



Annual Report & Accounts



20
21





If you want to
leave your mark,
pick up a pen
and write

PAUL HUDSON



Performance

2021 was another exceptionally challenging year due to the ongoing impact of the Covid-19 pandemic. This continued to affect our ability to write new business across our whole product range and resulted in a significant increase in claims due to the adverse health impacts, not just physical, but also mental. It also affected the way in which we work. Quite understandably, the pandemic rapidly became the dominant issue of the year and remains so today, though we look forward to emerging from the pandemic during 2022, it has been replaced by the new crisis of conflict in Ukraine.

Despite these challenges it is with great pride that I am still able to report a surplus for the year and a growth in our Membership. The dedicated effort of our people that led to this achievement shows the commitment everyone has to the long-term success of the Society.

As a result, we have been able to maintain bonuses to participating Members despite the tough year, demonstrating the benefits of mutuality whilst preserving the long-term stability of the Society's finances. We have been able to pay 94% of the claims that we received; this demonstrates our consistent commitment to be there for our Members when they need us most.

Our bonus interest rate for depositors has also been maintained and remains significantly above current retail interest rates. Thanks to strong investment performance and our surplus for the year, we have been able to transfer £1.2m into the Members Mutual Fund (2020 £nil). That, I believe, demonstrates our strong commitment that Members are at the heart of everything we do at the Society.

Customer Service

We take great pride in the high standards of service that we offer to Members and Financial Advisers. On surveying our Adviser community, we are very pleased to have increased our Institute for Customer Service satisfaction score compared with 2020 and remain in the top quartile of the financial services industry scores. The Society's service has once again been recognised by the industry through the achievement of several prestigious awards, including Highly Commended for Best Income Protection Provider at the Moneyfacts awards.

Our People

We have always taken business resilience shocks very seriously. In response to the pandemic, we were able to transition our staff to remote working and we have now been able to adopt a 'hybrid working' approach. The restrictions meant that we had to host our last two AGMs remotely, so we are planning to have the 132nd one face-to-face at our new head office Mutuality House as previously planned!

Paul Hudson, our Chief Executive is due to retire in April 2023 and this will be his last AGM. Since Paul took up his post in February 1997 the Society has been transformed. Among the many achievements under his leadership there has been significant growth in the membership; our product range has been broadened; the balance sheet has been greatly strengthened; and the number of staff needed to run such an expanded business has increased to such an extent that we have twice had to relocate our head office. Moreover, the Society has achieved a highly regarded reputation within our industry. Our members and staff have benefitted enormously from Paul's outstanding leadership and on behalf of us all I thank him for his great contribution. He will be with us for some months to come, leading the business while we complete a very thorough process to identify his successor during 2022.

William Schouten, the Chairman of our Nomination and Remuneration Committee and Senior Independent Director will be retiring at the AGM, after 9 years of dedicated service to the Society and its Board. The Board is indebted to William for his great experience and wise counsel; in addition, he has given me a wonderful level of support and knowledgeable guidance. On behalf of everyone at the Society I wish William all the very best for his retirement.

We are delighted to welcome Andy Lucas who has joined the Board to replace William as a Non-Executive Director.

Thank you

The fact that I can introduce a report describing the achievements of the Society in 2021, despite all the hurdles, is a testament to our staff, who have again shown resilience and commitment to Cirencester Friendly. I thank them warmly for their great efforts. These results ensure that we can have confidence in our long-term financial security and stability, enabling ongoing investment for the future. I am grateful to the financial advisers who recommend the Society to their clients and of course, to you, our Members, who place your trust and welfare with the Society. These results are testament that, despite what the wider world may throw at us, your trust and confidence in the Society is well placed.



John Quinn
Chairman of the Board



Chairman
John Quinn

2021 Selected Highlights:

- Financial surplus achieved and Membership growth in an exceptionally challenging year
- Bonuses maintained
- 94% of Claims paid
- Institute of Customer Service top quartile

OUR MISSION:

We protect lifestyles

STRATEGIC REVIEW from the Chief Executive



Chief Executive
Paul R Hudson

Financial Results and Business Review

I am immensely proud of the achievements of everyone at the Society given the extraordinary challenges of 2021. Despite the backdrop of the pandemic and volatile market environment, we have continued to deliver on our strategic roadmap, increased the Membership and maintained our exemplary customer service, while delivering a surplus to sustain our robust financial position. This gives me considerable confidence that the Society is well placed for further long-term success.

As a mutual institution, we have adopted a cautious, long-term approach to business as we want to be able to support our Members in the years to come, just as we have done for over 130 years. The pandemic has meant that we had to take a hard decision to temporarily suspend our short-deferred products to new entrants, in order to protect the interests of the Society and maintain our high levels of service to existing Members. That said, throughout the events of 2021 we continued to offer longer deferred period products and are looking to normalise operations as soon as practically possible after the impact of the pandemic reduces.

In spite of these necessary limitations on our business operations to manage risk, we still achieved growth across the business:

- **Assets have grown by £5.5m** (2020: £6.0m)
- **Active Membership has grown** by a further 873 (2020: 674)
- **£3.9m** (2020: £5.9m) was transferred to the Fund for Future Appropriations for future development
- **Stable Solvency Ratio maintained** at 178% (2020: 177%)

Asset growth has been achieved by the 4% increase in our investment portfolio, following the rebound in financial markets during 2021, along with the 4% increase in the value of our long-term insurance contract valuation, reflecting the business gains achieved in recent years. This represents a solid and reliable performance against the backdrop of the ongoing pandemic.

At the end of the year, we had a level of solvency which covered the minimum capital resource requirements prescribed by the Regulator by over seven times. We prepared an Own Risk and Solvency Assessment (ORSA) during 2021, adjusted to take account of the impact of the pandemic. In all the scenarios we tested, the Society continued to have a comfortable margin of capital resources over the minimum capital resource requirements, as necessary under the provisions of Solvency II.

As a UK based business, we are not directly affected by or exposed to events associated with the current conflict in Ukraine. However, we are keeping close watch, especially on our investment portfolio. Although markets are volatile, they remain within tolerance levels at the time of writing, and we will maintain close scrutiny of our performance in the interests of all our Members.

Claims

We are committed to supporting Members financially when they need us most. In 2021, we maintained our claims payment rate at 94% (2020: 94%). The reasons for rejecting claims include the inability to provide proof of earnings or medical evidence, no loss of earnings and claims for previously undisclosed pre-existing medical conditions. We are proud of our strong record of results in relation to the payment of claims, as we believe this clearly demonstrates the importance of income protection insurance in financial planning.

The payment of claims is important to us and each year we publish a detailed and transparent analysis of our claims statistics, enabling our Financial Advisers, existing and potential new Members to judge our performance on the facts. As one of the very first firms to make these figures available and as a strong advocate of mutuality, we support the standardisation of comprehensive claim statistics across the industry, so that firms can be judged on their claims payment record, as well as their financial performance. We believe that education is the best way to ensure that everyone knows what is expected and involved in the claims process and how to make a successful claim.

Bonus Rewards to Members

One of the key benefits of mutuality is the opportunity for Members to share in our success. This is done in a number of ways but one of the most obvious is in the form of bonuses added to profit participating Members' credit balances, retained by Society until the end of their contract, and through the Members' Mutual Fund. As a Member owned mutual organisation, we have adopted a cautious approach to business to safeguard the interests of Members and this extends to the way we only award bonuses that can be supported by the surplus we create and sustain over time. We aim not to put our financial welfare and that of Members at undue risk, demonstrated by our long track record of delivering steady and sustained results.

As a consequence of this and despite a difficult year, bonus rates added to Members' Credits for 2021 have been maintained:

| | 2021 | 2020 |
|---|--------|--------|
| Health & Wealth Dividend (maintained) | £1.56 | £1.56 |
| Income Assured Plus - Surplus Allocation (maintained) | £10.80 | £10.80 |
| Income Assured Plus - Investment Only - Surplus Allocation (maintained) | £0.53 | £0.53 |
| Bonus Allocation/Interest* | 2.0% | 2.0% |

* Interest Rate (which is set in advance) for retired Members is 2.0% (2020 - 2.5%). The interest added to retired Members' deposits should be declared by Members for tax purposes. (The Board has the right to revise the rate without prior notice).

OUR VISION:

To be the go-to provider when it comes to protecting lifestyles



STRATEGIC REVIEW

from the Chief Executive

Treating Customers Fairly

We are committed to the fair treatment of customers.

The number of complaints we receive each year is very small. That said, we are not complacent and when we do receive a complaint, we aim to make it a positive learning experience.

Complaints are thoroughly and impartially investigated, and we aim to resolve them at an early stage using our internal dispute resolution processes.

Award Winning Service

We aim to deliver high standards of service and believe that this is evidenced by the many prestigious industry awards we have received in recent years. In 2021, I am very proud that we were Highly Commended for Best Income Protection Provider in the Investment Life & Pensions Moneyfacts Awards, reflecting all our staff hard efforts to maintain standards during the pandemic.

Developing Staff

Our Staff are a vital part of the Society as they are the resource through which the strategic ambitions of the Society will be delivered. The Society is proud of the fact that we did not make use of the government's furlough scheme, keeping all staff in full time employment, and nor did we make anyone redundant as a result of the pandemic. We are confident that this approach will maintain an effective and engaged workforce that will enable the Society to continue to grow and prosper.

We continue to hold the values at the heart of the Society, as captured in a deliberately clear and straightforward mnemonic:



Employee Engagement is pivotal to the success of the Society, an engaged workforce is an effective one working towards the 'Excellence' in our Heart values. An engaged workforce will take 'Accountability' for their roles. This reduces staff turnover and creates brand awareness through word of mouth. We will be honest in all our dealings and say it as it is but with due respect towards those we are dealing with, to build a trusting relationship.

Community Contribution

We are proud of the difference we make to the communities we work in and whose Members we support. We have continued to support our chosen charity the James Hopkins Trust, given it has not been possible to support the organisation as much as we would have liked due to the national restrictions. That said, we are pleased to be able to say that over the last 2 years we have raised and donated a total of £12,764.50.

Cirencester Friendly 125 Foundation

The Cirencester Friendly 125 Foundation was launched in January 2016.

The 125 Foundation provides financial support to individuals and causes to the benefit of Members and their communities. There are two types of awards which Members, or their Financial Adviser on their behalf, can apply for:

- **Individual Awards** are for the simple things that make a huge difference. Members, or their Financial Adviser on their behalf, can nominate someone close to them who may be suffering hardship and could benefit from financial support.
- **Half Yearly Community Awards** are for local projects and causes that Members value and support.

Throughout 2021 the 125 Foundation helped many of our Members and their Communities. Our aim is to always give back to our Members and support them in any way we can. We encourage all Members to get in touch and make the most of this fantastic benefit that we offer.

Climate Change

We take an active interest in the local environment and also how we can make our contribution to the efforts to combat climate change. We are committed to and fully support the Prudential Regulatory Authority initiative to ensure that insurers prepare for the potential business challenges presented by climate change, with our Director of Finance and Risk Andy Morris as the senior manager responsible. He has set up a working group to collaborate with our Trade Body, the Association of Financial Mutuals (AFM) in looking at how the industry will respond.

Through the production of the ORSA, we have worked with our external actuaries to model the potential detrimental impact climate change may have on the Society's assets, in the event that the effects are more serious than current predictions. This impact covers the three-year

STRATEGIC OBJECTIVE 1:

To be sustainable and profitable, building capital for a stronger future together





Business Plan and shows that the Society has the necessary financial resources and is well placed to manage the risk. This modelling will be enhanced as we go forward and we are working with our investment Advisers LGT Vestra to ensure that Environmental, Social and Governance criteria are a core part of the investment portfolio of the Society, which they have internally assessed as 'above average' on these criteria, with climate change a central part of this process.

This working group is also keen to take practical steps to make a difference at the individual level. Our new head office Mutuality House has been constructed as an energy efficient building, but we are not yet able to be carbon neutral. As a result, the Board has agreed to contribute to carbon offset schemes to the equivalent of our total carbon footprint, to ensure we play our part even in the short term. We are also looking at how best to reduce our waste and increase the proportion that is recycled, together with supporting local environmental initiatives.

Delivering on our Strategy

We remain committed to our four ray Strategic Roadmap and have continued to progress its delivery throughout 2021:



We have focussed efforts on replacing existing operating systems, aimed at delivering higher standards of service to Members and their Financial Advisers, along with other stakeholders. Good progress is being made and we are forging strong partnerships with key suppliers in the industry, helping to progress our infrastructure and put the building blocks in place for the future development of the Society. We are committed to increasing the range of products and services we offer and to improving service through technology and staff training.

STRATEGIC OBJECTIVE 2:

To be great to do
business with

The fact that we have been able to successfully advance our strategic ambitions in the midst of a pandemic is a powerful testament to the efforts and commitment of our dedicated staff. We remain confident that we are in a good position to rise to the inevitable challenges we will face. Everyone here works to look after the interests of Members and supporters alike. Through all of our efforts and commitment, we have continued to grow and have delivered a robust set of results in the face of another extraordinary year.

A Final Word

The 2022 AGM will be my last as I shall be retiring in April 2023, so I would like to take this opportunity to extend my very personal thanks to every member of staff, past and present, for their hard work and support throughout my time at the Society. I certainly could not have made the impact that I have without them. I would also like to thank my Board colleagues for their guidance, encouragement, and motivation over the years, and to the various Chairmen I have been fortunate to have worked alongside.

The Society has changed enormously since I arrived back in February 1997, and I am pleased to be able to be leaving it in a much stronger and more prosperous position than when I first came, and in such capable hands.

I have thoroughly enjoyed my time at the Society and will be sad to say goodbye but a guiding principle of mine has always been to leave when others are sad to see you go rather than glad to see you go.

I will be around a little while longer to deliver a smooth and effective handover and close by extending my very best wishes to the Society, its staff, Board and to each and every member for a prosperous and successful future building on the wonderful progress we have made together.

On behalf of the Board

Paul Hudson
Chief Executive

STRATEGIC OBJECTIVE 3:

To be a place where people
want to work and grow

Never underestimate the positive impact your efforts may have on others, for even when you don't succeed, your failure may very well encourage others to try and succeed

PAUL HUDSON





Janice W Banks

MBA

Non-Executive Director

Term of Office: Janice joined the Board in January 2016

Independent: Yes

Skills and Experience: Janice is a Non-Executive Director with over 30 years' experience in financial services. She has held several senior executive roles with Nationwide Building Society and worked as an investment manager with Matheson Investment Management Ltd. She ran her own independent consultancy business for over 10 years providing CEO and turnaround services to the charity and housing sectors.



Marian L Evans

FlinstLM. ACII. BSC (Hons)

Chartered Insurance Broker

Non-Executive Director

Term of Office: Marian joined the Board in January 2016

Independent: Yes

Skills and Experience: Qualified and practiced as both a Chartered Insurer and Chartered Insurance Broker, Marian is a Fellow of the Institute of Leadership and Management and Chartered Management Institute. A former Director of TC Group and Sales Manager at NFU Mutual, Marian owns a successful property and consultancy business and also serves on the MBS Board and is an Ambassador WoB UK.



Shirley E Fell

Operations Director

Term of Office: Shirley joined the Society in April 2019

Independent: No as an Executive

Skills and Experience: 40 years' experience working in Financial Services. Held senior roles in Zurich Financial Services, Halifax Bank of Scotland and MetLife Inc. including UK Chief Operations Officer and Head of Strategy and Transformation. Appointed as Operations Director for the Society in April 2019. Passionate about delivering excellent customer service, she is also a Non-Executive Director for the Institute of Customer Service.



Paul R Hudson

MBA FCG MCSI

Chief Executive

Term of Office: Paul joined the Board in February 1997

Independent: No as an Executive

Skills and Experience: Over 40 years' experience working in financial services all gained within the mutual sector. A Fellow of the Institute of Chartered Secretaries and Administrators since 1994, Master of Business Administration since 1997 and Member of the Chartered Institute of Securities and Investments from 2011. Prior to joining the Society, he held a number of senior and general management positions at a number of other Friendly Societies and Trade Bodies. Board member of the Trade Body, the Association of Financial Mutuals from March 2016 to present.



Andy S Lucas

BA(Hons), DipM

Non-Executive Director

Term of Office: Andy joined the Board in July 2021

Independent: Yes

Skills and Experience: Andy has spent most of his career in financial services, leading marketing & sales, eCommerce, customer service and technology developments. Following roles at Prudential and ACE European Group, he was Chief Operating Officer at Cambridge Building Society. Andy is a Non-Executive Director of Buckinghamshire Building Society, trustee of two charities and member of The Chartered Institute of Marketing.



David R Macgregor

Cert PFS

Commercial Director

Term of Office: David joined the Board in April 2018

Independent: No as an Executive

Skills and Experience: Over 40 years Financial Services experience in the Sales and Marketing of protection products to Financial Advisers. Previous Board experience with three other Friendly Societies and held senior positions including Chief Executive and National Sales Manager. Provided interim cover for the Society's Director of Sales and Marketing from January 2015 and appointed as Commercial Director in April 2017.



Ian M Maude
Non-Executive Director

Term of Office: Ian joined the Board in May 2015

Independent: Yes

Skills and Experience: A board Executive with 40 years in Financial Services, spanning life, pensions, motor, household and health insurance. Before retirement, Ian was a Director of Denplan, as well as FD/CIO of SimplyHealth for 14yrs. Prior to that, he worked in senior management roles in L&G, MMI and Zurich Insurance, progressing to becoming a Director at Frizzell's and LV Friendly Society.



Katharine S McIntyre
BA (Hons), ACA
Non-Executive Director

Term of Office: Kate joined the Board in August 2017

Independent: Yes

Skills and Experience: A chartered accountant by background, Kate is an experienced director who has worked in a wide variety of roles and organisations over thirty five years, primarily in financial services. Organisations where Kate has held senior roles include: Skipton Building Society; First Direct, AXA; Lloyds Banking Group and Engage Mutual. Kate is also a NED at Darlington Building Society.



Andy J Morris
MBA, FCA, MCSI
Director of Finance and Risk

Term of Office: Andy joined the Society in April 2019

Independent: No as an Executive

Skills and Experience: Andy is a Fellow of the Institute of Chartered Accountants with over 20 years of experience across the Financial Services. This includes the mutual sector, with his last role being Finance Director for Leek United Building Society. He is a Member of the Chartered Institute of Securities and Investments and holds a Masters in Business Administration from London Business School.



John F Quinn
M. Litt. BA (Hons)
Chairman

Term of Office: John joined the Board in November 2012 and has been Chairman of the Board since July 2016

Independent: Yes

Skills and Experience: Retired from Lloyds Banking Group in December 2011 after a career of 36 years during which he held managerial posts in Branch Management, Area Management and as a Senior Manager in Corporate and Commercial Banking.



William J M Schouten
MBA
Senior Independent Director

Term of Office: William joined the Board in November 2012

Independent: Yes

Skills and Experience: A Senior Executive with more than 40 years' experience in the Financial Services industry. Held Executive Director positions in NFU Mutual 1998 to 2009 and in Royal Insurance 1993 to 1996 and in between worked for IBM UK as an Executive Consultant. From 2010 to 2016 operated as a Management Consultant assisting mutual organisations with planning and implementing change.



Mark C Sedgley
ACII
Non-Executive Director

Term of Office: Mark joined the Board in May 2015

Independent: Yes

Skills and Experience: Almost 30 years' Financial Services experience mainly in the mutual sector. Mark has a good understanding of many areas including underwriting, budgeting, business planning, strategic reviews, re-branding, due diligence, investments, product and process design and financial education presentations. He has held both technical expert positions and senior management roles including being Chief Executive of a Friendly Society.

Business Objectives and Activities

The Board is committed to the ongoing development of the Society, through the effective delivery of value for money protection products and enhancing Membership benefits for an increasing audience, through a range of distribution channels.

Business Review

Key business developments and the future outlook for the business are reviewed in the Strategic Review on pages 4 to 6. The Board of Directors is of the opinion that all activities performed during the year have been carried out within our respective powers.

Principal Risks, Uncertainties and Going Concern

The principal risks and uncertainties faced by the Board relate to:

- **Strategic risk:** being those risks arising from an unsound business strategy, poor decisions based on inadequate evidence, prolonged delay in or poorly planned execution of decisions. This risk is mitigated by robust challenge processes in place within the Board and its Committees, alongside monitoring by external and internal audit and oversight by the Risk and Compliance function.
- **Insurance risks:** being those risks arising from uncertainties in the level of claims arising, the length of those claims, management costs and the closure rate of the insurance contracts issued. The Society has systems in place to monitor and control, including underwriting procedures in place for the assessment of risk and all claims are subjected to rigorous validation. The Board undertake to ensure that the Society retains sufficient assets to cover the liabilities in relation to its insurance risk.
- **Market risk:** being all risks relating to uncertainties in the value of investments and the returns achievable from them including interest rate, property price, currency and credit spread risk. This risk is mitigated as far as is practicable by the matching of asset types to relevant classes of liabilities by the quality of the investments held and the Society's policy to limit the exposure to any one counterparty and foreign currency, as well as challenge and oversight by the Investment Committee.
- **Counterparty risk:** being the risk of third parties not fulfilling their financial obligations to the Society. In order to mitigate this risk, the Society has set out within its investment policy statement both the quality of counterparties in which the Society may invest and the level at which investment may be made with those counterparties.
- **Financial risk:** being the risk that the Society does not have sufficient liquidity or solvency to meet its obligations when they fall due, that a disproportionate amount of capital or exposure is held with individual counterparties or the financial models used are not able to accurately assess and manage the risks the Society is exposed to. This risk is mitigated by regular monitoring of the financial position of the Society and its investments, counterparties and models, including forward looking forecasting and planning. This is overseen by the Board, Investment Committee and Finance function.
- **Operational risk:** being the risk of a breakdown of procedures or from an external event. The Society has defined procedures for the monitoring of operational risk and reporting to the Board. This risk is also mitigated by internal audit and compliance monitoring processes and procedures and via oversight by the Risk and Compliance function.
- **Reputational risk:** being the risk of the Society suffering a poor reputation through its actions, or inaction, being tainted by association with other providers or through the activity of independent Financial Advisers the Society is dependent on to sell our products. The Society manages this through robust recruitment and performance review processes and policies, a Business Quality Group for sales activity and through stress testing scenarios.
- **Compliance risk:** being the risk that the Society does not follow accepted practices, legislation, rules and regulations relevant to its management and products. The Society has no option other than to accept the risk whilst putting in procedures to ensure continued compliance.
- **Climate change risk:** being the risk that the Society does not adapt for and mitigate against the impacts of climate change in all affected areas of its business. In line with recent regulatory guidance, the focus is on the physical risk (our office buildings); risk management (ensuring our systems and processes take climate change into account) and Member assets (ensuring our investment portfolio has a responsible ESG approach that incorporates climate change).

The Board perform a robust and ongoing assessment of risks and uncertainties facing the Society including a detailed review by the Audit and Risk Committee. Note 3 of the accounts sets out the risks in greater detail, together with our approach for managing them.

The Board has assessed the Society's going concern over a three-year period to December 2024. This is based on our three-year rolling strategic plan. The three-year strategic plan was last approved by the Board in February 2022. This assessment included consideration of the Society's resilience in severe but plausible scenarios (as detailed in the ORSA), supported by the use of stress testing and sensitivity analysis around the central assumptions of the strategic plan. The scenarios considered included significant variations in the levels of new business and claims compared to those expected.

The Directors believe that the Society is well placed to manage its risks successfully, having considered its business activities and overall financial position, including liquidity and capital adequacy levels.

Based on this assessment, the Directors are confident that the Society will be able to continue in operation and meet all its liabilities as they fall due over the period considered.

The Board has reviewed the summary of the Guidance for Directors published by the Financial Reporting Council and concluded that in the light of:

- the published year end position on statutory solvency
- available financial resources in liquid form
- the capital projections within our agreed business plans
- the results of our ORSA



Business Objectives and Activities

there are no material uncertainties that may cast significant doubt about our ability to continue as a viable going concern.

Staff

The average number of staff (including Executive Directors but excluding Non-Executive Directors) employed by us totalled 88 (2020: 84). The aggregate remuneration paid to Directors and staff employed during the year, amounted to £5.8m including pension and National Insurance contributions (2020: £5.3m).

We have an Equal Opportunities Policy for recruitment and existing staff and are committed to the ongoing development of staff. Our staff are key to our operations and we support the continued learning and development of our staff through regular analysis of training needs and by the provision of a broad range of training opportunities.

Board of Directors

A list of Directors who held office during the year appears in the Board of Management Profiles on pages 8 and 9.

We maintain Directors' and Officers' liability insurance cover in respect of legal action against our Directors and Officers. Combined Professional Indemnity, Directors & Officers and crime liability insurance was reviewed and renewed in 2021 at a cost of £86,490 excluding insurance premium tax (2020: £99,200 exc IPT).

The Directors in office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Auditor is unaware.

Membership

Membership of the Society stood as follows:

| | 2021 | 2020 |
|------------------|--------|--------|
| Active Members | 43,683 | 42,810 |
| Retired Members | 768 | 672 |
| Total Membership | 44,451 | 43,482 |

Complaints Policy

We aim to deliver a high standard of service to our Members. If any Member believes that we have failed in this aim, they have recourse to our complaints procedures. We have documented procedures for the handling and recording of complaints. We deal with all complaints with due care, ensuring that they are thoroughly investigated. The Audit and Risk Committee regularly reviews the number and type of complaints received in order to monitor that complaints are properly dealt with and corrective action is taken to prevent recurrence. Senior management deals with serious complaints. In the unlikely event that a complaint cannot be resolved to the complainant's satisfaction, they will be made aware of the option to appeal to the Financial Ombudsman Service.

Supplier Payment Policy

It is our policy and practice to settle invoices within 30 days of receipt, unless specifically agreed otherwise in advance with suppliers.

Pensions Arrangements

We are committed to assisting our staff to make adequate provision for their retirement. For all employees, we have a Defined Contribution arrangement in place whereby we make an agreed percentage contribution of salary.

Environmental, Social and Community Issues

We take our role as a socially responsible organisation very seriously, be that in the way we treat our employees or in the role we play helping and protecting the environment in which we work and live. Please see our climate commitments and activities separately detailed within the Strategic Review on page 5. Our community work has seen us support local charities, which has made a positive contribution to our working environment and the wider community. In 2020, we raised funds for a number of charities, including our charity of the year, James Hopkins Trust.

Appointment of Auditors

The Board is satisfied that BDO LLP continue to offer best value and as a result, a resolution to appoint BDO LLP as Statutory Auditors will be proposed at the forthcoming Annual General Meeting. BDO LLP is entirely independent of the Society and no member of the Board has a business relationship with BDO LLP.

Disclosure of Information to Auditors

The Directors that held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Society's auditors are unaware, and each Director has taken all the steps they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

By order of the Board









Andy Morris
Company Secretary

23 March 2022



Good corporate governance provides a framework for the way in which the Board and the rest of the organisation operates. It is also vital in providing effective leadership and in assisting us to continue as a successful organisation, run for the benefit of our current and future Members, in a legal, ethical and transparent manner.

Our approach to corporate governance is based on the principles and provisions of the UK Corporate Governance Code ("the Code"). Although, as a mutual friendly society, we are not subject to the Code, the Society has implemented the Code guidelines where it has been practical and appropriate to do so. The Board has also considered the Wates Corporate Governance Principles for Private Business ("Wates Principles") which were published on 10 December 2018, noting that their adoption is voluntary but welcoming the focus on purpose, culture and employee and stakeholder engagement. They introduce 'Principles' of best practice to be adopted on an 'apply and explain' basis and provide suggested guidance as to how organisations might achieve each of the respective principles. These have been summarised in the AFM Corporate Governance Code (the "Code"), which the Board supports:

| | | |
|---|---|---|
|  | Purpose and leadership | An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose. |
|  | Board composition | Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation. |
|  | 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. |
|  | 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. |
|  | 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. |
|  | 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. |

1. Purpose and Leadership

Everyone who works for the Society has a clear understanding of the key drivers behind what we do. We have distilled this into a clear and succinct Mission, which is fundamentally to provide financial support to our Members and can simply be expressed as We Protect Lifestyles. In developing the Society's business, we have a clear Vision of our over-arching intention, which is to be the go-to provider when it comes to protecting lifestyles.

These succinct statements show our determination to go beyond traditional income protection, to offer our Members a range of products to meet their wider needs and demonstrate our commitment to the concept of Mutuality.

The Role of the Board

The organisation is headed by the Board, whose principal role is to:

- Safeguard the interests of Members, ensuring our long-term success;
- Focus on our strategy;
- Ensure that the necessary resources are in place for us to meet our objectives;
- Provide general direction to the organisation;
- Monitor the performance of the Leadership Team.

Matters Reserved for the Board

The Board maintains a schedule of reserved matters in order to ensure that it exercises control over our affairs. These include the approval of our annual results and strategic aims, as well as setting the risk appetite, the tone for our culture, the approval of policies and matters which must be approved by the Board under legislation and our Rules. The Board is also responsible for the recruitment and terms of employment of the Executive Directors. Other matters are delegated to the Leadership Team or to other specified colleagues or Committees, including the Board Committees referred to below.

Board Attendance

The Board held 7 meetings in 2021. The attendance record of each Director at these meetings and at relevant Board Committee Meetings is set out below:

| Name (Alphabetical) | Board | Audit and Risk | Nomination & Remuneration | Investment |
|---------------------|--------|----------------|---------------------------|------------|
| J W Banks | 7 of 7 | N/A | 3 of 3 | N/A |
| M L Evans | 7 of 7 | 4 of 4 | N/A | N/A |
| S E Fell | 7 of 7 | N/A | N/A | N/A |
| P R Hudson | 7 of 7 | N/A | 3 of 3 | 2 of 2 |
| A S Lucas | 3 of 3 | N/A | N/A | N/A |
| D R Macgregor | 7 of 7 | N/A | N/A | N/A |
| I M Maude | 7 of 7 | 4 of 4 | N/A | N/A |
| K S McIntyre | 7 of 7 | 4 of 4 | N/A | N/A |
| A J Morris | 7 of 7 | N/A | N/A | 2 of 2 |
| J F Quinn | 7 of 7 | N/A | 3 of 3 | 2 of 2 |
| M C Sedgley | 7 of 7 | 4 of 4 | N/A | 2 of 2 |
| W J M Schouten | 7 of 7 | N/A | 3 of 3 | N/A |

A S Lucas joined the Board in July 2021. A J Morris attended meetings of the Audit & Risk Committee and Nomination Committee in an advisory role, when required.

Board focus and activities during the year

The activities undertaken by the Board are designed to support and advise executive management on the delivery of the Society's strategy, within a framework of effective corporate governance. Focused discussion assists the Board in making good decisions, based on the long-term needs of the business and its stakeholders. Key areas of focus in the year were:

- **Review the Society's vision, mission, values and strategy:** The Board has had full oversight of the progress of the Society strategy during the year. The impact of the pandemic has been closely monitored and the Board received regular updates of issues arising and actions taken, such as on the performance of investments, suspension of short deferred products and remote working arrangements, which also applied to the Board. At each meeting the Board had the opportunity to question and challenge the work being undertaken. The October Board Meeting was used to review the strategy for the Society.
- **Review of principal risks:** The Board and Audit & Risk Committee undertake a regular formal review of the principal risks to the Society.
- **Risk Appetite:** The Board considers its adherence to and appropriateness of the risk appetite quarterly, with a formal annual review held each year, in conjunction with the review of the ORSA.
- **Board Evaluation:** Internal Board evaluation is carried out annually, with the intention to commission external reviews every three years. An external review was conducted by Board Excellence at the end of 2021 the findings of which were presented to the Board in February 2022 and will be followed up over the subsequent year.
- **Operational performance updates:** The Board receives regular operational performance updates from each of the Society's key business streams, giving executive management the opportunity to further interact with the Board on their specialist areas of responsibility. These included the impact of the pandemic and the mitigations taken to offset this, such as some sales staff being transferred to help deal with the higher volumes of claims.

2. Board Composition

Composition of the Board

The size and composition of the Board and the Board Committees are kept under constant review by the Chairman and are reviewed formally by the Nomination & Remuneration Committee at least annually. This is to ensure that there is adequate succession planning for Executive and Non-Executive Directors and that there is the optimum mix of skills and experience on the Board for the direction of our activities and to populate and chair the Board Committees.

Appointments to the Board

The appointment of new Directors is initially considered by the Nomination & Remuneration Committee which is made up of John Quinn, Janice Banks and Paul Hudson, under the Chairmanship of William Schouten. The Committee is responsible for considering

matters relating to the composition of the Board, considering the balance of skills, knowledge and experience of Directors, and making recommendations to the Board as appropriate. The Board believes that there is ample provision for the refreshment of the Board and that the introduction of annual elections would not provide any material benefit to the Membership.

Diversity

The Board considers all aspects of diversity, including but not limited to gender, on the Board although it continues to adopt the principle that all appointments should be based on merit and the skills and experience that the individual can bring, and consider the composition, skills and experience on the Board. As a result, the Board has not set an aspirational target for diversity or gender split. However, the percentage of females on our Board is 33%. As at the end of 2021 the equivalent percentage for all staff (excluding the Non Executive Directors) is 65%, and 75% of the Heads of Department are female.

Board Evaluation

The Board undertakes an annual evaluation of the performance and effectiveness of the Board together with an annual review of the performance of individual Directors.

In 2021, internal performance evaluations of the Audit & Risk, Nomination & Remuneration and Investment Committees were carried out at the meeting by all Committee Members. The results were discussed by the relevant Committees and any appropriate improvements were identified for action.

Each Board Member, as part of their formal appraisal with the Chairman of the Board, provide comments on their own effectiveness and that of their fellow Board Members. The Senior Independent Director carried out a formal appraisal of the Chairman of the Board and the Chairman carried out an appraisal of the Chief Executive. The Chief Executive appraises the Executive team members in their respective operational functions and the Chairman confines his appraisal of the Executive Directors to their role on the Board.

Induction and Development

The Chairman ensures that, on appointment, Non-Executive Directors receive a comprehensive tailored induction programme on our business and regulatory environment. All Non-Executive Directors update their skills, knowledge and familiarity, through relevant external and internal courses. Individual training requirements for Non-Executive Directors are discussed as part of the performance evaluation process. All Directors have access to independent professional advice if required and have the benefit of appropriate liability insurance cover at the Society's expense. In addition, they have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are complied with and for advising the Board, through the Chairman, on governance matters.

Re-appointment

All directors are subject to election by Members at the first annual general meeting after their appointment, and to re-election thereafter by rotation at an interval of no more than three years.



3. Director Responsibilities

The Roles of the Chairman and the Chief Executive

The roles of the Chairman and Chief Executive are held by different people and are distinct in their purpose. The Chairman is responsible for leadership of the Board and for ensuring that the Board acts effectively, promoting high standards of corporate governance. The Chairman is key in setting the tone of the Board Meetings to ensure, amongst other things, that there is a culture of openness. The Chief Executive has overall responsibility for managing the organisation and for implementing the strategies and policies agreed by the Board, supported by the Executive. It is current practice and policy that no former Chief Executive will serve as Chairman of the Board.

Non-Executive Directors

The Non-Executive Directors are responsible for bringing independent judgement to Board debate and decisions using their own experience and skills, and for constructively challenging the Executive Team. The Non-Executive Directors meet, without the Executive Directors present, at least annually to discuss relevant matters including the overall performance of the Executive Team and the viability of the Society. The Senior Independent Director would act, if required, as an intermediary for the other Directors. The Senior Independent Director is also the main point of contact for Members should the normal channels of communication with the Chairman or Chief Executive fail or be inappropriate. The Board has a conflict of interest policy which sets out procedures for regularly reviewing, and if appropriate, dealing with any potential conflicts as they arise. The letters of appointment of Non-Executive Directors give an indication of the time commitment required. The Board is satisfied that all of the Non-Executive Directors are independent.

Company Secretary

The Company Secretary is responsible to the Board for ensuring Board procedures are complied with, and that Directors are supplied with information in a timely manner.

4. Opportunity and Risk

Risk Management

The Society recognises that risk management is a vital activity that both underpins and forms part of the vision, values and strategic objectives. Risk is present in everything the Society does and it is therefore the Board's policy to identify, assess and manage the key areas of risk on a proactive basis. The Society seeks to embed risk management into the culture of the Society without introducing unnecessary bureaucracy. The aim for the risk management framework is that it is fit for purpose, reflects the size of the organisation and uses the Society's skills and capabilities to the full.

For risk management to be most effective and become an enabling tool, the Board ensures that there are robust, consistent, communicated and formalised policies and processes across the Society. In implementing risk management, the Society seeks to provide assurance to all stakeholders that the identification and management of risk plays a key role in the delivery of the Society strategy and related objectives.

The Society operates a 'three lines of defence' model which provides

a clear delineation of responsibilities between control over day-to-day operations, risk oversight and assurance activities.

| Function | Role / Responsibility |
|---|---|
| 1st Line: The Business | First line of defence responsibilities include using risk management tools to identify and manage risks, assessing and enhancing controls, monitoring, and reporting the Society's risk profile, ensuring that it adheres to established risk appetite and complying with policies, standards, and guidelines. |
| 2nd Line: Risk & Compliance | The Risk & Compliance Function responsibilities include designing risk management tools used by the business to identify and manage risks, applying "independent challenge", developing, and maintaining policies, standards and guidelines and reviewing and contributing to the monitoring and reporting of the risk profile. |
| 3rd Line: Internal Audit (outsourced to RSM) | Internal Audit's responsibilities include independently verifying that the risk assessment and management process has been sufficiently well designed and implemented by both the first and second lines of defence and reviewing the "independent challenge" applied by the Risk and Compliance Function. |

Internal Control

The Board is responsible for the system of internal control. The Audit & Risk Committee report sets out the internal control framework which is designed to safeguard Member and Society assets and to facilitate the effectiveness and efficiency of operations which helps to ensure the reliability of internal and external reporting and assists in compliance with applicable laws and regulations. The Board is also responsible for setting our risk appetite and ensuring that there is a robust system for risk management in place. The Board has delegated to the Audit & Risk Committee oversight of the relationship with the External and Internal Auditors (who are external to the Society) to ensure that they remain independent and objective. The Board confirms that it has conducted a review of the effectiveness of the Society's risk management and internal control systems in operation during the year. The Board considers that the risk review activities addressed the key aspects of risk management and internal control for the year under review.

Anti-bribery and the prevention of corruption

The Society has internal procedures in place that are designed to ensure compliance with the UK Bribery Act 2010. The Society's anti-bribery and corruption e-learning is also mandatory for new employees, along with regular refresher training for existing staff.

Whistleblowing

The Society operates an independent whistleblowing procedure to allow staff to confidentially raise any concerns about business conduct.

Board Committees

Certain matters are referred to Board Committees in order that they can be considered in more detail by those Directors with the most

relevant skills and expertise. The Board Committees are:

- **The Audit & Risk Committee** which met on 4 occasions during 2021 considering matters of finance, audit, risk and compliance;
- **The Nomination & Remuneration Committee** which met on 3 occasions during 2021 - considering Board membership, CEO and Senior Independent Director succession, staff pay and performance bonus arrangements. This excludes the interviews conducted for the new Non-Executive Director.
- **The Investment Committee** which met twice during 2021 - to consider investment matters.

The terms of reference of the Committees are available on request from the Company Secretary or on our website at www.cirencester-friendly.co.uk. The Chairman of each Committee reports to the subsequent Board Meeting on the matters discussed at each Committee Meeting. The minutes of each Committee Meeting are circulated to all Directors.

Audit & Risk Committee

The Audit & Risk Committee consists of Marian Evans, Ian Maude and Mark Sedgley under the Chairmanship of Kate McIntyre. All of the Committee Members have relevant financial sector experience. The responsibilities of the Committee are in line with the provisions of the Financial Reporting Council Guidance on Audit Committees. The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- **The integrity of the financial statements** and reviewing significant financial reporting judgements contained in them;
- **The effectiveness of systems** of internal control;
- The Internal and External **Audit processes**;
- **Compliance** with applicable laws and regulations;
- The **recommendation to the Board on the appointment, re-appointment and removal of External Auditors**; and the periodic review of their performance and independence and the policy on the use of the External Auditor for non-audit work.

During 2021 the Committee met four times in the execution of its responsibilities. During the meetings the Committee considered reports on:

- **The system of internal control** – the Committee receives reports from the Internal and External Auditors on control matters;
- **The integrity of financial statements** – a review of viability considers the impact on our capital, liquidity and profitability;
- **Compliance with laws and regulations, including adherence to money laundering regulations** – the Committee receives reports from the Risk and Compliance function on conduct matters, which express an opinion on the effectiveness of the systems of internal control;
- **The activities of Internal Audit and External Auditors** – the Committee receives reports from both the External Auditor and Internal Auditor and closely monitors all issues raised until they have been resolved satisfactorily by management.
- **The level of non-audit fees paid to the External Auditor** – in 2021 was zero. 2020 (£0).

The Committee considers that it has met its responsibilities and performed its duties with appropriate levels of care and expertise during 2021.

5. Remuneration

The Board has delegated to the Nomination & Remuneration Committee the policy on remuneration for the Chairman, the Executive Directors and other members of the Executive Team. A review of its activities and the Remuneration Policy is set out in the Remuneration Report.

6. Stakeholder Relationships and Engagement

Member Engagement

As a mutual business, our owners are our individual Members. We encourage dialogue from our Members on any aspect of our activities. This dialogue takes various forms, including issue of Annual Renewal Notices, Annual Bonus Statements, occasional newsletters and the distribution of our shortened version of the Annual Report & Accounts which is sent to every Member annually, along with a personal invitation to attend the Annual General Meeting. During the year we maintained regular telephone contact with Members, and also continue to conduct regular satisfaction surveys on a variety of topics, the results of which are used to inform our business development.

We also have a Member Reward programme, in conjunction with Parliament Hill Limited, to enable our Members to gain access to exclusive offers.

Our Member Services Department has as its major objective the provision of care and high service standards to Members, Financial Advisers and other Stakeholders. The Senior Independent Director, William Schouten, is a further point of contact for our Members.

Constructive use of the Annual General Meeting

At the Annual General Meeting, the Chairman and the Chief Executive make presentations on the previous year's performance and future plans. This gives Members who attend the Annual General Meeting the opportunity to ask direct questions about their Society. All Board Members attend the Annual General Meeting (unless their absence is unavoidable) and each Chairman of the respective Board Committees make themselves available to answer direct questions from Members.

All Members who are eligible to vote at the Annual General Meeting receive a proxy voting form, which includes a 'vote withheld' option, and a pre-paid reply envelope to encourage them to exercise their vote if they cannot attend and vote at the meeting. Members are also able to vote on-line. The results of the proxy votes, and the votes cast at the Annual General Meeting, are published on our website. A separate resolution is proposed on each issue, including a resolution on the Annual Report and Accounts.

The 2021 Annual General Meeting only had the minimum number of Directors physically present, due to social distancing rules during the pandemic, but the meeting was also held via video conference that enabled many more Members to dial in remotely to listen to the proceedings of the Society for the year.

By order of the Board

Andy Morris
Company Secretary

Mutuality House, The Mallards,
South Cerney, Cirencester,
Gloucestershire, GL7 5TQ

23 March 2022



We are required to prepare accounts in accordance with the Friendly Societies Act 1992 and applicable accounting standards. This report provides details of the remuneration of the Executive and Non-Executive Directors.

Policy on Remuneration for Executive Directors

The Remuneration Committee has established a Remuneration Policy for Executive Directors of the Board that has a clear focus on Member value. To this end, the remuneration packages of the Executive Directors of the Board are linked to our success and personal performance of the individual.

Their remuneration package is based upon the following principles:

- **Executive Directors** are rewarded for creating long-term value for Members;
- **Performance related rewards** form part of the total remuneration package;
- **They are competitive** in the market in which we operate;
- **Failure is not rewarded;**
- **Contractual terms** agreed ensure that rewards are fair to the individual and the organisation on termination.

The remuneration includes a performance related element which is linked to the achievement of business and personal objectives. Throughout the business, we aim to ensure that our people are rewarded fairly for their contribution. To achieve this, we obtain independent benchmarking data from external HR consultants and set remuneration for each Executive Director. The Remuneration Committee thereby ensures that Executive Director remuneration is set at a level designed to reflect similar roles carrying comparable responsibility in other organisations.

Reward Components for Executive Director Remuneration

Base Salary

It is the Committee's policy to ensure that the basic salary for each Executive Director is appropriate and competitive for the responsibilities involved. Base salaries for Executive Directors are reviewed annually to recognise the individual's role and performance. These are set with reference to comparative data from independent external HR consultants.

Performance Related Pay

We operate a discretionary performance related pay scheme for employees. The Remuneration Committee meets annually to agree objectives and set incentive targets. The measures used to assess performance in 2021 comprised:

- Financial Performance;
- Pandemic Recovery;
- Customer Service;
- Employee Proposition.

The maximum bonus payable to the Executive Directors under the scheme is 50% of basic salary. The Remuneration Committee retains absolute discretion in the final determination of awards.

Pension Arrangements

We have arranged a Defined Contribution Scheme for all staff into which both employee and employer contributions may be made.

The employer contribution made on behalf of the current Chief Executive is 27% of base salary but excluding annual incentive payments, though the majority of this was received as a benefit as direct payment into the pension is limited by legislation. The contribution recognises that the Chief Executive gave up entitlement to a Final Salary Scheme which was an onerous burden upon the employer. The contribution made on behalf of the other Executive Directors is 10% of base salary.

Service Contracts

Executive Directors are employed on contracts subject to no more than 12 months' notice in accordance with Corporate Governance best practice. The Remuneration Committee endorses the principle of mitigation of damages in the event of the early termination of service agreements.

Share Options

As a mutual institution we do not have share capital and as a consequence, we do not operate a share or share option plan.

Non-Executive Directors

The remuneration of our Non-Executive Directors is recommended and set by the Chief Executive annually. The remuneration of Non-Executive Directors is intended to reflect the time commitment and responsibilities of the role.

The remuneration is determined on the basis of an agreed minimum number of days committed to Society business and is also benchmarked against Non-Executive remuneration in other financial services organisations of similar size, including other mutuals.

The remuneration of Non-Executive Directors does not include any incentive element and Non-Executive directors are not entitled to participate in any of our pension scheme or bonus arrangements.

Non-Executive Directors are elected for a period of three years. The Board may resolve to reappoint a Non-Executive Director at or before the expiry of their term. It is our policy to allow Non-Executive Directors to serve no more than nine years in aggregate.

The terms and conditions of the Non-Executive Directors are available for inspection by Members before the Annual General Meeting.



Details of the fees of our Directors are shown below.

| Board Members' Emoluments | | | | | | |
|------------------------------------|----------------|-------------------------|--|--|----------------|----------------|
| | Basic Salaries | Performance Related Pay | Benefits and other Emoluments ¹ | Defined Contributions Pension ² | Total 2021 | Total 2020 |
| | £000's | £000's | £000's | £000's | £000's | £000's |
| J W Banks | 24.9 | | | | 24.9 | 24.4 |
| M L Evans | 24.9 | | | | 24.9 | 24.4 |
| S E Fell | 171.7 | 85.8 | 28.5 | | 286.0 | 280.5 |
| P R Hudson | 247.8 | 123.9 | 88.0 | 3.2 | 462.9 | 434.4 |
| A J Lucas (appointed 12 July 2021) | 11.1 | | | | 11.1 | |
| D R Macgregor | 167.7 | 83.9 | 17.3 | 16.8 | 285.7 | 268.3 |
| I M Maude | 24.9 | | | | 24.9 | 24.4 |
| K S McIntyre | 28.1 | | | | 28.1 | 27.5 |
| A J Morris | 175.5 | 87.8 | 18.2 | 10.0 | 291.5 | 271.6 |
| J F Quinn | 38.8 | | | | 38.8 | 38.0 |
| W J M Schouten | 28.1 | | | | 28.1 | 27.5 |
| M C Sedgley | 24.9 | | | | 24.9 | 24.4 |
| Total | 968.4 | 381.4 | 152.0 | 30.0 | 1,531.8 | 1,445.4 |

Notes:

- The amounts shown under the heading "Benefits and other Emoluments" represent the taxable benefit based on car allowances, amounts due in respect of pension contributions where direct payment into the pension were limited by legislation and private medical benefit.*
- The amounts represent the contributions made on behalf of the Executive Directors to the defined contribution pension scheme.*

On behalf of the Board of Management

William J M Schouten

Chairman of the Nomination & Remuneration Committee

23 March 2022



Directors' Responsibilities in Respect of the Annual Report and Accounts and the Directors' Report

The following statement, which should be read in conjunction with the Independent Auditors' Report on page 19 and 22, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts and Directors' Report.

The Directors are required by the Friendly Societies Act 1992 ("the Act") to prepare, for each financial year, Annual Accounts which give a true and fair view of the state of the affairs of the Society as at the end of the financial year and of the income and expenditure and cash flows of the Society for the financial year.

In preparing the Annual 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 **UK Accounting Standards** have been followed, subject to any material departures disclosed and explained in the Annual Accounts, and
- **Prepare the Accounts** on the going concern basis, unless it is inappropriate to presume that the Society will continue in business.

In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' Responsibilities for Accounting Records and Internal Controls

The Directors are responsible for ensuring that the Society:

- Keeps accounting records in accordance with the Friendly Societies Act 1992, and
- Takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Regulator under the Financial Services and Markets Act 2000 and Financial Services Act 2012.

The Directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Going Concern

The current economic conditions present risks and uncertainties for all businesses. The Directors have carefully considered the risks and uncertainties and the extent to which they might affect the preparation of the financial statements on a going concern basis.

The Directors concluded that in the light of:

- The published year end position on **statutory solvency**;
- **Available financial resources** in liquid form;
- **The capital projections** within our agreed business plans;
- The results of **the ORSA**.

The Society has adequate resources to continue in business for the foreseeable future. For this reason, the Accounts are prepared on a going concern basis.



Opinion on the financial statements

In our opinion, the Society's financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2021 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Friendly Societies Act 1992.

We have audited the financial statements of Cirencester Friendly Society Limited (the "Society") for the year ended 31 December 2021 which comprise the statement of comprehensive income, the statement of financial position, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK 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 in August 2003 to audit the financial statements for the year ended December 2003 and subsequent financial periods. Following recommendation of the Audit Committee, we were reappointed by members of the Society on 17 June 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including reappointments is 19 years, covering the years ended 31 December 2003 to 31 December 2021. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to 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 Society's ability to continue to adopt the going concern basis of accounting included:

- Review and challenge of the Society current plans and budgets, challenging growth assertions and checking that movements were in line with justifiable assumptions. The Society's Business strategy report was obtained and inspected for threats to the going concern assumption and the 2022 budget was assessed

based on audited 2021 figures and our general commercial and sector experience; and

- Challenge and discussion around the latest Own Risk and Solvency Assessment provided by the Society. In addition, we have reviewed the solvency projections, reconciling current positions to the financial statements and challenged the Director's as to the assumptions embedded within the model. We have also checked that the modelling used for solvency is in line with industry standards.

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 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

| | | 2021 | 2020 |
|--------------------------|--|------|------|
| Key audit matters | Valuation of technical provisions | √ | √ |
| Materiality | <i>Society financial statements as a whole</i> £1,265,000 (2020: £1,200,000) based on 2% (2020: 2%) of future value of long-term insurance contracts. | | |

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Society and its environment, including the Society'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. All audit work was performed directly by the audit engagement team with the assistance of appointed experts.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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. The following matter was identified as a key audit matter to be communicated in the current year.

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.



| Description of Key Audit Matter | Procedures performed to address this risk |
|---|---|
| <p>Valuation of technical provisions</p> <p>The financial statements include a future value of long insurance contract of £65.1 million (2020: £62.8 million), which represents the estimated costs of settling benefits and claims associated with mainly income protection products. This is set out in further detail in note 17.</p> <p>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.</p> <p>The calculation of the Society's insurance technical provisions requires management to make significant judgements about a variety of assumptions including (but not limited to) mortality assumptions, lapsed rate, investment yields, discount rates and the current expectation of future expenses.</p> <p>We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Society's results and because of the degree of assumptions and estimation underpinning the calculation, which can be highly subjective.</p> | <p>In assessing the valuation of technical provisions, we performed the following procedures:</p> <ul style="list-style-type: none"> We have obtained and reviewed the actuarial reports prepared by the Society's Actuary With the assistance of our actuarial expert, whom we engaged for their expertise in life and income protection insurance, we have: <ul style="list-style-type: none"> Assessed the appropriateness of the methodology and the reasonableness of assumptions applied by management in their calculation of the provision. Tested the accuracy of the calculation of the provision We obtained an understanding of the conclusions in the actuarial reports prepared by the Society's Actuary and by our actuarial expert, and assessed whether all the relevant judgements and estimates have been considered in the calculation of the provision We have challenged the conclusions arrived at by our actuarial expert and checked that their processes are in accordance with both Technical Actuarial Standards (TAS) and industry practices. We considered the competence, capabilities, objectivity, and independence of the actuarial experts engaged by us. We obtained the data which was provided to the Society's actuaries and our own actuarial experts to perform their calculations and performed a reconciliation to the nominal ledger We agreed a sample of data for new members to the policy admin system to test that the underlying policy data had been correctly entered We have reviewed changes to the assumptions used in the technical provisions and, with the assistance of our actuarial expert, have assessed whether these are reasonable and in line with acceptable parameters. <p>Key observations:</p> <ul style="list-style-type: none"> As a result of the procedures performed, we did not identify any matters to suggest that the assumptions applied by management in valuing the technical provisions are inappropriate. |

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:

| | 2021 £'000's | 2020 £'000's |
|---|--|---|
| Materiality | 1,265 | 1,200 |
| Basis for determining materiality | 2% of future value of long term insurance contracts | 2% of future value of long term insurance contracts |
| Rationale for the benchmark applied | Future value of long-term insurance contracts, is a key measure of the performance of an insurance body by stakeholders and is used to assess the overall financial strength of the Society and in assessing its solvency. | |
| Performance materiality | 949 | 840 |
| Basis for determining performance materiality | 75% of Materiality | 70% of Materiality |
| | Our performance materiality was based on our risk assessment and history of misstatements. Based on our expectation for misstatement in the current year we considered it was appropriate to increase our performance materiality from 70% to 75%. | |



Specific Materiality

We also determined that for items in the Income Statement, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items to be £316,250 (2020: £400,000) based on approximately 25% of the materiality for the current year and based on approximately 1.9% of earned premium income for prior year. The change was due to our assessed risk of material misstatement and expectations of users of the financial statements. We further applied a performance materiality of 75% (2020: 70%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £25,300 (2020: £24,000). 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 Society and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the 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; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, 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 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 Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report



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

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 identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management, including the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

Legal and regulatory frameworks determined most significant are:

- Friendly Societies Act 1992.
- Friendly Societies (Accounts and Related Provisions) Regulations 1994.
- Financial Reporting Standards 102 and 103 applicable in the UK and Republic of Ireland.
- AFM Corporate Governance Code.

Non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We performed procedures including:

- obtaining an understanding of the legal and regulatory framework applicable to the Society's operations;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- inspecting correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA); and
- enquiring of the Directors and other management of known or suspected instances of non-compliance.

To identify risks of material misstatements due to fraud, we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and management as to whether they have knowledge of any actual, suspected or alleged fraud
- Reading Board and Audit Committee minutes
- Using analytical procedures to identify an unusual or unexpected relationships.
- Considering where the financial statements could be misstated due to irregularity, including fraud. We identified two significant

audit risks (technical provisions and management override of controls). Manipulation of the valuation of technical provisions is considered the key area in which management override of controls may manifest and our responses were designed to address the potential risk of fraud. In particular we engaged an independent external actuary as auditor's expert to review the assumptions and methodology applied by the Society in the valuation of technical provisions to check that the methods utilised are appropriate. Additional procedures are detailed in the key audit matters section above.

- We also identified unusual journal entries and tested these by understanding the rationale for the journal entry and corroborating to supporting documentation

The engagement team was deemed to collectively have the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations. We communicated identified fraud risks throughout the audit team and remained alert to any indications for fraud throughout the audit.

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 the 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.

Thomas Reed
Senior Statutory Auditor

7 April 2022

For and on behalf of

BDO LLP

Statutory Auditor

London, UK

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



Cirencester Friendly

If opportunity
doesn't knock,
build a door

PAUL HUDSON



These are the premiums paid by Members to the Society during the year.

This is the investment income earned by the Society on the investments that it holds.

This amount includes increases in the value of investments held.

This is the amount paid and due to Members in respect of sick pay benefit claims during the year.

These amounts represent the bonuses added to Members' credits during the year.

This is what it has cost to run the Society during the year.

This is the amount of surplus left over after all income and expenditure for the year has been taken into account. It is added to the reserves held by the Society as required to help meet future running costs and debt liability.

Technical Account: Long-Term Business

| | Notes | 2021 £'000 | 2020 £'000 |
|---|-------|---------------|---------------|
| Earned Premium Income | 4 | 21,711 | 21,363 |
| Investment Income | 5 | 1,784 | 1,805 |
| Net gains on Investments | 6 | 3,443 | 510 |
| Other income | | 57 | 70 |
| Total technical income | | 26,995 | 23,748 |
| Claims for Benefits | 7 | (8,039) | (7,871) |
| Bonuses and rebates | 8 | (3,034) | (1,931) |
| Net operating expenses | 9 | (14,044) | (12,921) |
| Investment expenses and charges | | (287) | (290) |
| Movements in the future value of long term insurance contracts | 18 | 2,282 | 5,211 |
| Transfer (to)/from the Fund for Future Appropriations | 14 | (3,873) | (5,946) |
| Balance on the Technical Account: Long-Term Business | | - | - |

The above results relate wholly to continuing activities. The Society had no other comprehensive income other than what has been included in the movements on the Technical Account and therefore no separate statement of other comprehensive income has been presented.

The Society has not presented a Statement of Changes in Equity as there are no equity holders in the Society as it is a mutual organisation.



These are the investments held by the Society.

Assets

Investments at fair value through comprehensive income

| | | | |
|-----------------------------|----|---------------|---------------|
| Other financial investments | 11 | 89,537 | 86,068 |
| | | <u>89,537</u> | <u>86,068</u> |

Other assets

| | | | |
|--------------------------|----|--------------|---------------|
| Tangible assets | 12 | 4,511 | 4,716 |
| Intangible assets | 13 | 3,424 | 3,260 |
| Cash at bank and in hand | | 1,755 | 2,061 |
| | | <u>9,690</u> | <u>10,037</u> |

Prepayments and accrued income

| | | | |
|--------------------------------------|--|--------------|------------|
| Accrued interest and rent | | 380 | 414 |
| Other prepayments and accrued income | | 659 | 507 |
| | | <u>1,039</u> | <u>921</u> |

Future value of long term insurance contracts (Net of Risk Margin)

| | | | |
|--|----|--------|--------|
| | 18 | 65,129 | 62,847 |
|--|----|--------|--------|

Total assets

| | | | |
|--|--|----------------|----------------|
| | | <u>165,395</u> | <u>159,873</u> |
|--|--|----------------|----------------|

Liabilities

Funds for Future Appropriations

| | | | |
|-------------------------------|----|----------------|----------------|
| Surplus over Solvency Capital | 14 | 55,987 | 53,843 |
| Solvency Capital Requirement | | 65,681 | 63,952 |
| | | <u>121,668</u> | <u>117,795</u> |

125 Foundation

| | | | |
|--|----|-------|-------|
| | 15 | 4,352 | 3,738 |
|--|----|-------|-------|

Members' Funds

| | | | |
|--|----|--------|--------|
| | 16 | 36,066 | 35,576 |
|--|----|--------|--------|

Technical provisions

| | | | |
|--------------------|--|-----|-----|
| Claims outstanding | | 533 | 318 |
|--------------------|--|-----|-----|

Creditors

| | | | |
|--|----|--------------|--------------|
| Arising out of direct insurance operations | | 554 | 583 |
| Other creditors including taxation and social security | 17 | 1,487 | 1,212 |
| | | <u>2,041</u> | <u>1,795</u> |

Accruals and deferred income

| | | | |
|--|--|-----|-----|
| | | 735 | 651 |
|--|--|-----|-----|

Total liabilities

| | | | |
|--|--|----------------|----------------|
| | | <u>165,395</u> | <u>159,873</u> |
|--|--|----------------|----------------|

These are the amounts currently standing to the credit of contributing Members and also those who have chosen to leave money with the Society after their contract has reached maturity.

The financial statements on pages 24 to 25 were approved by the Board of Directors on 23 March 2022 and signed on its behalf by:


Chairman


Chief Executive



1. Accounting policies

General Information

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 43. The nature of the Society's operations and its principal activities are set out in the Strategic Review on pages 4 and 6.

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 Review on pages 4 and 6. Note 2 and 3 also describes the financial position of the Society; its cash flows, liquidity position and borrowing facilities; 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.

Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) and Financial Reporting Standard 103 (FRS 103) as issued by the Financial Reporting Council and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations').

In accordance with FRS 103 on Insurance Contracts, the Society has applied existing accounting practices for insurance contracts, modified as appropriate to comply with applicable standards.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies selected for use by the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.20. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

After making enquiries, the directors have a reasonable expectation

that the Society has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements.

1.2 Accounting for earned premiums

Regular premiums on long-term insurance business are recognised as income upon receipt. The Society has not entered into a reinsurance treaty.

The Society currently offers the Holloway based 'Income Assured Enhanced' product, which can only be sold via qualified investment advisers. This is a refreshed version of the Income Assured and Income Assured Plus products, which in turn replaced the original Health & Wealth product. These Holloway products are complemented by My Earnings Protected (MEP), a non-Holloway protection product, itself an enhanced version of the original My Earnings Insurance that is also sold via Advisers, though it is a simpler 'pure' protection offering that more Advisers can market for the Society.

1.3 Accounting for investment income

Investment income includes dividends and interest from financial investments, as well as deposits and rents. Dividends are included on an ex-dividend basis. All other investment income is included on an accruals basis.

1.4 Accounting for financial investments and net gains/(losses) on investments

Financial investments are recorded at fair value with movements taken through the profit and loss account.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and their valuation at the last Statement of Financial Position date or, where purchased during the year, the purchase price.

Unrealised gains and losses on investments represent the difference between the valuation of fair value assets at the Statement of Financial Position date and their valuation at the last Statement of Financial Position date or, where purchased during the year, the purchase price. Fair value for financial investments is by reference to market value, where they are publicly traded, or where they can be measured reliably, for example by using a valuation technique (see 1.20).

1.5 Accounting for other income

Other income primarily relates to deductions from Members capital account upon early termination of their contract with the Society.

1.6 Accounting for claims and benefits

Claims for benefits under the terms of the contracts issued to Members are accounted for on the accruals basis. Recovery of benefits overpaid to Members are accounted for upon receipt.

1.7 Accounting for long term insurance liabilities

The long-term business provision is determined by the Board on the advice of the Chief Actuary as part of the annual actuarial valuation



of the Society's long-term business. The provision is determined in accordance with the requirements of Solvency II equal to the value of the best estimate liabilities plus the risk margin. Future reversionary bonuses are allowed for within the valuation of these liabilities. These liabilities are calculated using historic Society experience and include reserves for claims which have occurred but not reported, a reserve for unexpired risks and a reserve for claims already in payment.

The best estimate liabilities are the present value of future estimated sickness benefits and expenses, less future premiums. These cashflows are projected on a best estimate basis for each future year and discounted back to the valuation date using prescribed Solvency II discount rates. The sum of these items is generally negative for the Society and these negative reserves effectively represent an asset of the Society.

Future reversionary bonuses are allowed for within the valuation of these liabilities. These liabilities are calculated using historic Society experience and include reserves for claims which have occurred but not reported, a reserve for unexpired risks and a reserve for claims already in payment.

1.8 Accounting for mutual bonuses and interest

Bonuses and interest are allocated to participating Holloway Members of the Society, with reference to the terms of the contracts for insurance that they hold with the Society and are agreed by the Board. Bonuses to members in the form of interest and allocations are recognised in the Technical Account Long-Term Business when declared. Transfers to or from the Members Mutual Fund are made when declared, payments from this fund are made, dependent upon set criteria, to Members on the termination of their contract with the Society.

1.9 Accounting for plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Society and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The residual values and useful lives of plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period if there are indicators of change. The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is assessed as greater than its estimated recoverable amount.

Depreciation is charged on assets so as to write off the cost or valuation of assets, over their estimated useful lives, less estimated residual value, using the straight-line method on the following bases:

| | |
|----------------------------------|------------|
| Buildings | 2% |
| Plant | 5% to 10% |
| Fixtures, Fittings and Furniture | 25% to 50% |
| Computer Equipment | 25% |

The Society does not hold any assets subject to finance leases.

1.10 Accounting for intangible assets

Intangible assets relate to the development of computer software for the management of all aspects of Members' contracts with the Society. The assets are amortised over their estimated useful life of up to ten years, from the date of being finalised and being brought into service by the Society. Amortisation is included within administration expenses within the Statement of Comprehensive Income.

1.11 Accounting for property

Land is not depreciated as it is deemed to have an infinite useful life. Buildings utilised by the Society for its ongoing business are held at value in use, typically cost of purchase or construction and are depreciated over fifty years. The value in use is assessed in each accounting year for reasonableness, or when there is a significant change in activity and any impairment is written down to the continuing useful value.

1.12 Accounting for impairments of non-financial assets

At each reporting date, the Society reviews the carrying amounts of its tangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Society estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation.

1.13 Accounting for cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments which are readily convertible, being those with original maturities of three months or less.

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at the reporting date.

1.14 Accounting for leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

The Society does not hold any assets subject to finance leases.



1.15 Accounting for retirement benefits

The Society operates a defined contribution plan under which it pays fixed contributions to a separate entity.

1.16 Accounting for foreign currencies

The value of the Society's investments denominated in foreign currencies are calculated at the closing market exchange rates as at 31 December. The Society does not have any liabilities denominated in foreign currencies.

1.17 Fund for Future Appropriations

The Fund for Future Appropriations represents the excess of assets over and above the long-term insurance contract liabilities and other liabilities. It represents amounts that have yet to be formally declared as bonuses for the participating contract policyholders together with the free assets of the Society. Any profit or loss for the year arising through the Statement of Comprehensive Income is transferred to or from the unallocated divisible surplus.

1.18 Critical accounting judgements and estimates

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates. The key judgements and estimates used are:

- **Fair value of financial assets**

Market observable inputs are used wherever possible. In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's length transactions, discounted cash flow analysis and option pricing models. For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. This valuation will also consider the marketability of the assets being valued.

- **Long term business provision**

The valuation of the Society's business is based on assumptions reflecting the best estimate at the time. The assumptions used for mortality, morbidity and longevity are based on standard industry tables, adjusted where appropriate to reflect the Society's own experience. Assumptions for expenses, lapse and surrender rates are based on product characteristics and relevant claims experience.

The assumptions used for discount rates are based on risk-free rates of return specified by the European Insurance and Occupational Pensions Authority ("EIOPA").

Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs. Allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix are also made in arriving at the estimated ultimate cost of claims in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to gross benefits and claims within the Statement of Comprehensive Income in future years.

1.19 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.

1.20 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 (where applicable). No tax is due in the current or prior year.

2. Capital management

Policies and objectives

The Society's key capital management objectives are:

- To ensure the Society's strategy can be implemented and is sustainable;
- To ensure the Society's financial strength and to support the risks it takes on as part of its business;
- To give confidence to policyholders and other stakeholders who have relationships with the Society; and
- To comply with capital requirements imposed by its UK regulator, the PRA.

These objectives are reviewed at least annually, and benchmarks are set by which to judge the adequacy of the Society's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Society.

The assessment depends on various actuarial and other assumptions about potential changes in market prices, future operating experience and the actions management would take in the event of particular adverse changes in market conditions.

The capital requirement in the annual PRA return is the statutory minimum capital. The statutory minimum capital requirement is based on EU directives.

Management intends to maintain surplus capital in excess of the Risk Capital Requirements to meet the PRA's total requirements and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

The Society complied with all externally imposed capital requirements to which it was subject throughout the reporting period.



Capital Statement

| | 2021 | 2020 |
|---|---------|---------|
| | £'000 | £'000 |
| Funds for future appropriations | 121,668 | 117,795 |
| Members' Mutual Fund | 10,330 | 9,930 |
| Total capital resources before deductions | 131,998 | 127,725 |
| Regulatory solvency adjustments | | |
| Other Assets* | (4,963) | (4,866) |
| Capital available to meet regulatory capital requirements | 127,035 | 122,859 |

A reconciliation of the movements in the Excess Available Capital over Resource Requirement is set out below:

| | 2021 | 2020 |
|---|--------------|--------------|
| | £'m | £'m |
| Available capital at the start of the year | 112.9 | 107.7 |
| Investment returns | 3.0 | 1.4 |
| Policy cashflows | 5.9 | (9.9) |
| New business | 2.6 | 8.0 |
| Model and methodology changes | (0.1) | (1.0) |
| Assumption changes (exc economic) | (6.7) | 7.4 |
| Assumption changes (economic) | (1.6) | * |
| Change in IBNR and unmodelled | (0.2) | * |
| Change in Retired Members' deposits | (0.4) | * |
| Change in the Members Mutual Fund | (0.9) | (0.1) |
| Change in Current liabilities | (1.2) | 0.9 |
| Change in admissible assets | (0.1) | (0.8) |
| Change in management actions | 3.4 | (0.7) |
| Available capital at the end of the year | 116.6 | 112.9 |

*included in other movements as more relevant



Measurement and monitoring of capital

The capital position of the Society is monitored on a regular basis and reviewed formally by the Board of Management at scheduled meetings. These objectives are reviewed and benchmarks are set by which to judge the adequacy of the Society's capital and ensure that sufficient capital is available.

The Society's capital requirements are forecast annually and compared against the available capital as part of the regular ORSA procedures.

In the event that sufficient capital is not available, actions would be taken either to raise additional capital or to reduce the amount of risk accepted thereby reducing the capital requirement through, for example, reinsurance, reducing business volumes or a change in investment strategy.

Available capital – Long-term insurance contracts

The liabilities in respect of the Society's participating (with-profits) business are determined in accordance with the regulations of the PRA.

Sensitivity of long-term insurance contract liabilities

Assumptions used in the calculation, such as morbidity and persistency rates.

Market conditions – Assumptions are made about future investment returns and interest rates when valuing the liabilities, based on current market conditions. These also have an effect on the value placed on the assets held to support the liabilities. An adverse change in market conditions may therefore reduce the level of the available capital resources.

Demographic assumptions – Changes in the morbidity, mortality, expense or persistency experienced by the business may result in the need to change the assumptions used to value the liabilities. This may increase or reduce the value placed on the liabilities. The sensitivity of the liabilities to changes in the assumptions varies according to the type of business.

3. Risk management and control

3.1 Insurance Risk

Insurance risk is the combination of risks that the Society is exposed to, by the issuance of long term insurance contracts, arising from the uncertainties of morbidity, both inception and recovery rates, mortality, the level of expenses and the rate of closure of contracts. The Society has systems in place to monitor and control, as far as is practicable, the risks as stated above.

The Society has underwriting procedures in place for the assessment of risk in relation to new long term contracts being issued and also in

respect of requests by existing members to amend their contracts. All claims are subjected to rigorous validation, including the use of external agencies where appropriate, prior to payment. The Society does not currently use reinsurance to mitigate insurance risk.

The insurance contracts issued by the Society are all initiated within the United Kingdom, though they may be retained by holders who move to reside within Europe, in order that it does not incur additional risks in geographical areas in which it has no knowledge.

The Board undertake to ensure that the Society retains sufficient assets to cover the liabilities in relation to its insurance risk. The decisions taken in respect of this undertaking include the allocation of investments between different asset classes, the level of distributions made to Members and the control of expenses.

3.2 Market Risk

Market risk arises from the possibility that the value or cash flows of the Society's assets and liabilities fluctuate as a result of movements in market prices. The most important components of market risk are set out below:

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value or cash flows arising from financial instruments will vary as market rates of interest change. Changes within market rates of interest will also affect the value of the Society's reserves against long term insurance liabilities due to a commensurate rate of change in the discount rates used in the calculation of those liabilities. This risk is mitigated as far as is practicable by the matching of asset types to relevant classes of liabilities.

(ii) Property price risk

The property price risk is the risk that the fair value or the future cash flows arising from the affected property will fluctuate because of changes in market prices, other than those arising from interest rate risk.

(iii) Currency risk

Currency risk is the risk that the relative value of Sterling compared to other currencies changes affecting the fair value of assets denominated in those other currencies. The schedule below sets out the value of investments held by the society, either directly or held within collective investments, in currencies other than sterling.

| | 2021 | 2020 |
|------------------|--------|--------|
| | £'000 | £'000 |
| US Dollars | 13,250 | 10,486 |
| Euro | 1,748 | 938 |
| Other currencies | 2,480 | 2,340 |
| | 17,478 | 13,764 |

(iv) Credit spread risk

Credit spread risk results from the sensitivity of fixed interest investments to changes in the risk-free interest rates and the subsequent change in value of the underlying investment. The



risk is mitigated by the quality of the investments held and the Society's policy to limit the exposure to any one counterparty. A summary of the fixed interest holdings, including those held within collective investments, excluding those issued by UK and EU governments, by credit rating is set out below.

| | 2021 £'000 | 2020 £'000 |
|-----|---------------|---------------|
| AAA | 2,055 | 2,541 |
| AA | 855 | 2,539 |
| A | 8,374 | 10,464 |
| BBB | 19,080 | 15,056 |
| B | 415 | 421 |
| NR | 1,245 | 1,573 |
| | 32,024 | 32,594 |

3.3 Counterparty Risk

Counterparty risk is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Exposure to counterparty risk may arise in connection with a single transaction or to an aggregation of transactions with a single counterparty.

The Society has, in order to mitigate this risk, set out within its investment policy statement both the quality of counterparties in which the Society may invest and the level at which investment may be made with those counterparties.

3.4 Liquidity Risk

Liquidity risk is the risk that the Society does not have adequate funds to settle its liabilities as they fall due.

The Society has, in order to mitigate this risk, set out within its investment policy statement that the Society will at all times hold assets in readily realisable form where they are held to cover the liabilities of the Society.

3.5 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Society has defined procedures for the monitoring of operational risk and reporting to the Board.

3.6 Capital Resource Sensitivities

The capital position of the Society is sensitive to changes in market conditions, due both to the changes in the value of the assets and the effect that changes in investment conditions may have on the value of liabilities. It is also sensitive to assumptions and experience relating to expenses, persistency and morbidity.

The table below demonstrates the sensitivity of available capital to movements in assumptions:

| Variables | Potential Movement in Available Capital | |
|--|---|----------|
| | £'000 | |
| An increase in the inception rate of claims of 10% | (5,858) | Decrease |
| A decrease in the inception rate of claims of 10% | 5,858 | Increase |
| An increase in the recovery rate of claims of 10% | 12,347 | Increase |
| A decrease in the recovery rate of claims of 10% | (17,157) | Decrease |
| An increase in the rates of mortality of 10% | 594 | Increase |
| A decrease in the rate of mortality of 10% | (604) | Decrease |
| An increase in the discount rate of interest of 0.5% | (3,422) | Decrease |
| A decrease in the discount rate of interest of 0.5% | 3,673 | Increase |
| An increase in lapses of 10% | (10,439) | Decrease |
| A decrease in lapses of 10% | 12,105 | Increase |
| An increase in expenses of 10% | (5,466) | Decrease |
| A decrease in expenses of 10% | 5,466 | Increase |
| An increase in the value of investment assets of 10% | 9,141 | Increase |
| A decrease in the value of investment assets of 10% | (9,141) | Decrease |

The timing and ultimate extent of any impact on the reserves would depend on the interaction of past experience and assumptions about future experience and management actions taken to mitigate that impact. Possible management actions would be to amend the investment strategy, reduce where practical the discretionary expenditure of the Society or to reduce the level of future distributions (including the Members Mutual Fund) until any adverse conditions were resolved.

The term 'inception rate' refers to the proportion of the Society's Members claiming on the funds of the Society in respect of sickness benefit, an increase in the inception rate would result in a greater level of claims being paid within a year and would also require the Society to increase the level of reserves held to pay future benefits. A reduction in the rate would have the converse effect.



The term 'recovery rate' refers to the rate at which Members in claim recover from their incapacity and are able to resume their occupation so ending their claim for benefits. An increase in the rate of recovery would reduce the level of payments being made to Members within a year and would also reduce the level of reserves required to be held to pay future benefits. A decrease in the recovery rate would have the converse effect.

The term 'mortality rate' relates to the number of members dying during the term of their contract with the Society. An increase in the mortality rate would, in respect of members claiming during the period immediately preceding death, reduce the level of benefits being paid by the Society. It will also reduce the future sickness benefits and the future premium income. A decrease in the mortality rate would have the converse effect.

The term 'discount rate' refers to the rates used to bring potential future claims liabilities back to present day values. An amendment to this rate will affect the current reserving requirements of the Society to ensure adequate reserves are held to defray the cost of those potential future claims.

Unless otherwise stated, the above movements in available capital relates only to the effect on the best estimate liabilities.

4. Earned Premium Income

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Gross premiums written in respect of income protection contracts | 21,711 | 21,363 |

All contracts are written in the UK and relate to single premiums on contracts written for individuals.

5. Investment Income

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Rental income from investment properties | - | 47 |
| Income from investments: | | |
| Interest income | 1,103 | 1,017 |
| Dividend income | 681 | 741 |
| | 1,784 | 1,805 |

6. Net gains / (losses) on investments

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Investment properties – realised loss | - | (3) |
| Investments at fair value through income – unrealised gains and (losses) | | |
| Debt securities | (1,974) | 1,303 |
| Equity securities | 5,314 | 316 |
| Investments at fair value through income – realised gains and (losses) | | |
| Debt securities | (117) | 108 |
| Equity securities | 220 | (1,214) |
| Net gain/(loss) on investments | 3,443 | 510 |



7. Claims Incurred

| | 2021 £'000 | 2020 £'000 |
|------------------------------------|---------------|---------------|
| Long-term insurance | | |
| Benefits and claims paid | 8,089 | 7,655 |
| Change in the provision for claims | (50) | 216 |
| Total Claims Incurred | <u>8,039</u> | <u>7,871</u> |

8. Bonuses

The Board has declared bonuses as set out below, along with allocated interest and transfers to the Members Mutual Fund:

| | 2021 £'000 | 2020 £'000 |
|----------------------------------|---------------|---------------|
| Members' Bonus | 1,311 | 1,401 |
| Members' Interest | 407 | 425 |
| Retired Members' Interest | 86 | 105 |
| Transfer to Members' Mutual Fund | 1,230 | - |
| | <u>3,034</u> | <u>1,931</u> |

9. Operating Expenses

| | 2021 £'000 | 2020 £'000 |
|-------------------------------|---------------|---------------|
| Long-term insurance | | |
| Acquisition costs | 1,407 | 1,479 |
| Commissions paid and payable | 3,773 | 3,586 |
| Administrative expenses | 8,864 | 7,856 |
| Net operating expenses | <u>14,044</u> | <u>12,921</u> |

Net operating expenses include the following:

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Long-term insurance | | |
| Fees payable to the Society's auditor for the audit of the annual accounts | | |
| - Audit | 79 | 75 |
| - Other services | - | - |
| Depreciation on tangible fixed assets | 293 | 261 |
| Amortisation of intangible assets | 1,484 | 1,023 |
| Adjustment on disposal of tangible fixed assets | - | - |
| Operating lease rental charges | <u>14</u> | <u>17</u> |



10. Employee benefits expense

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Wages and salaries (excluding Non-Executive Directors) | 4,789 | 4,447 |
| Social security costs | 545 | 422 |
| Pension costs | 485 | 413 |
| Employee benefits expense | 5,819 | 5,282 |

The number of employees during the year, including Directors, calculated on a monthly average basis was as follows:

| | 2021 | 2020 |
|--------------------------------|-----------|-----------|
| Board and senior management | 12 | 11 |
| Acquisition and Member contact | 28 | 28 |
| Administration | 56 | 52 |
| | 96 | 91 |

The aggregate remuneration of key management personnel, being the Executive Directors and the Company Secretary, was as follows:

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Salaries, bonuses and taxable benefits | 1,206 | 1,396 |
| Social security costs | 170 | 174 |
| Pension costs | 120 | 127 |
| Key management remuneration | 1,496 | 1,697 |

The Society is proud of the fact that we have not made use of the government's furlough scheme, keeping all staff in full time employment, and we did not make anyone redundant as a result of the pandemic. The Head of Compliance and Company Secretary retired in March 2021 and was not replaced. In 2021, senior staff were recruited within Sales & Marketing, HR, Risk and Change to facilitate significant strategic projects over the next few years.

Salaries paid to Non-Executive Directors was £205.7k (2020: £190.6k). Full details of directors' emoluments are contained in the Directors Remuneration report on pages 16 and 17.

11. Investments

The last investment property 27-8 St Clements, Oxford was sold in December 2020 for its valuation, before costs were deducted.

| Other financial investments | 2021 Valuation £'000 | 2020 Valuation £'000 | 2021 Cost £'000 | 2020 Cost £'000 |
|--|----------------------------|----------------------------|-----------------------|-----------------------|
| Financial assets – Fair value through income | | | | |
| Shares, other variable yield securities and units in unit trusts | | | | |
| - UK listed | 38,573 | 34,326 | 29,602 | 30,555 |
| Debts and other fixed income securities | | | | |
| - UK listed | 50,179 | 51,594 | 50,598 | 49,669 |
| - Deposits | 785 | 148 | 1,745 | 582 |
| | 89,537 | 86,068 | 81,945 | 80,836 |



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. All of the Society's key financial assets are determined using level 1 with the exception of Property which is determined using level 3.

12. Tangible Assets

| | Land & Buildings £'000 | Plant & Machinery £'000 | Fixtures, Fittings and Furniture £'000 | Computers and Office Equipment £'000 | Total £'000 |
|------------------------------------|---------------------------|----------------------------|---|---|----------------|
| Cost or Valuation | | | | | |
| At 1 January 2021 | 4,173 | 90 | 376 | 781 | 5,420 |
| Additions | | 46 | 9 | 33 | 88 |
| Write-downs | | | | | |
| At 31 December 2021 | <u>4,173</u> | <u>136</u> | <u>385</u> | <u>814</u> | <u>5,508</u> |
| Accumulated Depreciation | | | | | |
| At 1 January 2021 | 75 | 7 | 213 | 409 | 704 |
| Provided in the year | 71 | 6 | 67 | 149 | 293 |
| At 31 December 2021 | <u>146</u> | <u>13</u> | <u>280</u> | <u>558</u> | <u>997</u> |
| Net Book Value | | | | | |
| Net Book Value at 31 December 2021 | <u>4,027</u> | <u>123</u> | <u>105</u> | <u>256</u> | <u>4,511</u> |
| Net Book Value at 31 December 2020 | <u>4,098</u> | <u>83</u> | <u>163</u> | <u>372</u> | <u>4,716</u> |

13. Intangible Assets

| | Software £'000 | Assets under Construction £'000 | Total £'000 |
|------------------------------------|-------------------|------------------------------------|----------------|
| Cost or Valuation | | | |
| At 1 January 2021 | 4,771 | 243 | 5,014 |
| Additions | 1,649 | - | 2,087 |
| Assets capitalised | 243 | (243) | - |
| At 31 December 2021 | <u>6,663</u> | <u>-</u> | <u>6,663</u> |
| Accumulated Amortisation | | | |
| At 1 January 2021 | 1,754 | - | 1,754 |
| Provided in the year | 1,485 | - | 1,485 |
| At 31 December 2021 | <u>3,239</u> | <u>-</u> | <u>3,239</u> |
| Net Book Value | | | |
| Net Book Value at 31 December 2021 | <u>3,424</u> | <u>-</u> | <u>3,424</u> |
| Net Book Value at 31 December 2020 | <u>3,017</u> | <u>243</u> | <u>3,260</u> |



14. Fund for Future Appropriations

| | 2021 £'000 | 2020 £'000 |
|--|----------------|----------------|
| Long-term business | | |
| At 1 January | 117,795 | 111,849 |
| Transfer included within comprehensive income for the year | 3,873 | 5,496 |
| Balance at 31 December | <u>121,668</u> | <u>117,795</u> |

Realised and unrealised surpluses

Within the Balance Sheet the Best Estimate Reserves is included at an amount which represents future profits of the Society on insurance contracts in issue, it is considered that these amounts are not immediately available for appropriation. The division of the Fund for future appropriation between funds immediately available and available on realisation are set out below:

| | 2021 £'000 | 2020 £'000 |
|----------------------|----------------|----------------|
| Realised surpluses | 56,539 | 54,948 |
| Unrealised surpluses | 65,129 | 62,847 |
| | <u>121,668</u> | <u>117,795</u> |

15. 125 Foundation

| | 2021 £'000 | 2020 £'000 |
|-------------------------------|---------------|---------------|
| Balance at 31 December | <u>4,352</u> | <u>3,738</u> |

The Cirencester Friendly 125 Foundation was set up in 2016 to provide financial support to individuals and causes, for the benefit of Members and their communities. It is funded by early redemption charges where Members chose to exit contracts prematurely.



16. Members' Funds

Contributing Members

Bonuses and Rebates:

- Interest on Members' balances
- Apportionment
- Other Member Credits

Withdrawals During the Year:

- Deaths
- Retirements
- Withdrawals
- Resignations and lapses
- Other Member Debits

Net increase/(decrease) in Member Funds during the year:

Balance at 1 January

Balance at 31 December

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| | 407 | 424 |
| | 1,311 | 1,401 |
| | 1 | - |
| | 1,719 | 1,825 |
| | (52) | (19) |
| | (1,100) | (836) |
| | (12) | (27) |
| | (956) | (1,134) |
| | (61) | (67) |
| | (462) | (258) |
| | 21,831 | 22,089 |
| | 21,369 | 21,831 |

Non-contributing Members

Transfers in and Interest:

- Interest on Members' balances
- Transfers from Members' accounts on retirement

Withdrawals during the year

Net increase during the year

Balance at 1 January

Balance at 31 December

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| | 75 | 91 |
| | 761 | 536 |
| | 836 | 627 |
| | (284) | (174) |
| | 552 | 453 |
| | 3,815 | 3,362 |
| | 4,367 | 3,815 |

Members' Mutual Fund

Transfers in:

- Apportionment of surpluses / (losses)

Withdrawals during the year

- Payments on cessation of contracts
- Transfer of adjustments on closures to the 125 Foundation
- Payments for member benefits

Net increase during the year

Balance at 1 January

Balance at 31 December

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| | 1,230 | - |
| | (135) | (180) |
| | (627) | (774) |
| | (68) | - |
| | 400 | (954) |
| | 9,930 | 10,884 |
| | 10,330 | 9,930 |
| | 36,066 | 35,576 |

The Members' Mutual Fund represents an allocation of part of the Society's surpluses, when available, over and above specific rights conferred to Members by virtue of the contracts they hold for income protection. The amounts held within the fund are not guaranteed and may be transferred back to the general reserves should they be required to support the ongoing operations of the Society. The fund was established in December 2012. At the date of termination of a Member's contract with the Society the Member may participate in the fund in accordance with the rules of the Members' Mutual Fund.



17. Other creditors including taxation and social security

| | 2021 | 2020 |
|--------------|--------------|--------------|
| Staff bonus | 736 | 786 |
| PAYE | 279 | 145 |
| Holiday Pay | 110 | 56 |
| Other | 362 | 225 |
| Total | 1,487 | 1,212 |

18. Future value of long term insurance contracts

a) Movement in long-term insurance contracts valuation - non-participating

| | 2021 | 2020 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Balance at 1 January | 62,847 | 57,636 |
| Transfer included within comprehensive income for the year | 2,282 | 5,211 |
| Balance at 31 December | 65,129 | 62,847 |

The valuations are expected to be released as follows:

| | 1 year or less | 2 - 5 years | 6 - 15 years | Over 15 years | Total |
|--------------------------------|-------------------|----------------|-----------------|------------------|--------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance as at 31 December 2020 | (62) | 21 | 13,579 | 49,309 | 62,847 |
| Balance as at 31 December 2021 | (100) | (176) | 15,605 | 49,800 | 65,129 |

The long term provisions are shown at a value representing the value of future cashflows arising from the Society's insurance business less a Risk Margin. The future cashflows are the present value of future estimated sickness benefits and expenses, less future premiums, which is a well-established actuarial valuation method for this class of business to create a best estimate of liabilities. These cashflows are projected on a best estimate basis for each future year and discounted back to the valuation date using prescribed Solvency II discount rates. The sum of these items is generally negative for this type of business and these negative reserves effectively represent an asset of the Society.

For Solvency II purposes the value of the long term provisions are taken as the net value of the future cashflows less balances due to Members, as detailed in note 17, and the Risk Margin as shown below.

| | 2021 | 2020 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Valuation of future cashflows arising from insurance contracts | 97,760 | 95,309 |
| Less: Risk Margin | (32,631) | (32,462) |
| Per Balance Sheet | 65,129 | 62,847 |
| Less: Members' funds | (36,066) | (35,576) |
| Net Solvency II valuation | 29,063 | 27,271 |

**b) Long term insurance valuation assumptions**

The assumptions for the calculation of the long term business provisions are set out below:

| | 2021 | 2020 |
|---|-----------------------|-----------------------|
| | EIOPA risk free rates | EIOPA risk free rates |
| Interest rate | | |
| Morbidity Incidence rate (shown as a percentage of CMIR 12 table with morbidity recovery rates below) | | |
| Health and Wealth contracts | 25% | 27% |
| Income Assured Plus and Enhanced contracts | 13% | 13% |
| My Earnings Insurance Contracts (level) | 17% | 17% |
| My Earnings Protected Contracts (level) | 22% | 17% |
| My Earnings Insurance and Protected Contracts (escalating) | 26% | 27% |
| Morbidity recovery rates (shown as a percentage of CMIR 12 table) | | |
| Health and Wealth contracts | | |
| month 1 (weeks 0 to 1) | 5% | 60% |
| month 2 (weeks 1 to 4) | 75% | 60% |
| month 2 | 100% | 120% |
| month 3 | 100% | 125% |
| months 4 - 6 | 135% | 135% |
| months 7 - 12 | 175% | 175% |
| thereafter | 255% | 255% |
| Income Assured Plus and Enhanced contracts | | |
| month 1 (weeks 0 to 1) | 10% | 35% |
| month 1 (weeks 1 to 4) | 45% | 35% |
| month 2 | 50% | 60% |
| month 3 | 95% | 100% |
| months 4 - 6 | 135% | 135% |
| months 7 - 12 | 175% | 175% |
| thereafter | 255% | 255% |
| My Earnings Insurance and Protected contracts (level) | | |
| month 1 (weeks 0 to 1) | 10% | 25% |
| month 1 (weeks 1 to 4) | 45% | 25% |
| month 2 | 50% | 60% |
| month 3 | 90% | 100% |
| months 4 - 6 | 135% | 135% |
| months 7 - 12 | 175% | 175% |
| thereafter | 255% | 255% |
| My Earnings Insurance and Protected contracts (escalating) | | |
| month 1 (weeks 0 to 1) | 5% | 25% |
| month 1 (weeks 1 to 4) | 25% | 25% |
| month 2 | 50% | 60% |
| month 3 | 90% | 100% |
| months 4 - 6 | 135% | 135% |
| months 7 - 12 | 175% | 175% |
| thereafter | 255% | 255% |



| | 2021 | 2020 |
|--|----------------|----------------|
| Lapse Rates | | |
| Health and Wealth contracts | | |
| All years | 5.0% | 5.0% |
| Income Assured Plus and Enhanced contracts | | |
| Year 1 | 6% | 6% |
| Year 2 | 6% | 6% |
| Year 3 | 8% | 8% |
| Year 4 | 9% | 9% |
| Year 5 | 9% | 10% |
| Year 6+ | 9% | 10% |
| My Earnings Insurance contracts (level) | | |
| Year 1 | Not applicable | Not applicable |
| Year 2 | Not applicable | 10% |
| Year 3 | 10% | 10% |
| Year 4 | 10% | 10% |
| Year 5 | 9% | 10% |
| Year 6+ | 9% | 10% |
| My Earnings Insurance contracts (escalating) | | |
| Year 1 | Not applicable | Not applicable |
| Year 2 | Not applicable | 15% |
| Year 3 | 17% | 17% |
| Year 4 | 14% | 14% |
| Year 5 | 12% | 12% |
| Year 6+ | 10% | 10% |
| My Earnings Protected contracts (level) | | |
| Year 1 | 10% | 12% |
| Year 2 | 12% | 12% |
| Year 3 | 12% | 12% |
| Year 4 | 12% | 12% |
| Year 5 | 12% | 12% |
| Year 6+ | 12% | 12% |
| My Earnings Protected contracts (escalating) | | |
| Year 1 | 17.5% | 19% |
| Year 2 | 19% | 19% |
| Year 3 | 19% | 19% |
| Year 4 | 16% | 16% |
| Year 5 | 14% | 14% |
| Year 6+ | 12% | 12% |
| Mortality Rates (shown as a percentage of CMIR 12 table) | 50% | 50% |

Morbidity – an inception annuity approach is used to reserve for morbidity. The reserving tables are split by age, gender and deferred period. The rates are reviewed annually to allow for emerging experience.



19. With-Profits Actuary

The Society has made a request to the With-Profits Actuary, Mrs C Spinks of OAC, to furnish it with the particulars specified in Rule 9.36 of the Accounts and Statements Rules and the particulars furnished pursuant to the request are identified below:

Mrs Spinks has confirmed that neither she, nor any of her family, nor any of her partners were Members of the Society, nor have they any financial or pecuniary interest in the Society, with exception of fees paid to OAC for professional services, which amounted to £248,438 (including VAT) (2020: £258,192).

20. Related parties

There were no loans outstanding from Board members at the year-end (2020: nil).

During the year no services were provided to the Society by any Member of the Board (2020: nil).

21. Commitments

Capital commitments of the Society at the end of the year for which no provision has been made are as follows:

Contracted

Approved by the Board of Management but not contracted for

| | 2021 | 2020 |
|--|-------------------|-------------------|
| | £'000 | £'000 |
| Contracted | 435 | 1,562 |
| Approved by the Board of Management but not contracted for | - | - |
| | <u> </u> | <u> </u> |

Commitments of the Society under non-cancellable operating leases are as follows:

Operating leases which expire

Within one year

In the second to fifth years inclusive

Over five years

| | 2021 | 2020 |
|--|-------------------|-------------------|
| | £'000 | £'000 |
| Operating leases which expire | | |
| Within one year | 23 | 23 |
| In the second to fifth years inclusive | 47 | 70 |
| Over five years | - | - |
| | <u> </u> | <u> </u> |
| | <u> </u> | <u> </u> |

22. Contingent Liabilities

The Society had no contingent liabilities at the year end.

23. Post balance sheet event

As a UK based business, we are not directly affected by or exposed to events associated with the current conflict in Ukraine. However, we are very concerned with what is happening and are keeping close watch, especially on our investment portfolio. Although markets have dropped, they remain within tolerance levels at the time of writing and we will maintain scrutiny of our performance in the interests of all our Members.



NOTICE IS HEREBY GIVEN that the **132nd Annual General Meeting of Cirencester Friendly Society Limited** will be held at **Mutuality House, The Mallards, South Cerney, Cirencester, Gloucestershire, GL7 5TQ** on **Thursday 16 June 2022** at **5pm** for the purpose of transacting the following business:-

1. To confirm the Minutes of the Annual General Meeting held on 17 June 2021.
2. To receive the Chairman's Statement, Strategic Report, Report of the Board of Management, Financial Statements and the Auditor's Report for the year ended 31 December 2021.
3. To approve the Board of Management's Remuneration Report for the year ended 31 December 2021.*
4. To re-elect J W Banks as a member of the Board.
5. To re-elect M L Evans as a member of the Board.
6. To re-elect I M Maude as a member of the Board.
7. To re-elect J F Quinn as a member of the Board.
8. To re-elect M C Sedgley as a member of the Board.
9. To elect A S Lucas as a member of the Board.
10. To re-appoint BDO LLP as Auditors for the year 2022.
11. To transact any other business not requiring notice of motion.

Members of the Society over the age of 18 may attend the Annual General Meeting and speak and vote on any item on the Agenda.

Members who wish to attend may be admitted on production of satisfactory evidence of their Membership and identity. Members who are eligible to vote, but who are unable to attend the Annual General Meeting, may appoint a proxy to attend and vote at the meeting and direct the proxy how to vote at the meeting. The Proxy Voting Form can be found accompanying the Member News & 2021 Financial Highlights sent to you in the post. To make voting easier, online voting is available alongside our traditional methods of voting by post or in person. Please see the Proxy Form for full details of the different ways you can vote.

* You are asked to approve the Board of Management's Remuneration Report by way of an Advisory vote. This is not a legal requirement, but your Board considers it is best practice to enable Members to express a view on this issue.

By order of the Board

Andy Morris

Company Secretary

Mutuality House, The Mallards, South Cerney,
Cirencester, Gloucestershire, GL7 5TQ

23 March 2022

**Founded 1890**

Registered No.149F

Registered Office:

Mutuality House, The Mallards, South Cerney, Cirencester, Gloucestershire, GL7 5TQ Telephone: 01285 653073 or 652492 Fax: 01285 641246

Email: info@cirencester-friendly.co.uk Web: www.cirencester-friendly.co.uk

Board of Management:

| | |
|-----------------------------|--|
| Chairman: | John F Quinn M. Litt. BA (Hons) |
| Chief Executive: | Paul R Hudson MBA FCG MCSI |
| Director of Finance & Risk: | Andy J Morris MBA FCA MCSI |
| Commercial Director: | David R Macgregor Cert PFS |
| Operations Director: | Shirley E Fell |
| Board Members: | Janice W Banks MBA |
| | Marian L Evans BSc (Hons), FinstLM. ACII. Chartered Insurance Broker |
| | Katharine S McIntyre BA (Hons), ACA |
| | Ian M Maude |
| | William J M Schouten MBA |
| | Mark C Sedgley ACII |
| | Andrew S Lucas BA (Hons), DipM |

Arbitrators:

Phillip Harris LLB, FCI Arb, Solicitor

Roger Warrington FRICS, FCI Arb, Chartered Surveyor

Mark Thomas Dip Adj BSc MSc LLM FRICS FCI Arb MAE, Chartered Surveyor

Chief Executive:

Paul R Hudson MBA FCG MCSI

Company Secretary:

Andy J Morris MBA FCA MCSI

Senior Independent Director (Board Member):

William J M Schouten MBA

External Auditors:

BDO LLP

Internal Auditors:

RSM LLP

Actuary:

Chief Actuary and With Profits Actuary

Cara Spinks, OAC PLC

Investment Managers:

LGT Vestra LLP

Bankers:

Lloyds Bank PLC



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