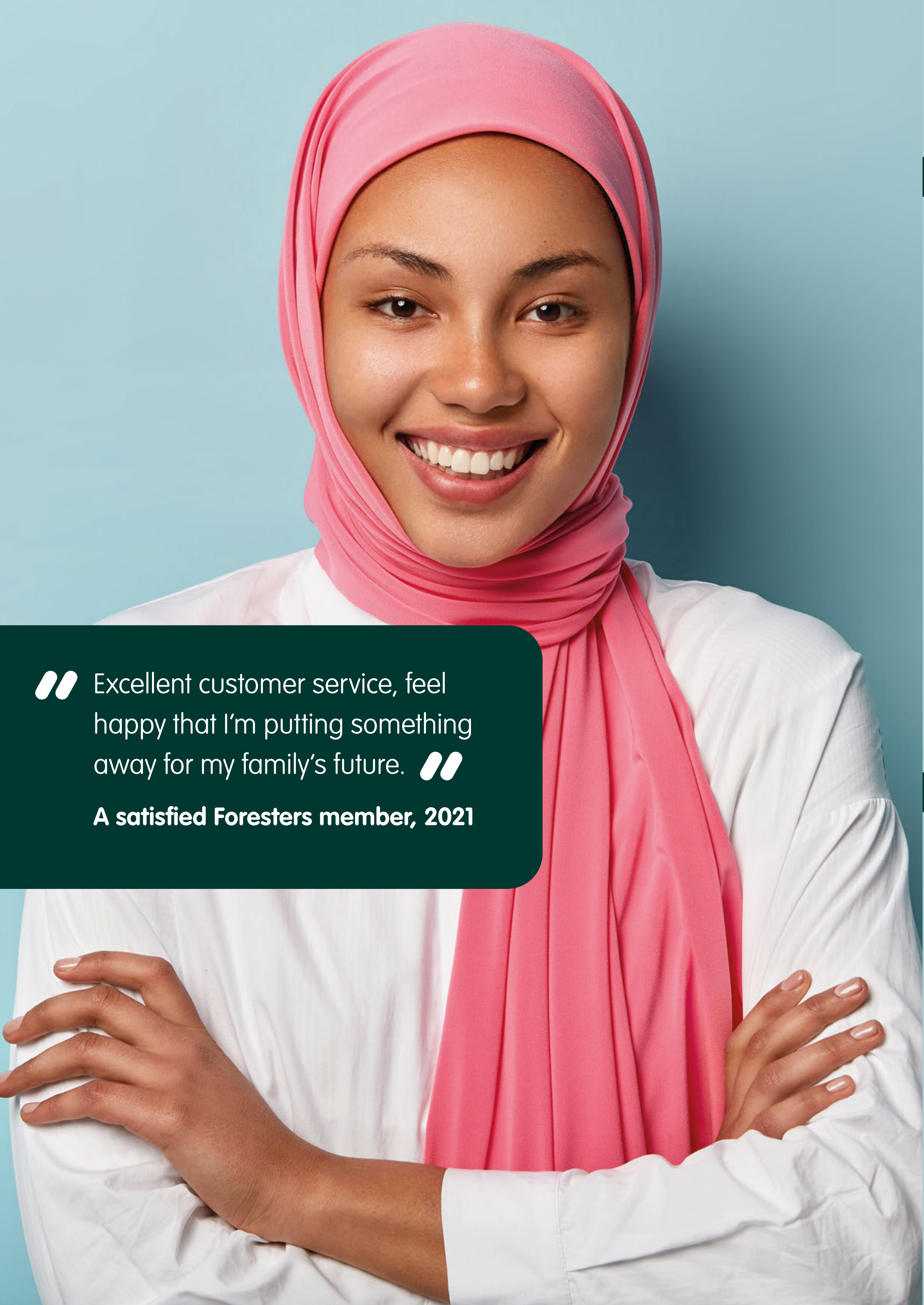
The feeling is mutual

Annual Report and Accounts 2021

Foresters Friendly Society | TOGETHERNESS SINCE 1834



"Excellent customer service, feel happy that I'm putting something away for my family's future."

A satisfied Foresters member, 2021

Foresters Friendly Society

Our Directors and Advisers

Non-Executive Directors
Trevor Batten – Chairman
Helen Mackinnon – Senior Independent Director
Erik Vynckier

Executive Directors
Rachel Hardy – Chief Executive
Nick Warr – Finance Director and Chief Actuary

Company Secretary and Registered Office
Lisa Russell
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Chief Risk Officer
Kirsten Glen-Holmes

With-Profits Actuary
Scott Robinson, Zenith Actuarial Limited

Independent Auditor
BDO LLP

Other Key Service Providers

Investments
AXA Investment Managers UK Limited
Aston Rose (West End) Limited

Bankers
Royal Bank of Scotland plc
HSBC plc

Internal Audit
Mazars LLP

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> Foresters lives true to its name as a Friendly Society. Everyone I've ever dealt with at Foresters has been kind and caring. You really feel like a valued member. I can't thank Foresters enough for its generosity and support.

A satisfied Foresters member, 2021

Overview

> I am delighted to report that the Society's insurance business has achieved a record new business performance in 2021 in respect of both individual policies and group business contracts.

Trevor Batten, Chairman

Chairman's Report

It is a privilege to present my first report as the Society's Chairman.

In respect of fraternal activities, the Foresters Support Fund has now paid over £50,000 in discretionary grants to help those affected since the start of the COVID-19 pandemic. When combined with grants also generously made by Courts for the same purpose, to the end of December 2021, the Society had paid out £102,000 to help its members cope with the impact of the pandemic on their day to day lives.

I am also delighted to report that the Society's insurance business has achieved a record new business performance in 2021 in respect of both individual policies and group business contracts.

These are outstanding achievements against the backdrop of the continuing pandemic. I'd like to personally thank our hard-working staff and Court officials who have all individually and collectively contributed towards delivering these results and outcomes for our members. They reinforce the ethos of Foresters, drive growth and adapt to change with positivity and rigour whilst continuing to ensure the member service levels we pride ourselves on are retained.

2021

During 2021, our Management team were focussed on delivering the organic growth element of our strategy. The individual business delivered an increase in single premiums of 59% from £7.4m in 2020 to £11.8m in 2021. Annual premium sales continued to be lower than the long-term average since POIS was acquired due to the closure of the POIS introducer channel from January to July because of the pandemic. There was however an increase over 2020 with new annual premiums totalling £1.3m compared with £0.9m in 2020.

Group business is not as well publicised or talked about amongst our Membership as our individual product offering, but it continues to be very successful and profitable for the Society and continues to subsidise any losses being made on small individual policies. During 2021, the Society successfully renewed all group insurance schemes where contracts were up for re-tender. This represented over half of the group business in premium income terms and included the Society's two largest schemes. In addition, a further three new schemes were won through competitive tenders which will add £1.0m to the Society's premium income on an annualised basis. This takes the current annualised premiums of our group business up to £15.3m per annum, meaning it has more than doubled in size in the last four years.

As reported previously, our cost base is too high for the level of new insurance business written and policies maintained. Management have continued to focus on this area throughout 2021 and identified further areas where expenses can be reduced. The most visible actions to our members from these decisions will be the relocation of both of the Society's offices – Tunstall in December 2021 and Southampton in January 2022. As a result of actions taken, Management have delivered both renewal and acquisition expenses under the 2021 budgets and lower than the 2020 actual results. What has been particularly pleasing about this is that acquisition expenses have been under original budgets despite the new business performance being more than double the business plan forecasts. The Board can confidently say that new business targets have been achieved without the need to overly incentivise sales.

Investment returns have also improved in 2021 as the worldwide economy started recovery from the impact of the pandemic. The Society's largest with-profit fund the OIF earned an investment return of 0.8%, the Non-Profit Fund earned -1.4% and the Court Investment Fund returned 9.4%. Further information regarding investment performance is included on page 12.

Our future

Despite the excellent performance delivered in 2021, the Society's long-term challenges remain unchanged. As previous Chairman John Instance has outlined in his recent reports, the Society's key challenge remains the lack of scale in our insurance business. The business plan signed off by the Board in November 2021 shows the Society's insurance business remaining within risk appetite for the short term on its key viability measures. However, it reaches the same conclusion as previous years in that despite the considerable efforts in the last two years around new business growth, cost reduction and investment strategy optimisation, the financial forecasts show that the capital coverage position will continue to be a matter of concern to all of our stakeholders if the lack of scale cannot be addressed.

The Society is not alone in facing the harsh realities of transforming its business model from its 19th century origins to being fit for purpose in the 21st century and many other friendly society and mutual organisations are finding themselves in the same predicament. The Board has monitored the situation with LV= and Bain Capital with interest throughout 2021. LV= was the largest Friendly Society in the UK until 2020, with c.1.1million members and £16 billion of assets under management. Their Board concluded that their business lacked scale, had an insufficiently strong capital structure and was badly in need of investment. Unsurprisingly, these statements equally apply to Foresters given our much smaller scale than LV=.

Despite this backdrop, I'd like to reiterate what has been said by my predecessor and our CEO – there is nothing currently in the pipeline that represents a takeover or outright sale of the Society's insurance business and the Board see this as an option of last resort. The strategic conversations held in 2021 have not been limited to increasing scale per se through investigating suitable merger and acquisition opportunities with other organisations. Consideration has also been given to accessing the benefits of scale through outsourcing contracts to reduce costs; extending reinsurance arrangements to better manage our capital requirements and expanding the successful group business. We will continue to work on these strategic workstreams alongside growing the business organically to continue to build on the 2021 financial performance.

Our Courts

The Court network continues to be financially strong but has faced an unprecedented operating environment in 2021 due to the continuing restrictions imposed by the COVID-19 pandemic. This has made it more important than ever to use Court funds to enhance the member experience both through the provision of discretionary benevolence and, perhaps more importantly, enhancing the social value to be gained from being a member of Foresters.

Despite the reduction in social events, I have been pleased to hear of the adoption of technology across the Court network to facilitate online meetings through platforms such as Microsoft Teams and Zoom. We achieved the highest attendance at our High Court for a considerable number of years, demonstrating a "virtual" meeting did improve member engagement in some regard, although I know you will all be looking forward to a physical High Court in Llandudno in 2022.

During the latter part of 2021, we have relocated the Court support staff managed from our Tunstall office to new office premises. This has considerably improved the working environment conditions for our valued staff whilst reducing the ongoing day to day costs of running the Tunstall office. The Society's Investment Committee continues to review the future of the former premises at Station Chambers, Tunstall and is working closely with the Trustees of the Foresters Heritage Trust to understand their future aspirations and where best to locate them to successfully deliver this.

Despite considerable feedback from Courts that they wished to see the Court Management Charge reduced, delegates at High Court in 2021 overturned a number of the decisions taken to achieve that reduction and approved additional funding to complete a number of projects. There will therefore be an increase in the Court Management Charge in 2022 as a result.

Whilst the Board recognises it is important for members have a say over the decisions that the Society makes, it was disappointing that a number of proposals by the Board and Membership Committee which took a longer-term view and had members' interests at heart were rejected by High Court.

The Board and Membership Committee in conjunction with the Past High Chief Rangers working group continue to work alongside each other to understand the "vision" of the Court Network and wider Membership for their future. We are living in very challenging times where different demographic groups, old and young, north and south, rich and poor, lifelong member versus new member are seeking differing things from the Society and do not have an agreed view of how Courts should operate either in isolation or as a group. It is hoped the current strategic work being overseen by the Membership Committee will bring the Society closer to an agreed vision for the future of the Court Network as a whole. Having this vision will aid the Board and Membership Committee's strategic thinking in respect of Court matters and enable propositions to be put forward that delegates feel they can support.

Conclusion

It is my opinion that we all agree on our fundamental purpose – to provide valuable discretionary social and benevolent benefits delivered by our Courts alongside worthwhile insurance and investment products. In 2022, I will seek to lead both parts of our Society to work more closely together to define and deliver our vision and to ensure we always act in the best interest of our members.

Trevor Batten
Chairman
18 May 2022

> "The Society has continued to help many members in the challenges they have faced through the financial and benevolent support offered from our Court network and friendly staffing team."

Rachel Hardy, Chief Executive

Chief Executive's Report

2021 has been a progressive year for the Society, particularly in respect of the significant growth in value of new business written. I welcome our new members with open arms, and we look forward to supporting your financial and wider needs over the coming years. I also thank our existing members for their loyalty. We are proud that you have chosen, and continue, to put your trust in Foresters.

It has been a challenging two years for us all due to the continuing impact of the COVID-19 pandemic, but I know that the Society has continued to help many members in the challenges they have faced through the financial and benevolent support offered from our Court Network and friendly staffing team. I believe we have continued to successfully deliver our vision – to be a leading mutual provider of worthwhile financial products, promoting caring values through our member communities.

I set out below some of the key activities and financial results delivered in 2021.

Growing the Society's membership base

I am delighted to report that 2021 individual premium income totalled £21.5m (2020: £17.0m). New business single premium income increased by 59% to £11.8m (2020: £7.4m). New annual premium income increased by 41% since 2020 and policy volumes increased by 33% over the same period.

The new business results demonstrate a strong performance against the Society's strategic objective of organic growth. Those joining the Society via our website delivered outstanding single premium income growth of 125% since 2020. Key driving factors to this growth are our continued nurturing of our data led marketing strategy to improve member acquisition and retention levels and increasing presence in affiliate marketing channels.

2021 has seen us enhance our distribution strategy whilst at the same time refining our approach in existing channels. This has enabled us to reach new audiences and deliver impressive growth. The most notable distribution expansion was the launch of the Society's products on the Royal Mail 'My Bundle' employee benefit platform in Q4 of 2021. This channel is complimentary to the existing Introducer channel as it allows access to Royal Mail employees beyond the sorting office staff we already had contact with through our network of Introducers.

The Society continues to receive accolades which assist our marketing strategy and has recently been awarded the YourMoney.com Investment Award for "Best Junior Investment ISA provider". Our product was shortlisted based on price and product structure before being benchmarked by a panel of 2,000 UK consumers on user journey and quality of service to provide a comprehensive winner in each category.

We want to be an employer of choice and recruit the very best quality team to service our members. As such, we run an anonymous annual staff survey to obtain feedback from my colleagues on their level of engagement with the Society as an employer. The results of the 2021 staff survey indicated the Society was "One to Watch" – a special status awarded to organisations by Best Companies where workplace engagement shows good levels of workplace engagement and promising signs for the future. The Society achieved an outstanding ranking of 14th in the national 'Financial Services' sector list and in the category of 'Small Companies' achieved 43rd place in the Top 100 rankings.

In 2021 we carried out our periodic Member Satisfaction survey. In addition, we launched our presence on online review platform reviews.io. At the time of writing, the Society has received just under 500 reviews with an average rating of 4.6 out of 5.0. Whilst both sources show high levels of customer loyalty and satisfaction, which are market-leading in the financial services industry as a whole, we recognise that there are themes that we need to take action on to improve our service offering to members. The key feedback relates to the inability to view or service a policy online.

The Society had already self-identified this area of development and requirements for a member portal have been gathered in 2021 and a considerable amount of data cleansing has taken place in preparation for a member portal launch. Contract tendering is currently underway, and we hope to have the first phase of a member portal live by the end of 2022. Concurrently, we are investigating options for digital document delivery to policyholders.

Profitability for our individual new business continues to be a challenge, with the Society continuing to make losses on the sale of certain product lines. Following the product reviews completed in 2021, the Society's with-profits TESP and CTESP products were removed from sale. The design of these products meant that in current economic conditions, the charges applied to the products could be more than the expected investment returns. The Society was also making losses from the sale of these products meaning the product was delivering an unacceptable outcome for both the members purchasing them and the Society itself. All other products were deemed appropriate for continued sale. The Society continues to offer a low monthly premium savings option via the unit linked TESP and CTEP product under the POIS brand.

Despite the positive new business results for the year, the overall number of Society members fell by 193 from 61,583 to 61,390 at the end of 2021. The reduction arose primarily in the with-profits funds and in the life/honorary membership categories. This was offset by an increase of 6% in the number of policyholders in our Guernsey Court (321 members) and the number of new fraternal memberships purchased continues to rise with a net gain of 160 fraternal members.

Group business

The Society's group insurance business continues to grow sustainably, and an additional three new schemes were acquired in 2021 adding c.£1m of premium income on an annualised basis. Several large schemes were successfully renewed in 2021, including our two largest schemes. This business is profitable and allows us to subsidise individual savings products. Total premium income from this source was £15.3m (2020: £14.5m).

The Board still aspire to grow this business line, but this will be a challenge as the group insurance business is capital intensive, which limits significant growth potential. Investigations were undertaken in 2021 to expand the use of reinsurance to release capital and support growth of this business line. However, the anticipated uplift in the Society's capital coverage ratio was not sufficient to warrant the costs involved. Solutions continue to be sought to allow growth of this business line.

Achieving a viable and consistent operating model

As I have reported previously, the Society's biggest strategic challenge remains its scale – the overhead cost base of the Society is not directly variable with the number of policies serviced and this position is currently worsening year on year as inflation outstrips the speed at which we can grow our number of policies in force. As well as the significant focus on new business growth during 2021, the Society's Management team has continued to actively seek places from which we can cut overheads to reduce the Society's diseconomies of scale.

The most visible change to our members will be the relocation of both of our offices – the Court Services team moved to the Genesis Centre in Stoke-on-Trent in December 2021 whilst the Southampton based teams moved across town to Enterprise House in January 2022. Both moves represent a significant downsizing of office space leading to lower day to day operating costs. Whilst saving money, they are also an upgrade to the quality of office space we provide to our teams for their day to day working environments. The Investment Committee will manage the future of the former premises at Foresters House and Station Chambers to maximise the financial return for the Court Investment Fund who own both properties. This will include consideration of the Foresters Heritage Trust who are currently sub-letting part of the former Tunstall Office from the Society.

The Society retendered its IT support services contract in 2021 and will be changing provider from July 2022. This is a major outsourcing contract for the Society and significant cost savings are being achieved through this process. Following the change of provider, the IT infrastructure will be upgraded extending the use of the existing hybrid model with physical hardware upgrades and movement of some of the existing infrastructure away from being on premise and into the cloud.

Financial Performance

Overall premium income has increased to £39.4m (2020: £34.1m) for the reasons described above.

Elements of the investment markets were turbulent over 2021 due to the uncertainty of the impact of COVID-19 on the global economy and the threat of rising inflation, leading to increases in short term interest rates. The Society maintained the majority of its core holdings and asset allocations in the with-profits funds, although there has been an increased allocation to the Private Debt market with the main drawdown of that fund due in 2022. The policyholder funds within the main with-profits fund, the Order Insurance Fund, achieved a total investment return of 2.5% (2020: -0.9%).

The Society's Non-Profit Fund was de-risked at the end of 2021, with the sale of all UK Corporate bonds and Global Convertible bonds and implementation of equity hedging in respect of future annual management charges on unit linked business. The fund's asset allocation now includes GBP Short Dated Credit and an investment with a Trade Finance partner. The de-risking activity is the first step to transitioning the investments to optimise future investment returns given the available regulatory capital budget. This fund achieved a total investment return of -1.4% (2020: 7.6%), suppressed by increasing interest rates.

The Society's major holdings in equity remained in the POIS unit-linked business funds where the investment risk is borne by policyholders by design. Due to the high allocation to equities in these funds, the unit prices performed very well over the year as a whole, bouncing back from the market falls in September and October, to end 2021 c.20% higher than 31st December 2020.

Insurance expenses have increased to £5.9m (2020: £5.2m). Whilst this is an increase, 2020 benefited from the write-back of previously accrued IT project costs of £0.6m. Taking this write-back of previously accrued costs into account, expenses have reduced slightly in 2021. This is a good result considering the large increase in new business sales.

The result of the above items was a net insurance profit for the year of £3.2m (2020: £0.5m).

The Society's capital coverage ratio ("CCR") has shown a large increase at the end of 2021 to 118% (2020: 112%), and now sits within the Board's capital risk appetite. The Society's available capital resources in the insurance funds at the year-end was £25.7m (2020: £22.8m) and the capital coverage ratio was 152% (2020: 130%). These increases have been achieved primarily through the further cost cutting exercises performed during the year and optimisation of the Society's investment strategy for capital efficient returns.

Regulation

The Prudential Regulation Authority ("PRA") continues to hold regular meetings with the Society to understand the capital management actions the Board are implementing and the future strategic direction of the Society. Bringing the CCR back to within risk appetite along with securing the interests of long-term policyholders in any strategic decisions is their current area of focus.

In terms of regulatory project work, the Society is required to comply with the finalised rules and guidance issued in March 2021 by the PRA, FCA and Bank of England in respect of "Operational Resilience" by 31 March 2022. The framework is intended to ensure the Society has robust processes and procedures which can be quickly recovered in a business continuity or disaster recovery situation. The objective is to minimise the risk of potential harm to the Society's policyholders and the UK financial system as a whole.

This project required the identification of "Important Business Services" followed by defining acceptable "Impact Tolerances". These stages were completed in 2021 and received Board approval. The final stage is detailed stress & scenario testing of the important business services and impact tolerances. This work was successfully completed by the 31 March 2022 regulatory deadline.

Despite this being primarily a regulatory focused project, we do expect it to provide commercial benefits to the Society. We have identified further areas of efficiency that can be gained in the finance and operations teams processes because of this project work. Some of these will require small but well targeted investments that have a short payback period in order to implement the efficiencies..

Governance

There has been a number of changes in the Society's Senior Management Function ("SMF") holders in 2021. SMF positions are designed to hold the Society's Board and Senior Management to individual account for the decisions taken and outcomes achieved in respect of the Society's long-term policyholders. SMF roles are subject to regulatory approval following assessment by both the PRA & FCA into a candidate's suitability to hold the role, with a particular focus on competence and capability since the financial crisis of 2007-2009.

The majority of the SMF changes unexpectedly occurred from the outcomes of Delegate voting following the Society's 2021 High Court. In addition to the planned retirement of former Chairman John Instance, Senior Independent Director Graham Setterfield resigned from the Board. Graham had been Chair of the Nominations Committee who recommended the proposed new Chairman that High Court Delegates declined to elect.

On behalf of the Board, I would like to thank John and Graham for their many years of service to the Society and personally thank them for their counsel in my role as CEO, it was a pleasure to work with both of them.

Careful management has subsequently been required to ensure continuity of our internal governance procedures, identify suitable replacements for each SMF role and ensure effective communication with our regulators regarding the changes. The following applications have been recently approved:

Trevor Batten	SMF9 Chair of the Governing Body SMF13 Chair of the Nominations Committee
Helen MacKinnon	SMF10 Chair of the Risk Committee SMF11 Chair of the Audit Committee SMF12 Chair of the Remuneration Committee SMF14 Senior Independent Director
Kirsten Glen-Holmes	SMF4 Chief Risk

The Nominations Committee is currently undertaking a recruitment process to seek additional professional non-executive director resource.

Future Strategy

The Board's key obligation under their SMF responsibilities is to maintain, or improve, the security of long-term insurance policyholder benefits. The key strategic challenge in continuing to meet this obligation for the long term is accessing the benefits of scale to prevent the decline of the Society's CCR and improve the profitability of the individual insurance business. Short term projects planned in 2022 to improve this situation include:

- Scale – improving the scale of the Society via enhanced marketing activities and using the very beneficial capital position of the Order Insurance Fund to enhance the investment offering for with-profits policyholders. We will also be launching a more marketable advised Investment Bond product, which in turn will be used to increase activity in the IFA distribution channel.
- Risk efficient investment returns – reviewing the strategic asset allocation of key investment portfolios.
- Further cost reductions – particularly from extending our IT infrastructure further into the cloud, the implementation of a self-service member portal and electronic document delivery.
- Rationalisation/simplification – rationalisation of the Society's fund structures, leading to simplifications in the business, from merging our small closed with-profits funds with the Order Insurance Fund (subject to regulatory approval). This will also improve the workflow for the finance, policyholder administration and investment teams.

> "2021 has been a successful year for the Society in terms of both financial performance and operational improvements."
>
> **Rachel Hardy, Chief Executive**

In addition to the above activities, the Board will continue to assess and evolve the corporate strategy for the medium to long term. Whilst the Society's CCR has returned to be within risk appetite at the end of 2021, the Society continues to suffer from diseconomies of scale, placing downward pressure on the CCR over time. The Board is currently considering several strategic actions in order to address the diseconomies of scale issue and discussed these items with the Membership Committee and Past High Chief Rangers' Working Group in February 2022. More information will be shared with the wider membership when firm decisions have been reached. As reported in the 2020 Report & Accounts, these options include consideration of strategic partnerships with third parties.

Courts

During the year the Area support team was restructured to new Court Development Officer ("CDO") roles. The new roles are designed to support Courts remotely to reflect demand rather than strictly by geography. Spending less time 'on the road' visiting Courts in person gives more hours to be spent providing support whilst concurrently reducing associated travel & accommodation expenses. The CDOs provide support, training and assistance to Courts, to ensure each Court provides meaningful services to members and actively promotes member benefits and engagements. There is an enhanced focus within the role on upskilling and training Court Secretaries and Assistant Secretaries in respect of IT matters such as the Court Intranet, Court Events site and Court Portal.

In 2022, the CDOs will continue to focus on training for Court Secretaries and the intention is to start building a library of training materials on the Court Intranet which can be viewed wherever and whenever Court Secretaries desire.

The Court Services team has also seen a number of new joiners in 2021 due to natural staff turnover and will no doubt bring with them new ideas. In terms of project work, time has been spent in this team working with the Society's Data Officer, building a suite of Court Insight reports. These reports aim to compare Courts, with the aim to improve quality, uplift performance and challenge key activities around member engagement. The new Court data summary form linked to Accreditation and the Court Portal allows better understanding of key measures of Court activity by the Court itself.

The Court online banking project completed its pilot exercise successfully and further Courts are now invited to get in touch to move their banking arrangements. The feedback from the pilot group has been extremely positive, with Courts citing: improved processes, getting money to members more quickly, members more engaged with Courts, and assisting those members that cannot visit a bank branch.

I am delighted that an increasing number of our Courts are engaging in commonplace modern practises such as virtual meetings and online banking. Technology allows us to provide more options to members on how they wish to interact with their Court and should result in a higher level of member engagement and satisfaction if done well.

Court Financial Performance

Net Court operating income, before investment gains and losses, totalled £0.7m (2020: £1.7m). Total investment return on the Court Investment Fund was 9.4% (2020: -0.8%). £3.5m (2020: £4.5m) comprised investment income paid through member allowances and CIF interest rate. £2.1m (2020: £3.2m loss) represented capital gains which resulted in an increase in the CIF unit price to £1.07 compared with £1.04 at December 2020.

During 2021, the Courts' investments were further diversified away from direct property and further invested into equity infrastructure and trade finance. These new asset classes will further our aims to support the Courts by providing enhanced income to support local benevolent activities, and provide long-term capital growth of the Court Investment Fund assets.

Court Strategy

Under their terms of reference, it is the responsibility of the Membership Committee to develop and maintain a strategic plan for the development of the Courts. This should include promotion of active Forestry, acting as a conduit between the Board of Directors and the Membership of the Society and vice versa, and to ensure the Society's non-regulated activities are relevant to members' needs and that they add value to membership of the Society.

At the start of 2021, in pursuing its objective to reduce the Court Management Charge, the Committee recommended a number of changes to the provision of Court services, which included the removal of the Area structure.

The Membership Committee carefully considered the comments made by Courts in response to questions in the consultation survey contained in Circular 20/59. Whilst the results showed that the work of Areas was generally viewed positively, with a particular appreciation of the ability to socialise with members of other Courts at Area managed events, concerns were raised over the costs of the existing Area structure. A proposal to just reduce the number of Areas was considered by Management and the Membership Committee. It was rejected because it had the potential to cause the same disruption for the affected employees and the Courts but not lead to the same level of cost reduction in the Management Charge.

This removal of Areas was met with a mixed response from our Courts, and as a result a proposition to reinstate the Areas was passed at the 2021 High Court with 65% of Delegates supporting the proposition. Whilst this was a majority, it showed that 35% of Delegates are not fully engaged with the Area structure and are perhaps seeking an alternative.

A further proposition saw 63% of Delegates voting to replace Areas with Regions from 1 January 2023 and the Membership Committee is currently undertaking project work to establish what Courts would value from a regional structure.

Propositions were passed requesting the Membership Committee to look at future Court development opportunities and for the Past High Chief Rangers' Working Group to consider an independent review of a standalone fraternal membership-based organisation with Independent Courts. I am sure you all await an update on their work with interest as we approach High Court 2022.

A change will be seen in 2022 when our first Hybrid High Court will be held in Llandudno following the approved proposition that any Delegate correctly nominated to participate in High Court may choose to do so virtually, using discussion, communication and voting methods established during High Court 2020 & 2021. I am personally in favour of this modernisation as we have seen a noticeable increase in the number of registered Delegates and visitors to our webinars and virtual High Courts in 2020 and 2021. Whether we agree with the outcomes of specific votes or not, greater active member engagement at High Court can only be a positive step forward for the Society to ensure the full diversity of member's views and desires are represented.

All of the above will be funded from the Court Management Charge in 2022 and Courts can therefore expect to see an increase in the Charge they are expected to pay arising from the decisions that Delegates have made.

Summary and Outlook

2021 has been a successful year for the Society in terms of both financial performance and operational improvements. I am proud of the determination of our friendly staff who continue to work hard for the good of our members whilst simultaneously modernising our systems and processes and adapting to change. They regularly go above and beyond in delivering sustained and high levels of member service which I thank them for.

I know that everyone is looking forward to further relaxation in restrictions which will allow us to physically meet again and enjoy the sense of family that being a part of our Society brings. I look forward to seeing several of you in person, or virtually, at the 2022 High Court in Llandudno.

Rachel Hardy
Chief Executive Officer
18 May 2022

Strategic Report

About Foresters

We have been helping families for over 180 years. The 'Ancient Order of Foresters Friendly Society Limited,' which trades as Foresters Friendly Society, was established in 1834, although our origins lie in a much older society called the Royal Foresters, formed around 1745.

Before the development of the National Health Service, employer-sponsored welfare benefits and easily accessible financial services, friendly societies played an important part in the lives of many people. Our first members came to recognise they had a duty to assist their fellow men who fell into need 'as they walked through the forests of life'. This 'need' arose principally when a breadwinner fell ill, could not work and received no wages. Illness and death left families financially distressed and often destitute.

Addressing this need has been the main purpose of Foresters Friendly Society throughout its long history. Members recognised that by paying a few pence a week into a common fund, they would be able to receive sick pay and funeral grants when needed.

Foresters is a mutual insurance business with a social, fraternal and benevolent mission. The Society delivers a wide range of benefits to members, including savings, investment and insurance products and additional fraternal benefits, called Foresters Extras. As a mutual friendly society, there are no shareholders: insurance business profits are distributed to with-profits policyholders in the form of bonuses and returns on Court Funds are used for the benefit of all members through the Foresters Extras membership package.

The Society offers products that are simple, flexible and affordable and are backed by excellent customer service. Products range from individual with-profits and unit-linked savings and investment policies to group life and sickness insurance. Every individual Forester has access to a unique range of valuable Foresters Extras, from free nurse advisers to discretionary grants in time of need, all made available at no additional cost.

The Society encourages members to participate in local branches, known as Courts. The Society has 189 Courts spread across the UK and the Channel Islands that meet socially on a regular basis to provide friendship and support to one another. Each Court is responsible for its own affairs. As well as having policyholders as members, the Courts have fraternal members who hold membership of the Society without the need to purchase a financial policy. This gives access to the social, fraternal and benevolent activities of the Society.

The Society is led by a Board consisting of Executive ("ED") and Non-Executive Directors ("NED"). The Board is responsible for developing the strategy and the Business Plans of the Society, and the NEDs provide constructive challenge, advice and oversight to management.

Objectives and Strategy

As a Friendly Society, we offer a service which aims to make a positive impact on the lives of members. Our overarching vision is to be the leading mutual provider of worthwhile financial products, promoting caring values through our member communities. The Society is committed to be the most member-centric mutual by:

- listening and being accessible to members and customers;
- offering valued financial products;
- modern digital technology to service and communicate with members; and
- meeting our customers' expectations.

The Board regularly reviews the Society's strategy and implements strategic projects that seek to secure long-term benefits for our policyholders. The current strategic goals are as follows:

Strategic goals	Strategic priorities
Grow the Society's membership base	• Seek out further merger or acquisition opportunities to increase scale. • Attract new members to the Society through our membership proposition and member benefits. • Optimise value of our membership proposition by delivering the Court strategic priorities. • Deliver new IT systems to: 1. Improve business efficiencies and realise cost savings for the benefits of all members. 2. Enhance distribution channels to reduce the cost of acquisition and deliver increased premium income. 3. Develop member engagement with the option of digital delivery and member portals to enhance the customer journey and service delivery for members and advisers. • Implement the member retention programme.
Achieve a viable and consistent operating environment for profitability, capital and solvency	• Grow the group protection business, providing diversification of risk and enhancement to future member value from the profits it generates. • Write profitable individual business and reduce acquisition and maintenance expenses on these products to a sustainable level to facilitate this. • Offer a diverse, responsible investment strategy to maximise policyholder returns. • Optimise risk-based capital.
Culture and customer outcomes	• Conduct regular member satisfaction surveys to collect and react to feedback. • Evidence that we provide good value investment products, maximising returns in the medium to long-term for policyholders, in a manner that is sustainable to the Society in the long-term. • Be a great employer – develop, support and reward our people to ensure they are high performing and providing our membership with excellent customer service.

Strategic Report (continued)

Business Model

Sales

The Society's insurance business can be divided into two – individual products and group schemes. The individual products are sold directly via online, telephone and postal channels, through introducers and via independent financial advisers (IFAs). The group schemes cover police federations and charities and are sold through brokers.

The Society trades using two brand names – "Foresters Friendly Society" and "Post Office Insurance Society". These two brands are used concurrently in different channels to optimise the Society's marketing strategy and drive new business sales.

What we sell

The Society offers financial products that are simple and affordable, backed by excellent customer service. The main individual products are:

- regular premium unit-linked savings plans (TESP, CTEP, SIP);
- with-profits individual savings account (ISA, LISA, JISA);
- with-profits investment bond; and
- regular premium with-profits whole life assurance for the over-50s.

The Guernsey Court provides primary healthcare insurance to Guernsey and Alderney residents.

Group products insure death and terminal illness, critical illness, and loss of pay from being off sick.

How We Market & Sell

Our individual products are promoted in a number of ways:

- online advertising and social media (Affinity sites, Facebook, Twitter, LinkedIn and others);
- direct mail and our Member Services telephone team;
- corporate employee benefit platforms;
- Introducers (POIS and Court); and
- Independent Financial Advisers (IFA).

Group business is sold via specialist brokers.

Key Markets

Individual Business

The Society seeks to offer products and benefits to members from all age groups and has an individual product portfolio that provides options for saving from birth to old age.

Older members are the most active members of the Courts making the most of the companionship, social activities and benefits. We want them to be advocates of Foresters and to introduce Foresters to their friends and relations in our target markets. To this end, we enthusiastically encourage standalone membership as well as offering financial products.

Group Business

The Society's key market in group business is police forces based within the United Kingdom.

Foresters Extras – Member Benefits

When taking out any of our financial products, a policyholder automatically becomes a member with access to Foresters Extras, our member benefits package, at no additional cost. Membership can also be purchased as a stand-alone product to gain access to Foresters Extras. The package of benefits includes grants for items such as:

- **Financial support for children** – as part of our benevolent approach, the Foresters Child Support Fund was set up to commemorate members who died during the First World War. Today the fund's purpose is to provide financial assistance for children (up to and including the age of 18) who need it. Circumstances that would be considered for a grant include:
  - Children who are bereft of one or both parents;
  - Children who have parents that are incapacitated;
  - Children who are themselves incapacitated or have special needs; and
  - Children who are carers.

  For the Child Support Fund, future expected grants from the fund amount to c.£349,000 at 31 December 2021 and future funding is monitored and actively managed by the Society.
- **Financial support** – The Foresters Support Fund provides discretionary grants to assist our members in times of hardship. For example, we've been able to help members affected by floods and members directly or indirectly affected by the COVID-19 pandemic.
- **Member care** – Our Member Care Benefit Fund provides discretionary convalescent grants to assist members recuperating after short or long illnesses by providing a stay in a convalescent home.
- **Educational awards** –The 150th Anniversary educational awards fund provides grants for members aged 16 and over who are in further education and studying for a recognised qualification, to help with expenses such as books and IT equipment.
- **Healthcare grants** – The cost of everyday healthcare can add up. You may need some work done at the dentist, need an eye test and some new glasses, visit the chiropodist or assistance with your other healthcare needs. Our discretionary healthcare grants can help you cover the cost of your everyday healthcare needs.
- **Other grants** – Our Courts offer a range of other discretionary benefits to their Members to assist with the financial challenges of everyday life.

The amounts paid out in discretionary grants were as follows:

	2021 (£'000)	2020 (£'000)
From Centrally Managed Court Funds:		
Foresters Child Support Fund	75	59
Foresters Support Fund	49	70
Member Care Benefit Fund	79	21
150th Anniversary Educational Award Fund	71	76
From Local Court Funds:		
Dental & optical grants	411	290
Other Court awarded discretionary payments	594	655
Total	**1,279**	**1,171**

The fund balances as at 31 December 2021 are shown in Note 16.

Our Courts

Forester's Courts are central to its governance and fraternal structure. These are geographical groups of members who manage their own funds and support social, fraternal, educational and benevolent activities. Each Court elects its own officers and delegates to represent the Court and its members at High Court (the Society's Annual General Meeting). The High Court delegates elect the Society's Directors and the Membership Committee, who are responsible for oversight and management of the business, and a High Chief Ranger to represent Courts at internal and external events. This approach provides a governance structure for members to have their say in their Society. Communication with and representation of the members occurs through the Membership Committee and the Area structures. Our member publication, Miscellany, supports our commitment to keep all members regularly updated on Society and Court matters.

> "The products are fantastic, the staff are fabulous.
>
> Excellent service. Thank-you."
>
> **A satisfied Foresters member, 2021**

There are currently 189 Courts which are the local point of contact for members. The Courts seek to promote the ethos of the Society and encourage members to meet for social, business and benevolent purposes. Courts also organise charitable fundraising events. The discretionary benefits provided by Courts are selling points for the insurance operation and vice versa, insurance sales provide new Court members.

Each Court is run by a Committee of Management responsible for the control of the business of the Court within the Rules and procedures of the Society. Each Court has a Secretary who is responsible for the accounting and administration of the Court.

Since 2008 a process known as accreditation has ensured that Courts operate to a consistent standard and members receive a high level of support from Courts. In late 2018, the accreditation process moved to self-assessment to allow Committees of Management to consider how they can ensure a strong future for their Court.

From 1 March 2021, the Courts are supported by a central team of Court Development Officers with the aim to:

- upskill Court Secretaries to use IT as part of running the Courts;
- develop and provide centralised training manuals for the Courts;
- monitor Courts' performance in areas such as accreditation and Court Insight reports;
- invoke succession planning to ensure longevity of the Courts;
- support marketing activities of the Courts; and
- advise on charitable work, fundraising and social activities.

Court Mission

The Courts exist to serve their members and encourage their involvement in the running of our mutual Society. As part of a wider network, the Courts provide a local presence that enables the organisation of social events, promotions of charitable activity, recruitment of new members and makes a community of its members. The Court network as a whole supports the active involvement of members, the promotion of the society ethos, and the planning of a secure future for Foresters.

Strategic Report (continued)

Court Strategic Priorities

Strategic area	Strategic priorities
1. **Member Engagement and Care**	• Help and encourage members to become more active in their local Court and in attending both regional and national conferences. • Promote the Society and its aims with a view to increasing the membership. • Develop a programme of training to be made available throughout the Court network (e.g. maintaining members, arranging events, public speaking etc.). • Become more creative in using technology to reach members and hold more inclusive meetings and socials. • Learn from the guidance toolkit to become more confident and successful in advertising the Court and its activities. • Encourage all active Court members to consider "How can you make a difference?" – For example, building upon one another's skills to engage members and support vulnerable, isolated, and lonely members. • 'Member Support Member' – A new scheme to promote the sharing of best practices with each other and fellow Courts (e.g. at conferences, the Miscellany, and on social media).
2. **Benevolence**	• Agree Court charities priorities and use successful outcomes to promote the Court. • Use technology and delegation to process applications and payments in a timely manner. • Develop benefits to support a lifetime relationship with members. • Undertake regular reviews of discretionary grants and social events to ensure they are relevant for all members and can assist as many members as possible. • Use a Testimonial Programme to raise awareness of the benefits and support offered by the Courts. • Use Court funds to extend range and type of benefits.
3. **Committee of Management and Financial Responsibilities**	• Succession plan for Committee of Management to ensure the longevity of the Court. • Use the Toolkit and Court Handbook to assist the Committee of Management. • Encourage members to be involved as Court Officials and Delegates. • Support, inform and include Committee of Management with the financial and general management of the Court.

Further details are provided in the Membership Committee report on page 47.

High Chief Ranger

The role of High Chief Ranger (HCR) acts as a figurehead for the membership, representing and promoting Foresters Friendly Society and is a key link between the Society and the members.

The HCR chairs the Membership Committee and co-chairs High Court together with the Board Chair.

Michael Charlton-Hubble was elected to the role at High Court in June 2019. Due to the COVID-19 pandemic and the impact this had on Michael's year in office, Michael was re-elected as High Chief Ranger at the virtual High Court in September 2020. He retired from the position at High Court in June 2021. His chosen charity, Rays of Sunshine, is a UK registered charity that grants wishes to children, aged 3 to 18 years old, living with serious or life-limiting illnesses. Michael was thrilled to be able to present them with a cheque for c. £128k on the conclusion of his time in office.

Shirley Grealy was elected as HCR at High Court 2021 and has chosen Christians Against Poverty (CAP) as her nominated charity for her year in office. Christians Against Poverty was founded in 1996 to help people crippled by debt; parents who couldn't feed their children, families facing eviction and desperate people living in fear and without hope. Since then, CAP has rapidly grown its debt centre network and expanded its services to tackle the causes of debt and poverty too. As well as CAP Debt Help, they now help people step into employment through CAP Job Clubs and help equip people to live well on a low income through our CAP Life Skills groups. Our members will be taking part in fundraising activities throughout her year of office to raise funds for this charity.

Finances

Court income primarily derives from investment income on Court assets, membership fees and other fundraising activities. Court expenses include the costs of administering the Courts, investment charges and grants to members, the costs of providing social events and donations to good causes. Court funds are ring-fenced which means the funds are only available to the Courts. At 31 December 2021, total Court funds amounted to £86.4m (2020: £83.7m). The make-up of the Court Funds at 31 December 2021 was as follows:

Court Funds	2021 (£'000)	2020 (£'000)
CIF direct property holdings	36,356	37,095
Equitix Infrastructure Fund	5,584	2,995
Leeds Investment Association deposits	14,306	13,254
Fixed interest	18,781	20,885
Derby Investment Association deposits	5,226	4,889
Locally managed property	4,436	4,521
Cash and cash equivalents	1,862	78
Net Debtors/(Creditors)	(1,015)	(1,258)
Guernsey insurance assets	(5,145)	(4,791)
Court reserve fund	(1,029)	(765)
Society Court Funds	**79,362**	**76,903**
Leeds Investment Association surplus assets recognised on consolidation	7,000	6,772
Consolidated Court Funds	**86,362**	**83,675**

The Leeds Investment Association surplus relates to the share belonging to the Courts' deposits only. The surplus relating to the Society's deposit in the Leeds Investment Association is recognised in the Court Reserve Fund in the consolidated balance sheet.

In addition to the Court funds there are a number of discretionary funds valued at £14.1m (2020: £12.7m) with specific purposes as determined by the Society. These are set out on page 89.

Key Performance Indicators

Introduction

The results for 2021 are set out in detail on pages 64 to 108 and are summarised below together with the Society's Key Performance Indicators (KPIs). The KPIs show the seven key measures that the Society uses to assess its performance covering premium income, expenses, membership, complaints, funds for future appropriations, assets under management and the capital coverage ratio.

Premium Income

Premium income is the total income generated by the Society through in-force regular premiums, new business premiums and top-up premiums.

Gross long-term premium income has increased in 2021 to £36.8m (2020: £31.5m). Group premiums contributed £15.3m (2020: £14.5m).

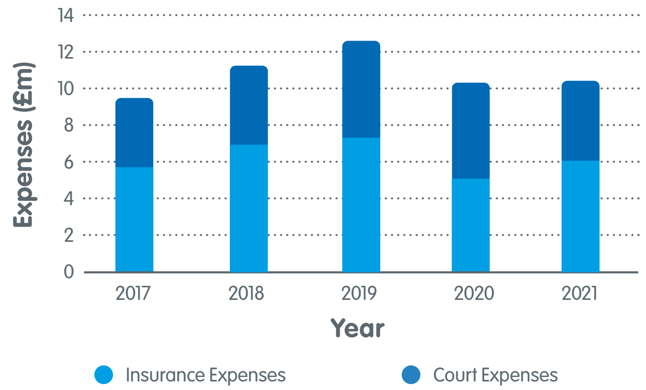
In with-profits, new business contributed £11.8m lump sums (2020: £7.4m, including Lifetime ISA government bonuses), and £0.2m regular premiums (2020: £0.3m). Unit-linked policies produced £1.2m of new regular premiums (2020: £0.6m). Unit-linked policy sales have increased following the reopening of the Introducer channel and expansion into new distribution channels.

For in-force with-profits policies, regular premiums contributed £3.4m (2020: £3.3m). Unit-linked products in-force collected £5.8m (2020: £5.1m).

Gross premium income of the Guernsey primary care insurance increased to £2.7m (2020: £2.6m).

Total Operating Expenses

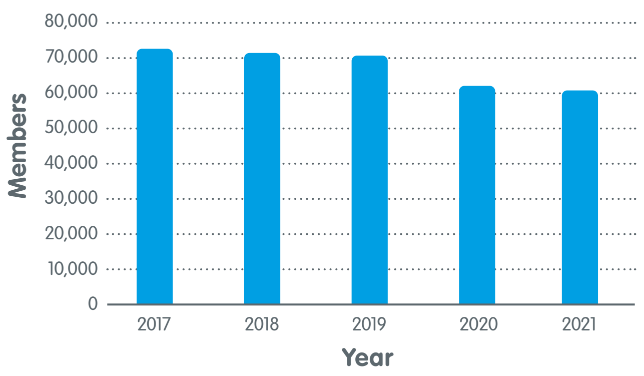
Expenses are managed through the setting of budgets within the business planning process and a regular review and challenge process throughout the year. This is a KPI as policyholders' returns and members' capital are directly affected by the costs of operating the business. Expenses in 2021 are consistent with 2020. Insurance expenses in 2020 benefited from £0.6m accrued cost release due to the cancelled IT project. Further details on total operating expenses are set out in Note 7 on page 81.



Strategic Report (continued)

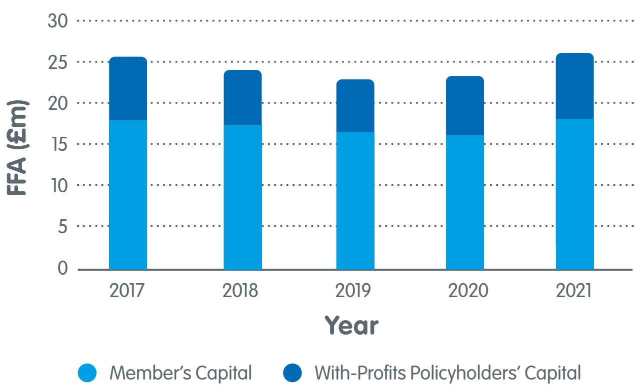
Individual Membership

The membership base is the total number of members (including the Guernsey branch) at the end of the financial year and gives an indication of the scale of the Society. On 31 December 2021 the Society had 61,390 members, 193 fewer members than 2020 (61,583). These figures include members with whom we have not had contact for a number of years and for which a gone-away project is currently in progress to re-establish contact with the member or their descendants. The fall in membership over 2021 is largely attributed to the POIS Introducer new business distribution channel closed for a significant part of the year, due to restrictions imposed by the COVID-19 pandemic. All distribution channels are now open. The 2020 figure has been restated following a data quality investigation, which has more accurately identified unique members. The Society's estimated number of gone-away members on 31 December 2021 is 2,898.



Fund for Future Appropriations

The FFA is used as an indicator of financial strength and the ability of the Society to meet its regulatory capital and business requirements of the insurance business. The current value of £25.9m exceeds the Society's regulatory capital requirements for the insurance business. The FFA increased in the with-profits funds by £0.5m over 2021, primarily due to new business profits and favourable economic conditions. The part attributable to Members' Capital has increased by £2.2m over 2021, primarily driven by profits from the group business.



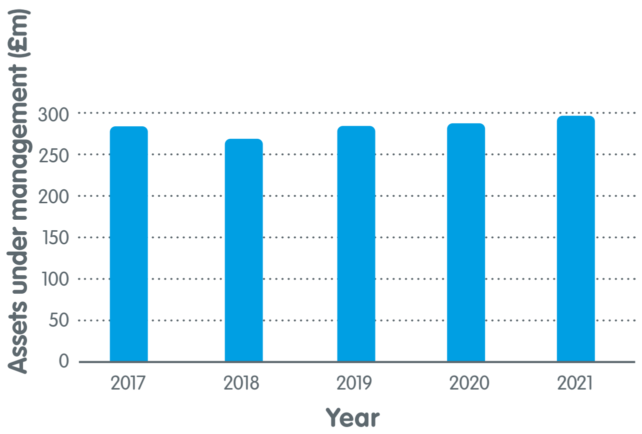
Complaints

Membership satisfaction is core to the Society. The Society measures member satisfaction principally by member retention, member complaints, investment performance and results of membership surveys. Complaints are managed through the Society's complaints process to ensure they are dealt with promptly and fairly.

Of the 62 complaints received in 2021, 9 were upheld by the Society. In 2020 the corresponding number was 45 complaints with 10 being upheld. In 2021, no complaints were referred to the Financial Ombudsman service. Whilst the incidence of complaints has increased, the proportion upheld has remained low.

Total Assets

The value of total assets is another key indicator of the scale of the Society. Total assets show the growth in the value of the business over time, through increased sales, expense control, profitability and investment returns. As at the end of 2021 total assets were £298.0m (2020: £284.9m). The increase in assets over 2021 primarily relates to the increase of insurance funds, driven by the increase in new business sales.

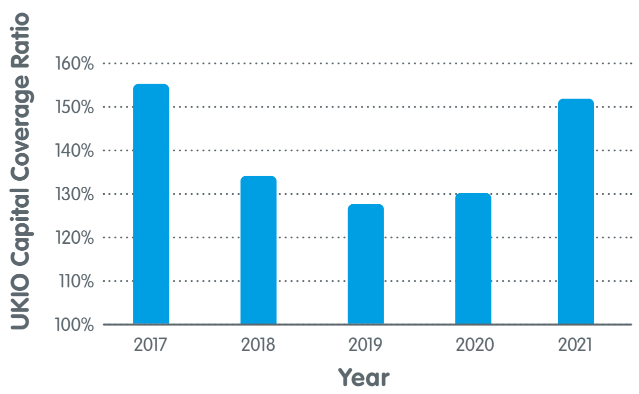


Capital Coverage Ratio

The capital coverage ratio ("CCR") for the Society's UK insurance operations ("UKIO") is a key indicator, representing the Society's ability to meet its overall regulatory capital requirements for its insurance business.

The UKIO CCR at the end of 2021 was higher at 152% (2020: 130%), and within the Board's view of capital risk appetite. The increase in CCR is primarily a result of capital actions and expense reductions undertaken by the Board to improve the Society's solvency position.

The overall Society CCR at the end of 2021 was also higher at 118% (2020: 112%). Due to the considerable amount of Court assets, which are ring-fenced from the insurance business of the Society, the CCR reported for the Society as a whole is diluted and not easily comparable with other Friendly Societies or insurers which solely write insurance business.



Risk

Risk Management

Effective risk management supports the Society in delivering its strategy. It also protects policyholders and members and helps with the efficient use of capital.

The Society's approach to Risk Management, delivered through the Risk Management Framework, is embedded within the business through our risk management systems, culture and governance structure. The objectives of the Risk Management Framework are:

- align strategy, capital, processes, people, technology and knowledge to enable the management of opportunities, uncertainties and threats in a structured manner;
- establish a common view of risk across the Society and an understanding of the risks inherent within the business;
- ensure the Society's view of risk is current and in line with risk appetite;
- improve decision making;
- provide relevant and accurate management information;
- ensure adequate and appropriate resources are available to facilitate effective governance and challenge;
- ensure clear accountability; and
- promote and embed a risk-aware culture.

Underpinning the Risk Management framework is the Own Risk and Solvency Assessment (ORSA), which is the set of ongoing processes and procedures in place to identify, assess, monitor, manage and report on the short and long-term risks that the Society faces, or may face in the future, and to determine the capital resources necessary to ensure that overall solvency needs are met at all times. The ORSA plays a key role in supporting the Board's assessment of strategy and ongoing viability. The ORSA output and the associated stress and scenario testing are key components for the assessment the Directors consider in making the statement regarding the viability of the Society in the Directors' Report on page 37.

Our Risk Strategy

The Society's risk strategy, which is designed to support the achievement of the Society's corporate objectives, is:

- Foresters is a Friendly Society in the business of taking on risks in the course of providing financial solutions for members, where they can be managed efficiently.
- Foresters will focus on risks where it is believed it can provide value to members, and for which members are willing to pay the appropriate amount. These are primarily insurance and investment risks.
- Risks are only taken that are rewarded commensurate with the risk, and where the appropriate skills are available to manage this. Risks that expose the Society to very volatile or extreme potential outcomes which would threaten the Society's ability to continue are avoided.

Strategic Report (continued)

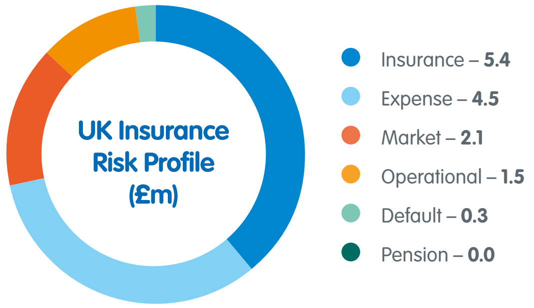
Risk Appetite

The Society's Risk Appetite Framework ("RAF") supports the delivery of the risk strategy. The Society determines a Risk Appetite Statement ("RAS") for those risks which it requires to control and manage in pursuit of its business strategy.

The RAS specifies the amounts and type of risk the Society is willing to accept in fulfilling its mandate and informs policies on the allocation of accountabilities and resources to managing its risk exposure.

The risk appetite is approved by the Board. The Board also determines the risk tolerance from the stated risk appetite which provides a framework to apply risk limits and any actions. Management monitors the Society's risk profile against the risk appetite and reports this to the Board.

The Society's risk profile for its UK Insurance Operations is shown in the graph below and relates to the proportion of the Solvency II solvency capital requirement held in respect of the Society's risks. The most significant sources of capital requirements are in respect of increases in mortality and morbidity related claims (Insurance Risk), increases to the Society's future levels of expenses (Expense Risk) and fall in investment values (Market Risk). The risk profile has changed relative to last year due to acquisition of new, and renewals of large, Group schemes which have increased the level of Insurance Risk by £1.0m and optimisation of the Non-Profit Fund's investment strategy which has reduced Market Risk by £2.3m.



Risk Governance

Risk governance determines the appropriate ownership and oversight of risk and ensures the associated controls are in place to proactively manage any threats. The Society's risk governance model is designed to promote transparency, accountability, and consistency through the clear identification of roles, the separation of Society management and governance and control structures. Oversight of the Society's operation is provided through ''three lines of defence''.

The Society's 3LOD Governance structure

Board		
1st line of defence (1LOD)	2nd line of defence (2LOD)	3rd line of defence (3LOD)
Business Primary Risk Owner, accountability, responsibility, monitoring and managing of risks	**Risk and Compliance Function** Oversight and challenge, and provide risk Leadership, facilitate and co-ordinate	**Assurance** Independent assessment
Executive Management CEO/CFO	Chief Risk Officer (CRO)	Internal Audit
Department Managers	Chief Compliance Officer (CCO)	External Audit
All Staff	CFO (Includes role of Chief Actuary)	Audit, Risk and Compliance Committee
Business Committees* Eg: Membership, Investment, IT, Product and Climate Change	Business Risk and Compliance Committee	Remuneration Committee
	*Not an exhaustive list	Nominations Committee

The Society continues to operate a Three Lines of Defence model (3LOD) of risk management to enable clearly defined roles and responsibilities for Committees and individuals.

1st Line of Defence	2nd Line of Defence	3rd Line of defence
Management (Manage)	**Risk and Compliance (Oversight)**	**Audit (Assurance)**
• Responsible for identifying, analysing, managing and controlling, monitoring and reporting risks • Promote and implement a strong risk culture • Promote and implement a culture of managing risk exposure • Ongoing management of inherent and residual risks	• Responsible for the design and maintenance of the Risk Management Framework • Provide the tools and assistance to help the Society manage risk • Overarching 'risk oversight' across all risk types • Combination of watchdog and trusted advisor	• Responsible for providing objective and independent assurance to the Board, Audit, Risk and Compliance Committee, and management regarding the effectiveness of the internal control environment

First line:

- Day to day risk management is delegated from the Board to the Chief Executive and through the Society's operating structure is delegated to the operational functions including IT, Human Resources (outsourced), marketing, sales, insurance operations (claims handling, policy administration) finance, actuarial (the actuarial department have both first line and second line responsibilities, these potential conflicts are managed through the Society's review processes and the combined Chief Finance Officer and Chief Actuary role, held from 9th December 2020).
- Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, monitoring and management of risks and controls.

Second line:

- Risk oversight is provided by the Chief Risk Officer who reports to the Chief Executive and has a dotted line to the Chair of the Audit, Risk & Compliance Committee (ARCC), to allow no constraints when reporting to the Committee, with support provided from the Risk and Compliance assistants, Chief Compliance Officer and the Business Risk and Compliance Committee (BRCC).
- The Risk Management Function and Compliance Function is accountable for providing challenge and oversight of Society's management of risks and developing and maintaining the risk management framework. The Chief Finance Officer, who reports to the Chief Executive, also forms part of the Society's second line of defence.
- The Chief Finance Officer is responsible for the work of the Actuarial Function, particularly in respect of the calculation of technical provision and solvency capital requirements. Independent oversight is provided by the Non-executive Directors at the ARCC.
- The Audit component of the ARCC is responsible for the review of internal control, financial reporting process, review of the internal and external auditor effectiveness. The Risk component of the ARCC is responsible for monitoring the risk and governance framework of the Society.

Third line:

- Internal Audit forms the Society's third line of defence. It is accountable for providing an independent assessment of the effectiveness of the risk management and internal controls framework through a risk-based approach. It reports to the ARCC on the operation of this framework by the first and second line functions.
- The Society employs a Court Auditor who is responsible for reviewing the Court internal controls through a risk-based plan.

Further detail is provided on the role of ARCC on pages 45 to 46.

Risk Policies

The Society has in place risk policies that outline the aim and approach to be taken for Risk Management within the Society together with the standards and parameters which have to be adhered to, the escalation procedures, reporting requirements and responsibilities for each principal risk type. These policies are reviewed on a risk-based approach.

Risk Culture

A core element of the risk management framework is the Society's culture. The Society's aim is to ensure staff have clear roles and responsibilities, are appropriately skilled and the appropriate incentives and rewards are in place. The remuneration policy is designed to encourage the right behaviours and is overseen by the Remuneration Committee.

Strategic Report (continued)

Principal Risks and Uncertainties

The types of principal risks the Society is exposed to are Strategic, Credit, Operational, Market, Insurance, Liquidity and Conduct & Compliance Risks.

Risk Category Level 1 (Principal Risks)	Principal Risk Description and Assessment of Materiality
Strategic Risk	The risk of not achieving the Society's strategic plan, as a result of internal or external factors that serve to undermine either the strategy itself or its execution. Strategic Risk is a principal risk as it can prevent the Society achieving its objectives. This risk must be carefully managed, as it can stem from both the strategy itself and external factors such as the economy. The Board considers that Capital Management and Investment Risk pose a significant threat to the Society through its ongoing financial stability and impacts on profitability, liquidity and capital.
Credit Risk	The risk of financial loss if the Society's counterparties are unable to meet their obligations as they fall due. The Board considers Credit Risk to pose a significant threat to the Society through credit losses, that would impact its ongoing financial stability through impacts on its profitability, liquidity and capital.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Or the risk of failing to effectively design, execute or deliver change. Several operational risks contribute to the Board's view of its materiality, which taken individually or together would impact its reputation and ongoing financial stability through impacts on its profitability, liquidity and capital. The Board determines the following Operational Risks being inherent and material within its business model: People Risk, Change & Transformation Risk, Information & Data Security Risk, Technology (IT) Risk, Premise & Physical Security, Process Risk, Fraud Risk, Cyber Risk, Business Continuity Risk, Legal Risk, and Third Party & Outsourcing Risk.
Market Risk	The risk that unfavourable market movements (including changes in interest rates, market-implied inflation rates, credit spreads and prices for bonds, foreign exchange rates, equity, property and commodity process and other instruments) lead to a reduction in earnings and or value. The Board considers the risk of mismanaging all market associated risks a material risk given the impact it can have on the Society's overall earnings and capital base.
Insurance Risk	An insurance risk is a threat or peril that the insurance company has agreed to insure against in the policy wordings. These types of risks or perils have the potential to cause financial loss. Variability in death and sickness claim rates, relative to the actuarial assumptions made in the pricing and reserving process. The Society's inability to manage expenses is also included here. The Board considers Insurance risk to pose a significant threat to the Society, in the event of it being unable to meet its financial commitments that would impact its reputation and ongoing financial stability.
Liquidity Risk	Not having sufficient liquid resources to meet changing market conditions and being unable to meet its obligations as they fall due or being able to secure them only at excessive cost. The Board considers funding and liquidity risk to pose a significant threat to the Society in the event of it being unable to meet its financial commitments that would impact its reputation and ongoing financial stability.
Conduct & Compliance Risk	Conduct Risk is the risk that the Society's culture, behaviours, business strategy and actions produce poor outcomes or detriment for members. This includes risk of suppliers, third parties (including introducers and intermediaries) behaving in an anti-competitive manner, in addition unfavourable terms leading to unfavourable treatment. Compliance Risk is the risk of legal or regulatory sanctions, material loss or loss of reputation as a result of failure to comply with legislation, regulation and rules applicable to the Society's activities. The Board considers Conduct and Compliance Risks to be material to the Society, in the form of reputational, contractual and regulatory exposure.

The nature and extent of risks arising from insurance contracts, including market risk, credit counterparty risk and liquidity risk, are described in the risk management Note 24 within the financial statements section.

The following risks continued to be the most significant that are believed could have the most significant impact on our business model, future performance, solvency or liquidity. The list represents the risks faced in 2021 and 2022 and is not an exhaustive representation of all risks the Society is exposed to. The list is used in conjunction with the other risks as part of its top risk assessment, taking into account the likelihood and the impact of the risk occurring to manage risks. These risks are closely monitored, with regular updates provided to the ARCC.

Risk	2021 and Future	Risk Management
Financial Market volatility	Investment markets remained volatile over 2021 due to the uncertainty of the impact of COVID-19 on the global economy and the threat of rising inflation that surfaced as fears in Q1 turned to expectation later in the year. Volatility in investment markets has continued into 2022 as a result of the Ukraine conflict. The internal investment team continue to monitor investment markets daily, including equity triggers, taking derisking action where required. AXA IM, the Society's investment manager, maintains diversification of its investment portfolios, spreading risk across different asset classes, investment styles, and geographies, to reduce the adverse impact of potential investment losses.	• The Board approved Investment Strategy, featuring a diversified portfolio of assets and asset benchmarks • The Society has an appointed and experienced CIO in place • Tactical asset allocation is performed by AXA IM • Regular investment reporting is provided to the Investment Committee with oversight from the Board
Failure to deliver the sales plan – volume, mix and profitability	The new business sales results for 2021 significantly exceeded expectations in respect of individual lump sum premium products due to a combination of the effectiveness of data driven marketing campaigns and the introduction of new sales channels, particularly employee benefit platforms. The TESP and CTESP products are now sold as a unit-linked rather than with-profits product to improve customer outcomes. The COVID-19 Pandemic did continue to impact on the Society's regular premium savings policy sales until July 2021 when POIS Introducers were finally allowed to re-enter Royal Mail sorting offices for the first time since March 2020. Key priorities on sales for 2022 are a review of distribution (including channels, commissions and incentives) and reconnecting meaningfully with IFAs through the launch of a new Investment Bond product. Whilst focus continues to be orientated toward higher premium and lump sum policies, the volumes of low premium, regular savings products remain important to improving the Society's economies of scale.	• 2022-2026 Business plan approved • Regular reporting to Board • Reconnect with IFAs using Investment Bond product, trailing fees, online surrender values, flexible charges for large lump sums and servicing 80+ customers • Use of data driven insights for improving sales campaigns and member retention • Diversifying the Society's distribution channels • Monitor effectiveness of campaigns and adjust future campaigns • Regular review of products to improve profitability • Sales and expense monitoring • Persistency monitoring
Failure to deliver expense savings impacting capital	2021 acquisition and renewal expenses were delivered under budget. Due to the size and complexity of the fund structure that the Society operates, level of regulation and current levels of new business, the Society incurs costs which are not directly linear with the number of policies administered. The Society does suffer from the diseconomies of scale. Management continues to pursue cost saving activities. Significant activity in 2021 included the re-tendering of its IT service provider and moving its office locations to reduce ongoing costs. Further IT initiatives are expected to be implemented in 2022 to upgrade our current systems, creating targeted efficiencies. The Society intends to rationalise the number of with-profits funds in operation in 2022 to reduce reporting complexity. To improve the Society's profitability position, the Society has identified further management actions to take to reduce expense levels in 2022 and future years.	• Monitoring of agreed business plan expense reductions • Monitoring meetings of expenses vs. budget & formalising overspend process • Board oversight and challenge • Budgeting process in place • Formalise overspending • Regular management discussions
Solvency: Capital management – Reduction in member capital	The Society is within its stated risk appetite for its capital coverage ratios at the end of 2021. However, this coverage is expected to deteriorate in the medium term if no action is taken to prevent this. The Group Catastrophe Insurance has been renewed in Q4 2021, but there is reduced capacity in the market to accept pandemic risk. The risk of securing catastrophe reinsurance with pandemic cover at an acceptable cost has increased. Reinsurance is needed to maintain SCR coverage.	• Solvency assessed as part of business plan with sensitivities and scenarios to be undertaken • Taking out excess of loss reinsurance with growing group business • Decision making aligned to capital • ORSA capital projections to support decision making

Strategic Report (continued)

Risk	2021 and Future	Risk Management
IT infrastructure fails to meet business needs	The Society is continuing its strategy of delivering modular changes in line with the IT road map. These changes are expected to improve the Society's operational resilience and cost basis as the IT projects target low up-front investment and early payback. A full review of our IT infrastructure and support arrangements is under way by our new IT support provider. Recommendations from this review will focus on improving reliance within the Society's IT infrastructure and enhancing ongoing support and staff training.	• Service level agreements monitoring • Business Continuity and Disaster recovery plans in place • Supplier relationship management • IT roadmap and IT strategy • IT Governance Review • Policy administration server upgrade project
Information Security and Cyber Security	There continues to be high profile cyber security incidents externally. The Society continues to enhance its cyber security controls through testing and training, and this is a continuous process for the Society. The Society obtained and maintains its Cyber Essentials Plus certification.	• IT Policy and IT controls • Cyber security response plan • Cyber insurance policy in place • Information Security Policy • Employee phishing exercises and computer-based training, regular communications about threats • Internal Audit reviews • Penetration testing and cyber essentials testing by external parties to test IT security defences

Brexit

There was no material impact on the Society following the end of the transitional Brexit period, however the long-term impact of Brexit remains uncertain. In economic terms, the Society holds a diverse portfolio of financial assets in order to offer some protection against market shocks that may occur in specific assets classes and, as part of its normal business processes, regularly monitors the exposure of these assets to interest rates, exchange rates and inflation.

Aside from the capital market impact, the Society considered the specific areas of impact for our business and determined that, whilst not significant to our business operations, the likely areas of potential impact would be:

- Lower policy sales due to squeezed household budgets;
- Members who have moved to an EU country since taking out a policy no longer being able to pay contributions;
- Increases in salary and other costs from inflation rises;
- Implications of restrictions on the free movement of labour;
- Services provided by EU based suppliers; and
- Regulatory changes.

None of these have had a material impact on the Society.

The Society wrote to all members resident in EU states advising them that the Society will continue to service their policies and meet claims and maturities.

Corporate Responsibility Report and Actions on Climate Change

Our Society is committed to act fairly and responsibly towards its members, its employees, and the society at large. This commitment sits at the core of our Society's ethos.

Responsible Investing

Over the past few years, the Society has taken action to ensure that its investment portfolio has an increasing focus on ESG (Environmental, Social, and Governance) investing. There is growing consensus that screening portfolio opportunities for their environmental and social impact improves the risk management framework and may generate superior portfolio returns and a better protection for policyholder's money. The Society has been following an exclusionary approach in identifying segments of the investment universe that appear to be at variance with reasonable expectations of policyholders as to their environmental and social impact.

The Society is a signatory to the PRI (Principles for Responsible Investments), the world's leading independent organisation for responsible investing with more than 3,000 signatories from over 50 countries, representing assets in excess of $100tn. By doing so, the Society endeavours to signal its commitment to responsible investing.

The Society will be guided by the 6 Principles of Responsible Investments and will report annually against those goals. At present, more than two thirds of the Society's assets comply with the PRI guidelines.

The Society is also taking actions to generate increasingly positive environmental and societal externalities. Foresters' headquarters are being moved to newly built premises (see page 12), which will significantly reduce the Society's own carbon footprint. Work-from-home has been encouraged and other organisational improvements are being implemented.

Climate Change

Climate change is increasingly perceived as one of the biggest systemic risks and a major threat to market stability. It is likely to assume prominence on the Society's ESG agenda for the foreseeable future. However, the Society remains firmly committed to its social mandate, rooted in the very history of the organisation (See Strategic Report).

Over the past few years, the Bank of England and the PRA have been raising awareness on the challenges of climate change. They have called on the financial firms to evaluate the impact of an increase in global temperature on their business models, as a result of both "physical" and "transition" risk. They also recognise that the financial industry is a key enabler in the effort of achieving ambitious policy goals aimed at mitigating climate-related risks.

The Society is taking steps to ensure it complies with regulatory and reporting obligations related to climate change, while considering the likely developments of the regulatory landscape and plan in advance.

During 2021, a number of actions have been taken:

- The Society approved the creation of a new Committee on climate change-related risks ("Climate Risk Forum"). The Committee acts as sub-committee to the Investment Committee. It meets quarterly, receives inputs from the Risk, Compliance, and Investment functions, and recommends actions to the Board of the Society.
- The Committee bases its actions on the "Plan for managing the financial risks of climate change", covering the four main areas indicated by the Regulator: Governance, Risk Management, Scenario Analysis and Disclosure. The plan will help the Society tracking its progress in this area.
- The Committee produced a risk mapping of climate-related risks across the whole of the Society's balance sheet.
- The Committee identified a metric for assessing, quantifying, mitigating and monitoring climate-related risks.
- The Committee noted that sourcing reliable and meaningful data remains one of the biggest hurdles the Society needs to overcome in building an effective risk management framework on climate-related risks.
- The Society also noted that the Society has limited capabilities in developing a proprietary approach on transition risk modelling. It is mindful of the constraints that limit its ability to commit significant resources to the task.

The Society's business model, focused on life insurance, is unlikely to be materially affected by physical risk. However, physical risk might have an impact on the Society's real estate portfolio, as a result of extreme and more frequent weather events. The Society will be monitoring this type of occurrences.

The Society's exposure to climate-related risks is largely through its investment portfolio. The large majority of the investment portfolio is managed by 3rd parties, over which the Society has limited control, and only through the process of manager and/or product selection. There is an on-going dialogue with the external managers for a timely exchange of relevant data to ensure a functioning risk framework for climate-related risks.

Ongoing Development

Finally, we endeavour to participate in public initiatives aimed at improving the industry's understanding of climate-related financial risks. We aim to keep track of all major developments in thought leadership and best practice on climate change, with the view of strengthening the Society's risk management framework. We will also rely on those findings in the design of the Society's investment strategy, recognising that the increased level of awareness on climate change is expected to generate new investment opportunities, leading to superior portfolio returns.

COVID-19

The Directors have been monitoring the development of the continuing impact of COVID-19, both directly on the Society's business and indirectly through reviewing the development of government policy and advice. The main considerations are as follows.

Members

During times of economic hardship, there will be members of the Society who will suffer. Many of our members have struggled financially during the pandemic due to the unexpected death of a family member, whilst others have lost their jobs or been unable to work. The Society offers benevolent grants to its members and is encouraging, through its Court Network, active promotion of these member benefits. Our Foresters Support Fund offers discretionary grants to assist our adult members (over 18 years of age and who have been a member for at least 6 months) in times of hardship or distress by paying up to £2,000.

Since the start of the pandemic, the Foresters Support Fund has supported those who have been affected by COVID-19, paying out grants to 154 members. These grants have been topped up by our Court network, leading to total grants awarded in respect of those directly or indirectly impacted by COVID-19 of £102,458.

Strategic Report (continued)

Operational

The Directors made the decision in March 2020 to implement aspects of the Society's business continuity plan (BCP), specifically advising staff at all levels and in all functions to work at home, wherever practicable, and to minimise the need for gatherings of staff. This approach continued throughout 2021.

Communications within the Society are now almost wholly via video conferencing, telephone, email or messaging applications. The Society's IT facilities are adequate to maintain operations on this basis for the foreseeable future. Operational changes have been made to support this change to working from home, most notably the introduction of a new cloud-based telephone system. We continue to review and upgrade our IT infrastructure and systems to ensure they remain fully supported and provide an efficient remote working experience.

The Directors are mindful of the differing pressures on individual members of staff, and that these pressures have changed throughout 2021 as we have faced challenges such as home schooling or caring for loved ones. The Society has an employee assistance programme in place to support the mental well-being of staff during this challenging time.

Risks underwritten

The Society has written policies that provide benefits in ill-health and in the event of death.

The Society's Group business is the largest concentration of mortality risks, resulting from the potential increase in death claims. Twenty-one life claims were received in 2021 where COVID-19 was listed as a contributory cause of death, with a total claims value of £561,000 (2020: 9 claims of £467,000). In 2021, the majority of these claims related to retirees who are insured for lower amounts than active scheme members, hence the lower average claim value when compared to 2020.

> Good services, very happy to be a part of society. Would definitely recommend to family and friends.
>
> **A satisfied Foresters member, 2021**

The Society is also exposed to claims from ill-health. The largest concentration of this risk is also in the Society's Group business. However, the sick pay benefits offered in this business line provide for a 26-week deferred period. During 2021, sick pay claims relating to COVID-19 totalled £18,313 (2020: negligible at less than £1,000).

Despite these additional claims, Group business claims experience in 2021 was better than our long-term average annual expectations and 2020 actual performance.

Investment portfolio

Investment markets remained volatile over 2021 due to the uncertainty of the impact of COVID-19 on the global economy and the threat of rising inflation that surfaced as fears in Q1 turned to expectation later in the year. The Society maintained the majority of its core holdings and asset allocations in the With-Profits funds, although there has been an increased allocation to the Private Debt market, improving the future return prospects of policyholders within the fund, with the main drawdown of that fund due in 2022.

The Society's Non-Profit Fund was de-risked at the end of 2021, with the sale of all UK Corporate bonds and Global Convertible bonds. The fund's asset allocation now includes Sterling Short Dated Credit and an investment with a Trade Finance partner. Equity hedging has also been implemented to protect the fund from market risks associated with unit linked business, improving the Society's CCR.

The impact of increased yields in UK Gilt markets in Q1 2021 resulted in falls in asset prices in several funds. These falls were largely recovered over the remainder of the year as bond prices increased, before an increase in the Bank of England base rate in December triggered a further fall in asset prices. The Society's major holdings in equity remained in the POIS unit-linked business funds where the investment risk is borne by policyholders by design. Due to the high allocation to equities in these funds they performed very well over the year as a whole, bouncing back from the market falls in September and October, to end 2021 c. 20% higher than 31st December 2020.

Sales

The main distribution channel for the POIS unit linked business uses Introducers. This channel was closed due to lockdown restrictions in Spring 2020. During the period of closure, POIS introducers were not able to engage with potential new members by visiting Royal Mail sorting offices. This situation has now improved since the lifting of social distancing measures in July 2021 and this channel has been reopened. The Society has diversified its POIS distribution by expanding our digital offering to the general public through our website and affiliate marketing channels and enhancing distribution capabilities to Royal Mail employees through the "my Bundle" employee benefits platform – further details are provided in the Chief Executive's Report on page 11.

Solvency Position and Forecasts

The Directors are closely monitoring the Society's capital coverage ratio in these volatile market conditions to assess the Society's compliance with regulatory capital requirements in the context of the risk appetite determined by the Board. The Society's 2021 Own Risk and Solvency Assessment report ('ORSA') investigated the Society's exposures to a variety of downside risks, including a pandemic scenario, more extreme than that seen over 2020, which considered a loss event for the Society due to increased incidence of sickness, mortality, associated operational risk losses, and market downturn comparable to that experienced in 2020 Q1.

Going Concern

As at the date of signing these financial statements, the Directors' forecasts up to 31 December 2026, which included additional claims in respect of the COVID-19 pandemic at a higher rate than has currently been experienced, indicate that the Society will be able to maintain liquidity and a surplus over its Solvency Capital Requirement. Based on experience to date, it is not expected that the COVID-19 pandemic will pose a threat to the Society's assessment that it will remain a going concern for the foreseeable future.

Ukraine

As a result of the current Ukraine crisis, the Society is monitoring the impact of volatility in investment markets and, if required, the Board will take necessary action to protect the Society and members from extreme deterioration in the Society's financial stability.

By Order of the Board

Lisa Russell
Company Secretary
18 May 2022

> Website is very easy to use and it is easy and quick to set up/manage accounts. Staff are always very helpful and polite when dealt with via email or online. Very good service and would recommend!

A satisfied Foresters member, 2021

Corporate Governance

Board of Directors

Trevor Batten
Chairman

Trevor was elected to the Board as a Non-Executive Director in June 2016 and appointed as Chairman in June 2021.

Prior to his retirement in 2015, he held the position of Risk Director and CRO for Engage Mutual where he worked for 22 years and was a member of the Executive Committee. His experience includes risk management, actuarial reporting, and with-profits business. He is a Director of Family Assurance Staff Pension Scheme and the Homeowners Friendly Society Pension Scheme. Trevor is a Fellow of the Institute and Faculty of Actuaries.

Chairman of the Nominations Committee. He is also a member of the Audit, Risk and Compliance, Investment, Nomination and Remuneration Committees, and the With-Profits and Unit-Linked Advisory Arrangements.

Rachel Hardy
Chief Executive

Rachel has had a long association with Foresters stretching back to 2006 when she was part of the external audit team performing the Society's annual financial audit. Rachel, impressed by the Society's culture and member focus, then joined us as Head of Finance in January 2015. After a brief interlude back in consulting, she re-joined us as Finance Director in September 2017 and was elected to the Board as an Executive Director in June 2018. In January 2020 Rachel was appointed as Chief Executive which initially incorporated the responsibilities of the Chief Finance Officer.

Rachel has 20 years' experience in commercial businesses and large accountancy practices enabling her to approach issues from both a strategic and regulatory perspective. Prior to joining the Society, she was with Smith & Williamson LLP, where she was a statutory Director of one of the group's subsidiary companies and a Senior Statutory Auditor. She is a Director of Foresters General Insurance Services Limited and holds a pro-bono Non-Executive role at Social and Sustainable Capital LLP where she is Chairman of its Audit, Finance and Risk Committee. Rachel has a BSc in mathematics from Imperial College, London and is a Fellow of the Institute of Chartered Accountants.

> I am a repeat investor as this organisation is good to do business with.
>
> **A satisfied Foresters member, 2021**

The Directors may be invited to become a member of other companies, subject to the appointment not leading to a conflict of interest and the agreement of the Society. These appointments provide an opportunity to gain broader experience and therefore benefit the Society. All external commitments are listed above and have been approved by the Board.

Helen Mackinnon
Non-Executive Member Director and Senior Independent Director

Helen was elected to the Board in June 2016 and as Senior Independent Director in August 2021.

Helen is a fifth generation Forester who has been an active member since age 16 and held many positions within the Court structure. She is a Fellow of the Association of Chartered Certified Accountants and in 2013 obtained her law degree. Her experience includes audit, business management advice, cash flows, accounts and tax. Helen is the owner and director of H2H Accountancy Limited, and Company Secretary to Bean Creative Limited and Bay Dreamer Yachts Limited.

Chairman of the Audit, Risk and Compliance, and Remuneration Committees. She is also a member of the Nominations Committee and the With-Profits and Unit-Linked Advisory Arrangements.

Nick Warr
Finance Director

Nick was co-opted to the Board as an Executive Director in October 2020 and elected in June 2021.

Nick joined the Society in January 2019 as Head of Actuarial and was promoted to the role of Chief Actuary in March 2020. Nick has 16 years of life-insurance experience covering financial and regulatory reporting and investments, having previously worked at the Prudential and Liverpool Victoria. Nick has a Masters of Mathematics degree from the University of Warwick and is a Fellow of the Institute and Faculty of Actuaries. He is a Director of Foresters Pension Scheme Trustees Limited and Foresters General Insurance Services Limited.

Member of the Investment Committee.

Erik Vynckier
Non-Executive Member Director

Erik was elected to the Board as a Non-Executive Member Director in September 2020. He has formerly served on the Board as a Non-Executive Professional Director between February 2016 to June 2019 and then between June 2019 to December 2019 he held the role of Interim Chief Executive Officer.

Erik Vynckier is also Chair of the Institute and Faculty of Actuaries (Research & Thought Leadership Board), following a career in investment banking, insurance, asset management and the petrochemical industry. He co-founded EU initiatives on high performance computing and big data in finance and co-authored "High-Performance Computing in Finance" and "Tercentenary Essays on the Philosophy and Science of Leibniz". Erik graduated as MBA at London Business School and as chemical engineer at Universiteit Gent (Belgium).

Chairman of the Investment Committee and the With-Profits and Unit-Linked Advisory Arrangements. He is also Acting Chairman of the Membership Committee, and a member of the Audit, Risk and Compliance, Nominations and Remuneration Committees.

Directors' Report

Introduction

The Society's Board of Directors present their report together with the audited financial statements of The Ancient Order of Foresters Friendly Society Limited (the Society) for the year ended 31 December 2021. The Society is a friendly society which incorporated under the Friendly Societies Act 1992 on 1 January 2003. Its core business objective is to provide financial services products to its members in addition to discretionary financial, social and benevolent benefits. At 31 December 2021 the Society had 61,390 members (2020: 61,583 members). The Directors confirm that the Society did not carry out any activities outside its powers during the year.

Directors

The Directors who have served since 1 January 2021 are as follows:

Non-Executive Directors

Trevor Batten – Chairman (from 28 June 2021)

David Furniss – Deputy Chairman (co-opted 12 November 2020, resigned 27 June 2021)

John Instance – (retired 27 June 2021)

Helen Mackinnon – Senior Independent Director

Graham Setterfield – (resigned 27 June 2021)

Erik Vynckier

Executive Directors

Rachel Hardy – Chief Executive

Nick Warr – Finance Director (co-opted 1 October 2020 and elected 27 June 2021)

Business Review

The Board sets objectives and priorities supported by KPIs and targets, which it monitors on an ongoing basis throughout the year. A summary of the results for the year together with the KPIs are contained in the Strategic Report on pages 17 to 31. The results of the Society are set out in the Income and Expenditure accounts on pages 64 to 66.

The Society consists of its Insurance and Court operations. The consolidated results include the results of the Leeds Investment Association at market value, as outlined in Note 2 to the financial statements and the Guernsey Court's general insurance business. The Society also has one subsidiary company – Foresters General Insurance Services Limited. Its results are included in the consolidated financial statements.

The Society retains surplus capital of £7.4m (2020 £4.5m) as shown in Note 20.

The key risks facing the Society together with how they are managed, mitigated and reported are documented on pages 23 to 31.

Regulatory

The Society is regulated by the Prudential Regulation Authority (PRA) which is responsible for the prudential regulation of firms and the Financial Conduct Authority (FCA) which retains the responsibility for conduct issues concerning the distribution of products to customers and how these products are administered.

The Society remains clear over its obligations to the Regulators and the Society's own Rules, its Principles and Practices of Financial Management (PPFM), Money Laundering rules, Bribery Act, Data Protection and Advertising and Health and Safety requirements and legislation.

Statement of the Directors' Responsibilities

The Friendly Societies Act 1992 ("the Act") requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Society at the end of the year and of its income and expenditure for that year. In preparing those accounts the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to assume that the Society will continue in business.

The Directors are responsible for keeping proper accounting records, which must show and explain the transactions of the Society and disclose the financial position of the Society with reasonable accuracy at any time and enable them to ensure that the accounts comply with the Act and the regulations under it. They are also responsible for the system of internal control, for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and the detection of fraud and other irregularities. The Directors consider the Report and Accounts herein, taken as a whole, are fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. The Directors' responsibility also extends to the on-going integrity of the accounts contained therein. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Directors' and Officers' Liability Insurance

The Society has maintained liability insurance cover for members of the Board and Senior Management of the Society.

Society's Relationship with Members

As a branch-based friendly society, members are allocated to our Courts, which are represented through a delegate system at High Court, the Society's Annual General Meeting. Traditionally, this meeting takes place over a weekend and includes detailed discussions between the Board and member Delegates on the performance of the Society and strategic issues. However, with the continued challenges posed by the COVID-19 pandemic, the Board was unable to hold its 182nd High Court in the normal manner and to ensure the health and safety of our members and employees a virtual High Court was held in June 2021. Despite the unusual circumstances, 383 Delegates and 59 member Guests registered to join the live broadcast. The Chairman and Chief Executive hosted two webinars before High Court where members were given the opportunity to ask their questions live through their devices.

At the 2021 High Court, Delegates voted in favour of a Court Proposition to enable hybrid style High Court Meetings. This will allow us to run a more inclusive High Court, allowing participation from our members and elected Court Delegates who otherwise cannot attend due to inability to travel long distances, leave their homes or take the required holiday for the journey to and from the venue. We are proud to announce that the 183rd High Court will be held as a hybrid meeting.

Members who cannot join the meetings can still keep up to date through our member newsletter, Miscellany and announcements circulated via our Court network. The Society also conducts an independent Customer Satisfaction Survey to monitor the positive impact we have on the lives of our members.

The Membership Committee acts as a conduit between the Board and the members through which matters of direct interest are considered.

Statement of Risk Management and Internal Control

The Board and the Audit, Risk and Compliance Committee have reviewed the effectiveness of the Society's internal control system, including financial, operational and compliance controls and risk management, in accordance with the 'Financial Reporting Councils – Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', for the period from 1 January 2021 to the date of approval of this Annual Report.

No significant failings or weaknesses were identified during this review.

Going Concern

Under the Code the Directors are required to state whether the business is a going concern. In assessing whether the going concern basis is appropriate, the Directors have considered all relevant information including the 2021 financial results and 2022-2026 Business Plan. The Directors are of the opinion that the Society has adequate capital resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis for the Society's accounts.

Long-term Viability Statement

The Board has assessed the prospects of the Society over a longer period than the 12 months required for the going concern review. A five year look forward was chosen as this is the period over which the Society prepared its 2022-2026 Business Plan and has reasonable clarity over its likely cash flows and key risks. As at the date of signing these financial statements, the Directors' forecasts up to 31 December 2026 indicate that the Society will be able to maintain liquidity and a surplus over its Solvency Capital Requirement.

The Directors are continuously monitoring the Society's financial position and long-term outlook. Further actions will be taken if the Society's capital coverage ratio deteriorates. Such actions might include:

- pursuing low-cost distribution channels to increase the number of new policies sold;
- further reductions in expenses, reducing the on-going cost overruns met by the Non-Profit Fund;
- derisking of the Society's investment portfolios; and
- pursuing an extension of the Group reinsurance programme.

It should be noted that while improving the reported capital coverage position, not all of these actions reduce the risk of real capital deterioration. Consistently making profits is the real measure of success and therefore the first two actions, which are

Directors' Report (continued)

about increasing scale benefits and reducing costs, are commercially imperative for the Society to maintain a sustainable business model.

In considering the longer-term viability of the Society, the Board has identified the principal risks facing the Society and the basis of these risks. The Society's risk mitigation is set out within the risk report on pages 23 to 31.

The Society uses a stress testing approach to calculate its economic capital requirements. The results are documented in the Society's annual ORSA Report. This is supplemented by sensitivity and scenario testing to aid understanding of the key risks faced. These scenarios help contribute to the Board's decision-making process when considering the long-term viability of the Society. The longer-term viability of the Society is further supported by the Society's operational Business Plan.

The 2021 ORSA included the following modelled stress scenario:

- **Pandemic** – This scenario considers a loss event for the Society, as a result of increased incidence of sickness, mortality and associated operational risk losses, coupled with a market downturn as experienced during the COVID-19 pandemic in 2020 Q1.

The 2021 ORSA also reviews quantitative scenarios for the business risks associated with expense overruns, sales being behind the Business Plan, and major assumption sensitivities such as changes to lapse rates, and the group business claims loss ratio worsening. The following qualitative scenarios were also considered: Cyber Security, Climate Change, Liquidity Risk, Inflation Risk, Governance Risk, failure of planned 2022 strategic objectives, and Separation of the Insurance Business from the Courts.

The Society has carried out a reverse stress testing exercise as part of the ORSA process, which requires the Society to identify and assess the scenarios most likely to cause its current business model to fail and/or lead its stakeholders to lose confidence in the organisation. Mitigating actions can be considered and put in place as appropriate.

The ORSA analysis from these scenarios showed that on all bases of measurement, the Society was operating within its solvency capital requirements.

As a result of the analysis and reviewing the Business Plan for 2022-2026, prepared by Management, 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 period of assessment without qualifications or assumptions.

Donations

The Society donated £3,142 (2020: £2,300) to various charities during the year from Head Office. No political donations were made during the year.

Courts carry out charitable fundraising work as part of social activities and in 2021 £51,289 (2020: £29,133) was raised. In total £326,590 (2020: £349,660) was paid out from branch held membership funds to various local and national charities.

The final total amount donated during 2021 to the Rays of Sunshine Children's Charity was c. £128k.

Independence of External Auditor

BDO LLP were re-appointed at the 2021 Annual General Meeting as external auditor for the 2021 Annual Report and Accounts and have confirmed their independence to the Board of Directors.

BDO LLP have expressed their willingness to continue in office as external auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Statement of Disclosure of Information to Auditor

Each of the persons who is a Director at the date of this report confirms that, so far as each of them is aware, there is no information relevant to the audit of the Society's financial statements for the year ended 31 December 2021 of which the auditor is unaware; and the Director has taken all steps that he/she ought to have taken in his/her duty as a Director to make himself/herself aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

By Order of the Board

Lisa Russell
Company Secretary
18 May 2022

Corporate Governance Report

Governance Arrangements

The Society voluntarily complies with The AFM Corporate Governance Code ("Code") as published in January 2019. The Code draws on good practices and on statutory and regulatory expectations.

The Board of Directors

The Board of Directors is the governing body of the whole of the Society's activities. The Board is responsible for the direction and management of the business of the Society in the fulfilment of its mission and strategic objectives and in compliance with the Society's Memorandum, Rules and any applicable legislation and regulation and the Society's policies, principles and values.

In pursuance of its strategic objectives, the Board maintains a schedule of matters specifically reserved for the Board and it exercises all those powers that are not by regulation, legislation, or by the Rules required to be exercised by the Society at the Annual General Meeting or a Special General Meeting.

The size and composition of the Board and the Sub-Committees are kept under review by the Nominations Committee to ensure there is adequate succession planning for Executive and Non-Executive Directors, and there is an optimum mix of skills and experience on the Board and to populate and chair the Sub-Committees.

The composition of the Board at the end of 2021 was a mix of one Non-Executive Professional Director, two Non-Executive Member Directors and two Executive Directors. A 'Professional Director' is identified as having recent insurance industry knowledge and experience, and a 'Member Director' is one drawn directly from the membership, having knowledge of the Society's fraternal activities. The Board believes the balance of skills, experience, independence and knowledge remains appropriate although it continually monitors the position to comply with evolving regulatory requirements and to complement the Society's Strategy. The particular skills and experience that each Director brings to the Board are included on pages 34 to 35.

The Board delegates certain parts of its responsibilities to Sub-Committees and to Advisory Arrangements which operate within defined Terms of Reference. Their associated reports on their activities during 2021 are provided on pages 45 to 49.

The Terms of Reference for the Board, its Sub-Committees and Advisory Arrangement are available on the Society's website at **www.forestersfriendlysociety.co.uk/about-us/reports-governance**

Corporate Governance Report (continued)

Board Attendance Table

Directors' attendance at meetings of the Board, the Sub-Committees and Advisory Arrangements of which they were members in 2021 is set out in the table below.

	Board	ARCC	Investment	Membership	Nominations	Remuneration	ULAA	WPAA
Number of Meetings	**18**	**7**	**6**	**10**	**3**	**4**	**3**	**8**
John Instance	8/8	-	2/2	-	-	-	-	-
Trevor Batten	18/18	7/7	4/4	-	3/3	3/3	1/1	5/5
David Furniss	6/8	-	-	-	-	-	-	-
Rachel Hardy	18/18	-	-	-	-	-	-	-
Helen Mackinnon	17/18	7/7	-	-	3/3	4/4	3/3	8/8
Graham Setterfield	8/8	4/4	-	-	1/1	1/1	2/2	3/3
Erik Vynckier	18/18	3/3	6/6	10/10	2/2	4/4	3/3	8/8
Nick Warr	18/18	-	6/6	-	-	-	-	-

An entry of 2/3 means 2 out of a possible 3 meetings.

Chairman and Chief Executive

The roles of Chairman and Chief Executive are held by different people and the division of responsibilities between the two is clearly established, set out in writing and agreed by the Board of Directors.

The Chairman is a Non-Executive and responsible for leadership of the Board, encouraging open and constructive debate at Board meetings and ensuring the Board acts effectively. In the opinion of the Board, the Chairman is independent in character and judgement and prior to his election as a Non-Executive Director in 2016 he had no previous relationship with the Society. On appointment as Chairman in June 2021, the Chairman had no other significant commitments to disclose to the Board of Directors, a situation that has not changed since his appointment.

The Chief Executive has overall responsibility for managing the Society and for the implementation and delivery of the strategy and policies agreed by the Board.

Non-Executive Directors

The Non-Executive Directors are responsible for bringing independent judgement and challenge to the Board debate and its decisions. They provide constructive challenge to management and help develop proposals on strategy.

The Non-Executive Directors meet without the Executive Directors present at least annually.

Each Non-Executive Director is formally appraised annually.

The Non-Executive Directors may seek independent advice at the Society's expense in accordance with Board policy.

Copies of the terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Society's Head Office and can be viewed by contacting the Company Secretary.

Executive Directors

Two Executive Directors were in post at the end of 2021, Rachel Hardy, Chief Executive and Nick Warr, Finance Director.

Their performance was appraised by the Chairman. In appraising Nick Warr, the Chairman considered his directorial duties only as his executive function was appraised by the Chief Executive as his line manager.

Independence

In determining whether each Non-Executive Director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement, the Board uses the provisions set out within the UK Corporate Governance Code on Division of Responsibilities as published in July 2018. Circumstances which are likely to impair, or could appear to impair, a Non-Executive Director's independence include, but are not limited to, whether a director:

- is or has been employed by the Society within the last five years;
- is or has had within the last three years, a material business relationship with the Society, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Society;
- has received or receives additional remuneration from the Society apart from a Director's fee or participates in any of the Society's pension schemes;
- has close family ties with any of the Society's advisers, Directors or senior employees;
- holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies; or
- has served on the Board for more than nine years from the date of their first appointment.

The Board has determined that two of the three Non-Executive Directors meet the standards set out in the Code and can be considered independent, although the code does not require the Chairman to be assessed after appointment. One Non-Executive Director cannot be considered independent as they were previously employed by the Society, as Interim Chief Executive Officer for a period of six months during 2019.

Senior Independent Director

The Code recommends that mutual insurers maintain a dialogue with their members and maintain a Senior Independent Director to handle issues and concerns raised by members. The Senior Independent Director acts as the Society's Whistleblowing Champion, provides counsel for the Chairman and serves as an intermediary for the other Directors when necessary. She is also responsible for holding annual meetings with the Non-Executive Directors, without the Chairman present, to appraise the Chairman's performance.

Helen Mackinnon is the Society's nominated Senior Independent Director, and she may be contacted by email at **hmackinnon@forestersfriendlysociety.co.uk**

Appointments to the Board and Re-election

The Appointment of new Directors is considered by the Nominations Committee which makes recommendations to the Board.

Following co-option to the Board, a Director is subject to election by members at the next Annual General Meeting. Thereafter, in accordance with the Society's Rules, each Director must retire at the Annual General Meeting three years after the meeting at which they were last elected or re-elected as a Director. A retiring Director may seek re-election subject to the Society's Rules and the Code. A Director's initial term of office may be reduced to align with Board rotation.

Helen Mackinnon was re-elected to the Board in 2019 and will be subject to re-election at the 2022 Annual General Meeting.

Diversity Policy

The Board recognises the benefits of having a diverse Board and sees increasing diversity as an essential element in maintaining an effective Board without compromising on the calibre of new Directors. The Board has adopted a Diversity Policy which embraces knowledge and understanding of relevant diverse geographies, Courts/Branches, people and their backgrounds, although it continues to adopt the principle that all appointments should be based on merit and the skills and experience that individual can bring, and take into account the composition, skills and experience on the Board. The gender balance of the Board, management and staff are shown in the Nominations Committee report on page 48.

Corporate Governance Report (continued)

Appraisal and Evaluation

The Code recommends that the Board should undertake a formal annual evaluation of its own performance and that of its Committees and individual Directors. It also recommends that the Chairman should consider having a regular externally facilitated Board evaluation.

An external review of the Board by an expert consultant in the area of board effectiveness was last performed in 2017. The Board is planning to conduct the next external review in the second half of 2022.

The Board periodically reviews internal evaluations on the effectiveness of its Sub-Committees led by the Sub-Committee Chairmen and assisted by the Company Secretary.

The Directors, led by the Senior Independent Non-Executive Director, also evaluated the performance of the Chairman and gave feedback which was also reflected in the Board discussion. The Non-Executive Directors and the Executive Director will meet without the Chairman present to appraise the Chairman's performance in June 2022.

The Chairman reviews the performance of each Non-Executive Director where they are encouraged to highlight any potential skills gaps or areas of development in order that training can be provided. Each Director is required to undertake a programme of continued professional development designed to expand and update their skills and knowledge, both within the Society and outside. The Chairman is responsible for reviewing training requirements for the Board as a whole and sources such training as required. CPD records for each Director are held by the Company Secretary and form part of the annual appraisal evaluation.

Compliance with the AFM Corporate Governance Code ('the Code') – January 2019

The Board is committed to following best practice of corporate governance, wherever appropriate for the Society. The recommendations of the Code are applied using an "apply and explain" approach to explain how the applications of the Principles of the Code has resulted in effective corporate governance outcomes.

Code Principle	Applied	How the Society has applied it?
Principle 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.	✓	Mutuality and our heritage play an important part in the Society's values in aiming to make a positive impact on the lives of our members. While operating in a virtual environment for the majority of 2021, the Board held additional meetings to focus on strategic items, from which the Business Plan is formulated. Regular Staff Briefings and Team meetings are held in which the Society's strategy and Business Plan are articulated and brought to life at an operational level. The overall purpose and values which underpin the strategy and expected behaviours are embedded at every level of employee through setting objectives, regular staff training and appraisals. The Society monitors culture and employee engagement through employee surveys, absenteeism rates and exit interviews. The 2021 survey was conducted using Best Companies, enabling results to be compared with similar organisations and that of the previous year.
Principle 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 organisations.	✓	The Society's Rules set out the requirements for election, re-election and maximum terms of office which are in line with the Code. The Society has a policy on Board diversity which supports appointments to the Board and succession planning. The composition and succession plans are regularly reviewed by the Nominations Committee in line with the Society's needs and regulatory requirements. The Society maintains a skills matrix clearly identifying the knowledge and experience of individual Directors and showing where there may be gaps on the Board as a whole. Any identified areas of knowledge gap are sought to be addressed in future appointments. Accountability is driven through routine evaluations of the Directors, Board and its Sub-Committees.

Code Principle	Applied	How the Society has applied it?
Principle 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.	✓	Individuals appointed to the Board go through an induction process which encompasses accountability and responsibilities in line with regulatory requirements and best practice. Individual Directors confirm that they understand their specific regulatory responsibilities as defined in the Society's Responsibilities Map when taking on any new responsibility and re-confirm on an annual basis thereafter. The Society operates through clear governance processes as set out in its Terms of Reference for the Board and its Sub-Committees and robust internal policies and practices. This allows for independent constructive challenge, effective decision-making and supports the delivery of the Society's strategy and Business Plan. A Senior Independent Director is appointed to provide a sounding board for the Chairman and to serve as an intermediary for other Directors, staff and members.
Principle 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.	✓	When considering strategy and the Business Plan, the Board considers both tangible and intangible sources of value, and the stakeholders that contribute to it. This includes returns to policyholders, return on member capital, discretionary benefits and benevolent and social interactions through our Court network. The Board's decisions are focussed on delivering long-term success for the benefit of its policyholders and members. An effective risk management framework supports the Board in delivering its strategy to protect policyholders and members and helps with the efficient use of capital. This framework is articulated in the Annual Report and Accounts on page 24.
Principle 5: Remuneration A Board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.	✓	The Society's Remuneration Policy is set out and monitored by its Remuneration Committee which aims to attract, motivate, support and retain high quality diverse talent with the necessary skills to achieve the Society's objectives, meet regulatory requirements and support the short, medium and long term interests of our policyholders and members. The Society welcomes transparency around gender balance and treating employees fairly and publishes an annual Gender Pay Gap Report.
Principle 6: Stakeholder Relationships and Engagement Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	✓	Stakeholder engagement is embedded at all levels: **Owners (policyholders and members) –** The Society has been engaging with its owners since 1834 providing useful financial products and philanthropic offerings and activities. It operates a delegate system which provides a high level of engagement at the Society's Annual General Meeting ("High Court"). It also engages at regional conferences and holds webinars where members can comment and ask questions. The Society conducts a regular customer satisfaction survey (2021: 90.6% satisfied score). **Employees –** The Society has established a Staff Engagement Group ("SEG") comprising of staff members and supported by the Chief Executive. SEG produce a regular newsletter providing updates on matters considered at their last meeting and encouragement is given to employees to provide feedback and suggestions for future consideration. The Society has invested in an Employee Benefits portal to help employees make their money go further and also put in place an Employee Assistance Programme to provide free and confidential access to help and advice when dealing with the challenges that life can bring. A Senior Independent Director is appointed and serves as an intermediary for other Directors, staff and members. **Wider engagement –** each year the Society's High Chief Ranger (President) nominates a charity of their choice for the Annual Charity Appeal, and this provides a national focus for the fundraising efforts of our members and complements the many local charities that our branches support.

Committee Reports

Audit, Risk and Compliance Committee

The members who served on the Committee during 2021 were:

Helen Mackinnon (Chairman from 12 August 2021)
Trevor Batten (Chairman until 11 August 2021)
Graham Setterfield (until 27 June 2021)
Erik Vynckier (from 28 June 2021)

Number of meetings held in 2021: 7

Key issues addressed by the Committee:
Annual Report and Accounts

The Committee reviewed the 2021 Annual Report and Accounts and the report from the external auditor, BDO LLP on the results of their audit.

To enhance its review, the Committee considered reports from the Finance Director.

In the preparation of these financial statements, a number of areas required the exercise of management judgement or a degree of estimation. The key judgement and estimation areas considered by the Committee in relation to the 2021 financial statements, and how these were addressed were as follows:

Management override of controls	The Committee received regular reports regarding the operational effectiveness of controls from both the Society's second line of defence (risk and compliance) and the third line (internal auditors). The Committee was satisfied that the controls, as documented in the Society's Finance and Investment Authorisation Manual, were in operation and effective throughout the period of review.
Estimation of insurance technical provisions	The Committee received reports from management setting out the proposed valuation assumptions and methodology. The Chief Actuary's Report on the valuation result sets out the checks undertaken to validate the data and the movement in the technical provisions over the year. The Committee was satisfied that the methodology and assumptions were appropriate and had been applied correctly in the calculation of the technical provisions.
Valuation of properties at fair value	For most of the directly owned properties, valuations were provided by Aston Rose as our managing agents. Management challenged Aston Rose as appropriate, particularly to understand where significant gains or losses have arisen since the previous valuation. Management reported back their findings to the Committee. The Society has a non-material amount of property which is valued by management. The Committee was satisfied that appropriate controls were in place around the valuations used in these financial statements.
Defined Benefit Pension Schemes	Valuations for the purposes of the financial statements were provided by each Scheme Actuary. The Committee was satisfied that these valuations were undertaken by appropriately skilled individuals subject to professional conduct standard. The Committee received reports which provided reasonable assurance over the internal controls.
Going Concern	The Committee received a report from management recommending a Going Concern basis of accounting. The Committee were satisfied with the justification provided for this basis.

Committee Reports (continued)

External Auditor

BDO LLP were recommended to and appointed by the members at the 2021 High Court as External Auditors for the 2021 year-end.

The Committee assessed and agreed BDO LLP's audit plan which identified its assessment of the key audit risks and met privately with them.

The independence and objectivity of the external auditor was monitored, and it was concluded to be satisfactory. Due to the Society's Public Interest Entity status, the external auditors cannot provide non-audit services.

The effectiveness of the external auditor is assessed annually by the Committee taking into account feedback from management. This assessment considers the quality of the audit and the service from BDO LLP and will provide feedback to the lead audit partner.

Internal Audit

In line with the 2021 Internal Audit Plan, the Committee received and reviewed reports from Mazars LLP, Internal Auditor covering (i) Capital Management, and (ii) Outsourced Actuarial (Phase 3)). Consideration was given to the findings, and particularly to management actions and responses to the recommendations. Reviews have been carried out on (i) Operational Resilience, and (ii) Corporate Governance and will be received by the Committee during the first quarter of 2022.

The Committee considered and approved the Internal Audit Plan for 2022. This took into account key risk areas on a cyclical approach supplemented with discussions held with management and requests received from the Committee and Executive Directors for thematic audits.

The Committee also received and reviewed reports from the in-house Internal Auditor on Court audits.

Compliance Considerations

In line with the 2021 Compliance Monitoring Plan, the Committee received quarterly progress reports, which included the results of an exercise reviewing the Society's telephone interactions with customers, an analysis of new business and due diligence on material outsourced arrangements.

The Committee also received the Anti-Money Laundering Report for 2021.

The Committee received and approved the Compliance Monitoring Plan for 2022.

Risk Considerations

The Committee:

Regularly reviewed the principal risks of the Society and provided oversight and challenge of the risk management framework during the year, as well as monitoring the risk exposures through the risk reporting process. Following a Risk Taxonomy review, the Committee agreed a revised list of principal and secondary risks in 2021.

Received quarterly Chief Risk Officer reports and Risk and Compliance Management Information that detailed strategic and emerging risks that could impact the Society, including capital, liquidity and regulatory risks. Changes to risks were discussed and mitigation addressed as required.

The Committee received a report from the Climate Change Officer on actions taken and future plans for managing Climate Change risks.

Reviewed specific risk policies that required approval during the year.

Provided oversight of the ORSA process. Agreed the stress and scenario testing that would be performed as part of the Business Plan and ORSA and reviewed the results of the testing.

Reviewed the Risk Appetite Statement and Limits, challenging the appropriateness and ensuring alignment to Business Plan decisions. The Committee also reviewed and recommended the continued appropriateness of the Standard Formula to determine Solvency Capital Requirements.

Reviewed and recommended the Society's Enterprise Wide Risk Approach and Operating Plan 2022 to, and which was subsequently approved by, the Board.

Investment Committee

The members who served on the Committee during 2021 were:

Erik Vynckier (Chairman from 28 June 2021)

Trevor Batten

John Instance (Chairman until 27 June 2021)

Nick Warr

Number of meetings held in 2021: 6

Key activities during the year:

Over 2021 the asset share of the Order Insurance Fund (OIF) returned 2.5% (2020: -0.9%), the Non-Profit fund returned -1.4% (2020: 6.7%) and the Court Investment Fund (CIF) returned 9.4% (2020: 0.8%). Returns were negatively impacted by market increases in interest rates (driven by a return of inflation and the running out of quantitative easing measures from central banks) compensated by positive returns on riskier assets such as equity and property, which lasted until December 2021.

The Court Investment Fund condensed the property portfolio to properties with good rental yield and stable valuation, with some smaller properties yet earmarked for sale in 2022. Funds have been reinvested in private acquisition debt, invoice and commodities trade finance and infrastructure with attractive remuneration for managed risks. Further investments in private growth debt and transitional commercial real estate will be executed in 2022.

A relatively small equity portfolio in the Order Insurance Fund is complemented by a mix of private assets and real assets aiming to increase returns for with-profits policyholders and improve resistance to expected inflation bursts at manageable risk and volatility.

The Committee continued to build its relationship with the Leeds Investment Association. The Committee seeks to increase the prompt crediting of inaccessible surplus assets of £18.7 million into declared deposits of just £14.3 million at the Leeds Investment Association so as to improve transparency at the Association and increase the availability of the funds to Courts.

Membership Committee

The members who served on the Committee during 2021 were:

Erik Vynckier (Acting Chairman from 1 December 2021)

Michael Charlton-Hubble (Chairman until 27 June 2021)

Michelle Collins

Shirley Grealy (Chairman from 28 June 2021 until 30 November 2021)

Charlotte Lenton

Karen Preston (until 27 June 2021)

John Springham

Kathryn Vagneur (from 27 June 2021)

Pauline Young (from 27 June 2021)

Number of meetings held in 2021: 10

Key activities during the year:

A key priority for the Committee during 2021 continued to be consideration of member applications seeking financial support in times of hardship caused by the challenges and devastating effects of the COVID-19 pandemic. The Committee annually reviews the size of the maximum grants payable from the Society's Discretionary Funds and regularly monitors the financial position of each and, where appropriate, will highlight the need for Court donations.

Following feedback on the management charge payable by Courts in respect of management and administration services to the Court Network, the Committee undertook two consultation surveys to ascertain how the underlying costs of these services could be reduced. The surveys were analysed in depth, both the statistical research and comments from Courts before decisions were made to restructure the support provided to the Court Network, and to address certain activities and offerings to ensure clarity and fairness.

The Committee's Terms of Reference were enhanced in 2021 to empower it to make more decisions such as setting the distribution of Court income and giving it responsibility for the development and maintenance of a strategic plan for the Court Network. In response to prior feedback, the Committee recommended, and the Board approved, a change in the Committee's composition from three to six elected member representatives over a period of three years to the 2023 High Court.

The Committee reviewed the Society's approach to doing business and communicating with vulnerable members and although the Court's benevolent activities are not regulated by the FCA, it gained comfort in the current embedded approach.

Various resolutions passed at the 2021 High Court have driven the Committee's workstreams during the latter part of 2021 and are expected to continue through 2022 such as developing a future strategy for the Courts and plans for the Society's first hybrid High Court meeting later in 2022.

The Committee's general engagement with Courts has increased with the introduction of a Newsletter summarising the key points of discussion at each Committee meeting. The Committee is looking to improve engagement with its younger members and was pleased to support a pilot event aimed at this demographic.

Nominations Committee

The members who served on the Committee during 2021 were:

Trevor Batten (Chairman from 28 June 2021)

Helen Mackinnon

Graham Setterfield (Chairman until 27 June 2021)

Erik Vynckier (from 28 June 2021)

Number of meetings held in 2021: 3

Key activities during the year:

The Committee considered and recommended candidates to be put forward to the Membership at the 2021 High Court which were supported by the Board. In line with good governance, Committee members were precluded from both consideration of, and voting on items where they had a conflict of interest such as those relating to their own positions.

The Committee regularly assesses the overall balance of skills and experience of the Board and following the changes at the 2021 High Court, engaged the services of an external search company to source a further Non-Executive Professional Director to complement the current skillset. The Committee will lead the process and make recommendations to the Board in due course.

The Committee reviewed the emergency succession plans for the role of Chief Executive and other senior management positions, the structure, size and composition of the Board's sub-committees and commenced a review of the Board's Diversity Policy. The gender balance of the Board and staff in January 2022 is given below along with comparative percentages for 2021.

Committee Reports (continued)

	Male	Female	% Female	2021
Board – Non-Executive Directors	2	1	33%	17%
Board – Executive Directors	1	1	50%	50%
Other Management	5	5	50%	45%
Staff	22	35	61%	60%

Remuneration Committee

The members who served on the Committee during 2021 were:

Helen Mackinnon (Chairman from 28 June 2021)
Trevor Batten (from 28 June 2021)
Graham Setterfield (Chairman until 27 June 2021)
Erik Vynckier

Number of meetings held in 2021: 4

Key activities during the year:

During the year, the Committee considered the fees appertaining to the roles of High Chief Ranger, High Sub-Chief Ranger, and Members of the Membership Committee and where appropriate recommended increases which were subsequently approved at the 2021 High Court.

In consultation with the Chief Executive, the Committee reviewed the 2022 remuneration package for staff taking account of the economic environment, local market benchmarking and business affordability. As part of this review, the Committee recommended that the "I made a difference award", successfully introduced in 2019 to recognise and reward exceptional performance, be continued in 2022. Additionally, a Discretionary Staff Bonus Scheme for 2022 linked to individual SMART objectives and supporting the Society's strategy, mission and values was recommended.

As part of the Society's Court Membership Campaign and to encourage staff participation in the Society's Court network, the Committee recommended that the provision of an initial year of Court Membership to full time staff who had completed one successful year with the Society and for part-time staff after two successful years be continued.

More details of the Society's Remuneration Policy are set out in the Director's Remuneration on pages 50 to 52.

Unit-Linked Advisory Arrangement

The members who served on the Committee during 2021 were:

Erik Vynckier (Chairman from 28 June 2021)
Trevor Batten (from 28 June 2021)
Helen Mackinnon
Graham Setterfield (Chairman until 27 June 2021)

Number of meetings held in 2021: 3

Key activities during the year:

The Unit-Linked Advisory Arrangement ("ULAA") reviewed and approved the document "How we managed our unit-linked funds".

It continued to monitor and challenge the exercise of discretion in the unit-linked business against the management actions outlined in the document "How we managed our unit-linked funds". This included the monitoring of unit-price movements against the benchmarks established for the performance of the unit-linked funds. The ULAA was satisfied that the funds had been managed in accordance with the defined procedures.

The ULAA received reports from Management covering sales and distribution channels.

With-Profits Advisory Arrangement

The members who served on the Advisory Arrangement during 2021 were:

Erik Vynckier (Chairman from 28 June 2021)
Trevor Batten (from 28 June 2021)
Helen Mackinnon
Graham Setterfield (Chairman until 27 June 2021)

Number of meetings held in 2021: 8

Key issues addressed by the Advisory Arrangement in respect of the Order Insurance Fund, Pure Endowment Fund, Tunstall Fund, Leek Fund and POIS Fund

The Advisory Arrangement, taking the advice of the With-Profits Actuary, considered the areas where management had exercised discretion and concluded that the Society had complied with the Principles and Practices set out in the PPFMs of the five with-profits funds in all material respects.

The Advisory Arrangement had oversight of the Society's Management Information in respect of customers with who contact had been lost, and the quality and frequency of information being sent to customers to help them understand how their policies were performing.

The Advisory Arrangement considered reviews undertaken on the Society's products including the monitoring of the ongoing profitability of the products to the Society and Run-Off plans in line with the FCAs published guidance.

The Advisory Arrangement considered the terms upon which the Tunstall, Pure Endowment and Leek Funds could be merged with the Order Insurance Fund.

The Advisory Arrangement ensured it took into account the customer's perspective in its discussions and recommendations and continues to monitor with-profits policyholders' interests.

Directors' Remuneration Report

This report is provided to give members a full explanation of the remuneration policy and explains how the Society has applied "The AFM Corporate Governance Code" as published in January 2019 with respect to Directors' remuneration.

A resolution will be put to the Annual General Meeting inviting members to vote on the Directors' Remuneration Report. This vote is advisory, and the Board will consider any action that may be required following the outcome of the vote.

Remuneration Committee

The role and list of Non-Executive Directors who sit on the Remuneration Committee is shown on page 48. The Chief Executive is invited to attend the meetings to participate in discussions on remuneration policy but is excluded from detailed discussions relating to their own remuneration.

Remuneration Policy

The Society's approach to remuneration is an integral part of the Society's strategy. The policy aims to attract, motivate, support and retain high quality diverse talent with the necessary skills to achieve the Society's strategic objectives, meet regulatory requirements and support the short, medium and long-term interests of members. Remuneration is considered within the financial services sector for the geographical location the Society occupies and business affordability. The policy is to provide an industry competitive level of salary which is achieved through regular salary benchmarking exercises and a good working environment. Salaries are reviewed annually, and all staff are entitled to join a defined contribution pension scheme.

Remuneration Policy for Non-Executive Directors

Non-Executive Directors are elected for a period up to three years by Delegates at the Annual General Meeting. This appointment can be extended for two further periods of three years at which point the Non-Executive Director has to stand down in accordance with the Society's Rules. The Board will determine any notice period that is convenient to both the Society and the Director under other circumstances. The initial term may be shortened to align with rotation of the Board.

The remuneration of all Non-Executive Directors, including the Chairman, is reviewed on an annual basis by the Remuneration Committee using advice and guidance from both internal and external sources, and supplemented as required with expert advice. A recommendation is made to the Board which then puts a proposition to the delegates at the Annual General Meeting to receive any remuneration changes. The Non-Executive Directors are only entitled to fees and expenses, and do not participate in any performance related pay schemes or receive any pension arrangements or other benefits.

Remuneration Policy for Executive Directors

The Remuneration Policy of the current Executive Directors comprises of basic salary, bonus scheme, contributory pension and other benefits. The remuneration is approved by the Board based upon recommendation by the Remuneration Committee, which includes all salary amendments. There is no long-term incentive scheme in place however should the Society introduce a scheme in the future it retains the right to adjust, defer a substantial portion for a period of not less than three years, and consider the application of malus based on ex post risk adjustments before it has vested i.e. where the Board has cause for concern that the achievement of the results has been to the detriment to treating customers fairly. Executive Directors are also entitled to benefits in kind that include a company car (or an equivalent allowance) and private medical insurance.

The employment contract of the Executive Directors requires a contractual notice period of six months by either party. The Remuneration Committee will carefully consider what compensation commitments (including pension contributions and all other elements) their Directors' terms of appointment would entail in the event of their early termination.

Directors' Pension Benefits

Non-Executive Directors do not receive any pensionable benefits from the Society.

Executive Directors are invited, after three months' service, to become a member of the Society's Group Personal Pension Scheme, a money purchase stakeholder pension scheme with Scottish Widows plc. After six months' service, the Society makes enhanced contributions. The Society's contributions to this scheme are shown in the remuneration table on page 52.

The Society operates a Pensions Salary Sacrifice Arrangement whereby an agreed proportion of the employer's NI saving arising through such arrangement is shared with the Executive Directors as an enhanced payment to their pension contribution, subject to HMRC's Rules.

Benefits in Kind

Benefits in kind for the Society's Executive Directors include medical insurance to cover the employee's spouse or partner and dependants and a critical illness benefit.

Directors' Remuneration

	Salary/ Fees	Bonuses	Benefits	Pension Contributions	Other	Total 2021	Total 2020
Non-Executives	£	£	£	£	£	£	£
John Instance (until 27 June 2021)	9,795	-	-	-	-	9,795	20,000
Trevor Batten	21,889	-	-	-	-	21,889	18,750
Michael Charlton-Hubble (until 19 September 2020)	-					-	8,705
David Furniss (until 27 June 2021)	12,500	-	-	-	-	12,500	3,333
Helen Mackinnon	18,139	-	-	-	-	18,139	17,500
John McLoughlin (deceased 15 February 2020)	-					-	2,917
Graham Setterfield (until 27 June 2021)	9,375	-	-	-	-	9,375	18,750
Erik Vynckier	18,139	-	-	-	-	18,139	4,913
Sub-total						**89,837**	**94,868**
Executives	£	£	£	£	£	£	£
Rachel Hardy	145,600	12,500	21,065	15,565	14,560[1]	209,290	200,106
Nick Warr	130,000	6,250	17,587	13,897	13,000[1]	180,734	48,809
Sub-total						**390,024**	**248,915**
TOTAL						**479,861**	**343,783**

[1]Buy-out of contractual entitlement now against Society rules following High Court 2021.

Helen Mackinnon
Chairman, Remuneration Committee
18 May 2022

> I was treated well and given all the support I needed. The staff are helpful and the application process was easy to follow and complete.
>
> **A satisfied Foresters member, 2021**

Financial Statements

Independent auditor's report to the members of The Ancient Order of Foresters Friendly Society Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2021 and of the Group's and Society's excess of income over expenditure for the financial 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.

We have audited the financial statements of the Ancient Order of Foresters Friendly Society Limited (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated and Society Income Statement (Technical Account), the Consolidated Income and Expenditure Account (Non-Technical Account), the Society Income and Expenditure Account (Non-Technical Account), the Consolidated Balance Sheet, the Society Balance Sheet and Notes to the accounts, 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 Financial Reporting Standard 102, *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland* and Financial Reporting Standard 103 *Insurance Contracts* (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Committee.

Independence

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 15 November 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 3 years, covering the years ended 31 December 2019 to 31 December 2021.

We remain 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. The non-audit services prohibited by that standard were not provided to the Group or the Society.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Society's ability to continue to adopt the going concern basis of accounting has been included in the key audit matters section below:

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 and the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Overview

Coverage

These are areas which have been subject to a full scope audit by the group engagement team

- 90% (2020: 90%) of Group Deficit
- 100% (2020: 100%) of Group Gross Written Premium
- 93% (2020: 93%) of Group total assets

Key audit matters

	2021	2020
Valuation of insurance technical provisions	✓	✓
Valuation of investment properties	✓	✓
Defined benefit pension valuation net asset	✓	✓
Going concern	✓	✓

Materiality

Group financial statements as a whole

- £517,960 (2020: £450,000) based on 2% (2020: 1.94%) of Fund for Future Appropriations.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

We undertook a full scope audit of the Society, and of the three significant components. For the non-significant component, Foresters General Insurance Services Limited, which equate to 0% of Funds for Future Appropriations (2020: 0%), we carried out analytical review procedures and audit of certain account balances and transactions. Our approach to the audit is risk based, with our audit work being tailored to ensure that sufficient assurance was gained for us to be able to give an opinion on the financial statements as a whole. In assessing the insurance liabilities, the Group audit team performed all aspects of the audit with the use of appointed experts.

Two divisions of the Society are audited by two separate component non-BDO auditors. We requested the component auditors to perform full scope audits on these components.

Our involvement with component auditors

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

- Directing the audit work to be performed through issuing of group instructions to the component auditors.
- Attending initial planning meetings and close out meetings with the component audit teams.
- Obtain responses from the component auditors on our reporting package of the component for the purpose of the Society's audit.
- Reviewed the work papers of the component audit teams relating to significant risk areas. Reconciled and agreed the audited division balances to the Society's Income and Expenditure Account and Balance Sheet.

Independent Auditor's Report (continued)

Key audit matters

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

Valuation of insurance technical provisions – £168,558k (2020: £162,539k)	
Key audit matter Refer to the accounting policy in note 1 and further information given in note 19.	We have concluded that insurance technical provisions are a Key Audit Matter. There is an inherent risk that insurance technical provisions can be misstated due to the fact that estimates are necessarily involved, and as such, there is an element of subjectivity in any such provision. This is because the range of estimated claims may be large and so there is a higher degree of judgement to be exercised here, consequently the impact on the financial statements is likely to be significant.
How the scope of our audit addressed the key audit matter	In assessing the valuation of the insurance technical provisions, we performed the following procedures: • We engaged an independent auditor's actuarial expert to report to us on the actuarial methodology and assumptions applied in the calculation of the insurance technical provisions. When selecting our independent external actuarial expert we evaluated their independence, objectivity, and competence to provide the required audit support. • We tested the underlying data used in the Society's internal insurance technical provision estimation process to check completeness and accuracy of the data used by agreeing a sample of the data used in the valuation of the insurance technical provisions inputs to the Society's accounting records with the data provided to our actuarial expert. • We obtained and reviewed the actuarial reports prepared by the Society's Actuarial Function Holder and our independent external auditor's expert has also reviewed these documents in order to check that all relevant judgements and estimates have been considered by the Society. • With assistance from our independent external auditor's expert, we reviewed and assessed the assumptions used in the calculation of the insurance technical provision to ensure these are reasonable and in line with acceptable parameters. • We challenged the conclusions arrived at by our independent external actuarial expert and verified that processes are in accordance with both Technical Actuarial Standards (TAS) and industry practices.
Key observations noted	Based on our audit work we consider the judgements made by management in the valuation of technical provisions to be reasonable.

Valuation of investment properties held at fair value – £53,330k (2020: £51,987k)	
Key audit matter Refer to the accounting policy in note 1 and further information given in note 12.	Estimating the fair value of investment property is complex as it requires the selection of assumptions, such as future rental income to determine expected yields. Management engage independent property experts to assist in reviewing and selecting these assumptions. We have concluded that investment property valuation is a Key Audit Matter. This is because of the level of judgement management are required to exercise and the impact on the financial statements is likely to be significant.
How the scope of our audit addressed the key audit matter	Our audit work in respect of the valuation of investment property included the following: • We evaluated the methodology, competence, capability and objectivity of management's experts and reviewed the valuation reports. We engaged directly with management's experts to obtain further clarifications on their approach and conclusions as set out in their valuation reports. • We evaluated the assumptions used by management and their property experts in their assessment of fair value. This included the comparison of assumptions used by management's property experts against published market benchmarks and the leases. We specifically considered, using internal real estate expertise, the appropriateness of the property valuation assumptions and approach used by management's expert. This has been done to identify whether any of the assumptions used are inconsistent with current market information. We also agreed the rental income to the valuation report received directly from the management's expert. We engaged with internal BDO Real Estate experts to check whether the assumptions used in the valuation were reasonable.
Key observations noted	Based on our audit work we consider investment properties held at fair value have been appropriately valued.

Defined Benefit pension valuation – net asset £0 (2020: £454k)	
Key audit matter Refer to the accounting policy in note 1 and further information given in note 22.	The financial statements include a net nil defined benefit pension scheme asset, which represents the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date. The calculation of the valuation of the defined benefit pension assets of the Society's defined benefit pension schemes at the year end is a complex area and involves actuarial assumptions and the assessment and consideration of both the scheme assets and the scheme liabilities to determine the 'net' asset or liability. Annually the Society engages independent actuaries to calculate the present value of the defined benefit obligation at the reporting date. We have concluded that the valuation of the defined benefit pension asset is a Key Audit Matter. This is because estimates are necessarily involved, and as such, there is an element of judgment implicit in determining the appropriate assumptions used in the valuation.
How the scope of our audit addressed the key audit matter	Our audit work in respect of the defined benefit pension valuation included the following: • We have evaluated the methodology, competence, capability and objectivity of management's experts. We also obtained and reviewed the actuarial calculation, including accuracy, assumptions used in the calculation and completeness of member information. We reviewed, using our own independent external actuarial experts, management's methodology for determining the calculation of scheme liabilities as at 31 December 2021 and challenged the key assumptions, which include the retail price inflation rates, consumer price inflation, discount rate and mortality improvement percentiles. • Agreed the value of the assets of the pension schemes per the valuation report to the values obtained from investment confirmations received directly from the asset managers to confirm the valuation at year end. On a sample of investments, we recalculated the valuation using independent third party sourced market prices. • We have engaged our own external and independent actuarial experts to consider the appropriateness of the key assumptions used in the pension scheme asset valuation, including comparing these to relevant industry benchmarks. When selecting our independent external actuarial expert we evaluated their independence, objectivity, and competence to provide the required audit support.
Key observations noted	Based on the procedures performed, we are satisfied that the valuation of the defined benefit pension scheme assets and liabilities is acceptable.

Independent Auditor's Report (continued)

Going concern	
Key audit matter Refer to the accounting policy in note 1.	The financial statements are prepared on the going concern basis. This requires the Directors' judgement on the Group and Society's ability to continue as a going concern for 12 months from the date of directors approval of the financial statements, which should include consideration to any major events or circumstances that may fall outside this period. The Directors are also required to identify and disclose any material uncertainties. We have concluded that the application of the going concern basis is a Key Audit Matter. This is because of the level of judgement required by the Directors.
How the scope of our audit addressed the key audit matter	• We have reviewed the Directors' going concern assessment. As a part of this we reviewed the Group and Society's capital position to the solvency capital ratio as well as the Own Risk and Solvency Assessment ('ORSA') and forecasts. • We have inspected the Group and Society's current plans and budgets included in its forecasts, assessing growth assertions against published market assumptions as well as other assumptions relating to overheads, commissions, investment income, cash flows and claims. • We have obtained and reviewed the minutes of Board and other meetings held to the date of signing the audit opinion, to assess additional information regarding considerations and discussions held regarding plans and intentions. • We have assessed the Group and Society's forecasts by comparing past 2021 forecasts with actual performance. • We have considered the impact of Russia/Ukraine on the activities of the Group and Company and its financial position based on our knowledge of the Group and Society.
Key observations noted	Our key observations are set out in the conclusions relating to going concern section of our report.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Group financial statements		Parent Society financial statements	
	2021 £	2020 £	2021 £	2020 £
Materiality	517,960	450,000	492,000	427,000
Basis for determining materiality	2% of the fund for future appropriation ("FFA").	1.94% of the fund for future appropriation ("FFA").	95% of Group materiality	95% of Group materiality.
Rationale for the benchmark applied	We consider the Society's Fund for future appropriations to be the most relevant benchmark, as it reflects a key measure of the performance of a mutual friendly society and is used to assess the level of free reserves and in determining solvency.		Calculated as a percentage of Group materiality for Group reporting purposes.	
Performance materiality	301,600	292,000	286,000	274,000
Basis for determining performance materiality	65% financial statement materiality was used. This is reflective of our perceived risk of the financial statements containing misstatements, after considering previous experience of this audit engagement we consider this level appropriate.			

Component materiality

We set materiality for each component of the Group based on a percentage of between 11% and 67% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £215 to £302,000 (2020: £250 to £302,000). In the audit of each component, we further applied performance materiality levels of 65% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all Group's individual audit differences in excess of £9,000 (2020: £9,000) and all Society's individual audit differences in excess of £8,800 (2020: £8,500). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

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.

Other Friendly Societies Act 1992 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Friendly Societies Act 1992 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic Report and Directors' Report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Society and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Friendly Societies Act 1992 requires us to report to you if, in our opinion: • proper accounting records have not been kept by the Society; or • the Society's financial statements are not in agreement with the accounting records and returns; or • we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities, 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.

Independent Auditor's Report (continued)

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

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

- We obtained an understanding of the legal and regulatory framework applicable to the Group and Society by making enquires of management, internal audit, and those responsible for legal and compliance matters. These included but were not limited to compliance with Friendly Societies Act 1992, the Prudential Regulation Authority (PRA) Rulebook, the Financial Conduct Authority (FCA) Handbook, FRS 102 and FRS 103.
- We remained alert to any indications of non-compliance throughout our audit, specifically through enquiries of management and those charged with governance, review of Board meeting minutes and correspondence with regulators. The audit team considered the main regulations being those set out by the FCA and PRA and noted no instances of non-compliance.
- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. The engagement partner's assessment of whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.
- We also addressed the risk of management override of internal controls and the risk of fraud including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud. The results of testing are covered below.
- We assessed the susceptibility of the Group and Society's financial statements to material misstatement, including fraud. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, including the valuation of technical provisions (KAM 1), the valuation of investment properties held at fair value (KAM 2), the valuation of the net Defined Benefit Pension asset valuation (KAM 3), going concern (KAM 4) and claims payments. We also considered where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We ensured that our audit procedures performed covered these risks. In addition, we also considered the risks around journals posting and tested a sample of journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.
- Obtained responses from component auditors to state the significant components were compliant with the applicable laws and regulations.
- Review of the Society's Internal Audit reports and Own Risk and Solvency Assessment to inform our risk assessment.

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

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.

Use of our report

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

John Perry (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, United Kingdom
19 May 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated and Society Income Statement (Technical Account)

For the year ended 31 December 2021

Technical Account Long Term Business	Notes	2021 £'000	2020 £'000
Earned premiums, net of reinsurance			
Gross premium written		**36,832**	31,528
Outward reinsurance premiums		**(383)**	(242)
	3	**36,449**	31,286
Investment income	4	**4,163**	(907)
Net unrealised gains/(losses) on investments	4	**4,331**	7,497
Total Technical Income		**44,943**	37,876
Claims incurred, net of reinsurance			
Gross claims payable		**(30,556)**	(27,162)
Cost of administration		**(164)**	(190)
Net claims incurred	5	**(30,720)**	(27,352)
Change in other technical provisions			
Long term business provision			
- gross amount		**1,638**	(2,243)
- reinsurers' share		**(289)**	222
- net of reinsurance	6	**1,349**	(2,021)
Technical provisions for linked business			
- net of reinsurance	6	**(6,460)**	(2,826)
Net change		**(5,111)**	(4,847)
Other Expenditure			
Net operating expenses	7	**(5,089)**	(4,302)
Investment expenses and charges	4	**(781)**	(924)
Taxation attributable to long term business	9	**-**	-
		(5,870)	(5,226)
Total Technical Charges		**(41,701)**	(37,425)
Surplus of technical income over technical charges		**3,242**	451
Transfer from/(to) the Consolidated and Society's Statement of other Comprehensive Income		**(3,242)**	(451)
Balance on Technical Account		**-**	-

All long term business is written in the United Kingdom, is in respect of continuing operations and relates to direct insurance contracts.

Technical Account General Business	Notes	2021 £'000	2020 £'000
Technical Account-General Business			
Technical Income			
Gross premium written	3	**2,651**	2,588
Investment income		**47**	-
Other technical income		**23**	-
Total Technical Income		**2,721**	2,588
Technical Charges			
Claims incurred gross		**(2,211)**	(1,794)
Transferred to general business provision		**(354)**	(841)
Net operating expenses	7	**(156)**	47
Total Technical Charges		**(2,721)**	(2,588)
Balance on Technical Account		**-**	-

General business is written by the Guernsey Court and is classified as overseas business.

Consolidated Income and Expenditure Account (Non-Technical Account)

For the year ended 31 December 2021

Non-Technical Account	Notes	2021 £'000	2020 £'000
Income			
Investment income	10	**5,316**	3,377
Unrealised gains/(losses) on investments	10	**2,497**	2,565
Unrealised gains/(losses) on Court investments	10	**1,941**	(2,661)
Discretionary fund donations and levies		**396**	312
Total Income		**10,150**	3,593
Expenditure			
Net operating expenses	7	**(437)**	(406)
Court operating expenses	7	**(3,665)**	(4,108)
Investment expenses and charges	10	**(255)**	(422)
Discretionary benefits paid and approved Court distributions		**(1,702)**	(1,705)
Total Expenditure		**(6,059)**	(6,641)
Excess / Deficit of income over expenditure for the financial year		**4,091**	(3,048)
From/(to) Discretionary Fund	16	**(1,404)**	1,686
From/(to) Mainland Court funds	17	**(2,688)**	1,326
From/(to) Court funds – Guernsey	17	**1**	36
Balance on the Non-Technical Account		**-**	**-**

Non-Technical business relates to the allocation of income and expenditure items which are not directly related to individual insurance funds, including project costs. Court and discretionary fund income and expenditure is also included in the non-technical account.

The notes on pages 72 to 108 form an integral part of these accounts.

Consolidated and Society's Statement of Other Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Transfer from/(to) the Technical Account		**3,242**	451
Pension schemes actuarial gain/(loss)	22	**(543)**	98
Total Comprehensive Income transfers from/(to) the Fund for future appropriations	18	**2,699**	549

Society Income and Expenditure Account (Non-Technical Account)

For the year ended 31 December 2021

Non-Technical Account	Notes	2021 £'000	2020 £'000
Income			
Investment income	10	**5,615**	3,755
Unrealised gains/(losses) on investments	10	**516**	2,062
Unrealised gains/(losses) on Court investments	10	**1,941**	(2,661)
Discretionary fund donations and levies		**396**	312
Total Income		**8,468**	3,468
Expenditure			
Court operating expenses	7	**(3,665)**	(4,108)
Investment expenses and charges	10	**(255)**	(422)
Discretionary benefits paid and approved Court distributions		**(1,702)**	(1,705)
Total Expenditure		**(5,622)**	(6,235)
Excess/(Deficit) of income over expenditure for the financial year		**2,846**	(2,767)
(To)/from Discretionary Fund	16	**(387)**	1,719
(To)/from mainland Court funds	17	**(2,460)**	1,012
(To)/from Court funds – Guernsey	17	**1**	36
Balance on the Non-Technical Account		**-**	-

The notes on pages 72 to 108 form an integral part of these accounts.

Consolidated Balance Sheet

as at 31 December 2021

Assets	Notes	2021 £'000	2020 £'000
Intangible assets			
Purchased value of in force business	11	**-**	-
Investments			
Land and buildings	12	**53,330**	51,987
Investment in subsidiary	13	**-**	-
Other financial investments	13	**185,678**	180,686
		239,008	232,673
Assets held to cover linked liabilities – investment contracts	13	**1,527**	1,687
Assets held to cover linked liabilities – insurance contracts	13	**43,481**	36,861
Reinsurers share of Long term business provision	19	**(149)**	140
Debtors			
Debtors arising out of insurance operations:			
Amounts due for Group business		**1,766**	1,647
Amounts due from individual business		**143**	134
Other debtors	14	**1,285**	1,145
		3,194	2,926
Other assets			
Tangible assets	15	**-**	-
Certificates of deposit		**-**	1,195
Cash at bank and in hand		**9,656**	8,134
		9,656	9,329
Prepayments and accrued income			
Accrued interest and rent		**745**	329
Other prepayments and accrued income		**560**	472
		1,305	801
Pension asset	22	**-**	454
Total assets		**298,022**	284,871

The notes on pages 72 to 108 form an integral part of these accounts.

Consolidated Balance Sheet

as at 31 December 2021

Liabilities	Notes	2021 £'000	2020 £'000
Reserves			
Discretionary Funds	16	**14,100**	12,696
Court Funds	17	**86,362**	83,675
		100,462	96,371
Fund for future appropriations	18	**25,898**	23,199
Technical provisions			
Long term business provision – Insurance and participating investment contracts	19	**114,652**	116,307
Long term business provision – non-participating investment contracts	19	**(47)**	(64)
Technical provision for linked liabilities – investment contracts	19	**1,527**	1,687
Technical provision for linked liabilities – insurance contracts	19	**43,481**	36,861
Claims outstanding	19	**3,719**	2,957
General business provision (Guernsey)	19	**5,145**	4,791
		168,477	162,539
Provision for other risks and charges	21	**-**	-
Creditors due within one year			
Other creditors		**636**	373
Taxation and Social Security		**191**	212
Retirement allowance fund		**35**	34
		862	619
Creditors due after one year			
Retirement Allowance Fund		**380**	376
Total Creditors		**1,242**	995
Accruals and deferred income		**1,943**	1,767
Total Liabilities		**298,022**	284,871

The notes on pages 72 to 108 form an integral part of these accounts.

These financial statements were approved by the Board on 18 May 2022 and authorised for issue. No amendments are permitted after authorisation for issue. On behalf of the Board:

Trevor Batten	**Rachel Hardy**	**Lisa Russell**
Chairman	Chief Executive	Company Secretary

Society Balance Sheet

as at 31 December 2021

Assets	Notes	2021 £'000	2020 £'000
Intangible assets			
Purchased value of in force business	11	**-**	-
Investments			
Land and buildings	12	**40,791**	41,616
Investment in subsidiary	13	**10**	10
Other financial investments	13	**181,624**	178,341
		222,425	219,967
Assets held to cover linked liabilities – investment contracts	13	**1,527**	1,687
Assets held to cover linked liabilities – insurance contracts	13	**43,481**	36,861
Reinsurers share of Long term business provision	19	**(149)**	140
Debtors			
Debtors arising out of insurance operations:			
Amounts due for Group business		**1,766**	1,647
Amounts due from individual business		**143**	134
Other debtors	14	**1,053**	1,095
		2,962	2,876
Other assets			
Tangible assets	15	**-**	-
Certificates of deposit		**-**	350
Cash at bank and in hand		**7,418**	3,917
		7,418	4,267
Prepayments and accrued income			
Accrued interest and rent		**628**	232
Other prepayments and accrued income		**531**	448
		1,159	680
Pension asset	22	**-**	454
Total assets		**278,823**	266,932

The notes on pages 72 to 108 form an integral part of these accounts.

Society Balance Sheet

as at 31 December 2021

Liabilities	Notes	2021 £'000	2020 £'000
Reserves			
Discretionary Funds	16	**1,989**	1,602
Court Funds	17	**79,362**	76,903
		81,351	78,505
Fund for future appropriations	18	**25,904**	23,205
Technical provisions			
Long term business provision – Insurance and participating investment contracts	19	**114,652**	116,307
Long term business provision – non-participating investment contracts	19	**(47)**	(64)
Technical provision for linked liabilities – investment contracts	19	**1,527**	1,687
Technical provision for linked liabilities – insurance contracts	19	**43,481**	36,861
Claims outstanding	19	**3,719**	2,957
General business provision (Guernsey)	19	**5,145**	4,791
		168,477	162,539
Provision for other risks and charges	21	**-**	-
Creditors due within one year			
Other creditors		**625**	369
Taxation and Social Security		**191**	212
Retirement allowance fund		**35**	34
		851	615
Creditors due after one year			
Retirement Allowance Fund		**380**	376
Total Creditors		**1,231**	991
Accruals and deferred income		**1,860**	1,692
Total liabilities		**278,823**	266,932

The notes on pages 72 to 108 form an integral part of these accounts.

These financial statements were approved by the Board on 18 May 2022 and authorised for issue. No amendments are permitted after authorisation for issue. On behalf of the Board:

Trevor Batten	**Rachel Hardy**	**Lisa Russell**
Chairman	Chief Executive	Company Secretary

Notes to the Accounts

1. Accounting policies

General Information, change in accounting policy and basis of accounting

The Society is a Friendly Society incorporated in the United Kingdom under the Friendly Societies Act. The address of the registered office is given on page 3. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 17 to 31.

The Society prepares its Annual Report and Accounts on the historical cost convention modified for fair value, excluding tangible fixed assets, in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994, The Friendly Societies Act 1992 and Financial Reporting Standards 102 and 103 (FRS 102 and FRS 103).

As permitted by FRS 103 Insurance Contracts, the Society has taken advantage of the option to recognise and measure technical provisions on long term insurance contracts on a best estimate basis. This means that the value of technical provisions disclosed in these financial statements are aligned with the Society's other regulatory financial reporting.

The functional currency of the Society continues to be pounds sterling because that is the currency of the primary economic environment in which the Society operates. The consolidated financial statements are also presented in pounds sterling (£'000).

The Society meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to the presentation of a cash flow statement.

Under FRS 103 the accounting treatment of long term business contracts depends on the classification of contracts as either insurance contracts if the level of insurance risk is significant, or investment contracts if the risk is not significant.

The Society considers insurance risk to be the risk of having to pay benefits as a result of an insured event which are significantly more than would be paid if the insured event did not occur. All of the Society's non-profit policies and regular premium unit-linked policies are classified as insurance contracts. The Society accounts for all contracts with no significant insurance risk in accordance with section 11 and 12 of FRS 102.

All of the Society's With-Profits policies are classified as participating investment contracts as these entitle the policyholder to receive, in addition to the guaranteed benefits, additional discretionary bonuses which are likely to form a significant proportion of the total benefit payable and where the amount and timing are at the discretion of the Society and depend on the performance of a specified pool of assets.

The Society's single premium unit-linked contract (which is no longer offered for sale) is classified as an investment contract.

Basis of consolidation

The consolidated income and expenditure accounts, the consolidated statement of other comprehensive income and the consolidated balance sheet are the financial statements of the whole Group including the Branches (Courts) and the Investment Associations (see note 2) where the Society has the ability to exercise control. Internal transactions and balances between the various components of the Society have been eliminated.

The consolidated financial statements incorporate the results of acquisitions using the acquisition method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income and expenditure accounts from the date on which control is obtained. They are deconsolidated from the date control ceases. In the case of the acquisition of policy engagements and related assets and liabilities, the acquisition method is applied as if the engagements acquired constituted an entity.

The Court assets are not available to back the long term business of the Society but the Courts remain as Branches of the incorporated Society. Their assets and activities are therefore shown separately within the notes to the accounts. Investment Association deposits are investments of the Courts.

The balance sheet includes the cost of £10,000 for all the shares in Foresters General Insurance Services Limited. This entity has been fully consolidated in the financial statements (see note 13).

Going Concern

The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 17 to 31. Notes 20 and 24 also describe the financial position of the Society; its cash flows and liquidity position; the Society's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Society meets its day to day working capital requirements through its own cash reserves. The Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Premium Income

For long term insurance contracts and participating investment contracts, regular premium income is accounted for on a receivable basis, single premium income is accounted for when received. Outward reinsurance premiums are accounted for in accordance with the contract terms when due, reflecting the period when risk is transferred.

For general insurance business, premium income is accounted for on an accruals basis so that the figures stated include all premiums received and receivable in respect of the current reporting year.

Claims

Maturity claims are charged to the Income and Expenditure account when due for payment. Surrenders are accounted for on the date when the policy ceases to be included within the calculation of the long term business provision. Death claims are accounted for when notified. Claims on With-Profits business include bonuses payable. Claims payable include related claims handling costs. Amounts receivable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or the settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Claims payable under general insurance contracts are calculated on the accruals basis so that the figures stated include all claims paid and payable in respect of the current reporting year. In addition, the cost of administering the claims has been included in the claims figures, as shown in the Technical Account General Business.

Long Term Business Provision

The long term business provision is determined by the Board on the advice of the Chief Actuary as part of the annual valuation of the Society's long term insurance business. The provision is determined in accordance with the requirements of the PRA rulebook: Solvency II Firms Technical Provisions Instrument 2015.

The long term business provision on a Solvency II basis is calculated as the expected present value of the expected future cash flows (benefit payments and expenses less premiums) plus a risk margin. The risk margin allows for the cost to a third party of holding Solvency II capital until all the contracts are settled.

The valuation rate of interest used to discount the expected future cash flows is prescribed by regulation.

Further details of these technical provisions are contained in note 19.

General Business Provision

General Business comprises the medical and medical services insurance protection conducted by the Guernsey Branch. In line with historical treatment, as permitted under 'FRS 103: Insurance Contracts', the liabilities are calculated in accordance with local regulatory requirements. The liabilities are the accumulated surplus income from the general business which the branch Committee of Management has allocated to set aside to cover the provision of medical benefits for policyholders.

Retirement Allowance Fund

The Society has an obligation to provide a monthly pension to a small number of ex-District Employees. These future obligations are valued in line with FRS 102 requirements for termination benefits, with assumptions aligned to the valuation of the Society's defined benefit pension schemes.

Fund for Future Appropriations

The fund for future appropriations (FFA) consists of funds that have not been allocated to specific policyholders, members or non-insurance funds. Transfers to and from the fund reflect the excess or deficiency of income over outgoings in each accounting period arising from participating business. The FFA represents membership funds, which is working capital available to cover solvency capital requirements for the insurance business.

Taxation

Friendly Societies are taxed on their life or endowment business so far as the annual premiums or sums assured exceed limits prescribed in tax law, and on certain investment returns referable to their subsidiaries. Insofar as the Society's business is taxed, it is taxed on investment return less management expenses.

Provision for current and deferred taxation is calculated using the tax law and rates as enacted or substantively at the balance sheet date.

Deferred tax assets are recognised only to the extent that they reduce deferred tax liabilities or it is probable there will be future taxable profits against which they may be set.

Foreign Currencies

Investment assets denominated in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the dates of the transactions. Exchange gains and losses are dealt with in that part of the relevant Income and Expenditure Account in which the underlying transaction is reported.

Land and Buildings

Land and buildings, which include properties that are held by the Society for operational purposes, are freehold and leasehold investment properties held for long term rental yields and capital growth. Changes in fair value are accounted for as unrealised gains or losses in the Income and Expenditure account.

Land and buildings, other than those held by the Society for operational purposes, are valued at least annually on an open market value basis by qualified external professional valuers.

Notes to the Accounts (continued)

Land and buildings held for operational purposes are valued at least annually on an existing use value basis by qualified external professional valuers.

Land and buildings held by the Society for operational purposes are required to be depreciated over their expected useful economic lives under the requirements of The Friendly Societies (Accounts and Related Provisions) Regulations 1994. This requirement conflicts with the generally accepted accounting principle for Investment Properties set out in section 16 of FRS 102, that no depreciation should be provided on such investments. The Board consider that, as these properties are held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt FRS 102 in order to give a true and fair view. Depreciation is only one of the factors reflected in the annual valuations, and the amount which might otherwise have been shown, cannot reasonably be separately identified or quantified.

Freehold land is not subject to depreciation. No depreciation is charged on freehold buildings as, in the Directors' opinion, it is considered that their estimated useful economic lives and residual values are such that the required depreciation charge is immaterial.

Investments

Other financial investments comprise listed investments in UK Government debt, units in open-ended investment companies invested in global equities, corporate debt, convertible bonds and units in a long lease property fund, all managed by AXA IM, senior secured loans managed by Pemberton Asset Management, Infrastructure Equity managed by Equitix, Trade Finance managed by Fasanara Capital, Trade Finance managed by Horizon Capital, deposits with credit institutions and deposits with Investment Associations. Listed investments and units held in collective investments are measured at their bid value at the balance sheet date. Amounts receivable in respect of loans are shown at the lower of the amounts advanced or the amount expected to be recovered where there is evidence of impairment. Deposits with credit institutions are carried at their historical cost as no reliable fair value can be obtained for these instruments. Investment Associations are shown at cost plus interest accrued on the deposit. The Society has open investments in derivative instruments covering long gilt futures and S&P 500 equity futures.

In the Society balance sheet, investments in subsidiaries and associates are measured at cost less impairment.

Investment Income and Expenses

Investment income includes dividends, property rent, interest, together with realised gains and losses on investments. Dividends are taken into account when declared. Interest on fixed interest securities, deposits and rental income is recognised on an accruals basis.

Investment expenses and charges are shown as expenditure.

Gains and Losses on Investments

Balance Sheet

Unrealised gains and losses represent the difference between the market value of investments held at the end of the year and their market value at the beginning of the year, or their cost when acquired during the year.

Income and Expenditure Account

Realised gains and losses are calculated as the difference between purchase costs and net sales proceeds. An adjustment is made to unrealised gains and losses previously recognised for the impact of any disposals in the year. Realised and unrealised gains and losses are taken to the Income and Expenditure Account.

Pension Schemes

The Society operates a group stakeholder personal pension scheme covering most permanent employees. This is a defined contribution scheme and the Society's contributions are charged to the Income and Expenditure account in the year to which they relate. The Society has no liability in respect of this defined contribution scheme other than future contractual contributions.

The Society also operates two defined benefit pension schemes, both of which are closed to new members. Both schemes are administered by Trustees and are independent of the Society's finances.

The asset or liability recognised in the balance sheet in respect of the defined benefit plans is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date. The defined benefit obligation is calculated using actuarial projections. Annually the Society engages independent actuaries to calculate the obligation.

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Society's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are included in the Statement of Other Comprehensive Income. These amounts, together with the return on plan assets, less amounts included in net interest, are disclosed in note 22 as the "Change in recognised defined benefit asset".

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the income and expenditure account.

In the event a pension surplus exists, the Society will recognise the surplus as an asset in the financial statements to the extent that it can be recovered by the Society through either reduced future contributions or through refunds which have been agreed at the balance sheet date with the Trustees of the pension schemes in question.

Further details of the pension schemes are contained in note 22.

Operating Leases

Rentals payable under operating leases are charged to the technical and non-technical accounts on a straight-line basis in line with the accruals concept over the lease term.

Tangible Fixed Assets and Depreciation

Tangible fixed assets are valued at cost less depreciation or provision for impairment. For tangible fixed assets in excess of £25,000, depreciation is provided for in equal annual instalments over their estimated useful economic lives based on cost, less estimated residual value. No capitalisation of tangible fixed assets is performed for asset values less than or equal to £25,000. The principal rates used for this purpose are as follows:

Fixture and fittings – 4 to 10 years

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful economic life.

Cash Flow Statement

The Society, being a mutual life assurance company, is exempt from the requirement under FRS 102 to produce a cash flow statement.

Unit-Linked Business

Assets held in respect of unit-linked business are fair valued on a daily basis at bid price, using market prices supplied by third party data providers. The prices derived from the valuation apply to the next working day after the valuation point.

The provision for unit-linked business is equal to the value of the assets to which the contracts are linked. This provision is included within the long term business provision.

Claims paid under contracts classified as investment contracts are deposit accounted for. The Society receives no premiums under investment contracts.

Purchased Value of In-force Business ('PVIF')

On acquisition of a portfolio of insurance contracts, the net present value of the Society's interest in the expected cash flows of the in-force business is capitalised as an intangible asset. The relevant element is that part of PVIF which will be recognised as profit over the remaining lifetime of the in-force policies.

PVIF is amortised over the remaining anticipated lives of the related contracts which is generally between 5 and 15 years. Amortisation is recognised within net operating expenses in the Income and Expenditure account.

The carrying value of PVIF is assessed for possible impairment on an annual basis.

Acquisition Expenses

Acquisition expenses are direct expenses associated with acquiring new business sales such as commissions, underwriting costs and policy issuance costs. These are recognised in the Income and Expenditure account in the year of occurrence, even though the related acquisition's cash flows may not be earned, as they are not an allowable asset under the Solvency II regime.

Liability Adequacy Testing

The Society performs adequacy testing on its insurance liabilities to ensure that the carrying amounts and, where relevant, present value of acquired in-force business is sufficient to cover estimates of future cash flows. Any deficiency is immediately charged to the Income and Expenditure account.

Financial Instruments

Financial assets and financial liabilities are recognised when the Society becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at transaction price (including transaction costs). If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet, when and only when, there exists a legally enforceable right to set off the recognised amounts and the Society intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Society transfers to another party substantially all of the risks and rewards of ownership of the

Notes to the Accounts (continued)

financial asset, or c) the Society, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Court and Discretionary Funds

Court and discretionary fund balances arise from the Society's social, fraternal and benevolent activities. Transfers to and from these funds reflect the excess or deficiency of income over outgoings in each accounting period arising from such activities.

Each Court maintains its own fund of assets. The Court Reserve Fund is available to support the activities of all the Society's Courts and is managed centrally by the Society's Board of Directors.

Court and discretionary benefit funds are ring fenced and are not available to support the insurance activities of the Society.

Further details are provided in notes 16 and 17.

Key Estimates and Judgements

The preparation of these financial statements requires the Society to make certain estimates and assumptions that have an impact on the application of the policies and the amounts reported in the financial statements. Estimates and judgements are evaluated based on historical experience and expected outcomes and are believed to be reasonable at the time such estimates and judgements are made, although actual experience may vary from these estimates. The estimates and assumptions which have the most significant bearing on the carrying value of assets or liabilities are explained below.

Key Estimates

The following are the areas where critical assumptions and estimates have been made by the Directors in the process of applying the Group and Society's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

1) Technical Provisions – Valuation of investment and long term insurance contract liabilities

Technical provisions are calculated using policy data held on the Society's administration systems and assumptions set using internal and external data as inputs to actuarial valuation models. The assessment of the appropriate carrying value of the technical provisions requires the Society to make significant judgements when determining the underlying assumptions. The principal economic assumption is the inflation rate for future expenses, while the principal non-economic assumption is the allowance for future expenses. The assumptions used for mortality, morbidity and longevity are based on standard industry or reinsurers' tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for expenses, lapse and surrender rates are based on product characteristics and relevant claims experience. The valuation interest rates used to discount projected cashflows are a duration-specific risk-free yield curve specified by the Bank of England under Solvency II regulations. Due to the long term nature of these obligations, the estimates are subject to significant uncertainty. Further details on specific assumptions are provided in note 19 to these financial statements.

2) Valuation of Investment Properties

The Society owns a portfolio of Investment Properties which are held for long term rental yield and capital growth. This portfolio is valued at fair value on an annual basis by Society appointed Chartered Surveyors. The valuations have been prepared in accordance with the RICS Valuation Standards on the basis of fair value. In preparing these valuations, data and information available concerning rental yields, lease terms, voids and floor areas, and enquiries within local market places have been used as contributing factors to each individual property's valuation. The most significant inputs into this valuation approach are the rental income and yield assumptions. Further details are provided in note 12 to these financial statements.

3) Valuation of Financial Assets

The Society holds a number of financial assets as described in the investments accounting policy on page 74. The Society has no financial assets held for trading, all investments are classified and valued at fair value. Such assets are measured at market prices, prices consistent with market ratings should no price be available, or prices valued by independent agents for privately traded assets. Any unrealised or realised gains or losses are taken to the appropriate Income and Expenditure Account as they occur. Further details are provided in note 13 to these financial statements.

4) Defined Benefit Pension Schemes

In determining the pension cost and the defined benefit obligation of the Society's defined benefit pension schemes, a number of assumptions are used. These assumptions include an appropriate discount rate, the levels of salary escalation, price inflation and mortality rates. Further details are contained in note 22 to these financial statements.

Key Judgements

The following are the critical judgements, apart from those involving estimations (which are dealt with separately above), that the Directors have made in the process of applying the Group and Society's accounting policies and that have the most significant effect on the presentation adopted in these financial statements:

1) Basis of Consolidation

The Society has a number of Branches ('Courts') as well as one subsidiary entity, Foresters General Insurance Services Limited. The Society also has a number of Court fund deposits invested in organisations known as 'Investment Associations'. The Society is in a position where it can exert control over The Leeds District of the Ancient Order of Foresters' Investment Association.

The Derby and Derbyshire Foresters Investment Association, states within its rules that the members of the Association consist of those individuals who are members of depositing Courts, and not the Courts themselves. The current members of the depositing Courts are members of the Derby Investment Association. The ownership of the Association and controlling voting rights therefore rest with those individual members and not the Courts. There are no future economic benefits accruing in the Derby Investment Association in respect of the Society.

These consolidated financial statements therefore only include the results of the Society, its Courts, Foresters General Insurance Services Limited and the Leeds Investment Association. Further information is contained within note 2 to these financial statements.

> "When opening my account I found it very easy and when talking to a member of staff, I found them to be very efficient and friendly."
>
> **A satisfied Foresters member, 2021**

2) Classification of Contracts

A key issue for the Society under FRS 103 is that a distinction is made between insurance contracts and investment contracts. The Society issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

For each product type within the Society's portfolio, Management has reviewed the level of benefits under the contract to determine the appropriate contract classification. All with-profits contracts have been classified as participating contracts as these contracts entitle the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses that are likely to be a significant portion of the total contractual benefits whose amount or timing is contractually at the discretion of the Society.

As a result of this review, one product, the POIS unit-linked MoneyBond Fund, has been classified as an Investment Contract.

Claims paid under contracts classified as investment contracts are deposit accounted for. The Society receives no premiums under investment contracts.

Notes to the Accounts (continued)

2. Investment Associations

The Society had a number of Court fund deposits invested in organisations known as 'Investment Associations'. These Associations are all registered as Specially Authorised Societies under the Friendly Society Act. The Associations have their own constitutions or rules and are governed by a Committee of Management that is independent to the Society's Board of Directors. The objective of these Associations is to receive deposits of registered friendly societies and their branches and to invest the same for their benefit. All Investment Associations are unincorporated Associations and are registered in England and Wales. In all cases they do not have issued share capital and their principal country of operation is Great Britain. The Society is currently in a position where it can exert control over The Leeds District of the Ancient Order of Foresters' Investment Association. This Association has been fully consolidated in line with the requirements of FRS 102.

The Investment Association deposits are investments of the Court and Discretionary funds and consequently have no impact on the insurance results shown in the Technical Account.

Financial information for the year ended 31 December 2021	2021		2020	
	Profit/(loss) for the year £'000	Total Assets £'000	Profit/(loss) for the year £'000	Total Assets £'000
The Leeds District of the Ancient Order of Foresters Investment Association	**1,244**	**19,199**	(280)	17,939

The Derby and Derbyshire Foresters Investment Association, states within its rules that the members of the Association consist of those individuals who are members of depositing Courts, and not the Courts themselves. The ownership of the Association and controlling voting rights rest with those individual members and not the Courts. Deposits by Courts in The Derby and Derbyshire Foresters Investment Association are shown at the deposit value (cost), which represents cash invested along with cumulative interest and bonuses paid. At 31 December 2021 these deposits totalled £5,225,719 (2020: £4,889,353) as shown in note 13, Other financial investments.

"Very easy application! My application was accepted quickly.

Pleased with the service."

A satisfied Foresters member, 2021

3. Earned Premiums-Long Term Business

	2021 £'000	2020 £'000
Gross premium written	**36,832**	31,528
Outward reinsurance premiums	**(383)**	(242)
Net earned premiums	**36,449**	31,286
Gross premium written:		
Unit-linked Premium Income		
Investment and savings – regular premiums	**5,783**	5,270
Non-linked Premium Income		
Group business – regular premiums	**15,314**	14,485
Investment and savings – single premiums	**11,795**	7,436
Life and pensions business – regular premiums	**3,940**	4,337
	36,832	31,528
General Insurance Premium Income		
Gross premium written	**2,651**	2,588

Single premiums relate to products issued by the Society which allow for one premium only or allow for recurrent single premiums. Regular premiums contractually allow for payments on a regular basis and have been annualised in the gross new business premiums.

Management has elected to change the disclosure of earned premiums and considers that the above presentation provides information that is more relevant to users of these financial statements. It also considers that the revised structure is likely to continue, so that comparability will not be impaired. The prior year's disclosure has therefore been amended to also reflect this change.

4. Investment Returns-Long Term Business

	2021 £'000	2020 £'000
a) Investment Income – Long Term Business		
Income from listed investments	**1,383**	1,398
Income from other investments	**224**	160
Sub-total income	**1,607**	1,558
(Losses)/gains on the realisation of listed and other investments	**2,556**	(2,465)
Sub-total realised (losses)/gains	**2,556**	(2,465)
	4,163	(907)
b) Unrealised gains/(losses) on Investments		
Unrealised gains/(losses) from listed and other investments	**4,331**	7,497
	4,331	7,497
c) Investment Expenses and Charges – Long Term Business		
Investment management expenses and charges	**781**	924

5. Claims Incurred-Long Term Business

	2021 £'000	2020 £'000
Outstanding claims at 1 January	**2,957**	3,611
Gross claims payable	**30,556**	27,162
Cost of administration	**164**	190
Net claims incurred	**30,720**	27,352
Claims paid: Gross amount	**(29,985)**	(28,032)
Reinsurers' share	**27**	26
	(29,958)	(28,006)
Outstanding claims at 31 December	**3,719**	2,957

6. Change In Technical Provisions-Long Term Business & Linked Liabilities

	Gross £'000		Reinsurance £'000		Net £'000	
	Insurance	Investment	Insurance	Investment	Insurance	Investment
Changes in Long term business provision						
At 1 January 2021	116,243	-	(140)	-	116,103	-
Movement in year	(1,638)	-	289	-	(1,349)	-
At 31 December 2021	**114,605**	**-**	**149**	**-**	**114,754**	**-**

	Gross £'000		Reinsurance £'000		Net £'000	
	Insurance	Investment	Insurance	Investment	Insurance	Investment
Changes in technical provision for linked liabilities						
At 1 January 2021	36,861	1,687	-	-	36,861	1,687
Movement in year	6,620	(160)	-	-	6,620	(160)
At 31 December 2021	**43,481**	**1,527**	**-**	**-**	**43,481**	**1,527**

7. Net operating expenses

	2021 £'000	2020 £'000
a) Operating Expenses		
Long Term business	**5,089**	4,302
General Business	**156**	(47)
Non-Technical Account	**437**	406
Court Operating Expenses	**3,665**	4,108
	9,347	8,769
Total operating expenses for the year amount to £9.3m (2020: £8.8m).		
b) Long Term Business		
Acquisition costs	**2,047**	1,963
IT project costs	**145**	(335)
Administrative expenses	**2,897**	2,674
	5,089	4,302
Acquisition costs include commissions paid of £514,942 (2020: £469,881).		
c) Non-Technical Account and Court Operating Expenses		

Non-Technical Account expenses of £437,000 (2020: £406,000) consist of expenses incurred by the Leeds District Investment Association. Court Operating expenses of £3,665,000 (2020: £4,108,000) include both the allocated expenses from Head Office and the directly borne expenses.

	2021 £'000	2020 £'000
d) Net operating expenses includes:		
Fees payable to the Society's auditor for the audit of the annual accounts of Foresters General Insurance Services Limited	**1**	1
Fees payable to the Society's auditor for the audit of the annual accounts of Foresters Friendly Society	**167**	171
Other non-audit services	**-**	-
Total fees paid to the auditor	**168**	172
Depreciation on tangible fixed assets	**-**	-
Operating lease rental charges	**-**	3
e) Operating leases		
Annual commitments under operating leases for land and buildings which expire within one year	**37**	-
Annual commitments under operating leases for land and buildings which expire in the second to fifth years inclusive	**342**	-
Annual commitments under operating leases for land and buildings which expire over five years	**428**	-
	807	-

8. Staff costs

	2021 £'000	2020 £'000
a) Employees		
i) Staff Costs		
Wages and salaries	**2,575**	2,611
Social security costs	**230**	289
Other pension costs	**201**	181
	3,006	3,081
	Number	**Number**
ii) Average number of persons employed:		
Board and Senior Management	**7**	7
Administration and other	**58**	52
Court Development Managers/Area Co-ordinators	**8**	15
	73	74

	2021 £'000	2020 £'000
b) Board emoluments		
Remuneration (including benefits in kind)	**451**	326
Pension scheme contributions (money purchase)	**29**	18
Total	**480**	344

Management consider the Board to be key management personnel as defined by FRS 102. Full details of Directors' emoluments are contained in the Directors' Remuneration Report on pages 50 to 52.

9. Taxation

	2021 £'000	2020 £'000
Surplus of technical income over technical charges	**3,242**	451
Taxation on Technical Surplus at applicable UK corporation tax rate of 20% (2020: 20%)	**648**	90
Items taxed on a different basis	**-**	-
Effects of:		
Utilisation of tax losses not previously recognised	**(648)**	(90)
Consolidated total tax charge/(credit) for the period	**-**	-

There was no current tax charge in either 2021 or 2020 due to the losses the Society is carrying forward. At 31 December 2021, these losses stood at £662,111 (2020: £4,158,356). This is represented by the following items:

	2021 £'000	2020 £'000
Unrealised gains/(losses) on investments	**7,598**	1,753
Acquisition costs	**(2,466)**	(2,420)
Management assets	**(12)**	(12)
Management expenses	**(5,782)**	(3,479)
	(662)	(4,158)

10. Non-technical investment returns

	2021 Group £'000	2021 Society £'000	2020 Group £'000	2020 Society £'000
a) Investment Income				
Income from property investments	**2,790**	**2,402**	3,162	2,731
Income from listed investments	**1,225**	**848**	643	281
Income from other investments	**37**	**-**	48	3
Sub-total income	**4,052**	**3,250**	3,853	3,015
Gains/(losses) on the realisation of listed investments	**262**	**48**	114	114
Gains/(losses) on the realisation of property investments	**(189)**	**(185)**	(1,784)	(1,784)
Sub-total realised gains/(losses)	**73**	**(137)**	(1,670)	(1,670)
Court held assets:				
Income from property investments	**119**	**119**	135	135
Income from mainland Court investments	**719**	**2,030**	672	1,888
Other income – Courts	**369**	**369**	326	326
Gains/(losses) on realisation of investments	**(16)**	**(16)**	61	61
	1,191	**2,502**	1,194	2,410
	5,316	**5,615**	3,377	3,755
b) Unrealised gains/(losses) on Investments				
Unrealised gains/(losses) on investments	**2,497**	**516**	2,565	2,062
	2,497	**516**	2,565	2,062
c) Unrealised gains/(losses) on Court Investments				
Unrealised gains/(losses) on Court investments	**1,941**	**1,941**	(2,661)	(2,661)
d) Investment Management Expenses and Charges				
Investment expenses and charges	**255**	**255**	422	422

11. Intangible assets

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
	PVIF		PVIF	
Cost				
At 1 January	-	-	1,400	1,400
Disposal	-	-	(1,400)	(1,400)
At 31 December	-	-	-	-
Amortisation				
At 1 January	-	-	(1,400)	(1,400)
Disposal	-	-	1,400	1,400
At 31 December	-	-	-	-
Net Book Value				
31 December 2021	-	-		
31 December 2020	-	-		

12. Land and buildings

Group	Freehold £'000	Long Leasehold £'000	Occupied by Society £'000	Court and Investment Association Properties £'000	Total £'000
Market Value					
At 1 January 2021	33,262	2,679	1,155	14,891	51,987
Additions	-	-	-	2,584	2,584
Disposals	(3,000)	-	-	(782)	(3,782)
Revaluation	2,265	(80)	75	281	2,541
At 31 December 2021	**32,527**	**2,599**	**1,230**	**16,974**	**53,330**

Society	Freehold £'000	Long Leasehold £'000	Occupied by Society £'000	Court Properties £'000	Total £'000
Market Value					
At 1 January 2021	33,262	2,679	1,155	4,520	41,616
Disposals	(3,000)	-	-	(179)	(3,179)
Revaluation	2,265	(80)	75	94	2,354
At 31 December 2021	**32,527**	**2,599**	**1,230**	**4,435**	**40,791**

All investment properties, except the Court and Investment Association properties and properties purchased within the previous 12 months, were valued by Aston Rose Chartered Surveyors as at 30 November 2021 in accordance with the Royal Institution of Chartered Surveyors' guidelines on the basis of Fair Value, taking into account the remaining periods of leases granted to tenants. Management has concluded that it is not appropriate for the investment properties to be indexed in value to 31 December 2021. The property occupied by the Society, Foresters House, and the property occupied in Tunstall were valued at the same date by Aston Rose Chartered Surveyors on an Existing Use Value basis. No allowance has been made for the costs of realisation. Court and Investment Association properties have been valued by a number of different professional independent valuers on a Fair Value basis as at 31 December 2021, taking into account the remaining periods of leases granted to tenants. Property costs have been restated as at 1 January 2003 at the value at the Society's Incorporation.

In order for these accounts to show a true and fair view it is appropriate not to provide depreciation on land and buildings as it is considered that their useful economic lives and residual values are such that their depreciation is immaterial.

The Group's policy is to let land and buildings to tenants through operating leases. The minimum future rental income expected to be received under non-cancellable operating leases is as follows:

At 31 December 2021	Not later than one year £'000	Later than one year and not later than five years £'000	Later than five years £'000	Total £'000
Future minimum lease payments receivable under non-cancellable operating leases	**2,573**	**4,954**	**2,804**	**10,331**

The prior year figures were as follows:

At 31 December 2020	Not later than one year £'000	Later than one year and not later than five years £'000	Later than five years £'000	Total £'000
Future minimum lease payments receivable under non-cancellable operating leases	**2,387**	**6,451**	**3,208**	**12,046**

13. Other financial investments

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
At Market Value				
Shares and other variable yield securities and units in unit trusts	**34,056**	**15,905**	26,719	11,569
Debt securities and other fixed income securities	**143,907**	**143,698**	146,672	146,223
Investments listed on UK recognised investment exchange	**177,963**	**159,603**	173,391	157,792
Loans secured by mortgages	**13**	**13**	18	18
Other investments	**50**	**50**	49	49
Deposits in Investment Associations	**5,226**	**19,532**	4,889	18,143
Investment in subsidiary	**-**	**10**	-	10
Court held other investments-mainland	**11**	**11**	11	11
Court held other investments-Guernsey	**2,415**	**2,415**	2,328	2,328
Other financial investments	**185,678**	**181,634**	180,686	178,351
Assets held to cover linked liabilities (see below)	**45,008**	**45,008**	38,548	38,548
	230,686	**226,642**	219,234	216,899

Listed investments were valued at their bid value at 31 December 2021. Mortgages and other investments are included at their book cost. Investment Association investments were valued at market value by the Association's professional advisors. Investment in subsidiary in the Society figures includes the cost of £10,000 for all the shares in Foresters General Insurance Services Limited, which is incorporated in the United Kingdom.

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Analysis of assets held to cover linked liabilities				
Debt securities and other fixed income securities	**2,294**	**2,294**	2,351	2,351
Shares and other variable yield securities and units in unit trusts	**41,928**	**41,928**	35,802	35,802
Other investments	**786**	**786**	395	395
	45,008	**45,008**	38,548	38,548

Fair Value measurement

Fair value is the amount for which an asset could be exchanged between willing parties in an arm's length transaction. Fair values are generally determined at prices quoted in an active market (level 1). Where such information is not available it may be possible to apply calculation techniques making use of market observable data for all significant inputs (level 2). Where inputs are not based on observable market data, fair value are classified as level 3. The classification by level of the Society's key financial assets are as set out below.

	Group 2021			Society 2021		
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial Assets						
Shares and other variable yield securities and units in unit trusts	**28,472**	**-**	**5,584**	10,321	-	5,584
Debt securities and other fixed income securities	**107,970**	**-**	**35,937**	107,761	-	35,937
Assets held to cover linked liabilities	**45,008**	**-**	**-**	45,008	-	-
Land and Buildings	**-**	**-**	**53,330**	-	-	40,791
	181,450	**-**	**94,851**	163,090	-	82,312

	Group 2020			Society 2020		
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial Assets						
Shares and other variable yield securities and units in unit trusts[1]	**23,724**	**-**	**2,995**	8,574	-	2,995
Debt securities and other fixed income securities[1]	**130,908**	**-**	**15,764**	130,459	-	15,764
Assets held to cover linked liabilities	**38,548**	**-**	**-**	38,548	-	-
Land and Buildings	**-**	**-**	**51,987**	-	-	41,616
	193,180	**-**	**70,746**	177,581	-	60,375

The fair value of land and building assets has been determined by reference to present and future income flows based on current day values supported by market evidence. In addition, lease terms, floor areas and enquiries within the market place have also been factored in.

The fair value of debt and fixed income securities classified as level 3 has been determined with reference to a discounted cash flow model, taking into account expected income and capital redemptions. The fair value of shares classified as level 3 has been determined with reference to the net asset value ("NAV") of the invested funds, where the NAV has been determined based on unobservable inputs within a valuation model. For both debt and equity assets classified as level 3, the fair valuation is performed by independent fund administrators.

[1]During the period Management has reviewed the presentation of certain investments and considers that the characteristics of these certain investments means that, as a consequence of the holdings not being actively traded and valuation inputs not directly observable, these should have been disclosed as level 3. These assets were inadvertently included as level 1 in prior years and, as such, the comparatives have been restated accordingly. This presentational adjustment has no impact on the results of the Society or the Fund for Future Appropriations.

14. Other debtors

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Trade debtors	**1,010**	**777**	821	772
Other debtors including taxation recoverable	**275**	**276**	324	323
	1,285	**1,053**	1,145	1,095

All debtors are due within 1 year. There are no debtors which are past due or impaired at the balance sheet date.

15. Tangible fixed assets (Group and Society)

	Fixtures & Fittings Total £'000
Cost	
As at 1 January 2021	-
Additions	-
Disposals	-
As at 31 December 2021	**-**
Depreciation	
As at 1 January 2021	-
Charge for the year	-
Disposals	-
As at 31 December 2021	**-**
Net Book Value	
31 December 2021	**-**
31 December 2020	-

Prior Year Information:	Fixtures & Fittings Total £'000
Cost	
As at 1 January 2020	1,137
Additions	-
Disposals	(1,137)
As at 31 December 2020	**-**
Depreciation	
As at 1 January 2020	1,076
Charge for the year	61
Disposals	(1,137)
As at 31 December 2020	**-**
Net Book Value	
31 December 2020	**-**
31 December 2019	61

Tangible fixed assets under £25,000 have been fully depreciated in 2021, in line with the Accounting policy.

16. Discretionary funds

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
At 1 January	**12,696**	**1,602**	14,382	3,321
Transfer from/(to) Non-Technical Account	**1,404**	**387**	(1,686)	(1,719)
At 31 December	**14,100**	**1,989**	**12,696**	**1,602**
These funds are comprised as follows:				
Court Reserve Fund	**13,140**	**1,029**	11,859	765
Member Care Benefit Fund	**162**	**162**	124	124
Foresters Child Support Fund	**389**	**389**	384	384
Foresters Lifeboat Fund	**-**	**-**	9	9
150th Anniversary Educational Awards Fund	**189**	**189**	178	178
Foresters Support Fund	**194**	**194**	105	105
Police Benevolent Fund	**2**	**2**	13	13
Subsidiary Benefit Funds	**24**	**24**	24	24
At 31 December	**14,100**	**1,989**	**12,696**	**1,602**

The Discretionary funds are those funds with specific purposes as determined by the Society.

17. Court funds

	Mainland Courts £'000	Guernsey Court £'000	Total £'000
Group			
At 1 January 2021	82,894	781	83,675
Transfer to Non-Technical Account	2,688	(1)	2,687
At 31 December 2021	**85,582**	**780**	**86,362**
Society			
At 1 January 2021	76,122	781	76,903
Transfer to Non-Technical Account	2,460	(1)	2,459
At 31 December 2021	**78,582**	**780**	**79,362**

The Court Funds include revaluation gains of £90,000 (2020: £15,000) in relation to property occupied by the Society.

18. Fund for future appropriations

Group	2021 £'000	2020 £'000
Group		
At 1 January	**23,199**	22,650
Transfer from/(to) Other Comprehensive Income	**2,699**	549
At 31 December	**25,898**	**23,199**
Society		
At 1 January	**23,205**	22,656
Transfer from/(to) Other Comprehensive Income	**2,699**	549
At 31 December	**25,904**	**23,205**

The Fund for Future Appropriations ('FFA') stands at £25.9m (2020: £23.2m) and represents the estimated surplus in the funds that has not been allocated and is available to meet regulatory and other solvency requirements of the insurance business of the Society.

19. Technical Provisions (Group and Society)

2021	Long Term Business Provision £'000	Technical Provision for Linked Liabilities		General Business Provision £'000	Outstanding Claims £'000	Total £'000
		Insurance Contracts £'000	Investment Contracts £'000			
At 1 January 2021	116,243	36,861	1,687	4,791	2,957	162,539
Expected Premiums Received	9,796	5,450	-	-	-	15,246
Expected Provision Released on Claim	(20,124)	(9,861)	(197)	-	-	(30,182)
Expected Management Expenses	(1,633)	(1,099)	20	-	-	(2,712)
Expected Investment Income	(120)	-	(2)	-	-	(122)
New business	11,366	310	-	-	-	11,676
Changes to liabilities:						
– Insurance variance & assumptions	914	3,831	-	-	-	4,745
– Expenses & Inflation	(80)	-	-	-	-	(80)
– Economic variance	728	7,989	19	-	-	8,736
– Economic assumptions	(1,151)	-	-	-	-	(1,151)
– Modelling Changes	(1,300)	-	-	-	-	(1,300)
– Other	(34)	-	-	354	-	320
Change in provision for outstanding claims	-	-	-	-	762	762
At 31 December 2021	**114,605**	**43,481**	**1,527**	**5,145**	**3,719**	**168,477**
Reinsurers' share						
At 1 January 2021	(140)	-		-	-	(140)
Change in reinsurers' share	289	-		-	-	289
At 31 December 2021	**149**	**-**	**-**	**-**	**-**	**149**

The Long Term Business provision includes pension annuity guarantees of £942,420 (2020: £1,404,590). The decrease over the year is due to the increase in yields and change in take-up rate to align with recent experience.

Technical provisions have increased by £6.0m in the year. The increase is primarily caused by new business written in the year (£11.7m) and favourable investment returns (£8.7m). These increases have been offset by the expected payment of claims and expenses less expected premiums and investment return over 2021 (£17.8m).

The balance includes: increase due to insurance variances and assumptions (+£4.7m) caused by lower than expected claims experiences during 2021; an increase in the provision for outstanding claims (+£0.8m), decrease due to modelling changes (-£1.3m); decrease due to changes in economic assumptions (-£1.2m) caused by the increase in yields, offset by increase in economic inflation.

2020	Long Term Business Provision £'000	Technical Provision for Linked Liabilities		General Business Provision £'000	Outstanding Claims £'000	Total £'000
		Insurance Contracts £'000	Investment Contracts £'000			
At 1 January 2020	114,000	33,957	1,765	3,951	3,611	157,284
Expected Premiums Received	16,588	5,539	-	-	-	22,127
Expected Provision Released on Claim	(22,780)	(8,951)	(229)	-	-	(31,960)
Expected Management Expenses	(1,724)	(1,050)	21	-	-	(2,753)
Expected Investment Income	798	224	17	-	-	1,039
New business	7,306	359	-	-	-	7,665
Changes to liabilities:						
– Insurance variance & assumptions	1,650	4,212	-	-	-	5,862
– Expenses & Inflation	(628)	-	-	-	-	(628)
– Economic variance	(3,141)	2,571	113	-	-	(457)
– Economic assumptions	4,631	-	-	-	-	4,631
– Modelling Changes	(113)	-	-	-	-	(113)
– Other	(344)	-	-	840	-	496
Change in provision for outstanding claims	-	-	-	-	(654)	(654)
As at 31 December 2020	**116,243**	**36,861**	**1,687**	**4,791**	**2,957**	**162,539**
Reinsurers' share						
At 1 January 2020	82	-	-	-	-	82
Change in reinsurers' share	(222)	-	-	-	-	(222)
At 31 December 2020	**(140)**	**-**	**-**	**-**	**-**	**(140)**

(a) Introduction

The Long Term Business Provision primarily comprises the liabilities of the following funds:

- Order Insurance Fund (OIF) – an open with-profits fund
- Pure Endowment Fund (PEF) – a closed with-profits fund
- Tunstall Fund (TF) – a closed with-profits fund
- Leek Fund (LF) – a closed with-profits fund
- POIS Fund (POIS) – a closed with-profits fund
- Non-Profit Fund (NPF) – an open non-profit fund that offers unit-linked business and Group business, maintains smaller non-profit conventional and PHI business as well as supports the Society's capital requirements. The Long Term Business Provision in respect of the unit linked business is the non-unit technical provision.

The Technical Provision for Linked Liabilities comprises of the unit reserves for the unit linked business written in the Non-Profit Fund.

The General Business provision is held in respect of medical and medical services insurance protection business conducted by the Court in Guernsey. This is classified as general overseas business and is shown separately in the Technical Account.

The provision for outstanding claims consists of all claims notified to the Society by 31 December 2021 but not yet paid.

19. Technical Provisions (Group and Society) – continued

(b) Types of insurance contracts

The main types of insurance contracts that the Society currently has in force are savings, life assurance and income protection contracts.

The Order Insurance Fund is open to with-profits savings and life assurance business and the main products currently offered are as follows:

Product name	Description
With-profit (Stocks & Shares) ISA	A flexible medium to long-term tax-free savings plan which can accept regular investments or one-off lump sum investments up to the maximum annual ISA limit. There is the potential for bonuses to increase the policy value. The Society offers an adult ISA, a Lifetime ISA and a Junior ISA.
Bond	A single lump sum investment with the potential for bonuses to be added over the medium to long term.
50+ Life Cover	A With-Profits whole of life insurance policy for the over 50s, providing a guaranteed tax-free cash sum on death which has the potential to grow with bonuses over time. The monthly premiums are fixed at outset and guaranteed not to change.

The Non-Profit Fund is open to unit-linked savings business and non-profit Group Schemes:

Product name	Description
Tax Exempt Savings Plan (Unit Linked)	A long-term regular tax-exempt savings plan of which the premium is used to allocate units in the POIS Flexible Growth Fund. The POIS Flexible Growth Fund is an actively managed fund with the aim of achieving long term growth, while spreading risk across a wide range of investments. The fund mainly invests in shares (both UK and overseas) along with fixed interest investments.
Savings & Investment Plan (Unit Linked)	A long-term regular savings plan of which the premium is used to allocate units in the POIS Savings Fund. The POIS Savings Fund is an actively managed fund which aims to provide good potential for growth, over the longer term, by investing mainly in stocks and shares.
Group Life & Sickness Schemes	These are set up by employers to provide life assurance, critical illness and/or income protection benefits for employees. The employees have the option of joining the scheme and paying the appropriate premiums for the selected benefits. A range of different benefit types is available and these are tailored to the individual scheme.

The General Business written by the Guernsey Court sells the following product:

Product name	Description
Foresters Healthcare	This provides medical expenses insurance on the island of Guernsey. The product is structured in two parts – Scheme A covers Primary Care and Scheme B (which is available only in addition to Scheme A) covers additional benefits. Primary care includes GP consultations at the surgery, home visits, hospital visits or consultations at the A&E department, nurse consultations at the Guernsey hospital, ambulance conveyance but excludes minor operations performed by the GP, prescription fees and travel vaccinations. Additional benefits cover minor operations, physiotherapy, blood pressure monitoring and a number of other specified items. The level of benefit provided is dependent on the number of units purchased.

No new business (other than increments to existing policies) is written in the other funds of the Society.

(c) Method used for calculating technical provisions

The liability for insurance contracts is calculated on the basis of recognised actuarial methods having due regard to actuarial principles and best practice. The methodology takes into account risks and uncertainties of the business written.

Calculations are generally made on an individual policy basis, although for Group schemes the reserves are set at a portfolio level allowing for the mix of different schemes (by size and benefit type).

Technical provisions are calculated in line with the PRA Rulebook which implements the European Union's Solvency II Directive 2009/138/EC, amended by Omnibus II in April 2014 ("Solvency II"). Technical provisions are the sum of the BEL (Best Estimate Liability) and the Risk Margin. The risk margin allows for the cost to a third party of holding Solvency II capital until all the contracts are settled.

For the with-profits business within the OIF, TF, PEF and POIS, the BEL consists of policy asset shares plus the cost of guarantees and any adjustment for the cost of smoothing. For LF a gross premium reserve is calculated.

The liabilities for the individual sickness policies are calculated using the inception annuity method on a gross premium basis, which values the expected future claim payments from the valuation date to the end of each policy term.

The liabilities for the Group business are calculated using a scheme level cash flow model that allows for:

- future premiums, claims and expenses;
- IBNR (Incurred But Not Reported) claims which have already occurred but have not been notified to us; and
- the cost of periodic claims already in payment.

The technical provision for the Guernsey medical expenses insurance business is calculated using a simple cash flow model with a one year contract boundary. This is because the business has been stable for many years and only provides annual policies which are all renewable on 1 January each year.

Premium levels are generally set by the Guernsey Court with reference to amounts collected in the previous year with an uplift for inflation. Earned premium is assumed to be equal to written premium in the year (no significant difference).

IBNR claims form part of the claim provision as well as outstanding claims. The remainder form part of the premium provision, also included in the premium provision is the final settlement of the claims that are expected to form the IBNR and outstanding claims at the year-end.

The liabilities for protection business are calculated using a gross premium basis.

For unit-linked business, the liabilities are made up of the unit liability together with a non-linked element. The unit-linked policies with a guaranteed return are valued using the updated stochastic cash flow projection model.

> Fantastic service from Foresters. They really are very friendly. I feel my money is being well taken care of. Thank you.
>
> **A satisfied Foresters member, 2021**

(d) Assumptions used for calculating technical provisions

The principal economic assumption is the valuation interest rate which is a duration specific curve specified by PRA (the Prudential Regulation Authority).

PRA publish on their website the duration specific valuation interest rates to use at each valuation date for a range of currencies. The Society only has liabilities denominated in £ sterling, so a single valuation interest rate curve is used for all calculations of technical provisions.

The economic assumptions for the cost of guarantee valuation model include: UK equity and swaption implied volatilities (observed from market data), volatility assumptions for property and corporate bond returns (based on historic observed rates), and correlation assumptions for returns between these asset classes.

Non-economic assumptions are based on standard tables adjusted where necessary to take into account the Society's own experience. Where appropriate tables are not available, industry experience is used to calculate provisions. The principal assumptions are mortality, morbidity and persistency although the relative sensitivity will depend on the class of long-term business.

Experience reviews for mortality, morbidity and persistency are performed on a regular basis. Where industry analysis indicate that changes in expected future mortality, morbidity or other specific circumstances mean that claim costs are likely to change in future, then this is taken into account in the valuation. Assumptions are generally intended to be a best estimate of future experience.

For Group schemes the reporting delay for Sick Pay and Minor Benefits claims is assumed to be 4 months (2020: 4 months).

19. Technical Provisions (Group and Society) – continued

i. Mortality assumptions by product type

		2021	2020
OIF & PEF Conventional With-Profits business	Males	**150% AMC00 with 1.3% p.a. improvement since 2000**	150% AMC00 with 1.3% p.a. improvement since 2000
	Females	**160% AFC00 with 1.3% p.a. improvement since 2000**	160% AFC00 with 1.3% p.a. improvement since 2000
OIF Accumulating With-Profits	Males	**104% AMC00 with 1.3% p.a. improvement since 2000**	104% AMC00 with 1.3% p.a. improvement since 2000
	Females	**104% AFC00 with 1.3% p.a. improvement since 2000**	104% AFC00 with 1.3% p.a. improvement since 2000
Tunstall IB With-Profits business	Males	**105% AMC00 with 1.3% p.a. improvement since 2000**	105% AMC00 with 1.3% p.a. improvement since 2000
	Females	**120% AFC00 with 1.3% p.a. improvement since 2000**	120% AFC00 with 1.3% p.a. improvement since 2000
Tunstall IB non-profit business	Males	**65% AMC00**	65% AMC00
	Females	**90% AFC00**	90% AFC00
Leek business	Males	**90% AMC00**	90% AMC00
	Females	**90% AFC00**	90% AFC00
NPF unit-linked business	Males	**60% AMC00**	60% AMC00
	Females	**45% AFC00**	45% AFC00
POIS & NPF whole life non-profit business	Males	**100% AMC00**	100% AMC00
	Females	**90% AFC00**	90% AFC00
OIF, PEF, Tunstall OB, NPF non-profit business	Males	**130% AMC00**	130% AMC00
	Females	**130% AFC00**	130% AFC00
POIS/NPF all contracts except unit-linked and whole life non-profit contracts	Males	**55% AMC00**	55% AMC00
	Females	**50% AFC00**	50% AFC00
Annuities in Payment	Males	**PMA92C2022 100% MC, 2% Floor**	PMA92C2021 100% MC, 2% Floor
	Females	**PFA92C2022 100% MC, 2% Floor**	PFA92C2021 100% MC, 2% Floor
Income Benefit	Males	**IF80C2018 1 year select**	IF80C2018 1 year select
	Females		

20. Society Capital Statement

The Capital Statement in respect of the Society's Life insurance business is set out below. The statement shows the analysis of the available capital resources, the solvency capital requirements and the overall surplus capital. In addition, the statement provides an analysis of policyholders' liabilities.

At 31 December 2021	With-Profits funds £'000	Non-participating funds £'000	Court Funds £'000	Total £'000
Qualifying capital				
Fund for Future Appropriations (FFA)	7,637	18,261	-	25,898
Other Reserves	-	2	100,427	100,429
Regulatory adjustments – assets	-	(217)	-	(217)
Regulatory adjustments – liabilities	-	6	5,385	5,391
Total available capital resources	**7,637**	**18,052**	**105,812**	**131,501**
Ring-fenced fund deduction (unaudited)				**(83,935)**
Solvency capital requirement (unaudited)				**(40,201)**
Overall surplus capital (unaudited)				**7,365**
Analysis of policyholders' liabilities				
With-profits	107,306	-	-	107,306
Non-participating	-	7,299	5,145	12,444
Unit-linked	-	45,008	-	45,008
Claims outstanding	1,848	1,583	288	3,719
	109,154	**53,890**	**5,433**	**168,477**

The prior year figures were as follows:

At 31 December 2020	With-Profits funds £'000	Non-participating funds £'000	Court Funds £'000	Total £'000
Qualifying capital				
Fund for Future Appropriations (FFA)	7,161	16,038	-	23,199
Other Reserves	-	13	96,358	96,371
Regulatory adjustments – assets	-	(400)	-	(400)
Regulatory adjustments – liabilities	-	(7)	4,898	4,891
Total available capital resources	**7,161**	**15,644**	**101,256**	**124,061**
Ring fenced fund deduction				**(81,078)**
Solvency capital requirement				**(38,452)**
Overall surplus capital				**4,531**
Analysis of policyholders' liabilities				
With-profits	104,980	-	-	104,980
Non-participating	-	11,263	4,791	16,054
Unit-linked	-	38,548	-	38,548
Claims outstanding	1,925	830	202	2,957
	106,905	**50,641**	**4,993**	**162,539**

a) Summary

The Society has a Capital Management Policy and a Medium-Term Capital Management Plan which outlines the overall aim and approach to be taken for capital management, together with the standards and parameters which must be adhered to and reporting requirements and responsibilities.

The objective is to ensure that the Society has sufficient capital resources to remain solvent on both a regulatory basis (Solvency II Pillar I) and an economic basis (Solvency II Pillar II). The Solvency II results presented within this note relate to the regulatory basis.

The capital projections shown in the ORSA over the 5-year business planning period facilitate Board discussion on the capital requirements of each fund and the Society as a whole. Separate consideration is given to the in-force portfolio and the impact of writing new business.

20. Society Capital Statement – continued

Some of the Society's Own Funds are restricted by the ring-fenced adjustments described below to give eligible Own Funds. All of the Society's eligible Own Funds are classified as Tier 1 high quality unrestricted capital, i.e. assets which are free from any foreseeable liabilities and are available to absorb losses due to adverse business fluctuations on a going-concern basis and in the case of winding-up.

As the Society's eligible own funds are all Tier 1, they are available in full to cover the SCR and MCR.

As shown in the table on the previous page, the total available capital resources amount to £131.5m (2020: £124.1m), of which £84.0m (2020: £81.1m) is unavailable to cover solvency capital requirements due to ring-fenced fund restrictions. The Society's solvency capital requirements amount to £40.2m (2020: £38.5m) resulting in a surplus of available capital of £7.4m (2020: £4.6m). The increase in surplus capital is largely caused by changes to expense reserving methodology and changes to investment strategy.

It is the Board's intention to ensure that there is adequate capital to exceed the solvency capital requirements of the Society's insurance business, to meet any net new business strain and to meet any additional capital requirements of the Own Solvency and Risk Assessment.

(b) Basis for calculating available capital resources

The Fund for Future Appropriations (FFA) represents the estimated surplus in the long term business funds that has not been allocated to policyholders or members. In addition other reserves reflect funds available to support the Society's benevolent and fraternal activities. These amounts are available to cover capital requirements.

Adjustments are shown to assets and liabilities to bridge between the FFA and the available capital determined in accordance with the PRA Rulebook. This year's adjustments include the valuation differences in Guernsey Medical expenses (Solvency II basis vs Guernsey basis) and pension schemes (FRS 102 versus IAS 19 basis) as well as elements of prepayments that are not recognised as assets within eligible own funds.

(c) Basis of calculating capital requirements

The Society must hold sufficient capital to meet its regulatory requirements under Solvency II.

The Society is required to hold sufficient capital to meet the PRA's minimum capital requirements (MCR). The absolute floor of the MCR is fixed in Euro terms at €6.5m. Using the conversion rate specified by EIOPA this is equivalent to £5.2m at 31 December 2021. The Society's calculated minimum capital requirements of £13.8m (2020: £13.3m) exceed this minimum floor.

The unaudited total solvency capital requirement (SCR) of the Society amounts to £40.2m (2020: £38.5m) The SCR is the additional capital required as a result of applying a prescribed set of stress tests as set by the Solvency II regulation. The amount of capital requirement broadly reflects the loss the Society would incur following a 1 in 200 year adverse event.

The Society met all of its regulatory capital requirement over 2021.

(d) Restrictions on available capital resources

In general, as the Society is a mutual, all surplus belongs to members. As a result of the exercise to clarify the fund structures that took effect from 1 January 2012, each insurance fund has its own capital. The assets for each of the with-profit funds have been ring-fenced which means that the associated assets are for the benefit of the with-profit policyholders of the various funds and cannot be used to support other areas of the business except in exceptional circumstances.

The non-participating funds constituent of the FFA increased from £16.0m in 2020 to £18.3m in 2021.

Full details of these restrictions are publicly available within the Society's Principles and Practices of Financial Management.

(e) Movement in available capital

Movement in available capital	2021 £'000	2020 £'000
Total available capital at 1 January	**124,061**	125,447
Change in assets	**13,298**	2,170
Change in insurance liabilities	**(4,800)**	(4,950)
Change in non-insurance liabilities	**(1,058)**	1,394
Total available capital at 31 December	**131,501**	124,061

The available capital is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect any change in investment conditions would have on the basis for calculating policy liabilities. The capital position is also sensitive to assumptions and actual experience relating to investment returns, mortality, expenses and policy lapse rates. The mix of assets is kept under review taking into account the level of capital required and the anticipated returns for members.

21. Provisions for other risks and charges (Group and Society)

Deferred Taxation	2021 £'000	2020 £'000
Movements in provision		
At 1 January	**-**	-
Charge/(credit) in Technical Account	**-**	-
At 31 December	**-**	-
Asset not provided for		
Realised and unrealised gains/(losses) on Investments	**1,520**	350
Acquisition costs	**(493)**	(484)
Management assets	**(2)**	(2)
Excess management expenses carried forward	**(1,157)**	(696)
Deferred tax asset not recognised in the balance sheet	**(132)**	(832)

In accordance with FRS 102, the Society is required to disclose that it has an unbooked deferred tax asset of £132,000 (2020: £832,000) using a deferred taxation rate of 20% (2020: 20%). No deferred tax asset has been booked, due to the uncertainty over when the losses will be utilised.

22. Pension schemes

a) Defined contribution scheme

The Society operates a defined contribution group stakeholder pension scheme: The Ancient Order of Foresters Friendly Society Group Stakeholder Pension Plan (FGSPP) for all employees joining the Society after 2003. The majority of current staff are members of the scheme and contribute to it. Normal Society policy is for the Society to contribute 10% of salaries of all contributing staff into the scheme. The contributions made by the Society amounted to £184,426 (2020: £187,305). The funds of the scheme are administered by a third party and are independent of the Society's finances. The Society has no liability in respect of this defined contribution scheme other than future contractual contributions.

(b) Defined benefit schemes

The Society operates two defined benefit schemes: The Ancient Order of Foresters 1978 Retirement & Death Benefit Scheme (the AOF scheme) and The Tunstall and District Assurance Collecting Society Staff Superannuation Fund Scheme (the Tunstall scheme). Both schemes closed to further benefit accrual on 31 July 2021. Curtailment gains or losses associated with these events have been recognised in the profit and loss account as appropriate. The funds of the schemes are administered by Trustees and are independent of the Society's finances.

Both defined benefit schemes are closed to new entrants. The AOF scheme has Nil (2020: 2) active members, 23 (2020: 21) deferred members and 45 (2020: 45) pensioners (including 24 pensioners where an annuity has been purchased). The Tunstall scheme has Nil (2020: 1) active members, 9 (2020: 8) deferred members and 12 (2020: 13) pensioners. As the schemes are closed to new entrants, the age profile of the active members will tend to rise and under the projected unit method the current service cost will tend to increase with time.

In respect of the AOF scheme, and up to the point of closure of future benefit accrual, the employer contributions amounted to 33.3% of pensionable salary (2020: 27.8%). In respect of the Tunstall scheme, the employer contributions up to March 2021 was 22.1% (2020: 22.1%). The Trustees agreed that the employer may enter into a contribution holiday from March 2021, given the funding surplus of the scheme. In total, employer contributions to the schemes amounted to £2,431 (2020: £24,373) and other costs amounted to £Nil (2020: £54,085). No further employer contributions will be made.

Details in respect of the schemes are provided below in accordance with Financial Reporting Standard 102 (FRS 102). Actuarial valuations are carried out every three years on behalf of the Trustees of each of the Schemes by a qualified independent actuary. The actuarial assumptions underlying the actuarial valuation are different to those adopted under FRS 102.

A full triennial valuation of the AOF Scheme was carried out at 6 April 2019. Following the triennial valuation, the Trustees have implemented company contributions of 33.3%. The total value of employer contributions to the AOF Scheme during the year ended 31 December 2021 was £14,025 (2020: £16,122).

The last triennial valuation of the Tunstall Scheme was as at 31 December 2019. This showed that the Scheme's assets were sufficient to cover the liabilities on the funding basis.

The actuarial valuations of both schemes have been updated to the accounting date by an independent qualified actuary.

22. Pension schemes – continued

As required by FRS 102, the value of the defined benefit liabilities have been measured using the projected unit credit method and both the assets and liabilities include the value of those pensions in payment that are secured with insured annuities.

The Government has announced that RPI will be aligned with CPIH (CPI including owner occupied housing costs) in 2030.

There has been limited market reaction to the proposed changes and the adjustment to RPI is unchanged in 2021.

As both schemes are now closed to future benefit accrual the employer does not have an unconditional right to any surplus and any surplus is not recognisable under FRS 102.

(c) Assumptions for defined benefit schemes

The following table sets out the key FRS 102 assumptions used for the two schemes:

	31 December 2021 %	31 December 2020 %
Discount rate	**2.0**	1.4
Retail price inflation	**3.6**	3.1
Consumer price inflation	**2.9**	2.4
Pension increases	**0.0 to 3.0**	0.0 to 3.0
Salary growth	**n/a**	2.4
Life expectancy of a current 65 year old (years)	**20 to 22 yrs**	20 to 22 yrs

(d) AOF Scheme

The split of assets in the AOF scheme has been as follows:

Assets	31 December 2021 %	31 December 2020 %
Equities	**20**	19
Property	**12**	10
Bonds	**22**	23
Gilts	**26**	24
Cash	**3**	2
Annuities	**17**	22
Total %	**100**	100

Balance Sheet position	31 December 2021 £'000	31 December 2020 £'000
Total fair value of assets	**5,895**	6,059
Present value of defined benefit obligation	**(4,937)**	(5,639)
Surplus in scheme	**958**	420
Asset not recognised	**(958)**	(194)
Recognised defined benefit asset	**-**	226

Analysis of change in assets	2021 £'000	2020 £'000
Assets in scheme at 1 January	**6,059**	5,781
Interest income	**83**	109
Actual return on assets excluding interest income	**159**	263
Change in value of annuity policies	**(187)**	-
Employer contributions	**16**	14
Employee contributions	**2**	4
Benefits paid	**(237)**	(112)
Assets in scheme at 31 December	**5,895**	6,059
Actual return on assets	**55**	372

Analysis of change in defined benefit obligation	2021 £'000	2020 £'000
Liabilities in scheme at 1 January	**5,639**	5,007
Current service cost	**14**	21
Past service cost	**-**	59
Interest cost on scheme liabilities	**77**	94
Employee contributions	**2**	4
Remeasurement arising from changes in assumptions	**(173)**	443
Remeasurement arising from experience	**(43)**	123
Remeasurement arising from change in value of annuity policies	**(253)**	-
Benefits paid	**(237)**	(112)
(Gain)/loss on curtailment	**(89)**	-
Liabilities in scheme at 31 December	**4,937**	5,639

Defined benefit cost	Year to 31 December 2021 £'000	Year to 31 December 2020 £'000
Current service cost and total operating charge	**14**	21
Past service cost	**-**	59
Net interest on the defined benefit asset	**(3)**	(4)
(Gain)/loss on curtailment	**(89)**	-
Total recognised in Profit or Loss	**(78)**	76
Remeasurements in Other Comprehensive Income	**320**	(72)
Defined benefit cost	**242**	4

Remeasurements recognised in Other Comprehensive Income:	Year to 31 December 2021 £'000	Year to 31 December 2020 £'000
Remeasurement of defined benefit obligation	**(469)**	566
Actual return on assets excluding interest income	**28**	(263)
Change in the effect of the asset ceiling excluding amounts in net interest	**761**	(375)
Total recognised in Other Comprehensive Income	**320**	(72)

22. Pension schemes – continued

Change in recognised defined benefit asset	2021 £'000	2020 £'000
Recognised defined benefit asset at 1 January	226	216
Defined benefit cost	(242)	(4)
Employer contributions	16	14
Recognised defined benefit asset at 31 December	-	226

Change in effect of the asset ceiling	2021 £'000	2020 £'000
Effect of asset ceiling at 1 January	194	558
Interest on the effect of the asset ceiling	3	11
Change in effect of the asset ceiling excluding interest	761	(375)
Effect of asset ceiling at 31 December	958	194

(e) Tunstall Scheme

The split of assets in the Tunstall scheme has been as follows:

	31 December 2021 %	31 December 2020 %
Equities	51	47
Gilts	47	50
Cash	2	3
Total %	100	100

Balance Sheet position	31 December 2021 £'000	31 December 2020 £'000
Total fair value of assets	3,200	3,000
Present value of defined benefit obligation	(2,627)	(2,772)
Surplus in scheme	573	228
Adjustment for non-recoverable surplus	(573)	-
Recognised defined benefit asset	-	228

Analysis of change in assets	2021 £'000	2020 £'000
Assets in scheme at 1 January	3,000	2,885
Interest income	42	54
Actual return on assets excluding interest income	206	103
Employer contributions	2	8
Benefits paid	(50)	(50)
Assets in scheme at 31 December	3,200	3,000
Actual return on assets	248	157

Analysis of change in defined benefit obligation	2021 £'000	2020 £'000
Liabilities in scheme at 1 January	2,772	2,577
Current service cost	10	19
Interest cost on scheme liabilities	39	49
Actuarial (gains)/losses	(144)	177
Benefits paid	(50)	(50)
Liabilities in scheme at 31 December	2,627	2,772

Defined benefit cost	Year to 31 December 2021 £'000	Year to 31 December 2020 £'000
Current service cost and total operating charge	10	19
Net interest on the defined benefit asset	(3)	(3)
Total recognised in Profit or Loss	7	16
Remeasurements in Other Comprehensive Income	223	(26)
Defined benefit cost	230	(10)

Remeasurements recognised in Other Comprehensive Income	Year to 31 December 2021 £'000	Year to 31 December 2020 £'000
Remeasurement of defined benefit obligation	(144)	177
Actual return on assets excluding interest income	(206)	(103)
Change in non-recoverable surplus	573	(100)
Total recognised in Other Comprehensive Income	223	(26)

Change in recognised defined benefit asset	2021 £'000	2020 £'000
Recognised defined benefit (liability)/asset at 1 January	228	210
Defined benefit cost	(230)	10
Employer contributions	2	8
Recognised defined benefit asset/(liability) at 31 December	-	228

Change in effect of the asset ceiling	2021 £'000	2020 £'000
Effect of asset ceiling at 1 January	-	98
Interest on the effect of the asset ceiling	-	2
Change in effect of the asset ceiling excluding interest	573	(100)
Effect of asset ceiling at 31 December	573	-

23. Related party disclosures

Control

The Society is controlled by its members, in particular through the Annual Meeting of delegates at the High Court.

Transactions

The Board, the Chief Executive, or their immediate family held various policies on standard terms (including the right to bonuses where appropriate) throughout the year. The aggregate premiums payable for the year by the Directors amounted to £781 (2020: £916) in respect of the Society's products.

During the year, the Court in Guernsey entered into transactions with related parties. Transactions entered into during the year, and balances outstanding at 31 December, were as follows:

Entities under common control with Guernsey Court directors in common	2021 £'000	2020 £'000
Expenditure		
Administrative expenses	**33**	22
Management expenses	**153**	149
	186	171

At the year end the Court had a commitment for future minimum lease payments under a non-cancellable operating lease with an entity under common control. During the year, an entity under common control received gross written premiums of £200,565 (2020: £177,051) from policyholders on behalf of the Court. The Court also recharged costs of £1,044 (2020: £1,018) to an entity under common control. No amounts were outstanding at the end of the year.

Key management personnel and close family	2021 £'000	2020 £'000
Income		
Earned premiums	**9**	4
Expenditure:		
Claims incurred	**4**	3
Directors' remuneration	**20**	8
	24	11

Employees of those entities under common control are entitled to a 30% discount on premiums on insurance policies with the Court. This also applies to key management personnel. The managing director and his partner have their premiums paid for by the Court.

The Society has taken advantage of the exemption conferred by FRS 102 not to disclose transactions with members of the Group headed by The Ancient Order of Foresters Friendly Society Limited on the grounds that those entities are controlled within that Group, and the entities are included in consolidated financial statements. The exemption only applies to wholly owned subsidiaries.

24. Risk Management

Risk Management and Control

The Society has in place a Risk Management Framework that is described in the Strategic Report on pages 17 to 31. The framework sets out the approach to managing and controlling these risks. The Risk Management Policy sets out the requirements for managing and monitoring the risks described in the following sections.

As part of the Society's Risk Management process it assesses its current and projected risk exposure against a defined set of risk categories. This is completed through the Society's Risk Assessment and Own Risk and Solvency Assessment (ORSA) processes. A number of scenarios and sensitivities are also performed to support the assessment of these risk exposures.

Principal risks and uncertainties that the Society faces are set out in the Strategic Report on page 26. Each risk is assessed against the same risk management framework. The following section sets out these main risk categories and their impacts to the Society.

1) Insurance risk

Insurance risk is the risk that arises from uncertainties as to the occurrence, amount and timing of insurance liabilities. Long term insurance risk arises from mortality, morbidity, persistency and expense variances. Unfavourable mortality and morbidity claim rates, persistency and expenses relative to assumptions in the pricing process, may impact the Society meeting its income objectives. The Society has in place a risk management policy that sets out the requirements for managing and monitoring insurance risk as well as stress testing. The financial impact of insurance risk is quantified through the stress tests performed in the Society's ORSA.

Mortality risk is the risk of loss, or adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities. The Society has a diversified population of members across its funds with respect to age, gender, smoker status, level of life insurance cover, type of insurance cover and geographic location. Initial underwriting is limited (reflecting the Society's aim to provide cover for the majority of applicants); product design and types of cover offered are used as mitigations.

Morbidity/disability risk is the risk of loss, or of adverse changes in the value of insurance liabilities, resulting from changes in disability and morbidity rates. This may occur due to either a large scale event or a gradual increase in claim rates and fall in recovery rates. The initial health insurance underwriting is limited; product design and types of cover offered are used as mitigations. The disability and morbidity risks are spread across individual business and group schemes.

Expense risk arises from the variation in the expenses incurred in servicing insurance contracts. This may be due to an increase in the monetary amount of expenses taken into account in the calculation of technical provisions, or an increase in the assumed future expense inflation rate. The Society has in place processes to monitor expenses and control costs; expenses monitoring occurs monthly compared to budget. A cost allocation model is used to allocate costs to funds relating to processes and activities.

Persistency risk arises from actual lapse and surrender experience differing to the assumptions made in the product pricing. The Society is exposed to reductions in profitability if the average length of time that policies remain in-force is significantly different to that expected. Persistency rates are actively monitored to identify any trends and the Society conducts policyholder surveys to try and understand policyholder behaviours.

Insurance concentration risk

The Society is not exposed to material concentrations of insurance risk. All long term business is conducted in the UK and therefore a geographical segmental analysis is not applicable.

For individual business, the concentration of long term business provisions by the type of contract is set out below:

Technical Provisions (Individual Business)	2021 £'000	2020 £'000
Tax Exempt Savings Plans	**25,614**	27,594
Taxable Savings Plans	**3,556**	3,287
Endowments	**6,459**	8,866
Whole of Life Cover	**24,942**	26,831
Investment Bond	**10,162**	8,167
With-profit ISA	**33,747**	27,947
Unit Linked Plans	**45,008**	38,548
Other	**10,125**	12,039
Total	**159,613**	153,279

For Group business, the schemes are mainly concentrated to the Police Force where the risks are managed through underwriting and reinsurance on catastrophe risk. The technical provision for Group scheme business (gross of reinsurance) is -£0.4m (2020: £1.5m). Included in this technical provision is future claims with a current value of £19.2m (2020: £9.4m).

24. Risk Management – continued

The Society's technical provisions and maturity profile as at 31 December 2021 are as follows. This is based on an approximate analysis of the maturity date of the underlying contract, within 1 year is overstated due to some contracts that have reached the end of their premium paying term being treated as immediate maturities:

Technical provisions at 31 December 2021	Within 1 year £'000	1-5 years £'000	5-10 years £'000	Over 10 years £'000	Total £'000
Long Term Business Provision	7,884	15,253	11,748	79,720	114,605
Technical provision for linked liabilities	8,892	16,915	14,292	4,909	45,008
General Business Provision	5,145	-	-	-	5,145
Outstanding Claims	3,719	-	-	-	3,719
Total	**25,640**	**32,168**	**26,040**	**84,629**	**168,477**

The table below shows the technical provisions as at 31 December 2020:

Technical provisions at 31 December 2020	Within 1 year £'000	1-5 years £'000	5-10 years £'000	Over 10 years £'000	Total £'000
Long Term Business Provision	6,833	17,721	13,502	78,187	116,243
Technical provision for linked liabilities	6,872	14,718	12,543	4,415	38,548
General Business Provision	4,791	-	-	-	4,791
Outstanding Claims	2,957	-	-	-	2,957
Total	**21,453**	**32,439**	**26,045**	**82,602**	**162,539**

Details of the assumptions used to calculate the technical provisions are set out in Note 19.

Insurance risk sensitivities

The table below sets out the change in Technical Provisions and the impact on FFA for movements in key assumptions. The sensitivities have been chosen as they represent reasonably anticipated outcomes. The impact on the technical provisions to key assumptions are shown below:

Sensitivity analysis for the change in assumptions used for	2021		2020	
	Change in Technical Provision £'000	Impact on FFA £'000	Change in Technical Provision £'000	Impact on FFA £'000
Reduction in risk-free rates by 0.5%	**2,536**	**2,536**	3,311	3,311
Increase in mortality by 10%	**926**	**926**	540	540
Increase in claims inception by 10%	**815**	**815**	491	491
Decrease in claims recovery by 10%	**352**	**352**	293	293
Increase in expense inflation by 0.25%	**618**	**618**	639	639
Decrease in surrender/lapse rates by 25%	**1,344**	**1,344**	1,639	1,639

2) Financial Risk

The Society is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The most important components of this financial risk are market risks which include equity price risk, property valuation risk, interest rate risk, currency exchange risk and credit spread risk. The Society also faces financial risks in respect of counterparty default exposures.

Each of the exposures to risk are analysed regularly to assess their likely impact and probability. The overall level of risk is assessed in the calculation of the Society's Solvency Capital Requirement (SCR) in accordance with the PRA Rulebook, which takes into account the correlation of individual risks. The Board is responsible for reviewing the risks faced by the Society and approving the required level of capital to be held against each risk element.

The assets held in the insurance funds as at 31 December 2021 split by duration are as follows:

Assets as at 31 December 2021	No maturity £'000	Within 1 year £'000	1-5 years £'000	5-10 years £'000	Over 10 years £'000	Total £'000
Land and Buildings	53,330	-	-	-	-	53,330
Equity investments	34,056	-	-	-	-	34,056
Fixed interest securities	36,361	8,260	27,440	25,467	46,379	143,907
Assets held to cover linked liabilities	42,785	85	1,130	590	418	45,008
Cash and Other	20,099	1,269	353	-	-	21,721
Total	**186,631**	**9,614**	**28,923**	**26,057**	**46,797**	**298,022**

The assets held as at 31 December 2020 split by duration are as follows:

Assets as at 31 December 2020	No maturity £'000	Within 1 year £'000	1-5 years £'000	5-10 years £'000	Over 10 years £'000	Total £'000
Land and Buildings	51,987	-	-	-	-	51,987
Equity investments	26,719	-	-	-	-	26,719
Fixed interest securities	16,598	9,712	29,971	31,326	59,065	146,672
Assets held to cover linked liabilities	36,250	50	1,045	600	603	38,548
Cash and Other	19,031	719	1,195	-	-	20,945
Total	**150,585**	**10,481**	**32,211**	**31,926**	**59,668**	**284,871**

3) Market Risk

Market risk is the risk that as a result of market movements the Society may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Sources of general market risk include movements in interest rates, credit spreads, equity prices and property prices.

The Society monitors market risk by ensuring the investment strategy is kept under regular review by the Investment Committee. The Investment Committee also monitors all investment activity on behalf of the Board. Asset Allocations and performance benchmarks are set and monitored by the Society's Investment Committee.

(a) Equity price risk

Holdings in equities are by their nature subject to market movement. The acceptable level of equity holdings for the Society's With Profit funds is set out by the investment strategy for each fund and provided on the Society's website. The Society has a diversified equity portfolio. Sensitivity tests are also carried out for equity falls on the capital coverage.

As at 31 December 2021, the Society held £10.3m (2020: £8.6m) of equities (excluding Court funds) in respect of non-linked liabilities.

(b) Property price risk

Property price risk arises as a result of sensitivity to the level or volatility of market prices of the Society's property investment portfolio.

Similar to equities, property holdings are by their nature subject to market movement. The Society's Investment Committee reviews the portfolio reports on a quarterly basis. Monthly property information is provided to the Society's Investment team, that review each report comparing information against known events recorded on the team's internal property records.

Since the move to AXA IM, the Society diversifies its real estate portfolio by investing in a mixture of directly held property and property collectives.

(c) Interest rate risk

Interest rate risk exists for all assets and liabilities which are sensitive to changes in the term structure of interest rates or interest rate volatility. Due to the nature of the Society's products, the long term business funds may be impacted by these interest rate movements.

Exposure to interest rate risk is managed via asset-liability matching to broadly match expected liability cash flows in each fund. However, this can never be exact due to the uncertainties involved. The Society monitors this regularly by assessing the impact of change in risk-free rates on its solvency and capital.

24. Risk Management – continued

(d) Exchange rate risk

Currency risk arises from changes in the level or volatility of currency exchange rates. The Society is exposed to currency risk arising from unhedged overseas equity holdings.

The Society has a number of equity investments in foreign currencies in with-profit and unit-linked funds which present a minor exchange rate risk. The Society's equity holdings shown by currencies are listed below:

Equity market values by currency	2021 £'000	2020 £'000
US Dollar	36,357	30,964
Euro	4,032	3,461
Japanese Yen	3,353	2,607
Canadian Dollar	3,032	2,730
Swiss Franc	1,272	1,014
Other Currencies	2,705	2,218
Total	**50,751**	**42,994**

(e) Credit spread risk

Credit spread risk results from the sensitivity of the value of assets and liabilities to changes in the level or volatility of credit spreads over the risk-free interest rate term structure.

The terms of the Society's investment mandates require an appropriate spread of holdings within specified parameters, with the majority of assets being 'A' rated bonds or higher. There are also limits on the maximum exposure to any single counterparty and on the level of exposure to lower rated bonds. This results in a relatively modest exposure to lower rated and hence more risky assets within the investment funds. The Society considers regular reviews from the fund manager so that the risk within the funds remains appropriate.

The Society's holdings on fixed interest securities are analysed by credit rating below:

Credit rating	2021 £'000	2020 £'000
AAA	1,415	3,696
AA	63,498	68,338
A	21,200	31,350
BBB	16,258	24,864
Below BBB	4,708	3,445
Not rated	29,750	9,005
	136,829	**140,698**

There has been a significant increase in unrated assets over 2021 from £9.0m at the end of 2020 to £29.8m at the end of 2021. This is due to changes in the Society's investment strategy: c.£16m investment into a new asset class (Trade Finance), increasing existing holdings in private debt by c.£3m, and increasing allocations to convertible bonds by c.£1.8m.

4) Counterparty default risk

Counterparty default risk is the risk of loss incurred by the Society if a counterparty fails to perform its contractual obligations, including failure to perform them in a timely manner.

The Society's exposures are mostly in respect of debtors, but also the £7.5m of cash balances held at 31 December 2021 (2020: £8.1m). The cash deposits are spread between its investment managers and over a number of high street banks and building societies.

The Society is exposed to reinsurer default, especially in extreme scenarios where cover is provided against pandemic and mortality catastrophe events. However where the exposure is material, the risk of reinsurer default is managed by spreading the reinsurance cover across multiple counterparties and restricting counterparties to a minimum acceptable credit rating. The risk associated with reinsurer default is quantified as part of the Solvency II SCR calculation.

5) Liquidity risk

Liquidity risk is that of not having sufficient liquid resources to meet changing market conditions and being unable to meet obligations as they fall due, or being able to secure them only at excessive cost. Liquidity is required to honour all cash flow commitments and these are generally met through cash flows supplemented by assets readily convertible to cash.

The management of liquidity is consistent with the economic capital, regulatory and operational needs across the Society. The Board is responsible for defining the risk appetite and monitoring liquidity risk exposure. Liquidity risk oversight is performed by the Investment Committee. The Investment Committee works with our Investment Managers to set appropriate asset ranges bearing in mind the liquidity needs for each fund, and undertakes quarterly monitoring of the performance against these ranges.

Summary of market risk sensitivities

The table below sets out the impact on FFA for movements in the asset classes that the Society is invested in, excluding the pension schemes. The sensitivities have been chosen as they represent reasonably anticipated outcomes. The impact on FFA assumes that all risks in the closed with-profit funds are borne by their policyholders, and so does not have any FFA as a result of market movements. Explanation of movements and where the sensitivity for the Society is materially different, are provided below.

Market Risk Sensitivities	Change in FFA £'000	
	2021	2020
20% fall in equity values	398	1,317
12.5% fall in property values	199	291
1% increase in yields	1,628	305
25% increase in exchange rates	-	-
5% addition to the asset volatility	1,781	1,821
Spread risk stress*	1,187	3,695

* Stress factors dependent on credit rating and duration e.g. 10-year A-rated bond has a stress factor of 10.5% of market value.

In 2021, the Society hedged the equity risk with the expected present value of future annual management charges form the unit-linked business held in the non-profit fund. This explains the significant fall in equity sensitivity in comparison to 2020. The changes seen in the sensitivities to interest rate and spread risks is due to a change in the hypothecation of fixed interest assets to asset shares under stress to align with the hypothecation in base.

25. Chief Actuary

Nick Warr held the Chief Actuary role throughout 2021. Nick Warr has confirmed he is a member of the Society, but holds no insurance or investment policies. No one else in his family is a member. His gross pay for the year was £130,000 (2020: £121,306).

26. Creditor payment policy

The Society's policy is to settle creditors within the credit terms specified, unless the transaction is subject to dispute.

27. Post Balance Sheet Events

The Society's Board have approved the merger of the following closed with-profits funds into the Order Insurance with-profits fund, effective from 1 January 2022: Tunstall, Pure Endowment Fund and Leek. This decision is subject to regulatory approval.

These funds have been in run-off for a number of years and have reached a position whereby the Society believes it is appropriate and fair for the policyholders in the fund, as well as the wider policyholder base, to cease operating them as separate with-profits funds. In particular, these funds are now so small that it is no longer viable to operate them as separate with-profits funds. The financial position of the funds shows that there is very limited capacity to provide future discretionary benefits. Ceasing these funds would give the affected policyholders more certainty on their benefits and enables the Society to run its business cost-effectively.

Subject to regulatory approval, the impact on the Society's financial statements as at the point of merging funds will be assessed as part of the merger and will form part of the 2022 financial statements.

28. Approval of financial statements

These financial statements were approved by the Board on 18 May 2022.

Abbreviations

AGM	Annual General Meeting	**KRI**	Key Risk Indicator
AOF Scheme	The Ancient Order of Foresters 1978 Retirement & Death Benefit Scheme	**Leek**	Leek Assurance Collecting Society Limited (transferred to the Society on 31 December 2005)
AP	Annual Premiums	**LISA**	Lifetime Individual Savings Account
API	Annualised Premium Income	**LTB**	Long Term Business
APE	Annual Premium Equivalent (representing annualised new regular premiums plus 10% of single premiums)	**LTBP**	Long Term Business Provision
		MCR	Minimum Capital Requirement
BEL	Best Estimate Liability	**MVR**	Market Value Reduction
BRCC	Business Risk and Compliance Committee	**NED**	Non-Executive Director
CIF	Court Investment Fund	**NISA**	New Individual Savings Account
CRF	Court Reserve Fund	**NP**	Non-Profit
DAC	Deferred Acquisition Costs	**OIF**	Order Insurance Fund
DBF	Discretionary Benefit Fund	**ORSA**	Own Risk and Solvency Assessment
ECB	European Central Bank	**PEF**	Pure Endowment Fund
EIOPA	European Insurance and Occupational Pensions Authority	**POIS**	Post Office Insurance Society
FCA	Financial Conduct Authority	**PPFM**	Principles and Practices of Financial Management
FFA	Fund for Future Appropriations	**PRA**	Prudential Regulation Authority
Foresters	The Ancient Order of Foresters Friendly Society Limited	**PRIIPs**	Packaged Retail Insurance-based Investment Products
FRS	Financial Reporting Standard	**PVIF**	Purchased Value of In-force Business
GAAP	Generally Accepted Accounting Practice	**S&D**	Sick & Death Fund
GAO	Guaranteed Annuity Option	**SCR**	Solvency Capital Requirement
GBF	Group Business Fund	**SFCR**	Solvency and Financial Condition Report
GCF	Group Capital Fund	**SID**	Senior Independent Director
GDPR	General Data Protection Regulation	**Society**	The Ancient Order of Foresters Friendly Society Limited
GRF	General Reserve Fund	**SMCR**	Senior Managers and Certification Regime
HCR	High Chief Ranger	**STRGL**	Statement of Total Recognised Gains and Losses
HMRC	HM Revenue and Customs	**TCF**	Treating Customers Fairly
IBNR	Incurred But Not Reported	**Tunstall**	Tunstall Assurance Friendly Society Limited (transferred to the Society on 31 December 2003)
IDD	Insurance Distribution Directive		
IFA	Independent Financial Adviser	**Tunstall scheme**	The Tunstall and District Assurance Collecting Society Staff Superannuation Fund Scheme
JISA	Junior Individual Savings Account		
KID	Key Information Document	**WP**	With-Profits
KPI	Key Performance Indicator	**WPA**	With-Profits Actuary

Post Office Insurance Society

Society Information

Foresters Friendly Society (the Society) is the trading name of The Ancient Order of Foresters Friendly Society Limited.

The Society is registered and incorporated under the Friendly Societies Act 1992, registered number 511F.

The Society's registered office is Third Floor, Enterprise House, Ocean Way, Ocean Village, Southampton, SO14 3XB.

www.forestersfriendlysociety.co.uk

The Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) registration number 110029.

The Society is a member of the Association of Financial Mutuals (AFM).