HealthyInvestment

ethical investments since 1835

# Annual Report and Accounts

## The Rechabite Friendly Society Limited
## Annual Report and Accounts
## Year ended 31 December 2019

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# Financial Highlights 2019

Our key financial performance indicators measure our performance in order to ensure that we deliver our strategy of growing the Society to maximise member value.

## Investments from Members

In 2019 members chose to invest a total of £12.0 million (2018: £12.6 million) in the savings and investment products the Society provides, of which £11.5 million were gross written premiums (2018: £12.1 million) and £0.5 million (2018: £0.5 million) were additional contributions to Child Trust Funds which are treated as deposits.

£7.1 million (2018: £7.6 million) was invested in our Investment Bonds and ISAs during 2019, demonstrating the continuing popularity of these With-profits investments.

£4.4 million (2018: £4.5 million) was invested in regular premium endowment contracts.

## Payments to Members

During the year the Society paid £10.2 million (2018: £8.6 million) to members in claims on death, pay-outs at the end of fixed-term policies and withdrawals of investments. An analysis of the payments can be seen in note 11 on page 63.

## Assets under management

At the end of 2019 we managed £176.2 million (2018: £152.3 million) of members' investments. The Society successfully grew its Ethical With-profits Fund, on the back of strong investment performance, more than reversing the investment losses experienced in 2018, and with With-profits premiums exceeding claims notified and paid, there was an increase in total Society assets to £178.2 million from £154.6 million, an increase of 15.3%.

## Capital Strength

Our Own Funds were 306% (2018: 224%) of the minimum Solvency Capital Requirement we are required to hold by the Solvency II Directive, which is part of UK insurance law.

Own Funds at 31 December 2019 has not provided for a 2019 reversionary bonus as the Board has deemed it appropriate to defer the decision on the declaration of a reversionary bonus until later in the year.

# Chairman's Statement

I am very pleased to introduce the 2019 Annual Report and Accounts of Healthy Investment and to thank you for continuing to support the Society. We have a long record of helping our members prepare for their financial future and 2019 was no exception.

My message to members is that 2019 was a successful one for Healthy Investment. Ongoing business has continued to be robust with premium income invested with the Society being similar to that received in 2018 and the Society's investments performing excellently across all asset classes, enabling the Society to grow its assets under management significantly.

This has all been overshadowed by the events experienced so far in 2020 as a result of the coronavirus pandemic, Covid-19.

The impact of the coronavirus goes far beyond the obvious disruption to business; it has had a huge impact on everyday life and we are already experiencing the impact on the economy at large.

At Healthy Investment we are closely monitoring the coronavirus situation and following government guidelines. Our priority has been the well-being of our members and employees and we have taken measures to ensure that the Society continues to operate effectively whilst maintaining the safety of our employees.

I was set to deliver a very positive message with regard to the level of bonuses declared for 2019. However, in the light of the ongoing uncertainty created by coronavirus the Board has determined that it is appropriate to defer the decision on the declaration of a reversionary bonus until later in the year.

This will allow the Society to focus on retaining financial resources and support its solvency position. So that no members lose out we will continue to pay interim bonuses on claims and withdrawals until the reversionary bonus is declared.

Our decision has been supported by a recent announcement by the Prudential Regulatory Authority (PRA) with regard to their expectations of banks and insurers taking precautionary measures around distributions in the current climate.

Given the travel and working restrictions currently employed around the country due to the coronavirus the Annual General Meeting (AGM) will also take place later in the year. Future guidance may also affect the ability of members to physically attend the AGM.

Despite unprecedented times the Society remains well placed to deliver on our long term business plan. We remain well positioned in our chosen marketplace to continue to deliver growth and maintain strong service levels to our members, and we will make every effort to see that our members are rewarded.

During the year Non-executive Directors Peter Wyper and Dianne Payne retired from the Board. They made an invaluable contribution to the Society during their time on the Board. They leave with my thanks and best wishes.

On behalf of the Board I want to thank everyone who has contributed to the continuing success of the Society, in particular our loyal members, all the Healthy Investment team for their dedication and hard work during the year, my colleagues on the Board and the Society's external advisers for their expert contributions.

Steven Spilsbury

Chairman
27 May 2020

# Chief Executive's Report

Our core business is providing ethical investments and savings and in 2019 new business from both new and existing members was broadly in line with 2018. During the year we experienced a strong investment performance from our With-profits Fund, as financial markets reversed the negative returns reported in 2018.

The Society as at 31 December 2019 managed £176.2 million (2018: £152.3 million) of members' money, which includes our main With-profits Fund, the Coventry Assurance Ring Fenced Fund and our Unit-linked Child Trust Funds.

Before reporting on the Society's financial performance I feel it's important to refer to the events experienced so far in 2020 which have rather overshadowed the Society's 2019 financial performance.

Coronavirus has had an impact on all of us, and uncertainty in our lives will continue until the spread of the virus abates. We have taken decisive measures to ensure the long-term success of the Society.

In 2020 we witnessed a sharp fall in financial markets in the latter part of February and most noticeably in March as the coronavirus impacted global financial markets.

The decision to defer declaring bonuses for 2019 was not taken lightly but is clearly in the best interests of members and aligned with the regulatory expectations of the PRA around the distribution of profits. Retaining a strong financial position will enable us to deliver the best overall outcome for members.

We have also taken the decision to put on hold any new capital expenditure projects.

The Society remains well placed to deliver on our strategy of generating growth in our members' investments and achieving our long term strategic objectives over the coming years.

### Financial performance

Investment with the Society in 2019 has been largely in line with expectations, and we continue to attract new members and further investment from existing members who together chose to invest £11.5 million with Healthy Investment in our With-profits Funds. This has been invested fairly evenly across our suite of investment products which reflects the continuing popularity of our whole product range.

This, along with strong investment growth and reinvested income allowed our With-profits Funds to grow by £14 million in the year, demonstrating the value of With-profits to our members both in good and bad years.

The performance of our Ethical With-profits Fund was excellent and saw double digit returns both in equities, including Real Estate Investment Trusts (REITS), and bonds, with an overall return of 13.2%. The best returns were between January and April as equity markets bounced back strongly following a market sell off at the end of 2018, and between October and December when political instability eased providing the stimulus for a year-end rally.

Bond yields continued to decrease in the year, driven by low global interest rates, resulting in healthy capital returns for fixed income investors.

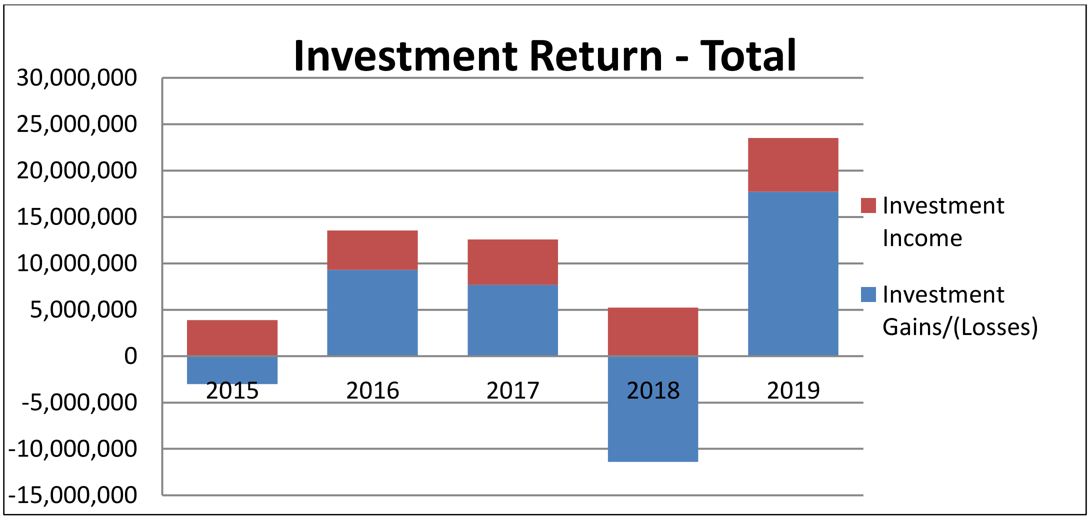
Our With-profits Funds were suitably balanced in 2019 to benefit from strong performance in both equities and bonds.

Members should be looking for consistent returns and 2019 has shown that investing in a multi-asset fund offering a broad exposure to equities, bonds, property and cash provides a good balance for investors. This is exactly what our With-profits Fund provides to our members.

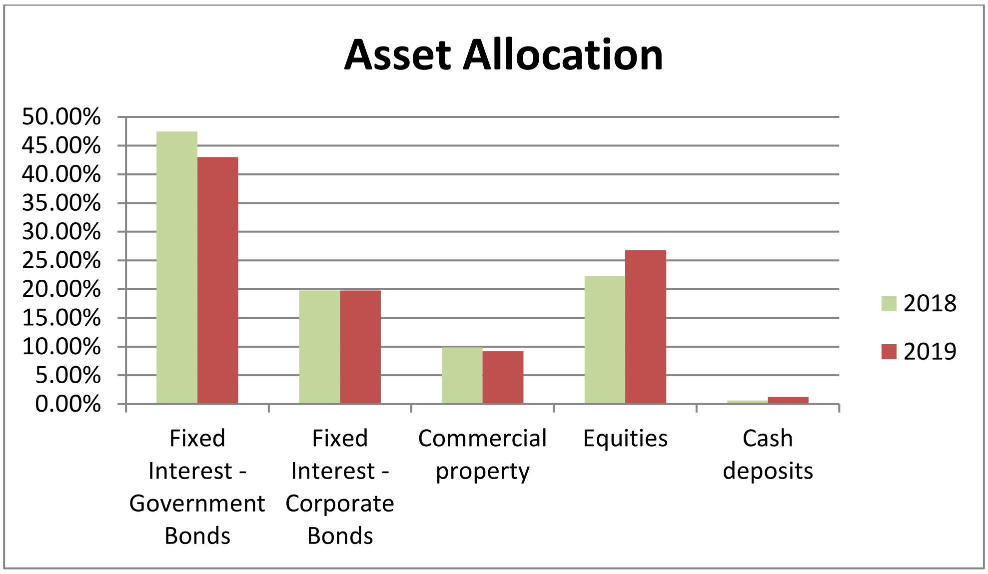
Income remains an important component of total return. Income generated by the funds under management can be seen in the graph below over the last five years which demonstrates the consistency of income the portfolio produces. Investment income generated in the year was £5.8m million (2018: £5.3 million).

The positive stock market performance in 2019 has resulted in a total capital gain on investment funds under management of £17.7 million for the year (2018: £11.4 million loss).

The graph below shows the five year history of the total investment return on our total funds under management (including CTF funds).



The combination of asset classes in the Society's Ethical With-profits Fund as at the end of the year is shown in the table below.




The Society's Ethical With-profits Fund and the Coventry Assurance Ring Fenced Fund invest in a mix of government and corporate fixed interest bonds, UK and global equities, commercial property and cash deposits. The proportion of each asset class held in the Fund can change as the Society seeks to maximise members' returns having given due regard to the Society's investment matrices and risk appetite.

Our stakeholder Child Trust Funds are invested in the Healthy Investment Stakeholder Child Trust Fund (CTF) Unit-linked Life Fund which is 100% invested in the Legal and General UK All Share Index Trust. The objective of the Fund is to provide growth by tracking the performance of the FTSE All-Share Index. The fund performance was 19.1% for 2019.

The Society also offers an ethical Child Trust Fund which invests in the Healthy Investment Ethical CTF Unit-linked Life Fund. The fund aims to provide capital growth over the long term. The fund performance was 18.4% for 2019. As with our With-profits Fund it avoids investments in alcohol, arms and tobacco industries and gambling and pornography providers.

Our With-profits Funds are professionally managed by Investec Wealth Management, a fund management and investment company. They are responsible for actively managing the strategic asset allocation and stock selection within clearly defined investment matrices determined by the Board and based on the risk appetite of the Society and in accordance with our ethical principles.

## Membership

As a mutual Friendly Society we measure our success in the way that we look after our members. At the end of 2019, 112,788 (2018:113,802) members trusted us to look after their investments, demonstrating their satisfaction with our performance and standards of service. A total of 645 (2018: 496) new members invested with us during the year. The Coventry Assurance Ringed Fenced Fund declined in line with the expected maturity of policies. Our service standards are published and monitored throughout the year.

## Sustainability

The Society is committed to being an ethical financial services provider which extends beyond ethical investing into the way that the Society is managed.

We know that our members are keen for the Society to develop its ethical investment position to include actively seeking investment opportunities that reduce harm and make a positive contribution to society.

We engage, through our fund managers, with the companies in which we invest and ensure that our vote is used to vote against poor standards of governance, excessive remuneration and unethical business practices.

The Society is continuing to make good progress towards reducing its carbon footprint by the introduction of environmental purchasing policies and increased recycling. We know that we still have to do better, especially when it comes to reducing our paper consumption, something that we are focusing on. The Society only provides fair trade refreshments to staff and visitors.

A joint staff and Director working group has been formed to drive the development and implementation of our ethical principles in partnership with our members and other stakeholders.

Peter Green
Chief Executive
27 May 2020

# Strategic Report

## Business activity

The principal activity of the Society is the provision of insurance-based investment products.

In addition to administering a number of historic products the Society provides a range of With-profits investments including Tax Exempt and Standard Savings Plans, Investment Bonds, ISAs and Junior ISAs. The Society also manages Unit-linked Child Trust Funds and administers the policies previously held with Coventry Assurance Society.

Healthy Investment's ongoing vision is to be a successful, growing, ethical Friendly Society providing a range of ethical With-profits savings and investment products. The strategy of the Society is to grow the assets and membership in order to add value for members.

We achieve this by actively promoting our range of products through our network of financial advisers and introducers and by directly engaging with our existing and potential members.

We seek to maximise the potential for investment returns by using professional investment managers, whilst only exposing the Society and its members to an agreed level of risk.

## Future strategy and objectives

The Society's ongoing strategy is to grow the business and membership base through delivering its five year Business Plan. The Society plans to widen its adviser network and develop products which suit both the intermediary and direct market.

The Society is also focused on growing its direct business and is aiming to do this through further investment in its marketing, and by developing the Society's online services.

The Society will continue to market its products with the aim of producing balanced growth across its product range. The Board believes that With-profits investments continue to have a place in a balanced portfolio.

As we have moved into 2020 there are clear challenges ahead, for the Society, the UK and the world at large.

On a global level we are currently contending with an unprecedented health security risk in the form of the new coronavirus (Covid-19) which has spread to nearly every country in the world since it first emerged in China at the beginning of the year. We have already seen sharp changes in our usual day to day practices, as we deal with the demands of the health of the population. Countries around the world are in lockdown with enforced self-isolation for many people.

We are continuing to assess the impact of the coronavirus on the Society's business and financial performance and where necessary we are taking the appropriate steps to ensure that the Society's capital position is sound and service to our members is not disrupted.

Since 24 February when it became undeniable that the virus would not be confined to Asia, global stock markets have fallen significantly, with marked volatility.

The Society has managed its financial risks in this period by de-risking the With-profits portfolio by reducing the equity component of the Fund and reinvesting in bonds, ensuring that our solvency position remains strong.

The UK formally left the European Union (EU) on 31 January 2020. While the UK has agreed the terms of its EU departure, both sides still need to decide what their future relationship will look like. During the transition period which is due to end on 31 December 2020 the UK will continue to follow all the EU's rules and its trading relationship will remain the same.

The Society has undertaken an assessment of the impact of Brexit. Other than market risk Brexit will have very little impact on the Society as all new business has always been confined to the UK.

The Society's key objectives at the heart of its business plan are to pursue growth in a managed way, manage costs effectively and deliver sustainable returns to policyholders, while protecting the investment assets and maintaining a level of solvency commensurate with the Society's risk appetite.

### The Society's principal risks and uncertainties

The principal risks to the business and the controls in place to mitigate their impact are listed below. They are determined through an ongoing process for identifying, evaluating and managing the significant risks faced by the Society.

The Board is ultimately responsible for the Society's system of risk management and internal control, review of its effectiveness, and determining the Society's risk appetite. The Risk Committee has been delegated responsibility for monitoring the effectiveness of the Society's risk management and internal controls and its implementation and maintenance are the responsibility of the Chief Executive and the Director Finance & Risk

The risk management framework and the role of the Committee is explained in more depth in the Governance Report and in 'Notes to the Financial Statements – note 5'.

The principal risks and uncertainties have not changed in the year. However some information below has been updated in consideration of the coronavirus pandemic which has emerged post year end. Whilst the coronavirus has impacted on our existing principal risks, in itself it has not created any new principal risks.

The list should not be regarded as complete or comprehensive.

- Levels of new business

The market for UK financial services is highly competitive and several factors could affect the Society's ability to sell enough of its products to ensure its continued profitability. Current macroeconomic and Brexit uncertainty as well as the impacts of coronavirus could lead to a fall in new business and an increase in investment outflow in an environment of subdued investment demand.

This business risk is mitigated by effective strategic and operational business planning. The Society has a pro-active sales and marketing strategy in order to continue to generate significant levels of new business with our products designed to generate returns over the longer term with investment in our With-profits Fund.

- Performance of the investment portfolio

Market risk has a direct impact on the financial strength of the Society and the returns available to members. A reduction in the value of our investments will erode the free assets of the Society. The biggest element of market risk is the equity price risk and the exposure to fluctuations in the market value of the equity portfolios.

The principle of With-profits is that investment returns to members are smoothed over time, however protracted lower than expected returns could mean that the Society may have to reduce bonus rates, in extreme circumstances to nil.

Equities have, over the long term, produced higher returns than other asset classes and are, in the view of our investment managers, still most likely to produce the best returns over the medium to long term.

Fixed interest securities while providing secure income, expose the Society to interest rate risk and credit risk. The value of fixed interest securities is directly affected by changes in interest rates. Corporate bonds expose the Society to credit risk in that the counterparties will be unable to pay amounts in full when they fall due.

We invest in both UK government bonds and corporate bonds. UK government bonds carry a very low level of risk whilst the credit risk of our corporate bonds is managed through strict counterparty limits detailed within the investment matrices.

The Society appoints an investment manager to actively manage its With-profits Funds. Investment matrices approved by the Board are provided to the investment manager to define the Society's investment objectives. They are broad enough for the investment manager through active management to generate performance in excess of benchmarks, yet specific enough to keep within the Society's risk appetite.

The Board works closely with the investment managers and the Chief Actuary to monitor investment markets and the funds' investment portfolios.

The coronavirus pandemic in 2020 has led to reduced equity values and increased bond credit spreads.

- Lapse rates

An unexpected rise in lapse rates could undermine the overall financial strength of the business, reducing the size of the With-profits Fund, with the potential for not being able to recover the costs of running the Society from the policies remaining in force.

This insurance risk is mitigated by the continued focus to offer our members quality products that meet their needs and a high level of service. We continue to see brand loyalty and are confident of growing our With-profits membership.

The coronavirus is likely to increase the number of deaths in 2020. There has been no requirement to revise the valuation assumptions for mortality since the year end to reflect any material increase in mortality costs.

- Expenses

When calculating the value of the policyholders' liabilities an allowance is made for future renewal expenses. There is a risk that the actual expenses incurred in the future are more than those allowed for. Whilst the Society does not compromise on the service it provides to members it works hard to ensure expenses are carefully monitored and controlled.

The risk is mitigated through the production of an annual budget, monthly management accounts and revisiting our business plan annually. Strict spending limits are set by the Board with Senior Managers and Executive Directors needing Board approval for expenditure that materially exceeds the budget and business plan.

There has been no material change in expenses incurred by the Society since the emergence of coronavirus.

- Operational and conduct risk

The Society is exposed to operational risk in the ordinary course of business. It manages these risks through a risk register and the system of internal control in order to reduce the risk of unplanned costs or interruption to the service we provide to members.

The Society is also exposed to conduct risk. It has in place robust compliance procedures and training schemes to ensure that all marketing material and sales activities are compliant with Financial Conduct Authority (FCA) rules.

The Society's system of internal control is an important part of its risk management system and includes financial, operational, compliance and risk management controls. The Society manages its risks with a number of internal control policies and procedures which are documented in the form of policy statements and operational procedures which are subject to periodic review.

The Society has implemented accounting policies, financial reporting processes and internal control procedures designed to safeguard members' investments and the Society's assets. Measures taken include physical controls, segregation of duties and review by management, the Board and external advisers.

The Society has a Risk Management Team which is made up of the Executive Directors and Senior Managers. They meet on a regular basis to consider and review the Society's Risk Register and Risk Appetite Framework and are involved in the day to day management of risk.

In response to coronavirus, the Society and its key outsourced service providers have adapted to remote working and we have not seen any detriment in the service provided by key suppliers or that provided by the Society to its members. The Society is continuing to monitor service standards in light of the increased operational risk.

The Society utilises a 3 lines of defence model for monitoring and managing internal control and risk:

- Operational Management

As a small organisation the Senior Managers have a direct involvement in the workload, which acts as a sound basis for monitoring the controls' effectiveness.

The Society is committed to ensuring the fair treatment of customers. Treating customers fairly 'TCF' issues are closely considered and monitored by management. There were no significant TCF issues raised during the year.

The Society prides itself on the service levels it provides to its members and meeting their expectations. The Society takes all complaints seriously and any complaints are used as a valuable tool for improving procedures and the service provided to our members.

- Risk Management and Compliance

The Risk Committee which comprises of Executive and Non-executive Directors has responsibility for oversight of the Society's risk management. The Risk Committee met 3 times in 2019.

The Head of Risk has day to day responsibility for monitoring key risks. A Risk Management Team which includes the Executive Directors and Senior Managers is responsible for embedding the Society's system of risk management and identifying emerging risks. The Compliance Officer is responsible for ensuring compliance with Prudential Regulation Authority (PRA) and FCA rules.

- Internal Audit

The Society operates an independent internal audit function which undertakes an annual needs assessment approved by the Audit Committee. The work is conducted through a risk-based walk through approach and provides assurance to the Society's Board of Directors and senior management of the adequacy and effectiveness of the Society's risk management and control processes.

Internal audit review and evaluate the Society's processes, procedures and controls, make recommendations and document agreed management actions. This function is outsourced to MHA Moore & Smalley.

### Capital management

The capital position of the Society is monitored on a regular basis. Benchmarks are set to assess the adequacy of the Society's financial strength. In circumstances where there is a significant fall in the capital base management actions are taken to reduce risk exposure.

Along with all other PRA registered life insurers, the Society is required to maintain sufficient capital that is consistent with the Group's risk profile and is subject to a number of regulatory capital tests.

The failure of any life insurer to meet these PRA capital tests can result in the insurer being closed to new business and being placed into 'run off'. The Board can confirm that the Society has exceeded the PRA's required margin of solvency throughout the year.

### Capital statement: Summary Solvency II Balance Sheet (unaudited)

The following table sets out the capital available at 31 December 2019 and the capital requirement.

| | **2019** | 2018 |
|---|---|---|
| | **£000s** | £000s |
| Value of assets | **177,984** | 154,150 |
| Technical provisions and other liabilities | **(164,651)** | (144,984) |
| Own Funds | **13,333** | 9,167 |
| Capital requirement | **(4,351)** | (4,083) |
| Excess Own Funds | **8,982** | 5,083 |
| | | |
| **Solvency Cover** | **306%** | 224% |

Own Funds at 31 December 2019 has not provided for a 2019 reversionary bonus as the Board has deemed it appropriate to defer the decision on the declaration of a reversionary bonus until later in the year.

The Solvency II Balance Sheet above does not form part of the audited Financial Statements. It is part of the unaudited Solvency and Financial Condition Report (SFCR).

### Summary

The Board is satisfied that the risk management framework and necessary monitoring and controls are in place to ensure that all risks are actively managed within agreed tolerance limits. The Board is satisfied that the level of risk to which the Society is exposed is acceptable.

### Longer Term Viability Statement

The Directors have assessed the long term viability of the Society and its continuing operations taking into account known risks and current uncertainties.

The Board has determined that a three year period to 31 December 2022 is an appropriate forward-looking assessment over which to provide a reasonable statement of viability. The current level of uncertainty has resulted in the Directors focusing on a shorter viability period than in previous years.

The Executive Directors have presented a business plan, which covers the whole period over which viability has been assessed, to the Board which has been approved.

The Forward Looking Assessment of Solvency (FLAS) was prepared by the Society's Chief Actuary and approved by the Board during October 2019.

By projecting forward the Solvency II Balance Sheet of the Society, allowing for the business plan assumptions of new business, reasonable assumptions of future investment return and best estimate assumptions of expenses, mortality and lapse experience, there has been a robust assessment of the business plan, its cashflows and solvency, and emerging and principal risks inherent to the Society.

The Own Risk and Solvency Assessment (ORSA) process validates the assumptions used and conducts a formal examination of risks to assess the Society's ongoing viability to continue operating and meet its liabilities as they fall due. The culmination of this process is the Society's strategic and operational business plan and results in an annual report available to our regulators.

The risks of the Society becoming unable to operate profitably are drawn out in the 'ORSA' and there are appropriate management actions in force to respond to these risks should they occur.

The emergence of coronavirus is a new risk for the Society and the Directors have considered its impact on financial performance, solvency, and liquidity in the assessment of long-term viability.

The coronavirus pandemic has had an impact on the Society's investments with a material fall in the equity portfolio. In addition risk free rates have fallen from the year end which has led to a significant increase in the value of policy liabilities.

The Directors have already taken management actions due to the impact of coronavirus on financial markets to reduce the Society's exposure to equities. This is to lessen the effect of any further deterioration in, and protect the Society's liquidity and solvency. The Board has time to consider and take further appropriate actions should they be required.

Given the economic impact we believe it will take some time for sales to revert to usual business levels and this may extend into 2021 and 2022. We have looked at revised projections over the assessment period to reassess long term viability. Long term low investment returns is the biggest risk for the Society. The forecasts show that the Society will remain solvent throughout the assessment period with a lower investment return and a further fall in the risk free rate.

The impact of management actions including the reduction of bonuses and a change in investment mix, have been taken into consideration in making this assessment. The impact on solvency is gradual so that the Board has time to consider and take the appropriate actions if required.

The results of these revised projections leave the Directors confident that whilst uncertainties remain for the Society with the impact of coronavirus, the Society remains sufficiently capitalised to meet its regulatory capital requirements.

Having considered all the factors disclosed above the Directors confirm that they have a reasonable expectation that the Society is able to continue in operation and meet its liabilities as they fall due over the period of the assessment up to 31 December 2022.

In making this statement the Directors have considered the resilience of the Society, taking into account its current financial position, the principal risks facing the business in various severe but reasonable scenarios and the effectiveness of mitigating actions.

## Approval of the Strategic Report

The Board approved the Strategic Report at their meeting on 27 May 2020.

Steven Spilsbury
Chairman
27 May 2020

Peter Green
Chief Executive
27 May 2020

# Governance Report

## The Association of Financial Mutuals Corporate Governance Code (AFM Code)

Throughout the year ended 31 December 2019 the Board confirms that the Society has applied the AFM Code.

The Society's programme of governance covers standards of good practice in relation to Board leadership and effectiveness, Board composition, Director responsibilities, Business opportunity and risk, remuneration, accountability and engagement with members.

Where necessary the Society has implemented changes to its governance arrangements to ensure alignment with the new AFM Code.

The AFM Code took effect from 1 January 2019 and replaced the Annotated Corporate Governance Code and sets out the principles of effective corporate governance for Directors of mutual insurers.

The principles of the AFM Code are not designed to override or be intended to interpret directors' duties as set out in the Companies Act 2006; rather to support directors in meeting the requirements in section 172 of the Companies Act which applies to all directors regardless of ownership or size of organisation. The Principles themselves are designed to provide a tool to help the Society to raise their corporate governance standards to a higher level and help better engagement with stakeholders and build trust.

The Society has applied the principles set out in the AFM Code in its corporate governance during 2019. Disclosed below using an 'apply and explain' approach, is a supporting statement for each of the principles which indicate how the Society's corporate governance achieves its aims.

## Principle One – Purpose and Leadership

The principal activity of the Society is the provision of insurance-based investment products.

As a mutual friendly society formed by and for the benefit of our members we believe in doing the right thing, by our members and by our communities. Our purpose is to remain mutual, friendly and modern; values that the Society believes remain relevant in any age.

The Society's purpose is reflected in our mission to be a successful, growing, ethical provider of ethical investment products that meet the needs of members and meet our vision of maximising member value.

The Society's purpose drives our expected behaviours and practices where under the Board's direction the Society aligns its practices to its values. The Board ensures that the Society has a clear vision and a coherent strategy to generate long term value for its members.

This message is reinforced through the Society's core and ethical values. As such the Society acts with integrity, treats people fairly, is open and transparent, is commercially focused and acts with due care at all times, whilst demanding high expectations of itself and its employees, through effective team work and co-operation.

The Board meet regularly throughout the year, approves the Society's strategic objectives and maintains the framework of controls.

### Principle Two – Board Composition

A biography of the Board can be seen below.

The Board comprises the Chairman, Chief Executive, Director of Finance and Risk, and a further three Independent Non-executive Directors including the Senior Independent Director.

The Chairman is Non-executive and there is a clear division of responsibilities between the Chairman leading the Board and the Executive being responsible for running the Society's business.

The Non-executive Directors are considered independent as they have no material interests with the Society that might influence their independence. The Society's Non-executives bring a wealth of relevant experience to the Society, from the insurance, banking, and fund management industries and expertise in sales, marketing, finance and actuarial practice.

The size and composition of the Board is considered adequate to meet all the Society's challenges and strategic requirements. All Directors offer themselves for re-election annually. There is a formal procedure for the appointment of new Directors to the Board which can be found in the Nomination Committee section of the 'Committees of the Board' in the Governance Report.

One of the Society's ethical values is to promote diversity and the Board approved a formal gender and diversity policy in 2013. The Board recognises the current lack of diversity on the Board and are committed to creating more diversity as and when the opportunity arises. The Board does not set quotas, with all appointments being made on merit.

The Directors keep their skills up to date through participating in professional development activities. The Society makes training and development opportunities available to match the training needs identified through the Board's annual appraisal system. A structured programme of online training has been successfully completed by all Directors in the year.

The Board undertakes a formal assessment of its performance annually which includes its training and development plan. The appraisal is externally facilitated every 3 years with the last external effectiveness review undertaken in October 2018 by Happen Together CIC.

The purpose of the review was to assess Board competency and improve Board effectiveness. The review concluded that the Board and committees are effective in providing oversight of the Society, that there was mutual trust between the executive and non-executive with a good balance of challenge and support. A good mix of up to date skills and knowledge was evident and all Directors demonstrated their commitment to their roles and the future strategy of the Society.

## Biography of the Board

**Steven Spilsbury – Chairman**
Steven joined the Board in August 2014 following his retirement as Chairman and Non-executive Director of Vernon Building Society. Steven has enjoyed a long and successful financial services career, holding a variety of senior positions, working mainly for mutual organisations.

**Philip Okell – Deputy Chairman/Senior Independent Director**
Philip is an experienced investment specialist and Principal of Mosaic Money Management. He brings experience of developing and implementing investment strategies and during his career has advised some of the UK's largest mutuals. Philip was appointed to the Board in September 2015.

**Tim Birse – Non-executive Director**
Tim was appointed to the Board in June 2016. He is an experienced Non-executive Director, a qualified actuary with experience of managing large With-profits Funds and an interest in actuarial education. In his spare time he is active as an Explorer Scout Leader and Treasurer of his local parish church.

**David Fawell – Non-executive Director**
David was appointed to the Board in December 2018. David has enjoyed a long career in banking, most recently with the Co-operative Bank and is an expert in payment services. David is also a Director and Chairman of the Co-operative Credit Union.

**Peter Green – Chief Executive**
Peter was appointed as Chief Executive of the Society in October 2006. Following an early banking career, he served as Chief Executive of a mutual health care cash plan insurer. He has a MBA focused on small business management.

**Keith Ashcroft – Director Finance and Risk**
Keith was appointed as Director Finance and Risk in January 2018. He is a Chartered Accountant and experienced Finance Director. He has a wide range of professional expertise, but particularly in the property and financial services industries.

## Principle Three – Director Responsibilities

Accountability

The job descriptions and authority limits of the Chairman, Chief Executive, Director Finance and Risk and Non-executive Directors are clearly defined to ensure a division of responsibilities and appropriate decision making authority. The Society's Board takes ultimate responsibility for ensuring that the Society is run efficiently for the benefit of its members and that all its members are treated fairly.

The Board applies this principle by being responsible for both developing and setting the strategic direction of the Society, ensuring adequate risk management policies and procedures are in place, defining the culture of the Society, and for ensuring that it is governed in accordance with its Rulebook and the PRA's and FCA's principles and rules.

The Board recognises and carries out its responsibility for providing a fair and balanced view in the Society's financial and business reporting, including all regulatory and statutory returns. Operationally this is managed by the provision of detailed monthly financial reports, key performance indicators and performance against budgets and forecasts. These are reviewed and discussed at Board meetings.

The Society also receives from its Chief Actuary, a Forward Looking Assessment of Solvency which is an assessment of the Society's business plan and its future cash flows, along with various scenarios of stress modelling.

The Board also recognises its responsibility for ensuring the Society's going concern and long term viability. The going concern statement is set out in the Director's Report on page 28 and the Longer-term Viability Statement on page 14 within the Strategic Report.

Committees

The Board applies a system of governance whereby some of the duties of the Board are managed through committees. Committee membership includes Non-executives and each committee has a Non-executive as committee chair. This ensures an appropriate level of challenge and influence. The terms of reference of each committee and its authority are clearly defined by the Board.

Whilst the Board retains its overall responsibility for making final decisions over committee recommendations, the use of committees has ensured that both operational and strategic issues are considered effectively.

The committees are delegated responsibility for governance of audit, risk, investment, remuneration and nominations. However whilst the Board listens carefully to the view of the Remuneration Committee regarding director remuneration, given the size of the organisation and the importance of managing overall expenses, the Board continues to feel it is not appropriate to delegate authority to the Remuneration Committee to set levels of director remuneration.

Integrity of information

The Board has established the Society's system of governance to ensure that it has confidence in the robustness of its internal processes, and that its systems and controls are operating effectively. This provides the assurance that the quality and integrity of information can be relied upon when used for decision making. This system of governance for the Society includes but is not limited to;

- Committees having agreed terms of reference and responsibility for monitoring and reporting on specific areas.
- Having a written statement of matters reserved for the Board.
- Appointing Key Function Holders with specific responsibilities for operational activities.
- Providing job descriptions for the Chairman and Chief Executive which define their roles and responsibilities and detail the segregation of duties.
- Implementing a robust risk management system which includes the annual review and setting of a risk profile and appetite.
- Having regularly reviewed written policy statements and procedures for all critical functions and processes which clearly identify roles, responsibilities, and reporting requirements.
- Providing timely management information to monitor the key risks and performance of the Society.
- Undertaking an annual review and approving the Strategic and Operational Business Plan.

### Principle Four – Opportunity and Risk

The Board identifies, considers and assesses how the Society can create and preserve value for its members, within an agreed risk appetite. The Board has responsibility for establishing the Society's internal control framework which sets out clearly defined roles and responsibilities.

Opportunity

The Board has responsibility for the Society's approach to strategic decision making and opportunities that avail themselves to the business. The long term strategy and new business opportunities are presented to the Board. Shorter term targets or opportunities are identified and considered through the monthly management information process.

Risk

The Board takes responsibility for the Society's approach to risk management and the assessment of principal risks. The Society has delegated oversight of the risk management system to the Risk Committee which with the use of a Risk Appetite Framework and a Risk Register continues to assess principal risks and identify any emerging risks.

The management or mitigation of risk involves monitoring agreed operational tolerance limits and management actions. No significant failings or weaknesses were identified during 2019 and the Board were of the view that where areas of improvement were identified, processes are in place to ensure that remedial action is taken and progress monitored.

The key principal and operational risks, how they are managed and mitigated are set out in the Society's annual Strategic Report on pages 9-16.

The Society has an additional tier of scrutiny, the Society's Risk Management Team (RMT) which operates a monitoring and review process and reports to the Risk Committee on any change in underlying business conditions that have an effect on key risks or create an emerging risk.

The Risk Committee monitors the key risks and considers any emerging risk presented by the RMT. The Risk Register is presented at the subsequent Board meeting, with any Board action points being discussed and subsequently undertaken by the Society's RMT and Risk Committee.

### Principle Five – Remuneration

The Society's Remuneration Committee provides independent oversight of the Society's remuneration strategy. It has clearly defined terms of reference and is responsible for making recommendations to the Board. Non-executive Directors must form the majority of members of the Remuneration Committee.

The remuneration policy gives due regard to the culture, values and long-term success of the Society as well as benchmarking remuneration across the financial services sector.

Executive pay and benefits take into account performance and the delivery of strategy for long term success.

A separate Remuneration Report which provides details of the Society's remuneration policy and how it has been implemented together with the activities of the Remuneration Committee is set out in the Directors Report, 'Directors Report on Remuneration' on page 32.

### Principle Six – Stakeholder Relationships and Engagement

External impacts

The Society considers itself an ethical provider of ethical products. As such the Board is committed to supporting an ethical and sustainable future. The Society considers a broad range of environmental, social and governance factors (ESG) and is committed to the responsible investing of members' funds. The Society is active in the local community providing support to local organisations through charitable donations. The Society encourages electronic communications and is developing its website to facilitate electronic applications.

Stakeholders

The Society's primary stakeholders are its existing and prospective members, its employees, suppliers, business partners and the community in which it operates. A culture of treating everyone fairly underpins the whole of the Society's approach to its stakeholders.

Our members

Members' savings and investments in our With-profits Funds and Ethical Child Trust Funds are managed ethically, both by excluding investments in industries that our members consider are harmful and by pro-actively seeking out investments in companies that can demonstrate responsible business practices.

The Board listens carefully to the views of members. Member feedback collected through the AGM voting cards is reported directly to the Board. The Board receives a summary of all complaints from members and details of how these have been resolved. The website includes a dedicated members' area where members are encouraged to share their experiences of the Society.

The Society also conducts a programme of surveys seeking feedback from new, existing and past members. The feedback from these surveys is discussed by the Board who believes that the communication and engagement programme it has in place is sufficient for it to understand any issues or concerns members may have.

The community
The Society is active in the local community and provides support to local organisations through both its charitable donations and encouraging all employees to participate actively in events that make a positive contribution to the good of society.

Our employees
Our employees have day to day contact with the Executive Directors and have regular individual and collective discussions to share views about the strategic direction of the Society, its impact on them personally and the team as a whole.

Our employees are particularly involved in the Society's desire to reduce its environmental impact by effective use of resources and recycling and in its charitable and community activities.

Suppliers and business partners
The Society has policies and procedures in place to ensure that suppliers, business partners and outsourced service providers are treated fairly and in line with its ethical values of openness, transparency and cooperation.

## Committees of the Board

As highlighted earlier in the Governance Report the Board has appointed a number of committees which meet independently in order to assist its work.

Each committee is required to review their performance annually against its terms of reference.

Whilst the Society Chairman is not a member of all committees he has the right to attend meetings and be co-opted to a committee if necessary; with the exception of the independent With-profits Committee.

The committees as at 31 December 2019 comprised of:

### Audit Committee

David Fawell (Committee Chair)
Philip Okell
Tim Birse

The Audit Committee has responsibility for reviewing and providing assurance to the Board on the integrity of the annual accounts and the effectiveness of the internal control systems. This responsibility is discharged through:

- Overseeing the Society's systems of control.
- Ensuring that all financial reporting is in line with accounting standards and regulatory requirements.
- Recommending to the Board the appointment of external and internal auditors.
- Oversight of the external and internal audit functions.
- Recommending to the Board approval of the Annual Report and Accounts.
- Recommending to the Board approval of the Solvency and Financial Condition Report and the Regulatory Supervisory Report.
- Recommending to the Board the process for approval and submission of Solvency II QRT reporting.
- Recommending to the Board the internal and external audit strategy.
- Reviewing external and internal audit reports.
- Ensuring management information is appropriate and consistent with the business plan and risk profile.
- Recommending to the Board approval of the Solvency II technical provision assumptions.

Deloitte LLP has been re-appointed as the Society's external auditors. The Board approved the appointment. The external auditors do not provide any non-audit services to the Society.

There were no significant issues raised in the year, however subsequent to year end the Audit Committee discussed the impact of coronavirus on its statutory reporting requirements.

**Risk Committee**

Tim Birse (Committee Chair)
Steven Spilsbury
David Fawell
Peter Green
Keith Ashcroft

The Risk Committee has responsibility for:

- Oversight of the risk management system.
- Recommending to the Board the Society's appetite for risk and Risk Appetite Framework.
- Recommending the approval of the Forward Looking Assessment of Solvency process.
- Identification of the key risks and recommending the operational management tolerance limits.
- Approval of the reverse stress and FLAS testing scenarios.
- Review of the result of the stress tests.
- Reporting to the Board on the effectiveness of the risk management system.
- Recommending the appointment of the Chief Risk Officer.
- Oversight of the compliance function.
- Recommending use of the Standard Formula Model.

## Nomination Committee

Steven Spilsbury (Society Chair)
Philip Okell (Senior Independent Director)
Peter Green

The Nomination Committee has responsibility for:

- Monitoring the balance of skills, knowledge, experience and diversity on the Board to ensure that the Board has the necessary mix to meet regulatory expectations and effectively pursue its strategy.
- Recommending to the Board and monitoring the implementation of the Board's diversity and gender policies.
- Recommending to the Board the appointment of Board and Committee members.
- Reviewing the independence of Non-executive Directors.
- Reviewing the fitness and propriety of Directors and Senior Managers.
- Monitoring employees' compliance with the regulators' fitness and propriety requirements.
- Ensuring the performance of the Board and individual Directors is appraised annually.
- Leading the recruitment of new Executive and Non-executive Director appointments.

There is a process for Board appointments:

- A job specification and person specification is drawn up for the role.
- A recruitment consultant may be used in the search.
- The Board agrees an indicative salary and benefits package.
- The Nominations Committee manages the recruitment process, with the primary aim that considered candidates have both the skills and knowledge to complement existing Board members and the gravitas to ensure they bring an effective contribution to the Board.
- A shortlist of candidates will be presented to the Nomination Committee who selects candidates for interview.
- The Nomination Committee holds interviews and makes a recommendation to the Board.
- Following assessment of the candidate's fitness and propriety the Board approve the appointment.

Gender and diversity
The Board approved a formal gender and diversity policy in 2013 which it reviews annually. The Board recognises the benefits of diversity and in seeking to promote a balance of genders. As part of its gender and diversity policy the Board has not set quotas, with all appointments being made purely on merit.

## Remuneration Committee

Philip Okell (Committee Chair)
Steven Spilsbury
Peter Green

The Remuneration Committee has responsibility for:

- Reviewing and recommending to the Board the remuneration strategy and policy.
- Ensuring that the remuneration policy and strategy is consistent with the Society's appetite for risk and compliant with regulatory requirements.

- Making recommendations to the Board for the remuneration of Executive and Non-executive Directors.
- Monitoring employees' compliance with the regulators' fitness and propriety requirements.

### Investment Committee

Philip Okell (Committee Chair)
Tim Birse
Peter Green
Keith Ashcroft

The Investment Committee has responsibility for:

- Recommending an investment strategy in line with the Society's risk appetite.
- Overseeing the discretionary management of the Society's investment portfolios.
- Reviewing investment performance.
- Recommending to the Board investment matrices, taking into account the views of the actuary and investment managers that seek to match the Society's asset exposure to the key features of its liabilities, whilst taking risks in line with the Risk Appetite Framework.
- Monitoring asset allocation to the investment matrices and counterparty exposure.
- Monitoring adherence to the Society's ethical investment strategy.

### With-profits Committee

Elaine Fairless (Independent Chair)
Martin Collins (Independent member)
Tim Birse

The With-profits Committee provides independent oversight of the Society's management of the With-profits Funds. It comprises of two independent members and one Non-executive Director, all with experience of managing With-profits business. The With-profits Committee normally meets twice a year and receives the papers of all Board and Committee meetings throughout the year to enable it to comment on any issues of fairness.

The With-profits Committee has responsibility for:

- Reviewing the Board's compliance with its Principles and Practices of Financial Management of its With-profits Funds.
- Monitoring the Society's fair treatment of all members.
- Considering the fairness of the annual bonus declaration.
- Reviewing member communications.
- Being an independent voice on behalf of policyholders.

### Terms of Reference

Copies of the terms of reference of the Board and Committees are available from the Society's website or by contacting the Society's office.

### Board and Committee meeting attendance in 2019

| | Board | Audit Committee | Risk Committee | Investment Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|---|---|
| S Spilsbury | 8 (8) | 2 (2) | 3 (3) | 1 (1) | 2 (2) | 1 (1) |
| P Wyper | 5 (5) | | | 1 (1) | | |
| D Payne | 4 (4) | 1 (1) | | | | |
| P Okell | 8 (8) | 1 (2) | | 2 (2) | 2 (2) | 1 (1) |
| T Birse | 8 (8) | 2 (2) | 3 (3) | 2 (2) | | |
| P Green | 8 (8) | 2 (2) | 3 (3) | 2 (2) | 2 (2) | 1 (1) |
| K Ashcroft | 8 (8) | 2 (2) | 3 (3) | 2 (2) | | |
| D Fawell | 8 (8) | 2 (2) | 3 (3) | 1 (1) | | |

Figures in brackets represent number of meetings that could have been attended.

D Payne retired as a Board member on 30 April 2019.
P Wyper retired as a Board member on 26 June 2019.

The With-profits Committee met twice during the year. As an independent Committee it is not included in the table above.

# Directors' Report

## Directors

The Directors listed on page 27 of the Board's Governance Report acted as Directors throughout the year, except where noted as retired.

All of the existing Directors will stand for re-election at the Annual General Meeting.

## Healthy Investment in the community

The Society does not make any political donations or sponsor any political activities.

The Temperance Fund, created to support charitable initiatives made donations to the Bury Hospice totalling £2,000 during the year.

The Douglas Carr Memorial Scholarship Scheme, in memory of a previous Chief Executive of the Society, made 9 bursaries to members studying in higher education totalling £2,250 during 2019 (2018: £4,200).

## Management of the With-profits Funds

The Board produces a report to all With-profits policyholders explaining how it has managed its With-profits business, complied with the Principles and Practices of Financial Management (PPFM) and how it has exercised discretion in their decisions. Due to deferring the declaration of a reversionary bonus until later in the year, the report will be available after the declaration.

When available, copies of the report for the main With-profits Fund and the Coventry Assurance Ring Fenced Fund, can be obtained from the Society's office or website.

Copies of the PPFMs, which detail how the Society manages the With-profits Funds and calculates the level of bonus applied to policies, are available from the Society's office or website.

The management of the With-profits Funds for the benefit of members is the Board's primary concern and to help provide independent oversight of the Board's management, the With-profits Committee has reviewed all decisions taken by the Board. The committee currently comprises one Non-executive Director, Tim Birse, and two independent members, Elaine Fairless (Independent Chair) and Martin Collins, all of whom have considerable professional experience in managing With-profits business.

## Subsidiary company performance

The Rechabite Financial Services Limited which is a wholly owned subsidiary of the Society has not traded during the year. The Directors of the subsidiary, as at 31 December 2019, were Peter Green and Keith Ashcroft.

Shareholders' Funds of the subsidiary at 31 December 2019 were £2,377 (2018: £2,377).

## External audit
The external audit has been undertaken by Deloitte LLP. 2019 was the third audit year for Deloitte having been appointed in 2017.

The Board undertook an evaluation of their performance based on the depth of their audit investigations, analysis of their technical knowledge and quality of their report to the Audit Committee. The Board recommend to members their re-appointment at the next AGM.

Deloitte LLP did not provide any other services to the Society during the year.

## Directors' statement of responsibility
As an incorporated Friendly Society, in accordance with the 1992 Friendly Society Act, the Board of Directors has assumed the responsibility and duties of the Committee of Management.

The Committee of Management is responsible for preparing the Annual Report, the Report of the Committee of Management and the Financial Statements in accordance with applicable law and regulations.

Friendly Society law requires the Committee of Management to prepare Group and Society Financial Statements for each financial year. Under that law they have elected to prepare the Group and Society Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard (FRS)102 which is applicable in the UK and Republic of Ireland.

The Group and Society Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and of the Society as at the end of the financial year and of the income and expenditure of the Group and of the Society for the financial year.

In preparing these financial statements, the Committee of Management is required to:
- select suitable accounting policies and then 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

The Committee of Management is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society and enables them to ensure that its financial statements comply with the Friendly Societies Act 1992 and the regulations made under it.

The Committee of Management is also responsible for preparing a Directors' Report in accordance with the Friendly Societies Act 1992 and the regulations made under it.

The Committee of Management has general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Committee of Management is responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Statement of disclosure to auditors

Each person who is a Director at the date of this report confirms that, so far as each of them is aware, there is no information relevant to the audit of the Group and Society's Financial Statements for the year ended 31 December 2019 of which the auditors are unaware; and they have taken all steps that they ought to have taken in their duty as a Director to make themselves aware of any relevant audit information and to establish that the Group and Society's auditors are aware of that information.

Coronavirus is a major development and is considered a non-adjusting event in the year ended 31 December 2019 Financial Statements. The Directors have made reference to its impact in the Strategic Report, Directors Report and in note 35, Post Balance Sheet Event.

Whilst there are no plans to change the existing strategy the Board will continue to monitor its appropriateness and respond appropriately to changes in the market and member needs.

### Going concern

The Directors have considered whether the Financial Statements should continue to be prepared on a going concern basis. This includes an assessment as to whether the Society can meet its liabilities as they fall due for a period of at least 12 months from the date the Financial Statements have been signed.

The assessment looks at the financial position at the end of the year, and whether that position has materially changed subsequent to the year end, as well as looking forward for the period of 12 months from the date of signing this report.

The emergence of coronavirus has meant particular attention has been paid to assessing its impact on the Society; its operations, solvency and liquidity.

A new valuation as at 31 March 2020 has compared the revised financial position with that of 31 December 2019. The results show that the Society has a reduced solvency coverage of 176% which takes into account the management actions taken. This still leaves the Society well capitalised, and in excess of its risk appetite of holding net assets of at least 150% of the capital requirement, with an absolute floor of 125%.

New financial projections have been determined in April 2020 based on the revised valuation as at 31 March 2020 and in the light of current conditions. The results demonstrate the Society's ability to continue as a going concern.

The assessment has drawn on the Society's business plan and Own Risk and Solvency Assessment (ORSA) which includes financial projections both on a central case and stressed scenarios.

Coronavirus has had a negative effect on investment markets worldwide but even allowing for the market falls and the increased mortality assumptions from the coronavirus pandemic, the Society's Own Funds significantly exceed the minimum solvency capital we are required to hold and the Directors are confident that the Society can ride out the impact of the coronavirus and be well placed for recovery.

It is also encouraging that as at 30 April 2020 we have seen a partial recovery in the financial markets and in our With-profits Fund, both in our bond and equity assets. The financial position has therefore improved since 31 March 2020 due to the increases in the value of assets.

We have not seen a material change in the level of persistency and the extent of liquid assets available to the Society is such that a significant reduction in new business will not impact the Society's cashflow requirements over the 12 month period from the date of this report.

Based on the forecast for the next 12 months the Directors therefore consider that the Society has adequate resources to continue to operate as a going concern.

Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing the Society and Group's Financial Statements.

### Approval of the Directors' Report

It is the opinion of the Directors that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's position and performance, business model and strategy.

The Board approved the Directors' Report at their meeting on 27 May 2020.

Steven Spilsbury
Chairman

27 May 2020

Peter Green
Chief Executive

27 May 2020

# Directors' Report on Remuneration

## Remuneration Committee

The Remuneration Committee is chaired by Philip Okell, Senior Independent Director. The committee makes recommendations to the Board on the remuneration of all Directors. The committee includes Executive and Non-executive Directors; however individual Directors are not allowed to participate in decisions relating to their own remuneration.

The remuneration strategy and policy for all staff is reviewed annually by the committee.

## Remuneration policy

The Society's remuneration policy is designed to support the recruitment, motivation and retention of employees. Remuneration is considered within the context of the financial services and Friendly Society sectors. The objective is to pay at the relevant market level with a package that is fair, competitive, rewards performance, provides attractive benefits and motivates staff to achieve the Society's objectives and inspires individuals to reach their full potential.

The detail of the remuneration paid to individual Directors is shown in note 33 on page 73 of the Financial Statements.

## Remuneration policy for Executive Directors

The remuneration of the Society's Executive Directors comprises salary with pension contributions and other benefits in common with many financial services organisations. No fees are paid to Executive Directors.

Remuneration reflects individuals' experience and responsibility. It is based on relevant individual market comparators related to job size, function and sector, as well as individual and company performance and is benchmarked to other friendly societies and mutual insurers.

## Service contracts

Executive Directors

The Chief Executive is employed on a contract with the Society which requires six months' notice by either party and includes a discretionary performance related bonus element of up to 15% of basic salary.

The Chief Executive's contract precludes him for engaging in any other paid employment or business activities for profit. The Chief Executive has received no remuneration for any of his voluntary roles in the charity sector.

The Director Finance and Risk is employed on a contract with the Society with a three months' notice period and includes a discretionary performance related bonus element of up to 15% of basic salary. No Non-executive Directorships are held.

### Non-executive Directors

Fees for Non-executive Directors which take the form of a daily allowance of £400 for attendance at Board or Committee meetings and an annual retainer paid monthly are determined by the Board. There is no other remuneration except where the Society meets the authorised expenses of Non-executive Directors incurred on Society business.

Annual retainers are £7,500 for the Chairman and £5,000 for Senior Managers Certification Regime (SMCR) Function Holders.

Non-executive Directors come within the pension auto-enrolment legislation. The Society's Stakeholder Pension Scheme is with The People's Pension.

Whilst the remuneration of Non-executive Directors is reviewed annually a more detailed review and benchmarking exercise is undertaken every 3 years. This was last undertaken at the end of 2018.

The Executive Directors' service contracts and the letters of appointment of Non-executive Directors are available for inspection during normal working hours at the registered office of the Society.

### Salaries

All staff salaries are reviewed annually, or at other times if there is a significant change in an individual's responsibilities. The Society aims to pay salaries at the relevant level for the role based on the individual's performance.

### Variable remuneration

As Executive Directors the Chief Executive and Director Finance and Risk participate in a discretionary bonus scheme which provides a maximum payment of up to 15% of salary. Any payment under the scheme is not pensionable.

Payment is based on the achievement of Society wide key performance indicators and personal objectives set by the Board.

Payment of 60% of the bonus is paid annually in arrears with 20% of the bonus deferred for a further 12 months and the final 20% deferred for 24 months. The bonus is not payable if any of the following events occur.

- A nil reversionary bonus is declared for members.
- The Society has breached its minimum solvency requirements.
- The Society is subject to PRA / FCA enforcement action.
- The employee is dismissed for misconduct.

There has been no clawback of bonuses paid in the year or the previous year.

The Society's sales department participates in a bonus scheme based upon new business performance which is determined by the Board and paid monthly in arrears.

There are no elements of variable remuneration for any Non-executive Directors.

## Pension arrangements

The Society operates a defined contribution personal pension scheme which is open to all employees. New employees are eligible after they have completed their probationary period, with the option of contribution levels of 3% or 5% of basic salary, with respective employer contributions of 6% and 10%.

The Society's personal pension scheme does not offer auto-enrolment so a separate auto-enrolment pension scheme is registered to which eligible staff and Directors are auto-enrolled, although there is the ability to opt out. Contribution levels for the auto-enrolment scheme for the tax year 2019-2020 year were 5% for employees and 3% for the Society.

## Approval

The Directors' Report on Remuneration was approved by the Directors on 27 May 2020.

Philip Okell
Chairman of the Remuneration Committee

27 May 2020

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE RECHABITE FRIENDLY SOCIETY LIMITED

## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of The Rechabite Friendly Society Limited (the 'Society') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the Society's affairs as at 31 December 2019 and of the group's and the society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements which comprise:

- the consolidated and Society statements of comprehensive income;
- the consolidated and Society Statements of Financial Position;;
- the related notes 1 to 36, excluding the Capital management disclosures in note 4 calculated in accordance with the Solvency II regime which are marked as unaudited.

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" (United Kingdom Generally Accepted Accounting Practice).

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

### 3. Summary of our audit approach

**Key audit matters**

The key audit matters that we identified in the current year were:

- Technical Provision – future expense assumption; and
- Impact of Covid-19 on going concern

Within this report, key audit matters are identified as follows:

Newly identified

Similar level of risk

| | |
|---|---|
| **Materiality** | The materiality that we used for the group financial statements was £202,800 which was determined on the basis of 3% of the fund for future appropriations. |
| **Scoping** | Audit work to respond to the risks of misstatement was performed directly by the audit engagement team |
| **Significant changes in our approach** | There have been no significant changes in our audit approach from the previous year apart from the inclusion of 'Impact of Covid-19 on going concern' as a key audit matter. |

## 4. Conclusions relating to going concern, principal risks and viability statement

### 4.1. Going concern

We have reviewed the directors' statement on page 29 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and the society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

**Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.**

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

### 4.2. Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the society's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 10-13 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 15 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 14-15 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

**Viability means the ability of the group and the Society to continue over the time horizon considered appropriate by the directors.**

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

## 5. Key audit matters

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

### 5.1. Technical Provision – future expense assumption

| | |
|---|---|
| **Key audit matter description** | At the year-end the group carried insurance contract provisions of £99.2m (2018: restated £90.9m), which are deemed both quantitatively and qualitatively material. The provision is set based on a number of assumptions made by Management, some of which are sensitive and require a significant level of judgment.<br><br>We have identified a key audit matter around the future expense assumption used in the calculation of this provision. The assumption is complex and there is a potential for management bias and inappropriate adjustments given the increased level of focus on the group's expense base in the current period, and the sensitivity to the assumption. As a result, this is considered to be a fraud risk.<br><br>Further detail is provided in Note 2, Note 5 and Note 16 which outlines the accounting policy, the process undertaken by the group in forming its assumption around the future expense base, sensitivity analysis for the expense assumption, controls the group has in place to mitigate the risk of inappropriate expense assumption. |
| **How the scope of our audit responded to the key audit matter** | In addressing the key audit matter we have performed the below procedures:<br><br>• assessed the design and implementation of the controls in relation to the key assumption and methodology review process;<br>• involved our actuarial specialists in challenging the methodology applied in the future expense assumption (and other assumptions such as lapse and mortality assumptions);<br>• reviewed the expense base used in the assumption setting process against the actual expense figure which had been incurred in the period;<br>• reviewed the budgeted expense allocation amounts included within the FY20 forecast to verify the accuracy;<br>• assessed the methodology and assumptions used in the model by the management's expert.<br>• assessed the reasonableness of the entity's results. |
| **Key observations** | We consider that the future expense assumption that has been used in setting the insurance contract liability provision is reasonable. |

### 5.2. Impact of Covid-19 on going concern

| | |
|---|---|
| **Key audit matter description** | As disclosed in Note 35, subsequent to the balance sheet date a global pandemic of a new strain of Coronavirus ("Covid-19", "the virus") has emerged. The virus, and responses taken by organisations and governments to manage its spread in markets to which the group is exposed, have led to increased volatility and economic disruption.<br><br>In response to Covid-19, management has made updates to its financial statements to disclose Covid-19 as a subsequent event, and has assessed the impact on going concern. To support this management performed actions to assess the financial and operational impacts of Covid-19 up to the date of approval of the financial statements. Key actions comprise: |

| | |
|---|---|
| | • Operation of a risk management framework to ensure an appropriate capital surplus is maintained to meet liabilities as they fall due, including consideration of deterioration in the spread and impact of Covid-19 in markets to which the group is exposed. This includes having plans for certain management actions if the group falls outside its approved risk appetite;<br><br>• The preparation of a Forward Looking Assessment Solvency (FLAS) to assess the impact on the business under different stressed scenarios as to whether the business would maintain a positive solvency position;<br><br>• Frequent monitoring of the group's outsourced operations and its ability to continue to serve customers, comply with conduct regulations and maintain appropriate internal controls; and<br><br>• Monitoring the group's capital and liquidity position including asset credit quality, and taking action where defined triggers are met in relation to market and interest rate risks.<br><br>The assessment of the impact of Covid-19 on the group requires management judgement and consideration of a range of factors. Management have placed a particular focus on the level of capital surplus, impact on technical provision and impact on changes in valuation of investments. Having considered the results of the activities described above, management believes the group continues to be a going concern due to having a solvency position above the group's risk appetite and appropriate plans to manage liquidity. Management judge the matter to be a non-adjusting event in accordance with accounting standards, since it is indicative of conditions that arose after the reporting period. It is therefore not reflected in the measurement of assets and liabilities at the balance sheet date. The group has made disclosures to reflect the results of its assessment in the Directors' Report, the Strategic Report, and Note 35 *Events after the balance sheet date*. |
| **How the scope of our audit responded to the key audit matter** | We evaluated management's approach to assessing the impact of Covid-19 on the group and its financial statement disclosures by performing the following procedures:<br><br>• Evaluated management's stress and scenario testing and challenged management's key assumptions, assessing its consistency with other available information and our understanding of the business;<br><br>• Evaluated management's assessment of the risks facing the group including liquidity risk, asset credit risk and operational matters;<br><br>• Made inquiries of senior management in relation to their assessment of the impacts of Covid-19 on the group, including further steps the group will take in case economic and other factors deteriorate further;<br><br>• Inspected correspondence between the group and its regulators related to the group's responses to the emergence of Covid-19; and<br><br>• Assessed the disclosures made by management in the financial statements against applicable accounting standards, assessed management's judgement that Covid-19 is a non-adjusting event and evaluated the consistency of the disclosures with our knowledge of the group. |

| | |
|---|---|
| **Key observations** | Based on the procedures described above and the evidence obtained, we consider the going concern basis of accounting to be appropriate and the disclosure of the potential impact of Covid-19 in the financial statements to be appropriate. |

# 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

| | **Group and Society materiality** |
|---|---|
| **Materiality** | £202,800 (2018: £283,000) |
| **Basis for determining materiality** | 3% (2018:3%) of the Fund for Future Appropriations has been used as the basis for determining materiality. |
| **Rationale for the benchmark applied** | The Fund for Future Appropriations represents the available accounting surplus available to the members of the Society, and is the most suitable basis to evaluate the stability of the Society. The year-end Fund for Future Appropriations also reflects the year-end revaluation of the assets and liabilities of the Society.<br><br>The same materiality has been applied to the consolidated and society only financial statements due to the Society owning all of the group's operating activities and due to the assets of the Society's sole subsidiary being immaterial to the group. |

### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. The group and Society's performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the quality of the control environment and whether we were able to rely on controls, nature of the balance and the low number of audit adjustments identified in the prior period and the complexity of the business.

### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £10,140 (2018: £14,100), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

# 7. An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the group and its environment, including firm-wide controls, and assessing the risks of material misstatement. Based on that assessment, we performed a full audit of the group executed at a level of materiality applicable to the individual entity.

We have treated the Group as a single component due to the subsidiary of the Society being immaterial to the Group.

## 8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We have nothing to report in respect of these matters.

## 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## 10. 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

# 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- The matters discussed among the audit engagement team and involving relevant internal specialists, including tax, actuarial, IT and financial instrument specialist, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: *Technical Provisions – future expense assumption*. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Friendly Society Act 1992 and European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

In addition, compliance with terms of the group's regulatory solvency requirements were fundamental to the assessment of the group's ability to continue as a going concern.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified technical provisions- future expense assumption as a key audit matter related to the potential risk of fraud.. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to the key audit matter.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

- enquiring of management and the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulatory Authority and the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

# Report on other legal and regulatory requirements

## 12. Opinions on other matters prescribed by the Friendly Societies Act 1992

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

## 13. Matters on which we are required to report by exception

### 13.1. Adequacy of explanations received and accounting records

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the society; or
- the Society's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

## 14. Other matters

### 14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board of directors on 26 October 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ending 31 December 2017, 31 December 2018 and 31 December 2019.

### 14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

# 15. Use of our report

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

David Heaton

David Heaton
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
28 May 2020

# Consolidated Statement of Comprehensive Income

## For the year ended 31 December 2019

| | Notes | Group 2019 £ | Group 2018 * Restated £ |
|---|---|---|---|
| Earned premiums | 6 | **11,527,725** | 12,067,140 |
| Investment income | 8 | **5,775,342** | 5,298,573 |
| Net gains/(losses) on investments | 9 | **17,726,120** | (11,409,445) |
| Other income | 10 | **863,745** | 839,330 |
| **Total income** | | **35,892,932** | 6,795,598 |
| Net benefits and claims paid | | **9,758,291** | 8,105,021 |
| Change in the provision for net benefits and claims | | **451,610** | 496,547 |
| **Total net benefits and claims expensed** | 11 | **10,209,901** | 8,601,568 |
| Change in contract liabilities | | **18,730,445** | (628,145) |
| Change in provisions | | **1,178** | (30,403) |
| **Change in contract liabilities** | 17 | **18,731,623** | (658,548) |
| Other operating and administrative expenses | 12 | **1,791,404** | 1,712,540 |
| **Total claims and expenses** | | **30,732,928** | 9,655,560 |
| **Profit/(loss) before tax** | | **5,160,004** | (2,859,962) |
| Tax charge/(credit) | 26 | **1,053,555** | (176,131) |
| Transfer to/(from) the Fund for Future Appropriations | | **4,106,449** | (2,683,831) |
| **Total comprehensive income for the year** | | **-** | - |

As a friendly society, all net earnings are for the benefit of policyholders and are carried forward within the Fund for Future Appropriations. Accordingly, there is no profit for the year shown in the Statement of Comprehensive Income.

The Group and the Society have not presented a Statement of Changes in Equity as there are no equity holders in either the Group or Society as the Society is a mutual organisation.

The notes on pages 48 to 74 inclusive form an integral part of these Financial Statements.

* Note 1 contains details of the restatement following the change in accounting policy of claims.

Financial services register no.109994.

# Consolidated Statement of Financial Position

## As at 31 December 2019

| | Notes | **Group 2019 £** | Group 2018 * Restated £ |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 19 | **231,946** | 261,386 |
| Property, plant and equipment | 20 | **356,482** | 324,485 |
| Prepayments and accrued income | 23 | **713,748** | 721,007 |
| Financial assets – fair value through income | 14 | **174,902,308** | 151,671,501 |
| Insurance receivables | 22 | **23,337** | 27,534 |
| Corporation tax asset | | - | 53,010 |
| Deferred tax asset | 27 | - | 98,620 |
| Cash and other cash equivalents | | **2,019,718** | 1,431,971 |
| **Total assets** | | **178,247,539** | 154,589,514 |

| | Notes | **Group 2019 £** | Group 2018 * Restated £ |
|---|---|---|---|
| **Liabilities** | | | |
| Fund for Future Appropriations | 31 | **10,869,215** | 6,762,766 |
| Investment contract liabilities | 15 | **65,215,670** | 55,264,001 |
| Insurance contract liabilities | 16 | **99,197,142** | 90,985,039 |
| Provisions | 29 | **284,755** | 283,577 |
| Corporation tax liability | | **345,814** | - |
| Deferred tax liability | 27 | **534,045** | - |
| Insurance payables | 24 | **1,579,326** | 1,109,357 |
| Trade and other payables | 25 | **221,572** | 184,774 |
| **Total liabilities** | | **178,247,539** | 154,589,514 |

* Note 1 contains details of the restatement following the change in accounting policy of claims.

The notes on pages 48 to 74 inclusive form an integral part of these financial statements and were approved by the Board on 27 May 2020 and signed on its behalf by:

Steven Spilsbury
Chairman

Keith Ashcroft
Director Finance & Risk

Peter Green
Chief Executive

Financial services register no.109994.

# Society Statement of Comprehensive Income

## For the year ended 31 December 2019

| | Notes | Society 2019 £ | Society 2018 *Restated £ |
|---|---|---|---|
| Earned premiums | 6 | **11,527,725** | 12,067,140 |
| Investment income | 8 | **5,775,342** | 5,298,573 |
| Net gains/(losses) on investments | 9 | **17,726,120** | (11,409,445) |
| Other income | 10 | **863,745** | 839,330 |
| **Total income** | | **35,892,932** | 6,795,598 |
| Net benefits and claims paid | | **9,758,291** | 8,105,021 |
| Change in the provision for net benefits and claims | | **451,610** | 496,547 |
| **Total net benefits and claims expensed** | 11 | **10,209,901** | 8,601,568 |
| Change in contract liabilities | | **18,730,445** | (628,145) |
| Change in provision | | **1,178** | (30,403) |
| **Change in contract liabilities** | 17 | **18,731,623** | (658,548) |
| Other operating and administrative expenses | 12 | **1,791,404** | 1,712,525 |
| **Total claims and expenses** | | **30,732,928** | 9,655,545 |
| **Profit/(loss) profit before tax** | | **5,160,004** | (2,859,947) |
| Tax charge/(credit) | 26 | **1,053,555** | (176,131) |
| Transfer to/(from) the Fund for Future Appropriations | | **4,106,449** | (2,683,816) |
| **Total comprehensive income for the year** | | **-** | - |

As a Friendly Society, all net earnings are for the benefit of policyholders and are carried forward within the Fund for Future Appropriations. Accordingly, there is no profit for the year shown in the Statement of Comprehensive Income.

The Group and the Society have not presented a Statement of Changes in Equity as there are no equity holders in either the Group or Society as the Society is a mutual organisation.

The notes on pages 48 to 74 inclusive form an integral part of these Financial Statements.

* Note 1 contains details of the restatement following the change in accounting policy of claims.

Financial services register no.109994.

# Society Statement of Financial Position

## As at 31 December 2019

| | Notes | Society 2019 £ | Society 2018 Restated £ |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 19 | **231,946** | 261,386 |
| Property, plant and equipment | 20 | **356,482** | 324,485 |
| Investment in Group undertakings | 21 | **1,000** | 1,000 |
| Prepayments and accrued income | 23 | **713,748** | 721,007 |
| Financial assets – fair value through income | 14 | **174,902,308** | 151,671,501 |
| Loans and other receivables | | **-** | - |
| Insurance receivables | 22 | **20,960** | 27,534 |
| Corporation tax asset | | **-** | 53,010 |
| Deferred tax asset | 27 | **-** | 98,620 |
| Cash and cash equivalents | | **2,019,718** | 1,429,594 |
| **Total assets** | | **178,246,162** | 154,588,137 |
| **Liabilities** | | | |
| Fund for Future Appropriations | 31 | **10,867,838** | 6,761,389 |
| Investment contract liabilities | 15 | **65,215,670** | 55,264,001 |
| Insurance contract liabilities | 16 | **99,197,142** | 90,985,039 |
| Provisions | 29 | **284,755** | 283,577 |
| Corporation tax liability | | **345,814** | - |
| Deferred tax liability | 27 | **534,045** | - |
| Insurance payables | 24 | **1,579,326** | 1,109,357 |
| Trade and other payables | 25 | **221,572** | 184,774 |
| **Total liabilities** | | **178,246,162** | 154,588,137 |

* Note 1 contains details of the restatement following the change in accounting policy of claims.

The notes on pages 48 to 74 inclusive form an integral part of these financial statements and were approved by the Board on 27 May 2020 and signed on its behalf by:

Steven Spilsbury
Chairman

Keith Ashcroft
Director Finance and Risk

Peter Green
Chief Executive

Financial services register no.109994.

# Notes to the Financial Statements
for the year ended 31 December 2019

## 1. Significant accounting policies

### Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards and under historical cost accounting rules. The Group and Society financial statements have been prepared in accordance with the Friendly Societies Act 1992 and the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

These financial statements were prepared in accordance with Financial Reporting Standard (FRS) 102 & 103 applicable in the UK and Republic of Ireland as issued by the Financial Reporting Council.

The financial statements are presented in pound sterling and are prepared on the historical cost basis except for financial instruments and contract liabilities which are stated at fair value through income.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported values of its assets and liabilities. The estimates and assumptions are based on historical experience and are considered to be reasonable. The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgements made by management in the process of applying the group's accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are set out in Note 2. The accounting policies set out below, unless otherwise stated, have been applied consistently to all years presented in the financial statements.

All the following notes relate to the Group Consolidated Statement of Comprehensive Income, and the Consolidated Statement of Financial Position except for note 21 which relates to the Society only.

### Going concern

The financial statements have been prepared on a going concern basis. After making enquiries, including detailed consideration of the impact of coronavirus on the Society's operations and financial position and prospects, the Directors believe that they have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future.

Further details of the key considerations made by the Directors in making this assessment have been included in the going concern statement in the Directors' Report on pages 30-31.

### Product classification

The Society issues both insurance and investment contracts. Insurance contracts are contracts which transfer significant insurance risk and remain as insurance contracts until all obligations are settled or expire and may also transfer financial risk. All our With-profits policies are insurance contracts. Investment contracts are contracts which carry financial risk. Such contracts are usually unit-linked. All of our Child Trust Funds are investment contracts.

Premium income in respect of insurance contracts is included in the Statement of Comprehensive Income on the basis of premiums due from members during the year. Investment contract premiums are treated on a deposit accounting basis.

### Claims

Claims are included in the comprehensive income before tax on the following basis:

- Maturities when they become due
- Deaths when notified to the Society
- Surrenders when paid

We have made a change in policy for when death claims are reported in net benefits and claims. Death claims are now reported on a notified basis, from a previously paid basis. This aligns with FRS 103 (FRC – Insurance Contracts).

The policy change requires that the comparative figures for 2018 are reported on the same basis and have been restated. The table below shows the adjustments necessary for the restatement.

The change in contract liabilities includes the movement due to notified but unpaid death claims which are now reflected in insurance payables.

The adjustment to insurance payables includes the unpaid amounts in relation to death claims notified in the years 2018 and 2017.

The Statement of Comprehensive Income and the Statement of Financial Position have been restated as have the associated notes for the year ended 31 December 2018 as shown in the table below.

| **Comprehensive Income Statement** | **Note** | **As previously stated** | **Adjustment** | **As restated** |
|---|---|---|---|---|
| | | **£** | **£** | **£** |
| Net benefits and claims expensed | 11 | 8,078,365 | 523,203 | 8,601,568 |
| Change in contract liabilities | 17 | (104,942) | (523,203) | (628,145) |

| **Statement of financial Position** | | **As previously stated** | **Adjustment** | **As restated** |
|---|---|---|---|---|
| | | **£** | **£** | **£** |
| Insurance payables | 24 | 321,312 | 788,045 | 1,109,357 |
| Insurance contract liabilities | 16 | 91,773,084 | (788,045) | 90,985,039 |

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances at 31 December 2019. Cash is all in accounts with instant access.

### Investment income

Investment income includes dividends, interest, and rents on investments, which is accounted for on an accruals basis.

### Other income

Healthy Investment charges the Child Trust Funds an annual management charge of 1.5% less any charges paid in respect of collective investments held. The charge is deducted from the unit price based on 1/365$^{th}$ of the annual amount per day.

### Investments

Financial assets are classified at fair value with any subsequent movement in valuation recognised through the Statement of Comprehensive Income. Quoted investments are shown at the bid market value at the accounting date.

Realised gains and losses on investments carried at fair value are calculated as the difference between the proceeds of sale less cost. Unrealised gains and losses on investments represent the difference between the fair value of an instrument owned at the last Statement of Financial Position date and its most recently recorded fair value, being either its carrying value at the last reporting date or its purchase price if purchased in the current financial period.

Subsequent to initial recognition any gains or losses arising from changes in the fair value are recognised in the Statement of Comprehensive Income in the period that they arise.

### Tangible fixed assets

Property is held at fair value.
Other tangible fixed assets are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

The Society assesses at each reporting date whether tangible fixed assets are impaired.
Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

The estimated useful life is as follows:

- Furniture and equipment - 4 years

### Intangible assets

Goodwill paid on acquisition.
In December 2016 the Society acquired a number of Child Trust Fund (CTF) policies from Red Rose Assurance Friendly Society. The payment in excess of the liabilities is classified as goodwill. The CTF policies acquired by transfer are stated at cost less accumulated impairment losses.

The estimated useful life is as follows:

- CTF policies transferred from Red Rose Assurance Friendly Society - to policy maturity at age 18

Capitalised software
Software constituting an asset in its own right and not that primarily purchased to enable an item of IT hardware to be used for its intended purpose. Such computer software purchased or acquired by the Society is stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use.

The estimated useful life is as follows:

- computer software - 4 years

The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date and are tested for impairment when there is an indication that they may be impaired.

### Foreign currencies

Transactions in foreign currencies are translated to sterling. The exchange rate is the ruling official rate of exchange at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated to sterling at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Exchange gains and losses are dealt with in that part of the Statement of Comprehensive Income in which the underlying transactions are reported.

**Impairment excluding investment properties and deferred tax assets**

*Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

For financial instruments measured at cost less impairment, impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Society would receive for the asset if it were to be sold at the reporting date.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

*Non-financial assets*

The carrying amounts of the Society's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" (CGU)).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### Provisions

A provision is recognised in the Statement of Financial Position when the Society has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

### Taxation attributable to long term business

The Society recognises a current tax liability for tax payable on taxable profit for the current and past periods. The Society is subject to tax on part of its life and endowment business, interest income, any income from property, certain realised gains, unrealised gains on collective investment equity funds (spread over 7 years) and unrealised gains on the value of listed fixed interest securities.

The Society measures a tax liability (asset) at the amount it expects to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of timing differences at the reporting date.

Timing differences arise where there are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Timing differences also arise and deferred tax recognised when the tax allowances for the cost of a fixed asset are received before or after the depreciation of the fixed asset is recognised in profit or loss. If and when all conditions for retaining the tax allowances have been met, the deferred tax shall be reversed.

Unrelieved tax losses and other deferred tax assets shall be recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

### Fund for Future Appropriations (FFA)

The unallocated divisible surplus incorporates amounts which have yet to be allocated to participating policyholders. Any surplus or deficit arising in the Statement of Comprehensive Income is transferred to or from the Fund for Future Appropriations on an annual basis. Surpluses are appropriated by the Directors to participating policyholders by way of bonuses. Any unappropriated surplus is carried forward in the Fund for Future Appropriations.

### Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Society and its subsidiary, The Rechabite Financial Services Limited, as at 31 December 2019.

### Presentation of cash-flows

The Society being a mutual life assurance company is exempt from the requirement under FRS102 7.1A to produce a cash-flow statement.

### Presentation of insurance and investment contract liabilities

The Statement of Financial Position shows the split of insurance and investment contract liabilities between participating and non-participating contract liabilities.

### Employee benefits

We operate a defined contribution plan which is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees. We do not operate a defined benefit scheme.

The Society has an auto-enrolment pension scheme, which staff and Directors are enrolled into automatically. The Society is obligated to pay the minimum statutory contributions.

## 2. Significant accounting estimates and judgements

The preparation of the financial statements and the application of the Society's accounting policies may require management to make judgements, estimates and assumptions around the carrying value of assets and liabilities. Estimates and underlying assumptions are reviewed on a regular basis.

In the course of preparing the financial statements, estimates and assumptions are based on historical experience and other relevant factors. These may differ from the actual results.

There are two key areas where judgement, estimates and assumptions are particularly relevant to the Society and where applicable could have a significant risk of causing a material adjustment to the carrying values of assets and liabilities.

### Significant accounting judgements

Long term insurance contract liabilities
The Society issues long term insurance contracts that transfer insurance or financial risk.
Insurance contracts are those contracts that transfer significant insurance risk. The Society's traditional products of bonds, ISA's and endowments fall in this category. All With-profits insurance contracts are participating contracts as these contracts entitle the holder to receive, as a supplement to guaranteed benefits, additional bonuses.

Judgement is applied when assessing historical data in arriving at assumptions that best reflect the characteristics of the underlying insurance portfolio. An investigation is undertaken by the Chief Actuary for determining recommended mortality, lapse and partial withdrawal rates. Further detail on the assumptions applied to long term insurance liability valuation can be found in Note 18 of this annual report.

Valuation of financial instruments
Management may be required to use their judgement in assessing an appropriate fair value for certain classes of asset. In order to increase consistency and comparability in fair value measurements and related disclosures fair value of financial instruments are categorised through a 'fair value hierarchy'.

The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

All of the Society's assets are considered Level 1 assets. See note 14 on page 64..

The three levels of hierarchy are:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### Significant areas of estimation and uncertainty

Long term insurance contract liabilities

The valuation of long term insurance contract liabilities are material to the Society's financial position and require actuarial estimates and assumptions. Liabilities are based on assumptions reflecting the best estimate liability (BEL) and are the present value of expected future cashflows, discounted back to the valuation date using a "risk-free" yield curve.

The Best Estimate of Liabilities is determined by the Society's Chief Actuary and With-Profits Actuary following the annual investigation of the Society's long-term business and linked liabilities related assets and is calculated as the sum of the policy reserves and the Cost of Guarantee.

At each reporting date, an assessment is made of whether the recognised long-term contract liabilities are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities is insufficient in light of the estimated cash flows, the deficiency is recognised in the Statement of Comprehensive Income.

The Society issues investment contracts that transfer financial risk with no significant insurance risk. No judgement is applied in the provision made for these contracts as the value of units attached to the policies issued. The Society's Child Trust Fund Unit-linked products fall in this category.

Expenses

Future expense levels are a key variable that influence the value of contract provisions. Expense inflation is built into provisioning. The sensitivity in respect of a 10% increase in maintenance expenses is quantified in note 5 on page 56.

## 3. Segmental information

The activities of the operational segments are:

*With-profits*

The principal activity is providing With-profits business. The core products are Endowment Savings Plans, Investment Bonds, ISAs and JISAs.

*Unit-linked*

The principal activity is providing Unit-linked Child Trust Fund business. The core products are Stakeholder and Ethical policies.

In the following tables revenue and expenses, and assets and liabilities are illustrated separately for the With-profits funds and Unit-Linked funds.

| Revenue and expenses | 2019 | | 2018 Restated | |
|---|---|---|---|---|
| | **With-profits £'000** | **Unit-linked £'000** | With-profits £'000 | Unit-linked £'000 |
| Gross premiums | **11,528** | **-** | 12,067 | - |
| Premiums ceded to reinsurers | **-** | **-** | - | - |
| **Net premiums** | **11,528** | **-** | 12,067 | - |
| Investment income and other income | **13,846** | **10,519** | 136 | (5,408) |
| **Total income** | **25,374** | **10,519** | 12,203 | (5,408) |
| Benefits and claims | **10,210** | **-** | 8,602 | - |
| Net change in contract liabilities | **8,214** | **10,518** | 4,753 | (5,412) |
| Other expenses | **1,791** | **-** | 1,671 | 41 |
| **Total segment expenses** | **20,215** | **-** | 15,026 | (5,371) |
| **Profit/(loss) before tax** | **5,159** | **1** | (2,823) | (37) |

Gross written premiums for investment contracts, which are deposit accounted for, and not included above are £508,950 (2018: £548,663).

| Assets and liabilities | 2019 | | 2018 Restated | |
|---|---|---|---|---|
| | **With-profits £'000** | **Unit-linked £'000** | With-profits £'000 | Unit-linked £'000 |
| Intangibles | **4** | **228** | 6 | 255 |
| Property, plant and equipment | **356** | **-** | 324 | - |
| Financial assets | **109,616** | **65,286** | 96,342 | 55,329 |
| Other assets | **736** | **1** | 899 | 2 |
| Cash and cash equivalents | **2,019** | **1** | 1,417 | 15 |
| **Total assets** | **112,731** | **65,516** | 98,988 | 55,601 |
| Insurance and investment contract liabilities | **99,197** | **65,215** | 90,985 | 55,264 |
| Other liabilities | **2,966** | **-** | 1,577 | - |
| **Total liabilities** | **102,163** | **65,215** | 92,562 | 55,264 |
| **Net assets** | **10,568** | **301** | 6,426 | 337 |

## 4. Capital management

Along with all other Prudential Regulation Authority (PRA) registered life insurers, the Society is required to maintain sufficient capital that is consistent with the Group's risk profile and is subject to a number of regulatory capital tests. The failure of any life insurer to meet these PRA capital tests can result in the insurer being closed to new business and being placed into 'run off'.

The key capital management objectives are:

- To comply with the capital requirements of the Prudential Regulatory Authority (PRA)
- To ensure that the Society's financial strength is maintained
- To ensure that the Society's strategy is sustainable and can be implemented
- To give current and future members and other stakeholders confidence in the long term stability of the Society

These objectives are reviewed at least annually. The Board is responsible for meeting the capital requirement at all times. The Society complied with the PRA's capital requirement throughout the year. The Board aims to maintain an appropriate buffer in excess of the capital requirement.

The Society prepares a strategic business plan over 5 years and maintains the agreed capital objectives through its system of risk management, investment policy, control of expenses and the implementation of its operational business and distribution plan.

### Measurement and monitoring of capital

The capital position of the Society is monitored on a regular basis. Benchmarks are set to assess the adequacy of the Society's financial strength. In circumstances where there is a significant fall in the capital base management actions are taken to reduce risk exposure.

The Board confirms that the Society has exceeded the PRA's required margin of solvency throughout the year.

### Capital statement: Summary Solvency II Balance Sheet (unaudited)

The following table sets out the capital available and capital requirement.

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| Value of assets | **177,984** | 154,150 |
| Technical provisions and other liabilities | **(164,651)** | (144,984) |
| Own Funds | **13,333** | 9,167 |
| Capital requirement | **(4,351)** | (4,083) |
| Excess Own Funds | **8,982** | 5,083 |
| **Solvency Cover** | **306%** | 224% |

The Solvency II Balance Sheet does not form part of the audit of the Financial Statements. It is part of the unaudited Solvency and Financial Condition Report (SFCR).

## 5. Risk management

The Board is responsible for the effectiveness of the risk management system. It approves the risk management strategy and policies, sets the risk appetite, the risk appetite framework, tolerance limits and management actions employed to mitigate risk.

The Risk Committee is delegated with the task of overseeing the risk management system.

The overarching risk strategy is to ensure that the Society is run in the best interests of members and that it is able to maintain its regulatory capital requirements and honour the guarantees made to policyholders, whilst achieving a fair and realistic investment return.

The Society's system of risk management includes the categorisation, recording and assessment of risks, undertaking sensitivity analysis of risk exposures and setting operational tolerance limits for management.

The Society is exposed to the following principal risks. The details below summarise the risks and the Society's management of the risks.

## Underwriting risk

Underwriting or insurance risk is the risk of loss arising from actual experience being different than that assumed when a product was designed and priced. For Healthy Investment insurance risk includes mortality and longevity risk, expense risk and persistency risk.

Mortality Risk

Life business is exposed to changes in life expectancy experience. The product's technical provisions are calculated based on the assumed mortality of policyholders. The risk is that more or fewer policyholders die than expected and the benefit paid is more or less than the policy's technical provision.

As at 31 December 2019 Healthy Investment was exposed to £40.5 million (2018: £43.9 million) of mortality risk in the form of total benefits that would be payable on death (assuming everyone died immediately) in excess of its technical provisions.

A 15% permanent increase in future mortality rates assumed would increase technical provisions by £38,808 before loss absorbency and £1,612 after. A 20% permanent reduction in mortality would increase technical provisions by £119,105 before loss absorbency and £114,561 after. A large scale epidemic could cause a one off impact of £60,708 (unaudited) on Own Funds with no reduction for loss absorbency. These risks are relatively minor in impact.

The mortality exposure is not concentrated in a few lives but is widely spread through all the insurance policies written by the Society. The risk is mitigated through a regular review of actual experience against estimated mortality so that adequate provisions are established. Underwriting standards for new policies are reviewed following on from the experience review.

Longevity Risk

There is no natural longevity risk in the business. The Society does however allocate an expense per policy on the legacy Accident, Sickness and Death policies on the books. The longer the policies remain on the books, the higher expense assumption and higher technical provision reserve.

Expense Risk

In pricing the insurance policies and in setting technical provisions, assumptions are made as to the acquisition and maintenance expenses over the life of the policies. The Society is exposed to the risk that the charges it deducts from policyholders' benefits are not sufficient to cover these expenses and that the technical provisions make inadequate allowance for future expenses.

A significant part of the cost of running the Society is fixed and not dependent upon the number or value of policies in force. Therefore, the volume of new and in force business has a major impact on whether policy charges can meet the expenses incurred.

The fixed expenses are largely concentrated in employee remuneration and other benefits, investment management fees, actuarial and audit fees.

A permanent 10% increase in operating administrative expenses and a 1% per annum permanent increase in future inflation would increase the technical provisions by £1.5 million before loss absorbency and £0.6 million after. (2018: £1.4 million/£0.7 million).

The risk that charges on policies are not sufficient to cover the expense base of the Society is mitigated through careful management of discretionary spend, the setting of the annual budget and the close monitoring of any expense variances.

Persistency Risk
In pricing the life insurance business and in setting technical provisions, assumptions have been made as to the rate at which the policyholder will surrender or lapse policies. The risk is that policies do not remain in force as long as expected or stay in force longer than expected. In turn, this also affects the number of policies over which fixed costs can be spread and the recovery of acquisition costs.

Healthy Investment is exposed to persistency risk from surrender values being less or more than technical provisions and the loss of margins to pay future expenses. Surrender values of all non CTF policies amount to £92.6 million (2018: £86.7 million). The technical provisions amount to £97.4 million (2018: £90.1 million)

A permanent 50% increase or decrease in the rates of assumed lapses had minimal impact on technical provisions. Allowing for a 40% mass lapse scenario reduces future margins and would increase technical provisions by £3.2 million (unaudited) (2018: £2.1 million) before allowing for loss absorbency and £2.3 million (unaudited) after (2018: £1.6 million).

The risk is mitigated through regular reporting of claims experience and persistency and where appropriate pursuing an active member retention strategy. An analysis of exposure by adviser firm has been undertaken to ensure no material exposure to any one source of business.

## Investment Risk
The Society is exposed to various investment or financial risk through its investment holdings and insurance liabilities. There are various forms of investment risk: market risk, credit spread risk, and liquidity risk being the major components.

## Market Risk
Market risk is the risk of a loss arising either directly or indirectly from fluctuations in the level and volatility of the market prices of assets and liabilities. The key market risks relates to the performance of the assets invested in the With-profits Funds. The main types of market risk are equity risk, interest rate risk, and currency risk.

The Society's Investment Committee oversees the investment policy and strategy set by the Board which the Society implements through the use of investment matrices. This mandate is then followed by our Investment managers who are monitored in terms of their performance and allowable range of asset allocation.
The Society's With-profits Funds are sufficiently diversified across major asset classes. A table of our asset allocation as at 31 December 2019 can be seen below.

| **Asset Class** | % |
|---|---:|
| Fixed interests - government bonds | 42.7 |
| Fixed interests - corporate bonds | 19.7 |
| UK equities | 17.6 |
| Overseas equities | 9.0 |
| Commercial property | 9.2 |
| Cash deposits | 1.8 |
| | |
| Total | 100% |

Equity Price Risk (The figures are unaudited as they derive from the unaudited SFCR).
Equity price risk is the exposure to fluctuations in the market value of the equity portfolios.

As at 31 December 2019 the equity exposure was £29.7 million (2018: £21.6 million) reflecting both direct holdings and collective investments.

The equity risk capital required under Solvency II before loss absorbency was £11.1 million (unaudited) (2018: £6.8 million) including loss of margins on the CTF portfolio of £0.3 million (unaudited) and after loss absorbency £2.1 million (unaudited) (2018: £2.3 million).

Equity price risk is controlled through limits on equity exposure, which is determined based on the Society's risk appetite. There is a process, when appropriate, for management action to reduce equity exposure.

Property Price Risk

Property price risk arises from changes in the value of the investment properties held directly or through collective investment schemes.

As at 31 December 2019 the property exposure was £14.4 million (2018: £13.7 million) reflecting the collective investments (REITS) shown within the financial investments in the Statement of Financial Position. This includes shares in investment trusts that "gear up" their property exposure by borrowing money to invest in property above their total net assets.

The property risk capital required under Solvency II (reflecting a 25% fall in property values) before loss absorbency was £3.6 million (unaudited) (2018: £3.4 million) and after loss absorbency £0K (unaudited) (2018: £23K).

Property price risk is managed through setting a maximum exposure and monitoring the value of holdings. There is a process, when appropriate, for management action to reduce property exposure.

Interest rate risk

Interest rate risk is the risk that the value of fixed interest financial instruments will vary as market rates of interest vary and that technical provisions will vary due to changes in the level of risk free rates of return used to discount the underlying cash-flows.

As at 31 December 2019 the interest rate exposure was £69.7 million (2018: £65.2 million) which was the total amount of bonds held both directly or through collective investments. The interest rate risk capital required under Solvency II before loss absorbency was £0.3 million (unaudited) (2018: £0.5 million) and after loss absorbency £0K, (unaudited) (2018: £5K)

The control of interest rate risk is achieved by aiming to ensure that fixed interest securities match the duration of the liability cash-flows underlying the technical provisions. In practice, cash-flow matching is very difficult to achieve and the interest rate risk is mitigated by setting a target mean duration of the fixed interest portfolio. The interest rate risk is managed through regular review and re-assessment of the mean duration and monitoring market interest rates.

Currency Risk

Currency risk is the exposure to fluctuations in currencies in the value of non-sterling denominated assets.

As at 31 December 2019 the currency exposure was £10.6 million (2018: £7.9 million) in the form of direct assets (bonds and equities) and assets held within collective investments. The currency risk capital required under Solvency II before loss absorbency was £2.6 million (unaudited) (2018: £2.0 million) and £0 (unaudited) after loss absorbency (2018: £0).

The currency risk is controlled through limits on holdings of non-sterling currency denominated securities and the overseas equity exposure, which is determined based on the Society's risk appetite. There is a process, when appropriate, for management action to reduce equity exposure.

Credit Spread Risk

Credit spread risk is the sensitivity of the values of corporate bonds to changes in the level or in the volatility of credit spreads. As credit spreads will typically be narrower for well rated securities than for poorly rated securities (and for short duration rather than long duration securities), the Society specifies credit quality limits to the assets in its investment policy.

As at 31 December 2019 the credit spread exposure was £21.9 million (2018: £19.2 million) which was the total of corporate bonds held both directly and through collective investments. The credit spread risk capital required under Solvency II before loss absorbency was £3.5 million (unaudited) (2018: £3.0 million) and after loss absorbency £53K (unaudited) (2018: £89K).

The credit quality steps are Healthy Investment's assessment of the credit quality of the bonds reflecting information from two external rating agencies as provided by its investment managers. The rating agencies provide information on some of the bonds and some of the bonds are rated by one or both of these agencies.

The steps reflect the steps defined within the Solvency II rules with 1 being the highest credit quality and 7 being the lowest. Credit step 3 is normally equivalent to the lowest investment grade step. Credit step 7 reflects bonds under which no rating was available.

The table below shows the exposure of the corporate bonds by credit rating. It may include rounding:

| **Credit quality step** | **HI WPF** | **% holding** | **CAS RFF** | **% holding** | **Total** | **% holding** |
|---|---|---|---|---|---|---|
| | **£'000** | | **£'000** | | **£'000** | |
| **1** | 0 | 0 | 115 | 10 | 115 | 1 |
| **2** | 5,246 | 26 | 227 | 20 | 5,474 | 25 |
| **3** | 12,700 | 61 | 748 | 64 | 13,448 | 61 |
| **4** | 1,746 | 8 | 0 | 0 | 1,746 | 8 |
| **5** | 418 | 2 | 0 | 0 | 418 | 2 |
| **7** | 675 | 3 | 71 | 6 | 746 | 3 |
| **Total** | **20,785** | **100%** | **1,161** | **100%** | **21,946** | **100%** |

The credit spread risk exposure is managed by setting limits on the exposure to counterparties of various risk classifications.

The Society also considers its credit risk and reviews the carrying amount of its financial assets at each statement of financial position date. If the carrying value of a financial asset is impaired, the carrying amount is reduced. This primarily relates to receivables where there is no realistic prospect of recovery. There are no impairment provisions being carried.

An age analysis of the receivables is:

| 2019 | **Not overdue** £ | **<30 days** £ | **>30 days** £ | **Total** £ |
|---|---|---|---|---|
| Loan and other receivables | **863** | **-** | **-** | **863** |
| Insurance receivables | | **14,288** | **7,186** | **21,474** |
| **Total** | **863** | **14,288** | **7,186** | **22,337** |

| 2018 | Not overdue £ | <30 days £ | >30 days £ | Total £ |
|---|---|---|---|---|
| Loan and other receivables | 2,310 | - | - | 2,310 |
| Insurance receivables | | 15,295 | 9,929 | 25,224 |
| Total | 2,310 | 15,295 | 9,929 | 27,534 |

The Society also considers counterparty risk. This is the risk of a loss arising due to a party defaulting on any type of debt. The key area of risk for the Society is the amounts held with banks and other financial institutions.

Counterparty risk is managed through limits on total exposure to individual counterparties. The investment managers provide a quarterly look through of holdings in collective investment schemes.

As at 31 December 2019 the Society's exposure is:

| | |
|---|---|
| Directly exposed to bank accounts | £2.0 million |
| Exposed through collective investments to bank counterparties | £1.3 million |

The amount of capital required under Solvency II stresses of the counterparty risk was £0.3 million before loss absorbency (unaudited) (2018: £0.2 million) and £0K after loss absorbency (unaudited) (2018: £0K).

Liquidity Risk

Liquidity risk is the risk that the Society cannot make payments as they become due because there is insufficient cash or assets that can be realised quickly.

The With-profits financial assets under management are all considered liquid and therefore classified as Level 1 assets.

| | **2019** £'000 | 2018 £'000 |
|---|---|---|
| With-profits cash and marketable securities | **111,636** | 97,237 |

The undiscounted insurance cash-flows expected from the maturity of policies and fixed interest investments are shown in the table below and have been derived from the calculation of discounted technical provisions for insurance contract liabilities.

| Year | Policy cashflows £'000 | Fixed Interest cashflows £'000 |
|---|---|---|
| < 1 year | 7,698 | 4,944 |
| 1 - 3 years | 20,823 | 19,728 |
| 4 - 5 years | 12,596 | 7,168 |
| 6 - 10 years | 30,248 | 14,049 |
| 11 - 15 years | 23,943 | 7,755 |
| 16 - 20 years | 8,140 | 12,886 |
| 20+ years | 2,840 | 24,799 |
| **Total** | 106,289 | 91,330 |

Liquidity is maintained at a level where the Society is confident all claims can be paid without delay to the member. The risk exposure is managed by matching maturities of assets and liabilities and holding investments which can be readily realised. The liquidity requirements are taken in to consideration in the investment matrices set by the Board. No liquidity sensitivity analysis has been undertaken.

The Society also takes into consideration both operational and strategic risk.

### Operational risk

Operational risk covers the losses due to failure of people or processes. The material risks are:

- Data security – the risk of unauthorised access, use or disclosure of data
- IT infrastructure – the risk of system failure, integrity, reliability or effectiveness
- Outsourcing – the risk of a service provider failure, non-performance or ineffective management
- Compliance – the risk of not meeting regulatory or legal requirements
- Reputation – the risk of adverse publicity
- Fraud – the risk of policyholders' funds being misappropriated
- Key person – the risk of the Society losing more than one key member of staff without notice

Management of operational risk is through the close involvement of Senior Managers in the day to day running of the business, a robust data security regime, monitoring of regulatory and legal changes, reporting on compliance issues to the Board, sign off by the Board of all new products, internal operating procedures and controls, internal audit and the Society's succession plan.

### Strategic risk

There is a strategic risk that the Society will not effectively implement its strategy and achieve the objectives of its Business Plan.

The Strategic and Operational Business Plan identified 3 strategic risks that have the potential to affect the achievement of the long term objectives:

- CTF business provides a significant contribution to support the Society's expense base and as they begin to mature from 2020 this contribution has to be replaced.
- Distribution of our products is primarily through Independent Financial Advisers and Introducers. The intermediary market continues to change and there is a risk of not adapting to meet the needs of these channels.
- Failure to grow the business by developing the range of products and distribution channels to meet the needs of existing and new members.

The strategic risk is managed through the implementation of the business plan, the setting of sales objectives and the monthly monitoring of performance.

## 6. Earned premiums

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Single | **7,126,815** | 7,017,463 |
| Periodic | **4,400,910** | 5,049,677 |
| Total Earned Premiums | **11,527,725** | 12,067,140 |

## 7. New business premiums

| Annual Premium Equivalent | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Investment and savings – single premium | **652,224** | 701,746 |
| Investment and savings – regular premiums | **368,390** | 247,489 |
| Unit-linked savings | **50,895** | 54,866 |
| | **1,071,509** | 1,004,101 |

All new business disclosed is the annual premium equivalent with the exception of Unit-linked savings which are accounted for on a deposit accounting basis, and are stated on the same basis as single premium contracts, being 1/10$^{th}$ of the deposited amount.

## 8. Investment income

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Fixed Interest from listed investments | **2,033,821** | 1,866,885 |
| Dividends from listed investments | **3,738,190** | 3,429,497 |
| Interest receivable | **3,331** | 2,191 |
| | **5,775,342** | 5,298,573 |

## 9. Net gains/(losses) on investments

| | 2019 | 2018 |
|---|---|---|
| Investment at fair value through income | £ | £ |
| Fixed interest securities | **4,466,588** | (1,712,149) |
| Equity securities | **13,259,532** | (9,697,296) |
| | **17,726,120** | (11,409,445) |

## 10. Other income

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Other income | **9,724** | 2,600 |
| Unit-linked annual management charges received | **854,021** | 836,730 |
| | **863,745** | 839,330 |

## 11. Net benefits and claims

| | 2019 | 2018 |
|---|---|---|
| | | Restated |
| | £ | £ |
| Deaths | **2,005,263** | 1,500,011 |
| Maturities | **2,561,086** | 2,187,158 |
| Surrenders | **5,643,552** | 4,914,399 |
| | **10,209,901** | 8,601,568 |

## 12. Other operating and administrative expenses

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Commission expenses | **248,558** | 186,967 |
| Employee benefit expenses | **620,612** | 563,814 |
| Investment management charges | **338,126** | 312,813 |
| Auditor's remuneration (note 13) | **82,770** | 88,503 |
| Actuarial and valuation expenses | **190,392** | 184,895 |
| Advertising and marketing | **56,728** | 32,742 |
| Legal and professional fees | **58,293** | 79,567 |
| Other operating and administrative expenses | **159,782** | 265,875 |
| Amortisation of intangible assets | **29,440** | 30,236 |
| Depreciation on property and equipment | **6,703** | (32,872) |
| **Total** | **1,791,404** | 1,712,540 |

Total expenses are consolidated. All expenses incurred on behalf of Rechabite Financial Services Ltd have been met by the Society in 2019. £15 of non-trading expenses was incurred by Rechabite Financial Services Ltd in 2018. Society expenses are £1,791,404 (2018: £1,712,525).

## 13. Auditor's remuneration

| | 2019 | 2018 |
|---|---|---|
| Auditor's remuneration: | £ | £ |
| Audit of these financial statements | **86,400** | 88,503 |
| Less overprovision from 2018 | **(3,630)** | - |
| **Total** | **82,770** | 88,503 |

## 14. Financial instruments carrying amounts

The carrying amounts of the financial assets and liabilities include:

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Assets measured at fair value | **174,902,308** | 151,671,501 |
| Cash deposits | **2,019,718** | 1,431,971 |
| Other assets measured at cost less impairment | **1,325,513** | 1,486,042 |
| **Total financial assets** | **178,247,539** | 154,589,514 |
| | | |
| Liabilities measured at amortised cost | **1,800,898** | 1,294,131 |

The value of financial assets at fair value is determined by reference to their quoted bid price at the reporting date. An analysis of the fair value of financial assets:

| | 2019 | 2018 |
|---|---|---|
| Shares, other variable yield securities and units in unit trusts | £ | £ |
| UK listed | **94,972,616** | 79,083,411 |
| Overseas listed | **10,163,388** | 7,319,278 |
| Debt and other fixed income securities | | |
| UK listed | **69,766,304** | 65,268,812 |
| | **174,902,308** | 151,671,501 |
| | | |
| Assets held to cover linked liabilities included above: | **65,285,690** | 55,329,275 |

The financial assets are all classified as Level 1 assets as they are held on a recognised stock market and are valued at the bid quoted market price. Any changes to the fair value are recognised within net gains/losses on investments within the Statement of Comprehensive Income.

Table of fair value hierarchy of financial assets:

| | | | **2019** | | | 2018 |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2 and 3** | **Total** | Level 1 | Level 2 and 3 | Total |
| | **£'000s** | **£'000s** | **£'000s** | £'000s | £'000s | £'000s |
| Financial assets – fair value through income | **174,902** | **-** | **174,902** | 151,672 | - | 151,672 |

## 15. Investment contract liabilities

| | **2019** | 2018 |
|---|---|---|
| | **£** | £ |
| Investment contract liabilities | **65,215,670** | 55,264,001 |

| Movement in investment contract liabilities | **2019** | 2018 |
|---|---|---|
| | **£** | £ |
| Balance at 1 January | **55,264,001** | 61,164,974 |
| Deposits received from policyholders | **508,950** | 548,664 |
| Payments made to policyholders | **(221,602)** | (201,118) |
| Unit-linked management fees payable | **(854,021)** | (836,730) |
| Change in contract liabilities | **10,518,342** | (5,411,789) |
| **Balance at 31 December** | **65,215,670** | 55,264,001 |

## 16. Insurance contract liabilities

| | **2019** | 2018 Restated |
|---|---|---|
| | **£** | £ |
| Insurance contract liabilities | **99,197,142** | 90,985,039 |
| Provisions (note 29) | **284,755** | 283,577 |
| **Total** | **99,481,897** | 91,268,616 |

| Movement in long term insurance contract liabilities | **2019** | 2018 Restated |
|---|---|---|
| | **£** | £ |
| Balance at 1 January | **90,985,039** | 86,201,395 |
| Model change | **200,417** | (375,881) |
| Mortality assumption change | **(10,707)** | 28,647 |
| Expense assumption change | **493,644** | (271,041) |
| Lapse assumption change | **(94,096)** | (50,759) |
| Economic assumption change | **6,888,493** | 2,038,630 |
| Policy movements | **734,352** | 3,414,048 |
| **Balance at 31 December** | **99,197,142** | 90,985,039 |

## 17. Change in long term contract liabilities

| | 2019 | 2018 Restated |
|---|---|---|
| | £ | £ |
| **Change in long term contract liabilities** | | |
| Increase in insurance contract liabilities | **8,212,103** | 4,783,644 |
| Increase/(Decrease) in investment contract liabilities | **10,518,342** | (5,411,789) |
| Increase/(Decrease) in provisions | **1,178** | (30,403) |
| **Net change in contract liabilities** | **18,731,623** | (658,548) |

## 18. Long term insurance and investment contract liability valuation assumptions

The calculation of the technical provisions requires realistic assumptions on:

- discount rates for future cash-flows
- lapse rates
- expenses and expense inflation
- mortality rates

### Discount rates for future cash-flows

The discount rates are used to discount the expected future net cash-flows to generate a value as at the valuation date. The rates used are spot rates provided by the European Insurance and Occupational Pensions Authority (EIOPA). EIOPA publishes risk-free spot rate curves for each currency on a monthly basis. As the Society's liabilities are all denominated in Sterling the GBP yield curve is used.

Example rates from the implied forward yield curve as at 31 December 2019 are shown in the table below:

| Term to maturity (years) | Risk free rate | Term to maturity (years) | Risk free rate |
|---|---|---|---|
| **1** | 0.716 | **30** | 1.004 |
| **2** | 0.690 | **40** | 0.968 |
| **5** | 0.778 | **50** | 0.923 |
| **10** | 0.914 | **60** | 1.226 |
| **15** | 0.996 | **70** | 1.563 |
| **20** | 1.021 | **75** | 1.710 |
| **25** | 1.018 | **80** | 1.842 |

No judgement has been applied as the risk-free interest rate is supplied by EIOPA.

### Lapse assumptions

For With-profits products, lapse is a generalised term for when a policy is lapsed or surrendered.
For the CTF products a lapse is a transfer of the CTF out of the Society. For the purposes of the valuation we must assume that all CTFs mature at the life assured's 18th birthday as this is the contractual period.

The lapse assumption rates reflect actual experience, based on a Lapse and Partial Withdrawal Investigation carried out as at June 2019. The data used in the investigation is for the period 1 January 2016 to 31 December 2018 inclusive.

Judgement is applied when assessing historical data to ensure the data used is applied appropriately. Judgement is also used where assessing data validity.

### Expense assumptions

The expense assumptions have been set based on the most recent open fund expense analysis of the Society.

The expense analysis projects the Society's budgeted management expenses allowing for expense inflation. The management expenses are split between acquisition, renewal and investment expenses. The acquisition and renewal expenses are further split between administration and overhead expenses.

The analysis also projects the expected premium income, number of in force policies and the With-profits and CTF funds in order to derive appropriate assumptions to cover all expected future management expenses.

For the CTF valuation an assumption is required on the costs incurred by the Society for administering the CTF policies which need to be covered by the annual management charge applied to the policy units. The expected CTF administration costs are based on a Society budget of the expected costs for the forthcoming year and the number of CTF policies in force.

The expense inflation is based on inflation figures from the government bond market (comparing index linked and nominal based UK gilts).

Judgement is used to split expenses between the expense category and the products.

The table below shows the expense assumptions used within the valuation:

| Product | Not Mass Lapse Stress | Mass Lapse Stress |
|---|---|---|
| Healthy Investment CTF | Investment charge of 0.6% of the Fund<br>Administration per policy expense of £0.13 per annum per policy<br>Maturity expense of £3.00<br>Expense inflation of 3.25%. | Investment charge of 0.93% of the Fund<br>Administration per policy expense of £0.13 per annum per policy<br>Maturity expense of £3.00<br>Expense inflation of 3.25%. |
| Other Healthy Investment products | 0.65% of funds under management<br>0.66% of annual premium<br>£13.30 per policy expense<br>Expense inflation of 3.25%. | 0.85% of funds under management<br>1.10% of annual premium<br>£14.73 per policy expense<br>Expense inflation of 3.25%. |

| Product | Not Mass Lapse Stress | Mass Lapse Stress |
|---|---|---|
| Coventry products | For table A policies;<br>£25 per claim not inflating<br><br>For Unibond policies;<br>0.7% funds under management<br>7.5% of premiums.<br><br>For other policies;<br>0.7% funds under management<br>12.5% of premiums. | For table A policies;<br>£25 per claim not inflating<br><br>For Unibond policies;<br>0.7% funds under management<br>7.5% of premiums.<br><br>For other policies;<br>0.7% funds under management<br>12.5% of premiums. |

### Mortality assumptions

Mortality assumptions are based on published standard mortality tables. These are then adjusted by applying a percentage based on the latest analysis of the Society's past experience.

The standard mortality tables used for all products, except the CTF, are the AMC00/AFC00 tables. The mortality table used for the CTF is the English Life Table number 17 (ELT17).

The table below shows the mortality assumptions:

| | |
|---|---|
| Healthy Investment CTF | 53% English Life Tables 17 for ages up to 17 and 71% AMC00 / 84% AFC00 mortality tables for older ages. |
| Healthy Investment Adult Sick and Death | 50% AMC00 and 69% AFC00 series. |
| Healthy Investment Endowment / Whole Life and AWP products | 100% English Life Tables 17 for ages up to 17 and 71% AMC00 /84% AFC00 mortality series for older ages. |
| Supplementary Pensions | 80% PMA00 |
| Coventry Assurance products | 100% English Life Tables 17 for ages up to 17 and 114% AMC00 series / 73% AFC00 for older ages. |

Judgement is used in the selection of the standard mortality tables. Judgement is also applied when assessing historical data to ensure the data used is valid and applied appropriately.

### Tax rates

The current Corporation Tax rate applicable to the Society is 20%. (2018: 20%).

### Level of uncertainty associated with the value of technical provisions

The technical provisions are calculated using financial models and as such there is always an inherent degree of uncertainty. Historical Society experience is used to guide the assumption setting but past experience is no guarantee of future experience.

Analysis of how model results compare to past experience can be used as a guide. The sensitivity of the model results is also central to the assumption setting process. A robust assumption setting process is followed to ensure that any uncertainties are kept to a minimum.

## 19. Intangible assets

| | Goodwill on acquisition | Computer Software | Total 2019 | Total 2018 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Cost** | | | | |
| At 1 January and as at 31 December | **312,361** | **91,946** | **404,307** | 404,307 |
| **Depreciation** | | | | |
| At 1 January | **56,860** | **86,061** | **142,921** | 112,684 |
| For the period | **27,482** | **1,958** | **29,440** | 30,237 |
| At 31 December | **84,342** | **88,019** | **172,361** | 142,921 |
| **Net Book Value** | **228,019** | **3,927** | **231,946** | 261,386 |

## 20. Property, plant and equipment

| | Furniture & Equipment | Land & Buildings | Total 2019 | Total 2018 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Cost / valuation** | | | | |
| At 1 January | **81,682** | **320,000** | **401,682** | 401,682 |
| Additions | **38,700** | | **38,700** | |
| Disposals | **(23,551)** | | **(23,551)** | |
| At 31 December | **96,831** | **320,000** | **416,831** | 401,682 |
| **Depreciation** | | | | |
| At 1 January | **77,197** | **-** | **77,197** | 110,069 |
| For the period | **6,703** | **-** | **6,703** | 32,872 |
| Disposals | **(23,551)** | **-** | **(23,551)** | - |
| At 31 December | **60,349** | **-** | **60,349** | 77,197 |
| **Net Book Value** | **36,482** | **320,000** | **356,482** | 324,485 |

The net book value of the property 2 The Old Court House, Tenterden Street, Bury BL9 0AL is considered to be at fair value. A formal open market valuation was carried out by Trevor Dawson Commercial property consultants in March 2019 for the 2018 yearend and as a result of the valuation the property was revalued upwards back to its original cost.

There has been no depreciation charged on the freehold commercial property in 2019. UK commercial property values have not changed materially in value and as such the current valuation is considered unchanged (CBRE UK Index 2019).

## 21. Investment in group undertakings

The Rechabite Financial Services Limited is a wholly owned subsidiary undertaking.
It has not traded in this year or the prior year.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Cost at 1 January and at 31 December | **1,000** | 1,000 |

Note 21 is only applicable to the Society and not the Consolidated Statement of Financial Position.

## 22. Insurance receivables

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Due from policyholders | **21,474** | **25,224** |
| Due from agents and intermediaries | **863** | **2,310** |
| | **22,337** | **27,534** |

Insurance receivables are all due within one year.

## 23. Prepayments and accrued income

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Accrued dividends | **55,818** | 70,088 |
| Accrued interest | **624,117** | 620,413 |
| Other prepayments and accrued income | **33,813** | 30,506 |
| | **713,748** | 721,007 |

Prepayments and accrued income are all due within one year.

## 24. Insurance payables

| | 2019 | 2018 Restated |
|---|---|---|
| | £ | £ |
| Outstanding claims | **1,496,054** | 1,044,444 |
| Other amounts due to policyholders | **77,253** | 61,813 |
| Due to brokers and intermediaries | **6,019** | 3,100 |
| | **1,579,326** | 1,109,357 |

## 25. Trade and other payables

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Trade payables | **66,930** | 18,967 |
| Other taxes and social security costs | **14,212** | 14,235 |
| Other creditors | **68** | 5,390 |
| Accruals and deferred income | **140,362** | 146,182 |
| | **221,572** | 184,774 |

## 26. Tax on profit on ordinary activities

| | 2019 | 2018 |
|---|---|---|
| **Current tax charge** | **£** | £ |
| Corporation tax on profits of the period | - | - |
| Adjustment in respect of prior years | **420,890** | 12,489 |
| | **420,890** | 12,489 |
| Deferred tax | | |
| Current year | **612,426** | (166,220) |
| Adjustment in respect of prior years | **20,239** | (22,400) |
| | **632,665** | (188,620) |
| **Tax charge/(credit) for the period** | **1,053,555** | (176,131) |
| | | |
| **Reconciliation for tax charge/(credit) for the period** | | |
| Profit/(Loss) on ordinary activities before tax | **5,160,004** | (2,859,962) |
| | | |
| UK Corporation tax at 20% (2018:20%) | **1,032,001** | (571,992) |
| Factors affecting the tax charge at the tax rate: | | |
| Adjustment for (net income not taxable)/expenses not deductible | **(3,394,575)** | 378,730 |
| Adjustment for change in contract liabilities | **3,482,760** | 27,042 |
| Adjustment in respect of prior years | **(56,164)** | (9,911) |
| Other | **(10,467)** | - |
| **Current year tax due** | **1,053,555** | (176,131) |

## 27. Deferred tax

| Deferred tax assets and liabilities are attributable to the following: | 2019 | 2018 |
|---|---|---|
| | **£** | £ |
| Excess expenses | **(223,644)** | (370,000) |
| Unused tax losses | **(92,789)** | (82,620) |
| Unrealised gains | **850,478** | 354,000 |
| **Deferred tax liability/(asset)** | **534,045** | (98,620) |

## 28. Employee expenses

| | 2019 | 2018 |
|---|---|---|
| | **£** | £ |
| Salaries and wages | **555,325** | 483,652 |
| Social security costs | **53,109** | 45,014 |
| Pension costs | **12,178** | 35,148 |
| **Total** | **620,612** | 563,814 |
| | | |
| Average number of employees: | | |
| Executives | **2** | 2 |
| Sales & marketing | **3** | 3 |
| Administration | **6** | 6 |
| | **11** | 11 |

## 29. Provisions

| | Douglas Carr Memorial scheme | Supplementary Pension Fund | Surplus Contribution Fund | Temperance Fund | **2019** | 2018 |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | **£** | £ |
| As at 1 January 2019. | 71,359 | 84,437 | 27,147 | 100,634 | **283,577** | 313,979 |
| Income to the fund | 9,171 | | 270 | 13,087 | **22,528** | 5,649 |
| Increase in provision. | - | 4,054 | - | - | **4,054** | - |
| Amounts paid out in the year. | (2,250) | (11,979) | (9,175) | (2,000) | **(25,404)** | (36,051) |
| As at 31 December 2019 | **78,280** | **76,512** | **18,242** | **111,721** | **284,755** | 283,577 |

The provisions made are in respect of:

- The Douglas Carr Memorial Scholarship Scheme was established to give bursaries to members who are in full time education. Any payments are at the discretion of the Society.
- The Supplementary Pension Fund is in respect of pensions to former officers or spouses.
- The Surplus Contribution Fund is a legacy product.
- The Temperance Fund was created to support charitable initiatives that promote healthy lifestyle choices. Any payments are at the discretion of the Society.

## 30. Contingent liabilities

As at 31 December 2019 there were no contingent liabilities (2018: £nil).

## 31. Fund for Future Appropriations

| Consolidated Statement of Financial Position | **2019** **£** | 2018 £ |
|---|---|---|
| Balance at 1 January | **6,762,766** | 9,446,597 |
| Transfer from/(to) Statement of Comprehensive Income | **4,106,449** | (2,683,831) |
| Balance at 31 December | **10,869,215** | 6,762,766 |

Note 31 shows the consolidated position as per the Consolidated Statement of Financial Position. The Society Financial Position differs by £1,377 which is the reserve of the subsidiary The Rechabite Financial Services Ltd.

## 32. Related party transactions

In 2019 there were no transactions with the subsidiary (2018: £ nil). As at 31 December 2019 the Society owed to the subsidiary an amount of £1,377 (2018: £1,377).

Transactions entered into by the Society's Directors and Committee of Management has all been conducted at arm's length. Some of the Society's Directors and Committee of Management members are members of the Society, and pay annual or monthly premiums to policies.

Details of loans, transactions and arrangements with Directors and their connected persons are included in a register maintained under Section 69 of the Building Societies Act 1986 (as applied to Friendly Societies by part II of Schedule 11 to the Friendly Societies Act), at the Society's principal office. The register is available for inspection during normal business hours.

## 33. Directors' emoluments

| *Non-executive Directors* | **Salary / Fees** | **Pension** | **Bonus** | **Other Benefits** | **2019** | 2018 |
|---|---|---|---|---|---|---|
| | | | | | **£** | £ |
| S Spilsbury | 13,100 | | | | **13,100** | 11,100 |
| P Wyper | 4,800 | 144 | | | **4,944** | 5,848 |
| D Payne | 3,467 | | | | **3,467** | 6,000 |
| P Okell | 9,400 | | | | **9,400** | 6,000 |
| T Birse | 10,600 | | | | **10,600** | 6,600 |
| D Fawell | 9,467 | | | | **9,467** | 2,250 |
| *Executive Directors* | | | | | | |
| P Green | 114,163 | 14,270 | 10,055 | 8,500 | **146,988** | 138,688 |
| K Ashcroft | 75,872 | 9,484 | 3,958 | - | **89,314** | 81,540 |
| | | | | | **287,280** | 258,026 |

D Payne retired as a Board member on 30 April 2019
P Wyper retired as a Board member on 26 June 2019
The aggregate amount of past committee members' pension for the year was £11,979. (2018: £12,702).

## 34. With-Profits Actuary

Below is the information in accordance with Section 77 of the Friendly Society Act 1992.

The Chief Actuary and the With-Profits Actuary was Mr Stephen Dixon of SDA Actuaries.

The Society has requested him to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr S Dixon has confirmed that neither he nor his family, nor any of his associates were members of the Society, nor have they any financial or pecuniary interests in the Society, with the exception of fees paid to Steve Dixon Associates LLP, for professional services. The aggregate amount of fees billed in the year was £158,000 (2018: £185,000).

## 35. Post Balance Sheet Event

The Directors consider the emergence of the coronavirus pandemic during 2020 as a non-adjusting post Balance Sheet event.

There are extreme conditions arising in global financial markets since the year end due to coronavirus. The key factors and risks emerging from this to which the Society has been exposed to are reduced equity values and movements in risk-free rates. This has impacted on both the value of member assets and the level of solvency.

Equity prices have fallen significantly since 31 December 2019 and the Society's equity investments in its Ethical With-profits Fund have fallen in value by £8.2 million as at 31 March 2020.

Yields on fixed income securities, such as government bonds, have generally fallen since the start of the year. For example, the yield on UK 10 year gilts has fallen from 84bps at 31 December 2019 to 39bps as at 31 March 2020. The risk free rate used to calculate the insurance contract liabilities has also fallen since the start of the year, by on average 46bps. This has increased the insurance contract liabilities by £4.1million. This increase is offset by the £1.9 million increase in gilts and corporate bonds in the same period since the year end due to yield reductions and widening of corporate bond spreads.

It is worth noting that as at the end of April 2020 gilts and corporate bonds have further increased in value by £3 million, with a corresponding £1.5 million increase in insurance contract liabilities.

Eligible Own Funds have decreased by £7.7 million since the year end due to asset values falling by more than technical provisions with the Solvency Capital Requirement (SCR) net of loss absorbency decreasing by £1.4 million. The Minimum Capital Requirement (MCR) is now greater than the SCR. The overall eligible Own Funds less MCR has decreased by £6.6 million and the solvency coverage has reduced from 306% at the year-end to 176% as at 31 March 2020.

Despite the impact of coronavirus the Society remains well capitalised and is in excess of the Society's risk appetite to have net assets of at least 150% of the capital requirement, with an absolute floor of 125%.

## 36. Society Information

The Rechabite Friendly Society Limited
Incorporated and registered in England and Wales

### Registered office

2 The Old Court House
Tenterden Street
Bury
Greater Manchester BL9 0AL

Tel: 0161 762 5790
Fax: 0161 764 3557
E-mail:enquiries@healthyinvestment.co.uk
Web: www.healthyinvestment.co.uk

# HealthyInvestment

ethical investments since 1835

**Healthy Investment**
**2 The Old Court House**
**Tenterden Street**
**Bury**
**Greater Manchester**
**BL9 0AL**

**Tel: 0161 762 5790 Fax: 0161 764 3557**

**enquiries@healthyinvestment.co.uk**
**www.healthyinvestment.co.uk**

Healthy Investment is the trading name of The Rechabite Friendly Society Limited.
Registered and incorporated under The Friendly Societies Act 1992. Register No 218F.
Authorised by the Prudential Regulation Authority and regulated by The Financial Conduct Authority and the Prudential Regulation Authority.
Financial Services Register 109994.

Member of the Association of Financial Mutuals (AFM).