred | 29,854 | 27,217 | 32,665 | 89,736 |
| Cumulative payments to date | (29,854) | (27,217) | (27,080) | (84,151) |
| Liability recognised in the balance sheet | | 0 | 5,585 | 5,585 |
| Reserve in respect of prior years | | | | 0 |
| **Total reserve included in the balance sheet** | 0 | 0 | 5,585 | 5,585 |

## 3.2 Financial Risks

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

The Financial Risks that we incur are further analysed in the Risk Management Report on page 12.

## Market Risk

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.

## Interest rate risk

Interest rate risk arises primarily from investments in fixed-interest securities. In addition, to the extent that claims costs are related to interest rates, liabilities to members are exposed to interest rate risk. Some insurance contracts have benefit payments that are fixed and guaranteed at the inception of the contract. The Society's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

An 1% increase in interest rates would result in a 5.5% fall (2022: 3.0% fall) in available funds (assets less liabilities in the ORSA) at the end of 2023. A 1% decrease in interest rates would result in a 6.2% increase in available funds.

Borrowings issued at variable rates expose the Society to cash flow interest rate risk. The financial reinsurance contract is linked to SONIA and therefore the interest on borrowing will vary with interest rates. A 1% increase in interest rates would increase the projected discounted cash flows by 0.2% (2022: 0.3%). A 1% fall in interest rates would decrease the projected discounted cash flows by 0.3% (2022: 0.2%).

## Equity price risk

The Society is exposed to equity price risk as a result of its holdings in Royal London equity tracker funds.

The sensitivity analysis for equity price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes to market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

A 40% fall in equity prices would result in a 5% decrease (2022: 6%) in available funds (assets less liabilities in the ORSA).

## Currency risk

The Society is exposed to currency risk in respect of liabilities under a small number of insurance policies denominated in euro. The Society seeks to mitigate the risk by holding a bank account in euros. The currency risk is not material and therefore a sensitivity analysis is not provided.

## Credit Risk

Credit risk relates to counterparties to the Group failing to meet their financial obligations. The Group takes on investment credit risk when it is considered beneficial to do so in support of the Group's strategic objectives and in matching policyholder liabilities. The Group 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 12. In addition, the Group and Society are 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** | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Debt securities - UK securities (notes 17.2 and 17.3) | **73,072** | 70,412 | **71,228** | 68,640 |
| Financial Liability - Financing | **334** | 528 | **334** | 528 |
| Insurance Receivables (notes 18.1 and 18.2) | **27,358** | 18,162 | **26,558** | 17,349 |
| Cash and cash equivalents | **10,673** | 8,748 | **9,128** | 6,931 |
| **Total assets bearing credit risk** | **111,437** | 97,850 | **107,248** | 93,448 |

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).

**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).

**Royal London Corporate Bond 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 corporate bonds.

At 31 December 2023, the credit quality of the Fund was split as follows:

**Group**

| | AAA | AA | A | BBB | B | Unrated | Total |
|---|---|---|---|---|---|---|---|
| Government securities | 0 | 30,923 | 0 | 0 | 0 | 0 | 30,923 |
| Corporate Bonds | 2,313 | 4,139 | 11,206 | 21,372 | 2,148 | 971 | 42,149 |
| Cash and cash equivalents | 0 | 417 | 10,249 | 5 | 0 | 0 | 10,673 |
| Total assets | 2,313 | 35,479 | 21,455 | 21,377 | 2,148 | 971 | 83,745 |

**Society**

| | AAA | AA | A | BBB | B | Unrated | Total |
|---|---|---|---|---|---|---|---|
| Government securities | 0 | 30,923 | 0 | 0 | 0 | 0 | 30,923 |
| Corporate Bonds | 2,272 | 3,933 | 10,760 | 20,225 | 2,144 | 971 | 40,305 |
| Cash and cash equivalents | 0 | 417 | 8,706 | 5 | 0 | 0 | 9,128 |
| Total assets | 2,272 | 35,273 | 19,466 | 20,230 | 2,144 | 971 | 80,356 |

At 31 December 2022, the credit quality of the Fund was split as follows:

**Group**

| | AAA | AA | A | BBB | B | Unrated | Total |
|---|---|---|---|---|---|---|---|
| Government securities | 0 | 30,188 | 0 | 0 | 0 | 0 | 30,188 |
| Corporate bonds | 1,246 | 2,641 | 7,834 | 21,561 | 4,161 | 2,781 | 40,224 |
| Total debt securities | 1,246 | 32,829 | 7,834 | 21,561 | 4,161 | 2,781 | 70,412 |
| Cash and cash equivalents | 0 | 410 | 8,331 | 6 | 0 | 0 | 8,747 |
| Total Assets | 1,246 | 33,240 | 16,164 | 21,567 | 4,161 | 2,781 | 79,158 |

**Society**

| | AAA | AA | A | BBB | B | Unrated | Total |
|---|---|---|---|---|---|---|---|
| Government securities | 0 | 30,188 | 0 | 0 | 0 | 0 | 30,188 |
| Corporate bonds | 1,200 | 2,455 | 7,407 | 20,449 | 4,161 | 2,781 | 38,452 |
| Total debt securities | 1,200 | 32,643 | 7,407 | 20,449 | 4,161 | 2,781 | 68,640 |
| Cash and cash equivalents | 0 | 410 | 6,515 | 6 | 0 | 0 | 6,931 |
| Total Assets | 1,200 | 33,053 | 13,922 | 20,454 | 4,161 | 2,781 | 75,571 |

## Liquidity Risk

Liquidity risk is the risk that the Group and Society, although solvent, are unable to meet their obligations as they fall due. The objective of liquidity risk management is to ensure that sufficient funds are available over the short and medium term to meet the needs of the Group and 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 12.

**Group**

| Maturity profile of financial liabilities and obligations 2023 | 2023 - Group Within 1 year £000 | 1-5 years £000 | Over 5 years £000 | No term £000 | Total £000 |
|---|---|---|---|---|---|
| Insurance contract liabilities (note 21) | | | | | |
| - Insurance contract liabilities | 34,228 | 0 | 0 | 0 | **34,228** |
| - Reinsurers' share of insurance contract assets (long term business fund) | 4,171 | 12,059 | 16,344 | (11,130)[1] | **21,444** |
| Financial Liability - financing | | | | | |
| - Financing (note 24) | 1,030 | 2,395 | 106 | 0 | **3,531** |
| Post-employment benefits obligations (note 20) | | | | | |
| - Pension benefit obligation (long term business fund) | 0 | 0 | 90 | 0 | **90** |
| Trade and other payables | | | | | |
| - Insurance payables (note 21) | 4,066 | 0 | 0 | 0 | **4,066** |
| - Other creditors including tax and social security (note 27) | 4,339 | 0 | 0 | 0 | **4,339** |
| - Accruals and deferred income | 7,672 | 0 | 0 | 0 | **7,672** |
| **Total financial liabilities** | **55,506** | **14,454** | **16,540** | **(11,130)** | **75,370** |

| Maturity profile of financial liabilities and obligations 2022 | 2022 - Group Within 1 year £000 | 1-5 years £000 | Over 5 years £000 | No term £000 | Total £000 |
|---|---|---|---|---|---|
| Insurance contract liabilities (note 21) | | | | | |
| - Insurance contract liabilities | 23,363 | 0 | 0 | 0 | **23,363** |
| - Reinsurers' share of insurance contract assets (long term business fund) | 3,277 | 10,342 | 25,521 | (22,493)[1] | **16,647** |
| Financial Liability - financing | | | | | |
| - Financing (note 24) | 368 | 782 | 128 | 0 | **1,278** |
| Post-employment benefits obligations (note 20) | | | | | |
| - Pension benefit obligation (long term business fund) | 0 | 0 | 90 | 0 | **90** |
| Trade and other payables | | | | | |
| - Insurance payables (note 21) | 3,728 | 0 | 0 | 0 | **3,728** |
| - Other creditors including tax and social security (note 27) | 4,115 | 0 | 0 | 0 | **4,115** |
| - Accruals and deferred income | 5,285 | 0 | 0 | 0 | **5,285** |
| **Total financial liabilities** | **40,136** | **11,124** | **25,739** | **(22,493)** | **54,506** |

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

**Society**

| Maturity profile of financial liabilities and obligations 2023 | 2023 - Society Within 1 year | 1-5 years | Over 5 years | No term | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Insurance contract liabilities (note 21) | | | | | |
| - Insurance contract liabilities | 33,462 | 0 | 0 | 0 | **33,462** |
| - Reinsurers' share of insurance contract assets (long term business fund) | 4,171 | 12,059 | 16,344 | (11,130) | **21,444** |
| Financial Liability - financing | | | | | |
| - Financing (note 24) | 1,030 | 2,395 | 106 | 0 | **3,531** |
| Post-employment benefits obligations (note 20) | | | | | |
| - Pension benefit obligation (long term business fund) | 0 | 0 | 90 | 0 | **90** |
| Trade and other payables | | | | | |
| - Insurance payables (note 21) | 4,020 | 0 | 0 | 0 | **4,020** |
| - Amounts due to subsidiary undertaking | 28 | 0 | 0 | 0 | **28** |
| - Other payables including tax and social security (note 27) | 4,235 | 0 | 0 | 0 | **4,235** |
| - Accruals and deferred income | 7,484 | 0 | 0 | 0 | **7,484** |
| **Total financial liabilities** | **54,430** | **14,454** | **16,540** | **(11,130)** | **74,294** |

| Maturity profile of financial liabilities and obligations 2022 | 2022 - Society Within 1 year | 1-5 years | Over 5 years | No term | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Insurance contract liabilities (note 21) | | | | | |
| - Insurance contract liabilities | 22,578 | 0 | 0 | 0 | **22,578** |
| - Reinsurers' share of insurance contract assets (long term business fund) | 3,277 | 10,342 | 25,521 | (22,493) | **16,647** |
| Financial Liability - financing | | | | | |
| - Financing (note 24) | 368 | 782 | 128 | 0 | **1,278** |
| Post-employment benefits obligations (note 20) | | | | | |
| - Pension benefit obligation (long term business fund) | 0 | 0 | 90 | 0 | **90** |
| Trade and other payables | | | | | |
| - Insurance payables (note 21) | 3,663 | 0 | 0 | 0 | **3,663** |
| - Amounts due to subsidiary undertaking | 28 | 0 | 0 | 0 | **28** |
| - Other payables including tax and social security (note 27) | 3,997 | 0 | 0 | 0 | **3,997** |
| - Accruals and deferred income | 5,154 | 0 | 0 | 0 | **5,154** |
| **Total financial liabilities** | **39,065** | **11,124** | **25,739** | **(22,493)** | **53,435** |

## 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 | | | |
|---|---|---|---|---|
| **2023** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets:** | **£000** | **£000** | **£000** | **£000** |
| Financial assets at fair value through income:[1] | | | | |
| - Equity securities (note 17.2) | 8,149 | 0 | 0 | **8,149** |
| - Debt securities (note 17.2) | 0 | 73,072 | 0 | **73,072** |
| - Financial asset financing (note 24) | 0 | 0 | 334 | **334** |
| **Total assets at fair value** | **8,149** | **73,072** | **334** | **81,555** |
| **Liabilities:** | | | | |
| Financial liabilities - financing at fair value through income | | | | |
| - Financial liability financing (note 24) | 0 | 0 | 3,531 | **3,531** |
| **Total liabilities at fair value** | **0** | **0** | **3,531** | **3,531** |

| | Group | | | |
|---|---|---|---|---|
| **2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets:** | **£000** | **£000** | **£000** | **£000** |
| Financial assets at fair value through income: | | | | |
| - Equity securities (note 17.2) | 26,653 | 0 | 0 | **26,653** |
| - Debt securities (note 17.2) | 0 | 70,412 | 0 | **70,412** |
| - Financial asset financing (note 24) | 0 | 0 | 528 | **528** |
| **Total assets at fair value** | **26,653** | **70,412** | **528** | **97,593** |
| **Liabilities:** | | | | |
| Financial liabilities - financing at fair value through income | | | | |
| - Financial liability financing (note 24) | 0 | 0 | 1,278 | **1,278** |
| **Total liabilities at fair value** | **0** | **0** | **1,278** | **1,278** |

[1] Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly. Level 3 Closed-ended funds that cannot be redeemed by the reporting entity at all until maturity

### 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 | | | |
|---|---|---|---|---|
| **2023** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets:** | **£000** | **£000** | **£000** | **£000** |
| Financial assets at fair value through income: | | | | |
| - Equity securities (note 17.1) | 8,149 | 0 | 0 | **8,149** |
| - Debt securities (note 17.1) | 0 | 71,228 | 0 | **71,228** |
| - Financial asset - financing (note 24) | 0 | 0 | 334 | **334** |
| **Total assets at fair value** | **8,149** | **71,228** | **334** | **79,711** |
| **Liabilities:** | | | | |
| Financial liabilities - financing at fair value through income | | | | |
| - Financial liability - financing (note 24) | 0 | 0 | 3,531 | **3,531** |
| **Total liabilities at fair value** | **0** | **0** | **3,531** | **3,531** |

| | Society | | | |
|---|---|---|---|---|
| **2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets:** | **£000** | **£000** | **£000** | **£000** |
| Financial assets at fair value through income: | | | | |
| - Equity securities (note 17.1) | 26,653 | 0 | 0 | **26,653** |
| - Debt securities (note 17.1) | 0 | 68,640 | 0 | **68,640** |
| - Financial asset - financing (note 24) | 0 | 0 | 528 | **528** |
| **Total assets at fair value** | **26,653** | **68,640** | **528** | **95,821** |
| **Liabilities:** | | | | |
| Financial liabilities - financing at fair value through income | | | | |
| - Financial liability - financing (note 24) | 0 | 0 | 1,278 | **1,278** |
| **Total liabilities at fair value** | **0** | **0** | **1,278** | **1,278** |

## 3.3 Risks that we incur in the course of normal business

All the risks within this category are variants of Operational Risk, which in turn is the risk of loss resulting from insufficient, inadequate, or ineffective people, processes and/or systems. These risks are addressed in the Risk Management Report on page 12.

## 3.4 Strategic & External Risks

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

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

Also captured within this category are the 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 Life products through broker distribution channels. All activities of the Long Term Business Fund are based in the United Kingdom.

# 5 Earned premiums net of reinsurance

| | | Group | | Society | |
|---|---|---|---|---|---|
| | | **2023** | 2022 | **2023** | 2022 |
| | | **£000** | £000 | **£000** | £000 |
| **Long Term Business - Gross Premiums Written** | | | | | |
| | Holloway income protection | **2,463** | 2,538 | **2,463** | 2,538 |
| | Life products | **12,931** | 10,254 | **12,931** | 10,254 |
| | Other income protection | **31,938** | 28,987 | **31,938** | 28,987 |
| **Gross premiums written** | | **47,332** | 41,779 | **47,332** | 41,779 |
| Outward reinsurance premiums | | **(15,535)** | (13,577) | **(15,535)** | (13,577) |
| **Earned premiums net of reinsurance** | | **31,797** | 28,202 | **31,797** | 28,202 |
| **General Business - Gross Premiums Written** | | | | | |
| | UK | **54,746** | 37,318 | **52,273** | 34,826 |
| | International | **1,335** | 1,310 | **1,335** | 1,310 |
| **Gross premiums written** | | **56,081** | 38,628 | **53,608** | 36,136 |
| Change in gross provision for unearned premiums | | **(8,413)** | (2,508) | **(8,418)** | (2,469) |
| **Total earned premiums** | | **47,668** | 36,120 | **45,190** | 33,667 |

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 | |
| | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| **Income from investments at fair value:** | | | | | | | | |
| Interest income | **1,752** | 1,268 | **146** | 326 | **1,680** | 1,219 | **146** | 326 |
| Dividend income | **414** | 411 | **0** | 0 | **414** | 411 | **0** | 0 |
| Net gains on the realisation of investments - debt securities | **0** | 2,471 | **0** | 0 | **0** | 2,471 | **0** | 0 |
| Net gains on the realisation of investments - equities | **6,048** | 0 | **0** | 0 | **6,048** | 0 | **0** | 0 |
| **Total investment income** | **8,214** | 4,150 | **146** | 326 | **8,142** | 4,101 | **146** | 326 |
| **Investment expenses and charges** | | | | | | | | |
| Total unrealised losses | | | | | | | | |
| Losses on the realisation of investments - debt securities | **(393)** | 0 | **(632)** | (218) | **(393)** | 0 | **(632)** | (218) |
| Value adjustment on the financial liability - financing | **0** | 0 | **(334)** | (103) | **0** | 0 | **(334)** | (103) |
| Investment Management expenses | **(235)** | (269) | **(5)** | (17) | **(235)** | (269) | **(5)** | (17) |
| **Total investment expenses** | **(628)** | (269) | **(971)** | (338) | **(628)** | (269) | **(971)** | (338) |
| Unrealised gains / (losses) on investments - debt securities | **2,560** | (16,231) | **803** | **(826)** | **2,487** | (16,031) | **803** | (826) |
| Unrealised (losses) on investments - equities | **(4,067)** | (1,130) | **0** | **0** | **(4,067)** | (1,130) | **0** | 0 |
| **Total investment return** | **(1,507)** | (17,361) | **803** | (826) | **(1,580)** | (17,161) | **803** | (826) |

# 7 Net benefits and claims

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| **Long term fund:** | | | | |
| Claims paid during the year | **13,963** | 13,927 | **13,963** | 13,927 |
| Payment of Terminal Bonuses | **793** | 686 | **793** | 686 |
| Change in the members' dividend account excluding interest & dividend credited | **903** | 685 | **903** | 685 |
| **Long term insurance contracts benefits and claims payable** | **15,659** | 15,298 | **15,659** | 15,298 |
| **General fund:** | | | | |
| Gross Claims | **32,828** | 29,663 | **30,963** | 27,888 |
| **General insurance contracts benefits and claims payable** | **32,828** | 29,663 | **30,963** | 27,888 |
| **Total gross benefits and claims** | **48,487** | 44,961 | **46,622** | 43,186 |
| **Reinsurers' share of gross benefits and claims** | **(8,287)** | (8,554) | **(8,287)** | (8,554) |
| **Net benefits and claims** | **40,200** | 36,407 | **38,335** | 34,632 |

# 8 Net change in insurance contract liabilities

**General Fund**

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Increase in gross insurance contract liabilities | **10,928** | 2,742 | **10,948** | 2,725 |
| Change in provision for unearned premium | **(8,412)** | (2,508) | **(8,418)** | (2,469) |
| **Net change in insurance contract liabilities** | **2,516** | 234 | **2,530** | 256 |

**Long Term Fund**

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Increase in gross insurance contract assets | **(34,217)** | (350) | **(34,217)** | (350) |
| Provision for bonuses and rebates | **(872)** | (808) | **(872)** | (808) |
| **Gross change in insurance contract assets** | **(35,089)** | (1,158) | **(35,089)** | (1,158) |
| **Reinsurers' share of gross change in insurance contract assets** | | | | |
| Change in long term insurance contract liabilities | **4,798** | 1,864 | **4,798** | **1,864** |
| **Net change in insurance contract assets** | **(30,291)** | 706 | **(30,291)** | 706 |

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

# 9 Net operating expenses

**General Fund**

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Acquisition costs (excluding commissions) | **(1,219)** | 3,118 | **(1,565)** | 2,839 |
| Decrease / (increase) in deferred acquisition costs (excluding commissions) | **28** | (110) | **11** | (105) |
| Administrative expenses | **11,125** | 5,263 | **10,649** | 4,765 |
| **Net operating expenses (excluding commission to brokers)** | **9,934** | 8,271 | **9,095** | 7,499 |
| Commission and introductory fees | **14,460** | 4,094 | **14,311** | 3,932 |
| Increase in deferred acquisition costs (commission) | **(6,660)** | (1,374) | **(6,679)** | (1,364) |
| **Commission to brokers** | **7,800** | 2,720 | **7,632** | 2,568 |
| **Net operating expenses (including commission to brokers)** | **17,734** | 10,991 | **16,727** | 10,067 |

**Long Term Fund**

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Acquisition costs (excluding commissions) | **12,638** | 11,425 | **12,638** | 11,425 |
| Administrative expenses | **10,905** | 8,722 | **10,905** | 8,722 |
| **Net operating expenses (excluding commission to brokers)** | **23,543** | 20,147 | **23,543** | 20,147 |
| Commission and introductory fees | **13,873** | 12,488 | **13,873** | 12,488 |
| Increase in deferred acquisition costs (commission) | **0** | 0 | **0** | 0 |
| **Commission to brokers** | **13,873** | 12,488 | **13,873** | 12,488 |
| **Net operating expenses (including commission to brokers)** | **37,416** | 32,635 | **37,416** | 32,635 |
| **Net operating expenses include:** | | | | |
| **Auditors' remuneration net of VAT:** | | | | |
| Fees payable to the Group and Society's auditors for the audit of current year financial statements | **320** | 247 | **320** | 242 |
| Fees payable to the Subsidiaries' auditors for the audit of current year financial statements | **55** | 43 | **0** | 0 |
| Total auditors' remuneration | **375** | 290 | **320** | 242 |
| Operating lease rentals | **28** | 78 | **28** | 78 |
| Depreciation of tangible assets (note 16) | **393** | 492 | **393** | 492 |
| Disposal of tangible assets (note 16) | **0** | 12 | **0** | 12 |
| Amortisation of intangible assets (note 15) | **640** | 674 | **640** | 674 |
| Intangible asset write-off (note 15) | **0** | 42 | **0** | 42 |
| Intangible asset - change in UEL | **585** | 0 | **585** | 0 |
| Aggregate amount of Directors' Emoluments | **3,002** | 2,524 | **3,002** | 2,524 |

# 10 Employee information

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **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 | **178** | 154 | **178** | 154 |
| Business development | **25** | 21 | **25** | 21 |
| **Average full-time equivalents in the year** | **203** | 175 | **203** | 175 |
| The closing full-time equivalent at 31 December was: | **216** | 181 | **216** | 181 |
| Staff costs for the above persons were: | **£000** | £000 | **£000** | £000 |
| Wages and salaries | **15,931** | 13,254 | **15,625** | 12,949 |
| Social security costs | **1,261** | 1,121 | **1,239** | 1,097 |
| Other pension costs | **1,124** | 802 | **1,110** | 788 |
| Total staff costs | **18,316** | 15,177 | **17,974** | 14,834 |

The Exeter Cash Plan and Exeter Cash Plan Holdings Limited do not directly employ any staff, however, any direct costs associated with administrative activities 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 | |
|---|---|---|---|---|
| | **2023 Number** | 2022 Number | **2023 Number** | 2022 Number |
| **Executive** | | | | |
| £0 - £99,999 | **2** | 1 | **2** | 1 |
| £100,000 - £199,999 | **1** | 0 | **1** | 0 |
| £200,000 - £299,999 | **0** | 0 | **0** | 0 |
| £300,000 - £399,999 | **0** | 0 | **0** | 0 |
| £400,000 - £499,999 | **0** | 3 | **0** | 3 |
| £500,000 - £599,999 | **1** | 0 | **1** | 0 |
| £600,000 - £699,999 | **0** | 1 | **0** | 1 |
| £700,000 - £799,999 | **0** | 1 | **0** | 1 |
| £800,000 - £899,999 | **2** | 0 | **2** | 0 |
| **Total** | **6** | 6 | **6** | 6 |
| **Non-executive** | | | | |
| £10,000 - £49,999 | **3** | 1 | **3** | 1 |
| £50,000 - £59,999 | **1** | 2 | **1** | 2 |
| £60,000 - £69,999 | **2** | 1 | **2** | 1 |
| £70,000 - £79,999 | **0** | 0 | **0** | 0 |
| £80,000 - £89,999 | **0** | 1 | **0** | 1 |
| £90,000 - £99,999 | **1** | 0 | **1** | 0 |
| **Total** | **7** | 5 | **7** | 5 |

Defined Contribution Pension benefits were accruing to three Executive Directors as at 31 December 2023 (2022: three). The aggregate amount of pension contributions made by the Society to the Executive Directors was £917k (2022: £707k). Pension contributions in respect of the highest-paid Director for the year amounted to £97k (2022: £28k).

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 57.

# 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 | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£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 |

As a result of the March 2021 budget, the corporation tax rate changed from 19% to 25% as of 1 April 2023. This resulted in a blended tax rate in the period of 23.52%. The current rate of Corporation Tax in the UK is 25% (2022: 19%).

## 12.2 Reconciliation of current tax expense

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Surplus / (Deficit) before tax from continuing operations | **668** | (18,248) | **703** | (18,116) |
| Tax at standard corporation tax rate | **157** | (3,467) | **134** | (3,442) |
| *Effects of:* | | | | |
| Effect of the Society's business being tax exempt | **(212)** | 3,373 | **(134)** | 3,442 |
| Remeasurement of deferred tax for changes in tax rates | **(3)** | 0 | **0** | 0 |
| Movement in deferred tax not recognised in Exeter Cash Plan | **58** | 94 | **0** | 0 |
| **Tax on income for the year** | **0** | 0 | **0** | 0 |

Total accumulated tax losses as at the reporting date is £12,593k (2022: £12,829k). These losses may be utilised against future trading profits of The Exeter Cash Plan and have no expiry date.

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. For the financial year ended 31 December 2023, the current weighted-average tax rate was 23.5%.

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 2023 | | **2,861** | **2,746** |
| Total acquisition costs deferred | | | |
| | Commission and introductory fees | 9,023 | 8,965 |
| | Other Acquisition costs | 470 | 449 |
| Total acquisition costs amortised | | | |
| | Commission and introductory fees | (2,363) | (2,285) |
| | Other Acquisition costs | (498) | (461) |
| **At 31 December 2023** | | **9,493** | **9,414** |
| Cost: | | | |
| At 1 January 2022 | | 1,376 | 1,277 |
| Total acquisition costs deferred | | | |
| | Commission and introductory fees | 2,363 | 2,285 |
| | Other Acquisition costs | 498 | 461 |
| Total acquisition costs amortised | | | |
| | Commission and introductory fees | (988) | (921) |
| | Other Acquisition costs | (388) | (356) |
| **At 31 December 2022** | | 2,861 | 2,746 |

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

# 14 Investments in group undertakings

The Society investment in subsidiaries can be analysed as follows:

| | **2023** | 2022 |
|---|---|---|
| | **General Business Fund** | General Business Fund |
| | **£000** | £000 |
| Cost at 1 January | **5,852** | 5,852 |
| **Cost at 31 December** | **5,852** | 5,852 |
| Provision for impairment at 1 January | **(2,568)** | (2,325) |
| Impairment loss during the year | **(200)** | (243) |
| **Provision at 31 December** | **(2,769)** | (2,568) |
| **Carrying value at 31 December** | **3,083** | 3,284 |

All investments in subsidiaries are held within the General Business Fund. Balances are eliminated on consolidation.

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 the Society. As such no intangible assets are owned directly by any of the Group's subsidiaries.

## Reconciliation of carrying amount

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | **Software and Licenses** | **Total** | Software and Licenses | Total |
| **Cost:** | **£000** | **£000** | £000 | £000 |
| Cost at 1 January | 5,137 | 5,137 | 5,109 | 5,109 |
| Additions | 3,758 | 3,758 | 99 | 99 |
| Disposals and Write-offs | (670) | (670) | (71) | (71) |
| **Cost at 31 December** | **8,225** | **8,225** | 5,137 | 5,137 |
| **Accumulated Amortisation:** | | | | |
| Provision at 1 January | 2,991 | 2,991 | 2,346 | 2,346 |
| Amortisation | 1,225 | 1,225 | 674 | 674 |
| Disposals and Write-offs | (670) | (670) | (29) | (29) |
| **Provision at 31 December** | **3,546** | **3,546** | 2,991 | 2,991 |
| **Carrying value at 31 December** | **4,679** | **4,679** | 2,146 | 2,146 |

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 applies 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.

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 the Society. As such no fixed assets are owned directly by any of the Group's subsidiaries.

All assets are held at cost except Buildings which are held at valuation.

| | Land and Buildings £000 | Building fit-out costs £000 | Equipment, fixtures and fittings £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2023 | 2,500 | 1,507 | 246 | 348 | 4,601 |
| Additions | 0 | 0 | 0 | 4 | 4 |
| Disposals | 0 | (353) | (4) | (178) | (535) |
| Revaluation | (150) | 0 | 0 | 0 | (150) |
| **At 31 December 2023** | **2,350** | **1,154** | **242** | **174** | **3,920** |
| **Accumulated Depreciation:** | | | | | |
| At 1 January 2023 | (0) | 721 | 69 | 207 | 997 |
| Provision for the year | 44 | 231 | 49 | 69 | 393 |
| Revaluation adjustment | (44) | 0 | 0 | 0 | (44) |
| Disposals | 0 | (353) | (4) | (178) | (535) |
| **At 31 December 2023** | **(0)** | **599** | **114** | **98** | **811** |
| **Net book value at 31 December 2023** | **2,350** | **555** | **128** | **76** | **3,109** |

| | Land and Buildings £000 | Building fit-out costs £000 | Equipment, fixtures and fittings £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2022 | 2,500 | 1,443 | 206 | 506 | 4,655 |
| Additions | 0 | 70 | 61 | 26 | 157 |
| Disposals | 0 | (6) | (21) | (184) | (211) |
| Revaluation | 0 | 0 | 0 | 0 | 0 |
| **At 31 December 2022** | **2,500** | **1,507** | **246** | **348** | **4,601** |
| **Accumulated Depreciation:** | | | | | |
| At 1 January 2022 | (0) | 441 | 39 | 269 | 749 |
| Provision for the year | 44 | 286 | 49 | 113 | 492 |
| Revaluation adjustment | (44) | 0 | 0 | 0 | (44) |
| Disposals | 0 | (6) | (19) | (175) | (200) |
| **At 31 December 2022** | **(0)** | **721** | **69** | **207** | **997** |
| **Net book value at 31 December 2022** | **2,500** | **786** | **177** | **141** | **3,604** |

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 applies prudence when completing impairment reviews.

The Society's premises at Emperor Way were valued as at 31 December 2023 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 £1,260k (2022: £1,334k).

# 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 | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| **Securities:** | **£000** | £000 | **£000** | £000 |
| At 1 January | **97,065** | 123,926 | **95,293** | 121,954 |
| Additions | **20,305** | 18,251 | **20,305** | 18,251 |
| Disposals at fair value | **(40,467)** | (29,177) | **(40,467)** | (29,177) |
| Changes in Market value | **4,318** | (15,935) | **4,246** | (15,735) |
| **At 31 December** | **81,221** | 97,065 | **79,377** | 95,293 |
| **Financial asset - financing:** | | | | |
| At 1 January | **528** | 0 | **528** | 0 |
| Movement in financial asset | **(194)** | 528 | **(194)** | 528 |
| **At 31 December** | **334** | 528 | **334** | 528 |
| **Total** | **81,555** | 97,593 | **79,711** | 95,821 |

## 17.2 Fair value through income - Group

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | **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 | 8,149 | 5,687 | 0 | 0 | 8,149 | 5,687 |
| | **8,149** | **5,687** | **0** | **0** | **8,149** | **5,687** |
| **Debt securities:** | | | | | | |
| UK | 71,320 | 71,791 | 1,752 | 1,938 | 73,072 | 73,729 |
| | **71,320** | **71,791** | **1,752** | **1,938** | **73,072** | **73,729** |
| **Total securities** | **79,469** | **77,478** | **1,752** | **1,938** | **81,221** | **79,416** |
| **Financial Reinsurance** | **0** | **0** | **334** | **334** | **334** | **334** |
| **Total** | **79,469** | **77,478** | **2,086** | **2,272** | **81,555** | **79,750** |

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 26,653 | 19,933 | 0 | 0 | 26,653 | 19,933 |
| | **26,653** | **19,933** | **0** | **0** | **26,653** | **19,933** |
| **Debt securities:** | | | | | | |
| UK | 62,343 | 65,372 | 8,069 | 9,057 | 70,412 | 74,429 |
| | **62,343** | **65,372** | **8,069** | **9,057** | **70,412** | **74,429** |
| **Total securities** | **88,996** | **85,305** | **8,069** | **9,057** | **97,065** | **94,362** |
| **Financial Reinsurance** | **0** | **0** | **528** | **528** | **528** | **528** |
| **Total** | **88,996** | **85,305** | **8,597** | **9,585** | **97,593** | **94,890** |

## 17.3 Fair value through income – Society

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 8,149 | 5,687 | 0 | 0 | 8,149 | 5,687 |
| | **8,149** | **5,687** | **0** | **0** | **8,149** | **5,687** |
| **Debt securities:** | | | | | | |
| UK listed | 69,476 | 69,769 | 1,752 | 1,938 | 71,228 | 71,707 |
| | **69,476** | **69,769** | **1,752** | **1,938** | **71,228** | **71,707** |
| **Total securities** | **77,625** | **75,456** | **1,752** | **1,938** | **79,377** | **77,394** |
| **Financing Reinsurance** | **0** | **0** | **334** | **334** | **334** | **334** |
| **Total** | **77,625** | **75,456** | **2,086** | **2,272** | **79,711** | **77,728** |

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 26,653 | 19,933 | 0 | 0 | 26,653 | 19,933 |
| | **26,653** | **19,933** | **0** | **0** | **26,653** | **19,933** |
| **Debt securities:** | | | | | | |
| UK listed | 60,571 | 63,350 | 8,069 | 9,057 | 68,640 | 72,407 |
| | **60,571** | **63,350** | **8,069** | **9,057** | **68,640** | **72,407** |
| **Total securities** | **87,225** | **83,284** | **8,069** | **9,057** | **95,293** | **92,341** |
| **Financing Reinsurance** | **0** | **0** | **528** | **528** | **528** | **528** |
| **Total** | **87,225** | **83,284** | **8,597** | **9,585** | **95,821** | **92,869** |

# 18 Debtors arising out of direct insurance and reinsurance operations

## 18.1 Group

| 2023 | Contract Holders | Agents / Brokers / Intermediaries | Reinsurers | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Due as at 31 December 2023 - Less than 30 days in arrears | 24,902 | 343 | 1,565 | 26,810 |
| Due as at 31 December 2023 - 30 days or more in arrears | 258 | 203 | 438 | 899 |
| Provision for impairment as at 31 December 2023 | (145) | (206) | 0 | (351) |
| **Total debtors arising out of direct insurance and reinsurance operations receivables** | **25,015** | **340** | **2,003** | **27,358** |

| 2022 | Contract Holders | Agents / Brokers / Intermediaries | Reinsurers | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Due as at 31 December 2022 - Less than 30 days in arrears | 16,331 | 329 | 771 | 17,431 |
| Due as at 31 December 2022 - 30 days or more in arrears | 151 | 1,354 | 685 | 2,190 |
| Provision for impairment as at 31 December 2022 | (101) | (1,358) | 0 | (1,459) |
| **Total debtors arising out of direct insurance and reinsurance operations receivables** | **16,381** | **325** | **1,456** | **18,162** |

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 the 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

| 2023 | Contract Holders | Agents / Brokers / Intermediaries | Reinsurers | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Due as at 31 December 2023 - Less than 30 days in arrears | 24,319 | 128 | 1,565 | 26,012 |
| Due as at 31 December 2023 - 30 days or more in arrears | 255 | 203 | 438 | 896 |
| Provision for impairment as at 31 December 2023 | (144) | (206) | 0 | (350) |
| **Total debtors arising out of direct insurance and reinsurance operations receivables** | **24,430** | **125** | **2,003** | **26,558** |

| 2022 | Contract Holders | Agents / Brokers / Intermediaries | Reinsurers | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Due as at 31 December 2022 - Less than 30 days in arrears | 15,742 | 105 | 771 | 16,618 |
| Due as at 31 December 2022 - 30 days or more in arrears | 150 | 1,354 | 685 | 2,189 |
| Provision for impairment as at 31 December 2022 | (100) | (1,358) | 0 | (1,458) |
| **Total debtors arising out of direct insurance and reinsurance operations receivables** | **15,792** | **101** | **1,456** | **17,349** |

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 the 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 Funds 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's 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's 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:

| 2023 | Group | | | |
|---|---|---|---|---|
| | General Reserve | Revaluation Reserve | Pension Reserve | Total |
| | £000 | £000 | £000 | £000 |
| Balance as at 1 January 2023 | 88,342 | 658 | 720 | 89,720 |
| Transfer from / (to) the statement of other comprehensive income | 668 | (106) | (553) | 9 |
| Balance as at 31 December 2023 | **89,010** | **552** | **167** | **89,729** |

| | Society | | | |
|---|---|---|---|---|
| | General Reserve | Revaluation Reserve | Pension Reserve | Total |
| | £000 | £000 | £000 | £000 |
| Balance as at 1 January 2023 | 88,228 | 658 | 720 | 89,606 |
| Transfer from / (to) the statement of other comprehensive income | 703 | (106) | (553) | 44 |
| Balance as at 31 December 2023 | **88,931** | **552** | **167** | **89,650** |

| 2022 | Group | | | |
|---|---|---|---|---|
| | General Reserve | Revaluation Reserve | Pension Reserve | Total |
| | £000 | £000 | £000 | £000 |
| Balance as at 1 January 2022 | 106,590 | 614 | 2,017 | 109,221 |
| Transfer to / (from) the statement of other comprehensive income | (18,248) | 44 | (1,297) | (19,501) |
| Balance as at 31 December 2022 | **88,342** | **658** | **720** | **89,720** |

| | Society | | | |
|---|---|---|---|---|
| | General Reserve | Revaluation Reserve | Pension Reserve | Total |
| | £000 | £000 | £000 | £000 |
| Balance as at 1 January 2022 | 106,344 | 614 | 2,017 | 108,975 |
| Transfer to / (from) the statement of other comprehensive income | (18,116) | 44 | (1,297) | (19,369) |
| Balance as at 31 December 2022 | **88,228** | **658** | **720** | **89,606** |

## 19.2 Fund for future appropriations

The fund for future appropriations can be analysed as follows:

| 2023 | Group | Society |
|---|---|---|
| | £000 | £000 |
| Balance as at 1 January 2023 | 84,093 | 84,093 |
| Transfer from the technical account long term business | 16,406 | 16,406 |
| Transfer to the statement of other comprehensive income | (7) | (7) |
| Balance as at 31 December 2023 | **100,492** | **100,492** |

| 2022 | Group | Society |
|---|---|---|
| | £000 | £000 |
| Balance as at 1 January 2022 | 97,601 | 97,601 |
| Transfer to the technical account long term business | (13,529) | (13,529) |
| Transfer from the statement of other comprehensive income | 21 | 21 |
| Balance as at 31 December 2022 | **84,093** | **84,093** |

# 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 based on funding valuations carried out every three years. The valuation performed by an independent qualified actuary as at 1 January 2021 showed a funding surplus of £343k.

The amount of total employer contributions paid to the scheme during 2023 is £171k including administrative expenses and PPF levies (2022: £166k).

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 £372k at the year-end (2022: £365k).

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

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Present value of defined benefit obligation | **(6,703)** | (6,186) |
| Fair value of plan assets | **7,222** | 7,217 |
| Surplus | **519** | 1,031 |
| **Net asset in balance sheet** | **519** | 1,031 |

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. Expenses recognised in income and expenditure

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Employers part of current service cost | **0** | 0 |
| Administrative Expenses | **(181)** | (82) |
| Interest income | **51** | 44 |
| **Total expense included in income and expenditure** | **(130)** | (38) |

## iii. Amounts recognised outside income and expenditure

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Actuarial (loss) | **(553)** | (1,297) |
| **Amount recognised outside income and expenditure** | **(553)** | (1,297) |

## iv. Plan assets

| | **2023** | | 2022 | | 2021 | |
|---|---|---|---|---|---|---|
| | **Allocation** | **£000** | Allocation | £000 | Allocation | £000 |
| Multi-asset fund | **0%** | **0** | 63% | 4,548 | 71% | 8,057 |
| LDI Funds | **0%** | **0** | 31% | 2,235 | 25% | 2,800 |
| Other | **100%** | **7,222** | 6% | 434 | 4% | 484 |
| Total | **100%** | **7,222** | 100% | 7,217 | 100% | 11,341 |

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

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Opening net asset | **1,031** | 2,200 |
| Expense charged to income and expenditure | **(130)** | (38) |
| (Loss) recognised outside income and expenditure | **(553)** | (1,297) |
| Employer contributions | **171** | 166 |
| **Closing net asset** | **519** | 1,031 |

## vi. The movement in the net defined benefit asset during 2023 is as follows:

The movement in the net defined benefit asset during 2023 is as follows:

| | Present value of obligation | Fair value of plan assets | Total | Movement in the asset limit | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| At 1 January 2023 | (6,186) | 7,217 | 1,031 | 0 | **1,031** |
| Employer's part of current service cost | 0 | 0 | 0 | 0 | **0** |
| Interest expense | (285) | 336 | 51 | 0 | **51** |
| Actual return on plan assets | 0 | (65) | (65) | 0 | **(65)** |
| Actuarial losses - experience on benefit obligation | (335) | 0 | (335) | 0 | **(335)** |
| Actuarial gains - changes in financial assumptions | (291) | 0 | (291) | 0 | **(291)** |
| Actuarial gains - changes in demographic assumptions | 138 | 0 | 138 | 0 | **138** |
| Administrative expenses | 0 | (181) | (181) | 0 | **(181)** |
| Employer contributions | 0 | 171 | 171 | 0 | **171** |
| Benefit payments | 256 | (256) | 0 | 0 | **0** |
| **As at 31 December 2023** | **(6,703)** | **7,222** | **519** | **0** | **519** |

## vii. The significant actuarial assumptions were as follows:

| Assumptions | 2023 | 2022 | 2021 |
|---|---|---|---|
| Price inflation (RPI) | 3.1% pa | 3.1% pa | 3.3% pa |
| Discount rate | 4.40% | 4.70% | 1.90% |
| Pension increases (in deferment and in payment) | 3.10% | 3.10% | 3.30% |
| Life expectancy of males aged 65 at balance sheet date | 21.4 years | 21.9 years | 21.9 years |
| Life expectancy of females aged 65 at balance sheet date | 23.9 years | 24.3 years | 24.3 years |
| Life expectancy of males aged 65 in 20 years from balance sheet date | 22.6 years | 23.2 years | 23.2 years |
| Life expectancy of females aged 65 in 20 years from balance sheet date | 25.3 years | 25.7 years | 25.7 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.

| | Change in assumption | Change to fair value of assets | Change to defined benefit obligation |
|---|---|---|---|
| Discount rate | 1% pa | (25) / +27 | (876) / + 1,112 |
| RPI Inflation | 0.5% pa | +11 / (10) | +522 / (495) |
| Mortality | 20% | 36 | 398 |

The above sensitivities consider the changes in isolation to each assumption. If multiple changes are made to assumptions, this may lead to a slightly different change to the value of the assets or liabilities.

## 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 (2022: one) former employee. This scheme is closed to existing employees of the Society. The total cost of the pensions payable each year is charged to the provision, to which is credited appropriate interest earned and transfers from or to retained reserves sufficient to meet the expected liability, as recalculated on an annual basis.

| **Superannuation Reserve Fund** | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Balance as at 1 January | **(90)** | (120) |
| Interest on scheme liabilities | **(3)** | (1) |
| Actuarial loss / (gain) for the period recognised in the Statement of Comprehensive Income | **(7)** | 21 |
| | **(100)** | (100) |
| Benefit Paid | **10** | 10 |
| **Balance as at 31 December 2023** | **(90)** | (90) |

The Society's Chief Actuary has determined the amount of the provision required as at 31 December 2023 to meet the expected future liabilities; mortality is unchanged and a discount rate of 3.6% (2022: 1.0%) and pension increases of 3.0% (2022: 3.0%) have been applied.

## 20.3 Defined contribution scheme

The Society also operates one (2022: one) defined contribution pension scheme, which is open to all eligible employees. The cost of Society contributions for the year ended 31 December 2023 was £1,037k (2022: £810k) and there were no outstanding contributions (2022: Nil) at the year-end date.

# 21 Insurance contract assets/liabilities

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Long term insurance business Solvency II technical provision (BEL) | **(158,746)** | **30,772** | **(127,974)** | (159,552) | 39,520 | (120,032) |
| Long term insurance business Solvency II technical provision (Other) | **4** | **0** | **4** | 5 | 0 | 5 |
| Long term insurance business Solvency II risk margin | **21,782** | **(9,328)** | **12,454** | 56,710 | (22,873) | 33,837 |
| **Total long term insurance contract asset** | **(136,960)** | **21,444** | **(115,516)** | (102,837) | 16,647 | (86,190) |
| Long term insurance business members dividend account | **9,236** | **0** | **9,236** | 9,267 | 0 | 9,267 |
| Long term insurance business claims liabilities | **620** | **0** | **620** | 683 | 0 | 683 |
| **Total long term insurance liabilities / (assets)** | **(127,104)** | **21,444** | **(105,660)** | (92,887) | 16,647 | (76,240) |
| General insurance unearned premiums | **25,993** | **0** | **25,993** | 17,580 | 0 | 17,580 |
| General insurance claims incurred but not settled / reported | **4,916** | **0** | **4,916** | 3,465 | 0 | 3,465 |
| General insurance other claims liabilities | **842** | **0** | **842** | 713 | 0 | 713 |
| General insurance unexpired risk provision | **1,858** | **0** | **1,858** | 922 | 0 | 922 |
| **Total general insurance liabilities** | **33,609** | **0** | **33,609** | 22,680 | 0 | 22,680 |
| **Total** | **(93,495)** | **21,444** | **(72,051)** | **(70,207)** | 16,647 | (53,560) |

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Long term insurance business Solvency II technical provision (BEL) | **(158,746)** | **30,772** | **(127,974)** | (159,552) | 39,520 | (120,032) |
| Long term insurance business Solvency II technical provision (Other) | **4** | **0** | **4** | 5 | 0 | 5 |
| Long term insurance business Solvency II risk margin | **21,782** | **(9,328)** | **12,454** | 56,710 | (22,873) | 33,837 |
| **Total long term insurance contract asset** | **(136,960)** | **21,444** | **(115,516)** | (102,837) | 16,647 | (86,190) |
| Long term insurance business members dividend account | **9,236** | **0** | **9,236** | 9,267 | 0 | 9,267 |
| Long term insurance business claims liabilities | **620** | **0** | **620** | 683 | 0 | 683 |
| **Total long term insurance liabilities / (assets)** | **(127,104)** | **21,444** | **(105,660)** | (92,887) | 16,647 | (76,240) |
| General insurance unearned premiums | **25,399** | **0** | **25,399** | 16,981 | 0 | 16,981 |
| General insurance claims incurred but not settled / reported | **4,760** | **0** | **4,760** | 3,284 | 0 | 3,284 |
| General insurance other claims liabilities | **825** | **0** | **825** | 707 | 0 | 707 |
| General insurance unexpired risk provision | **1,858** | **0** | **1,858** | 922 | 0 | 922 |
| **Total general insurance liabilities** | **32,842** | **0** | **32,842** | 21,894 | 0 | 21,894 |
| **Total** | **(94,262)** | **21,444** | **(72,818)** | (70,993) | 16,647 | (54,346) |

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Balance at 1 January | **(102,837)** | **16,647** | **(86,190)** | (102,468) | 14,783 | (87,685) |
| Model Changes | **875** | **(447)** | **428** | (2,790) | 786 | (2,004) |
| Net change of in-force business | **(48,152)** | **11,192** | **(36,960)** | (26,341) | 4,785 | (21,556) |
| Impact of change in assumptions | **13,154** | **(5,948)** | **7,206** | 28,762 | (3,707) | 25,055 |
| **Balance at 31 December** | **(136,960)** | **21,444** | **(115,516)** | (102,837) | 16,647 | (86,190) |
| **Impact of change in assumptions is made up of:** | | | | | | |
| Changes in morbidity (other) | **6,493** | **(4,007)** | **2,486** | (1,529) | 1,473 | (56) |
| Changes in lapse rates | **6,723** | **(2,583)** | **4,140** | 659 | (162) | 497 |
| Revised expenses assumptions | **4,858** | **133** | **4,991** | 589 | 37 | 626 |
| Change in inflation | **(961)** | **(2)** | **(963)** | 303 | 231 | 534 |
| Changes in discount rates | **(2,905)** | **511** | **(2,394)** | 27,563 | (5,286) | 22,277 |
| Change in bonus rates | **(1,054)** | **0** | **(1,054)** | 1,177 | 0 | 1,177 |
| **Balance at 31 December** | **13,154** | **(5,948)** | **7,206** | 28,762 | (3,707) | 25,055 |
| **Balance at 31 December is made up of:** | | | | | | |
| Holloway income protection | **5,096** | **0** | **5,096** | 4,585 | 0 | 4,585 |
| Other income protection | **(122,918)** | **26,186** | **(96,732)** | (96,718) | 21,994 | (74,724) |
| Term assurance | **(19,138)** | **(4,742)** | **(23,880)** | (10,704) | (5,347) | (16,051) |
| **Balance at 31 December** | **(136,960)** | **21,444** | **(115,516)** | (102,837) | 16,647 | (86,190) |

Without reinsurance, the long term business provision would reduce by £21.4 million to £(137.0) million (2022: £(102.8) million).

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

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Balance at 1 January | 9,267 | 9,143 |
| Bonus credited during the period | 422 | 304 |
| Dividends credited during the period | 596 | 625 |
| Forfeiture and lapses during the period | (146) | (120) |
| Death, retirements and surrenders during the period | (903) | (685) |
| **Balance at 31 December** | **9,236** | **9,267** |

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Balance at 1 January | **683** | **0** | **683** | 789 | 0 | 789 |
| Claims arising | **13,899** | **(8,287)** | **5,613** | 13,821 | (8,554) | 5,267 |
| Claims paid during the year | **(13,963)** | **8,287** | **(5,676)** | (13,927) | 8,554 | (5,373) |
| **Balance at 31 December** | **620** | **0** | **620** | 683 | 0 | 683 |

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 | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Balance at 1 January | **17,580** | 15,072 | **16,981** | 14,511 |
| Premiums written in the year | **56,081** | 38,628 | **53,608** | 36,137 |
| Premiums earned during the year | **(47,668)** | (36,120) | **(45,190)** | (33,667) |
| **Balance at 31 December** | **25,993** | 17,580 | **25,399** | 16,981 |

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

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Balance at 1 January | **3,465** | 2,966 | **3,284** | 2,786 |
| Movement in claims incurred in the prior year | **(106)** | 1,061 | **(109)** | 1,056 |
| Movement in claims IBNR / IBNS in the current year | **1,557** | (562) | **1,585** | (558) |
| **Balance at 31 December** | **4,916** | 3,465 | **4,760** | 3,284 |

## 21.8 Movement in general insurance other claims liabilities

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Balance at 1 January | **713** | 739 | **707** | 711 |
| Movement in claims received but not yet paid | **129** | (26) | **118** | (4) |
| **Balance at 31 December** | **842** | 713 | **825** | 707 |

## 21.9 Movement in unexpired risk reserve

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Balance at 1 January | **922** | 1,161 | **922** | 1,161 |
| Movement in unexpired risk reserve | **936** | (239) | **936** | (239) |
| **Balance at 31 December** | **1,858** | 922 | **1,858** | 922 |

A liability adequacy test is performed on insurance liabilities to ensure that the carrying amount of liabilities (less related intangible assets) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, all contractual cash flows are discounted and compared against the carrying value of the liability. Any shortfall is charged immediately to the Statement of Comprehensive Income.

# 22 Reinsurers' share of insurance contract assets

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Balance at 1 January | **16,647** | 14,783 | **16,647** | 14,783 |
| Movement in reinsurers' share of contract asset | **4,797** | 1,864 | **4,797** | 1,864 |
| **Balance at 31 December** | **21,444** | 16,647 | **21,444** | 16,647 |

# 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** | |
|---|---|
| **Income Protection Provision** | |
| Method | Gross Premium |
| Interest Rate | The PRA risk-free curve (with no volatility adjustment) for the UK |
| Allowance for Expenses | 5.5% (2022: 5%) of future claims and £68.39 (2022: £60.25), inflating at 4.5% in 2024, 4% in 2025, 3% in 2026 and thereafter (2022: 7%, 5%, 2% and 3% thereafter). Based on projected expenses for 2023 and budgeted accounts for 2024-2026 and using actuarial judgement. |
| Allowance for Future Bonus | Based on the maximum sustainable dividend and terminal bonus rates. |
| Mortality | 40% (2022: 40%) of TM92(ult)/TF92(ult) for Professional Income Protection, Income One and Locum Income Protection contracts.<br><br>50% (2022: 50%) of TM92(ult)/TF92(ult) for other Income Protection contracts. |
| Morbidity | Best estimate is based on Society's experience over the last 7.5 years (longer for products that have smaller volumes). The Society uses prevalence rates for the first six months and inception/termination rates thereafter. The Society sets its own rates for prevalence and inceptions and a multiple of CMIR12-T for terminations depending on the product and the duration of claims in line with experience. |
| Persistency and Lapses | Holloway, Pure Protection, Pure Protection Plus and Income First (age-costed, occupational class 2 and above): Best Estimate based on the Society's experience over the last three years for these products.<br><br>Bills & Things: Experience has been analysed separately for Northern Ireland (NI) and the rest of the UK:<br><br>(a) NI: Best estimate based on the latest three years of experience for durations of four to nine years; 200% of the rest of the UK for other durations<br><br>b) Rest of the UK: Best estimate based on experience for the duration of four to fifteen years, and 100% of Holloway and Pure Protection for subsequent durations.<br><br>Professional Income Protection, Income One, Income One Plus (age costed) and Income First (age-costed, occupational class 1): Best Estimate based on the Society's experience over the last three years for these products for durations up to 15 years, and 100% of Pure Protection expected lapses beyond 15 years duration.<br><br>Income One, Income One (level premium) and Income First (level premium, occupational class 1): Best estimate based on experience from the last three years for the first eight years duration; 100% of lapse rates assumed for age-costed equivalents of these products for durations of nine years and longer.<br><br>Income First (level premium, occupational class 2 and above): Best estimate based on experience for durations of up to two years and then assumptions derived from those for other Income First.<br><br>Locum: 100% Pure Protection expected lapses.<br><br>Actuarial judgement is applied where the last three years' experience does not represent the best estimate of the future. |

| 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 | £33 (2022: £30) per policy, inflating at 4.5% per annum in 2024, 4% pa in 2025, 3% pa in 2026 and thereafter (2022: 7%, 5%, 2%, 3% thereafter) |
| 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. | £60.0 million (2022: £48.8 million) |
| Mortality: An instantaneous permanent increase in mortality rates of 15% | £0.3 million (2022: £0.3 million) |
| An increase in renewal and claims expenses by 10% and an increase in expense inflation rate by 1% pa | £7.9 million (2022: £6.5 million) |
| Increase in lapses by 50% | £63.0 million (2022: £61.9 million) |
| An increase in interest rates by 1% pa | £13.3 million (2022: £15.8 million) |

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

The long term business provision allows for future bonuses. The total allowance within the long term business provision is £11.4 million. (2022: £13.5 million).

Holloway Income Protection products are all reviewable. Pure Protection and Bills & Things products are reviewable after an initial 3 years. The Locum product is reviewable after an 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% | £10.5 million (2022: £7.9 million) |
| An increase in renewal and claims expenses by 10% and an increase in expense inflation rate by 1% pa | £1.3 million (2022: £0.9 million) |
| Increase in lapses by 50% | £0.5 million (2022: £0.6 million) |
| An increase in interest rates by 1% pa | £0.5 million (2022: (£0.6) million) |

# 24 Financial Liability - Financing

| | Group | Society | Group | Society |
|---|---|---|---|---|
| | 2023 | 2023 | 2022 | 2022 |
| | £000 | £000 | £000 | £000 |
| Opening balance as at 1 January | 1,278 | 1,278 | 0 | 0 |
| Funds received in the year | 1,594 | 1,594 | 648 | 648 |
| Value adjustment on financial liability[1] | 325 | 325 | 102 | 102 |
| Funds receivable[2] | 334 | 334 | 528 | 528 |
| Total closing balance as at 31 December | 3,531 | 3,531 | 1,278 | 1,278 |

[1] Value adjustments on Financial Liability - Financing recognised in Investment expenses and charges in the Long Term Technical account

[2] Funds receivable are recognised in the Balance Sheet as 'Other financial investments' and were received post year-end

The Financial Liability – Financing covers new business sales of the Real Life product for a period of three and a half years.

The provider of the Financing will pay a proportion of the initial commission on covered policies in exchange for a proportion of cashflows arising from those policies, until the borrowing plus interest is repaid, with a maximum repayment term of 12 years.

Maturity analysis for amounts due is as follows:

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Value of repayments which fall due: | | |
| - within one year | **1,030** | 368 |
| - between one and five years | **2,395** | 782 |
| - in more than five years | **106** | 128 |
| Total closing balance as at 31 December | **3,531** | 1,278 |

The following table demonstrates the sensitivity of future cash flows

| **Sensitivity** | **Impact to discounted future repayments £000** |
|---|---|
| Interest Rate Up 1% | 6.6 |
| Interest Rate Down 1% | (6.1) |
| Mortality +15% | 3.7 |
| Longevity -20% | (4.6) |
| Expenses +10% +1% Exp Infl | 4.3 |
| Lapses +50% | (4.0) |
| Lapses -50% | 5.1 |
| ML Cat Risk | 3.0 |

# 25 Creditors arising out of direct insurance and reinsurance operations

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Due to contract holders | **296** | 254 | **296** | 254 |
| Due to agents/brokers/intermediaries | **2,427** | 2,311 | **2,381** | 2,246 |
| Due to reinsurers | **1,343** | 1,163 | **1,343** | 1,163 |
| **Total creditors arising out of direct insurance and reinsurance operations** | **4,066** | 3,728 | **4,020** | 3,663 |

# 26 Provisions for other risks and charges and contingent liabilities

Provisions have been established and contingent liabilities disclosed where appropriate.

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

# 27 Other creditors including tax and social security

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Trade payables | **415** | 562 | **415** | 520 |
| Tax and social security | **2,276** | 1,646 | **2,205** | 1,574 |
| Other payables | **1,648** | 1,907 | **1,615** | 1,903 |
| **Total other creditors including tax and social security** | **4,339** | 4,115 | **4,235** | 3,997 |

# 28 Commitments under operating leases

The total lease payments recognised as an expense in the year were £35k (2022: £78k). The Group and Society have no leases as at the end of the financial year.

# 29 Cash used in operating activities

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| **Surplus / (deficit) for the year before transfer to reserves and fund for future appropriations** | **17,074** | (31,775) | **17,109** | (31,644) |
| - Interest received | **(1,898)** | (1,594) | **(1,826)** | (1,546) |
| - Dividends received | **(414)** | (411) | **(414)** | (411) |
| - Net realised and unrealised (gains) / losses on investments | **(4,318)** | 15,935 | **(4,245)** | 15,735 |
| - Purchase of investments at fair value through income | **(20,305)** | (18,251) | **(20,305)** | (18,251) |
| - Sales of investments at fair value through income | **40,467** | 29,177 | **40,467** | 29,177 |
| - Foreign Exchange Differences | **11** | (33) | **11** | (33) |
| **Total** | **30,617** | (6,952) | **30,797** | (6,973) |
| **Non-cash items** | | | | |
| - Expenses deferred during the year | **(6,633)** | (1,485) | **(6,668)** | (1,469) |
| - Depreciation | **393** | 492 | **393** | 492 |
| - Amortisation & impairment loss | **1,225** | 674 | **1,225** | 674 |
| - Impairment in Subsidiary | **0** | 0 | **200** | 243 |
| - Loss on disposal of Property, Equipment and Intangibles | **0** | 54 | **0** | 54 |
| - Value adjustment on financial liability - financing | **334** | 103 | **334** | 103 |
| **Total** | **(4,681)** | (162) | **(4,516)** | 97 |
| **Changes in working capital** | | | | |
| Net (increase) in insurance receivables | **(9,195)** | (3,155) | **(9,209)** | (3,140) |
| Net decrease / (increase) in prepayments and accrued income | **122** | (159) | **117** | (154) |
| Net (decrease) / increase in insurance liabilities and associated reinsurance balances | **(18,492)** | 4,255 | **(18,472)** | 4,239 |
| Net (decrease) in pension obligations | **(47)** | (136) | **(47)** | (136) |
| Net increase in insurance payables | **338** | 281 | **357** | 334 |
| Net decrease in amounts due to subsidiary undertakings | **0** | 0 | **24** | 121 |
| Net (decrease) in provisions | **0** | (5,323) | **0** | (5,323) |
| Net increase in trade and other payables | **223** | 697 | **238** | 786 |
| Net increase in accruals and deferred income | **2,388** | 721 | **2,328** | 669 |
| **Total** | **(24,663)** | (2,819) | **(24,664)** | (2,604) |
| **Cash used in operations** | **1,273** | (9,933) | **1,617** | (9,480) |

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.

# 30 Related party transactions

## 30.1 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).

## 30.2 Key management compensation

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

| | Group | | Society | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| | **£000** | £000 | **£000** | £000 |
| Salaries and other short-term employee benefits | **7,864** | 5,330 | **7,864** | 5,330 |
| Post-employment benefits | **556** | 390 | **556** | 390 |
| **Total key management compensation** | **8,420** | 5,720 | **8,420** | 5,720 |

## 30.3 Other related parties

During their term of office in 2023, the Chief Executive and three (2022: three) other executive members of the Board of Directors received free Private Medical Insurance, total claims made under these policies was £4k (2022: £22k). At the year's end there were no claims outstanding. The Chief Executive and two other Directors receive free cover for their spouses on these policies.

One 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.

# 31 Developments in financial reporting

The Society is actively monitoring the developments proposed by the Financial Reporting Council (FRC) as part of 'FRED 82 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Proposals include a new model of revenue recognition which will not impact the Group, and a new model of lease accounting which will have minimal impact on the financial reporting if the Society engages in leasing arrangements.

The proposed effective date is 1 January 2026.

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