The Red Rose Friendly Society Limited

158th Annual Report and Accounts for the Year Ended 31 December 2021

Contents

Society Information

Board	Anthony Totham FCA, CTA Mark Sedgley ACII Alan Guest CITP, MBCS Anthony M Hedley FCA, Chartered FCSI Timothy Williams
Officers	Chairman: Anthony Totham FCA, CTA Chief Executive: Mark Sedgley ACII
Registered Office	Parkgates 52a Preston New Road Blackburn Lancashire BB2 6AH
Independent Advisers and Consultants	
Appropriate Actuary	Stephen Dixon Steve Dixon Associates LLP Oaks House 12-22 West Street Epsom Surrey KT18 7RG
Auditor	Royce Peeling Green Ltd The Copper Room Deva City Office Park Trinity Way Manchester M3 7BG
Internal Auditor	Hayes & Co St Andrews House 11 Dalton Court Commercial Road Darwen BB3 0DG
Bankers	The Co-operative Bank Central Commercial Bank PO Box 250 Skelmersdale WN8 6WT
With Profit Fund Managers	Quilter Cheviot 73 King Street Manchester M2 4NG

The Society is:
Registered under the Friendly Societies Act 1992, number 43 coll.

Authorised by the Prudential Regulation Authority and Regulated by the Financial Conduct Authority and Prudential Regulation Authority number 110097.

Strategic report

The Board welcomes you to the Annual Report and Accounts for the year ended 31 December 2021. The aim is to provide a breakdown of both the financial and non financial information that helps the reader understand the progress the Society has made regarding the major risks and challenges it faces, the way the Society is governed and the outlook for the future.

Business review

2021 was a year of partial recovery from the covid -19 pandemic, the investment markets began to show signs of recovery and working with our actuarial team and investment managers we were able to go back into the equity markets in the with profits portfolio. This is important to members as the long term investment returns and growth is required to provide bonuses on policies.

The Red Rose Shariah ISA has continued its popularity with significant levels of new business during 2021 and this has continued in 2022, despite global events and difficult economic factors that have affected investment performance across all markets, including the Shariah's ISA 's underlying fund. As a Board we are excited at the growth in this and impact this will have on the future of the Society. The investment performance of the fund was very good in 2021 however since the war in the Ukraine in 2022 it has lost some of that growth.

2021 was the launch year of our additional fund within our ISA range -The Ethical, Social and Governance (ESG) Fund. This had a steady start through 2021 and we look forward to seeing this grow like the Shariah fund. The Board feels that this type of new fund sits perfectly with the ethos of the Society and research shows that many people, especially younger people who are looking for their first regular savings for the long term, want their investments to have a positive impact on how business treat their employees and the environment. We feel that it will appeal to members who Child Trust Funds mature in the future.

The Society has continued to work closely with Credit Unions promoting our Family Group Funeral Plan which is being well received by their members. Many of the Credit Unions are offering it as part of the benefits they offer to their members. We look forward to developing relationships with more Credit Unions over the coming years.

We are very grateful for the referrals that we receive from our existing members, we believe this demonstrates that many of our members are happy with the products and the level of customer service that we offer and shows that we have an important part to play in our members' financial planning.

The Board thanks our Chief Executive, Mark Sedgley and all his team for their hard work and dedication during the year, maintaining the high standards of customer service and we thank all our professional advisers for their assistance to the Society.

Future Developments

During 2021 we launched online applications and this has been very well received. Towards the end of the year we have been able to introduce online valuations for our ISA products, this has been very well received and we are continuing to develop this with additional features in 2022.

We are also looking at expanding our program of engaging with teenagers and young adults by visiting local colleges to explain the CTF maturity options and to help them have a better understanding of personal financial planning, including budgeting and the importance of saving regularly. We feel that this is an important part of our work and is in line with the ethos of the Friendly society movement and part of our own commitment to the social aspects of the principles of ESG within the local community.

We will also be looking at refreshing the board during the year, both Anthony Headley and Alan Guest have said that they would step down once new board members are settled in. I would like to thank them for all their hard work over many years and especially during the last two years with the difficulty of Covid-19.

Results and Performance

The results in 2021 have been impacted by the movements in our investments and these show net unrealised gains for the year of £1,802,311(2020: unrealised losses of £938,550) and net realised gains of £4,073 (2020: realised losses £611,644).

Net earned premium income increased from £833,824 to £1,052,803, the main reason is the increase in funds invested into the Shariah ISA's.

Policy maturities and claims paid to members increased to £1,298,624 (2020: £904,970).

Our running costs remain under tight control and fell from £373,667 to £363,596. With constant upward pressure on prices, the Board believe this shows careful management of the Society for its members.

In overall terms, our Fund for Future Appropriations fell marginally from 16.67% of the with profits fund to 16.22% but as noted previously our capital resources are in excess of the regulatory requirements.

The Board, after taking into account recommendations from the Appropriate Actuary, has ensured that policyholders receive their 'fair share' of the profits made by the Society over the term of their investment via the Asset Share calculation process.

Principal risks and uncertainties facing the Society

Note 4 to the accounts details the principal risks that face the Society and the policies and procedures that are in place to minimise these risks.

Climate change

The Board understands the importance of combatting climate change for the future of the planet and its inhabitants. We fully support the PRA initiative to ensure the industry has sufficient focus on this area of risk to business models, from a morbidity, mortality and investment risk perspective.

The Chief Executive has specific responsibility for monitoring these risks to the Society and his Governance Responsibilities have been updated to reflect this. He, and other Board members have developed an understanding of the issues by attending AFM seminars and reading relevant publications and articles.

The Society has made good progress with investment risk and engages with the Investment Manager as part of the ongoing monitoring and investment strategy. Whilst the morbidity and mortality risks are possibly decades away, we will be looking in more detail at these during 2022 including actuarial input and gathering the views of others in financial services to consider their impact and form our strategy.

As noted earlier, we have launched a specific ISA to enable members to invest in an ESG fund, one of the main principles of which is to invest in companies that are improving their impact on the climate.

The other aspect to climate change is what the Society can do itself to reduce our carbon footprint. Like many other businesses, we made use of technology to hold meetings remotely during the pandemic and we intend to continue this as often as possible to reduce the impact of travel. We have also modernized our customer service practices so that much more communication is via email, and applications and valuations can be completed via the website. This greatly reduces our paper usage and reliance on postal services thereby reducing our carbon footprint.

Approval of the strategic report

The Strategic Report was approved by the Board on 7 June 2022 and signed on its behalf by Anthony Totham, Chairman.

Anthony Totham

Anthony Totham
Chairman
7 June 2022

Corporate Governance Report

The AFM UK Corporate Governance code

The Society acknowledges the importance of strong corporate governance and as a member of the Association of Financial Mutuals, the Board aims to implement the UK Corporate Governance Code (the Code) as best practice where practical, with consideration of a proportionate approach in view of the size of the Society.

The Code comprises six principles:

Purpose and Leadership; Board Composition; Director Responsibilities; Opportunity and Risk; Remuneration, and Stakeholder Relationships and Engagement. This Report explains how the Society has adopted these principles.

Principle One: Purpose and Leadership

‘An effective board promotes the purpose of an organisation and ensures that its values, strategy and culture align with that purpose’.

The principal activity of the Society is the transaction of long- term assurance within the United Kingdom through the provision of ISA, JISA, CTF and With-profits policies.

The Society aims to

- provide low cost life and investment policies to the less well-off at premiums which are affordable to the Society’s identifiable market place,
- remain below the Solvency II threshold (currently 25m Euro of technical provisions)
- provide and maintain a high level of service to members,
- manage investments to the satisfaction of its members,
- ensure that the Society follows all regulations and conforms to the Corporate Governance Code.

Whilst at the same time

- generating new policy sales at a level which will aim to ensure that the Society’s premium income increases year on year,
- controlling expenditure within strict guidelines,
- utilising the Society’s resources for the best benefit of members,
- maintaining a high quality and honest image of the Society,
- seeking to reflect the views of members in the products provided by the Society,
- providing good terms of employment for the Society’s employees.

Culture and Values

The Society has a tradition of helping its members in times of need and all staff members are acutely aware of the need to support our members. This often manifests itself in the provision of excellent customer service and empathy when dealing with members, whether it is someone struggling to pay premiums, requiring a lump sum to assist them or dealing with a death claim for a famiy member.

The Board meets mostly on a monthly basis, more frequently than most other organisations, to ensure that it remains close to the business, staff and members. This means that the management by the Board can be faster paced and more dynamic.

Principle Two: Board Composition

'Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.'

The Board comprises a range of suitable skills and experience that are relevant to lead the Society. Details can be found in the brief biographies later in this section of the report. The Board comprises 5 members, including the Chief Executive, which the Board believes to be an appropriate size given the size and complexity of the business.

Diversity: The Board has carefully considered the recommendations about diversity and has agreed that, in view of the size of the Board, it is very difficult to set targets for any one group. The Board is committed to ensuring that the Society is served by Board members who have both relevant experience and appropriate skills regardless of sex or ethnic background.

Independence: Three Board members have served over nine years but the Board believes that they remain independent both in their judgment and actions and their knowledge of the Society's business and its background and history provide a solid foundation to the Board's understanding of how it should be managed. These Board members are subject to annual re-election.

The Board constantly and regularly evaluates the performance and ability of each Director, and also the necessary balance of expertise and experience shown by the Board as a whole. The Board is confident that the present balance of knowledge and wide experience of each individual Director, covering accountancy, investments, information technology and marketing and all round business activities serves the Society well.

However, the Board is committed to an orderly refreshment of its composition and two members will be retiring before the 2023 Annual General Meeting (Alan Guest and Anthony Hedley). Therefore two new Board members are currently being sought and whilst they will not be able to be voted onto the Board at this year's Annual General Meeting (due to the timescale for recruitment and the date of the Annual General Meeting Vote), they will be co-opted onto the Board as soon as they are recruited. Subject to their successful integration, they will then put themselves up for election onto the Board at the 2023 Annual General Meeting. Messrs Guest and Hedley will remain on the Board until such time that the new Board members are contributing effectively at which point they will stand down.

All vacancies for appointment to the Board are advertised so that nationwide coverage is achieved. We do not use the services of external recruitment agency due to the high costs involved but do ensure that the vacancy is open to all people with the necessary skills regardless of sex, religion, age or ethnic background.

The Chief Executive also holds the role of Company Secretary as the Board do not consider it appropriate from a cost point of view to employ another person in this role.

The Board Directors are:

Chairman - Anthony Totham: A fellow of the Institute of Chartered Accountants in England and Wales and a member of the Chartered Institute of Taxation. Tony trained with a multi-national firm of accountants and since 1991 has been a partner of a local practice in Blackburn having considerable experience in taxation and advising owner managed businesses. He will be offering himself for re-election at the 2022 Annual General Meeting.

Chief Executive - Mark Sedgley: Mark has over 30 years' experience in financial services and has worked for several successful mutual societies as well as two of the largest financial services firms in the UK. He has held many senior roles including Chief Executive and he brings a wealth of experience to the Board. Mark was voted onto the Board for an initial 3 year term at the 2015 Annual General Meeting and is offering himself for re-election at the 2022 Annual General Meeting.

Non-executive Directors:

Alan Guest: Chartered IT Practitioner and member of the British Computer Society. He spent 32 years in local government with Blackburn Borough Council and Lancashire County Council as a Project Manager. He will be offering himself for re-election at the 2022 Annual General Meeting.

Anthony M Hedley: A Fellow of the Institute of Chartered Accountants in England and Wales and a Chartered Fellow of the Chartered Securities and Investment Institute. He is a director in a local firm of stockbrokers where he has been for over 40 years. He will be offering himself for re-election at the 2022 Annual General Meeting.

Timothy A Williams: Tim has worked at many levels within a variety of large multi-national UK Financial Services companies. More recently, with a colleague, he formed a successful Financial Services business that now employs 18 people. He is also a non-exec director of a firm responsible for the oversight of a Model Investment Portfolio service. Tim was voted onto the Board for an initial 3 year term at the 2015 Annual General Meeting and is offering himself for re-election at the 2022 Annual General Meeting.

Principle Three: Director Responsibilities

'The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.'

Responsibilities of the Board

The Board is responsible for safeguarding the assets of the Society and ensuring that the Society is able to discharge the duties imposed on it under the regulations governing Friendly Societies. It ensures that all accounting and other records are kept in a form which enables the Board to have timely and accurate information to enable it to meet any obligations to its members or the FCA & PRA regulations and The Friendly Societies Act 1992. It also ensures that information can be extracted promptly so that the Board can monitor and control the performance of the business and the risks to which it is exposed at any moment in time.

The Board is also required to prepare financial statements for each financial year which give a true and fair view of the state of the Society's affairs and of its profit or loss for that period. In preparing those financial statements, the Board are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Society will continue in business.

The Board is also responsible for long term and short term strategic planning which includes, amongst other responsibilities:

i) Views on the markets in which the Society operates.
ii) Identification of the Society's strengths and weaknesses.
iii) Strategic aims and actions needed to achieve those aims.
iv) Major resource implications of the strategic aims.
v) Financial implications for the Society based on several different assumptions.
vi) Corporate planning including the strategic aims and how these will be achieved.
vii) Monitoring of the achievement of the Corporate Plan and Targets.
viii) Annual budget and cash flow forecasting against actual performance.
ix) Business Continuity Planning.
x) Information Technology and access to information and data.
xi) Human Resource planning, staffing and appointment of new directors.
xii) Risk identification, controls responsibility, delegation of certain responsibilities to the Chief Executive.
xiii) Documentation of procedures and controls.
xiv) To receive reports and recommendations of the sub committees.
xv) To monitor, control and appraise the performance of the Chief Executive and ensure the Society remains fully compliant with the FCA and PRA regulations.
xvi) Complying with the Code of Corporate Governance where possible.
xvii) Decisions on major expenditure, new products/ventures.

Responsibilities of the Chairman

To lead the Board effectively and to liaise with the Chief Executive in his day to day duties.

The Chairman is required to ensure, in setting the agenda for meetings of the Board;

- that all directors receive accurate, timely and clear information,
- that constructive relations between executive and non-executive directors exist,
- the effective contribution of non-executive directors, and
- the Board's effectiveness on all aspects of its role.

It is also the Chairman's responsibility

- to ensure that all members of the Board continually update their skills and knowledge of the business, to enable them to fulfil their role on the Board,
- to ensure that they undertake a formal and rigorous evaluation of the Board as a whole and its individual members and to use the results of this evaluation to recognise the strengths and weaknesses of the Board, and
- where appropriate to make recommendations to the Board that new members be appointed or that existing members are asked to resign.

Responsibilities of the Chief Executive

The Chief Executive is directly responsible to the Board and holds delegated powers for the day to day management of the Society. These include:

- Staff attendance, performance and training,
- Cost control of the budget agreed by the Board,
- Oversight of the sales target agreed by the Board,
- Risk control, monitoring and identification, including climate change.

Decisions on major capital expenditure, investments, new products, risk assessments, new ventures, recruitment of senior managers, non-executive directors and engagement of professional advisers are the responsibility of the Board.

Training for Board members

All new members of the Board undertake an induction course on joining the Society. Throughout the year all Board members undertake further training at meetings with our actuaries and investment manager as well as being kept fully up to date throughout the year with the constant changes in legislation and regulations. Every effort is made by members of the Board to attend appropriate seminars and conferences and each member attending such functions reports on all items of interest at the next Board meeting.

Meetings

The Board meets regularly (usually monthly) and at such other times when necessary. Two meetings are held with the Society's actuaries to discuss the valuation results, the Financial Condition Report and the Asset Share Report. A minimum of two meetings are held annually with the investment managers to discuss and revise the investment strategy in light of market conditions and one meeting is held annually with the Society's auditors before each Annual General Meeting to discuss the year end results. All these professionals maintain constant contact with the Society throughout the year by phone, letter and e-mail to ensure any changes in regulations or market conditions which could affect the Society are dealt with immediately.

Appraisals

The Chairman is appraised annually by the Senior and Non-Executive Directors without the Chairman being present and the result of this appraisal is communicated to the full Board at their next meeting.

The Chairman undertakes the appraisal of the Chief Executive with the assistance of all the Non-Executive Directors without the Chief Executive being present. He also conducts individual interviews with all Non–Executive Directors of the Board. At that interview the performance of each Board member is discussed, as well as their ability to commit sufficient time to discharge their duties to the Society correctly and their training and support needs where required. The results of these appraisals are communicated to the full Board at the next meeting following appraisal.

Principle Four: Opportunity and Risk

'A board should promote the long term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.'

Opportunities

A standing item at every Board meeting ensures that the Society is constantly looking at opportunities to promote the Society and its existing products. In addition, new products are considered where member feedback suggests they could be popular and of benefit to the members (both as individuals and on a cost -benefit analysis to the With-profits fund). This strategy has been very successful in recent years with the launch of the Shariah ISA in 2019 and Sustainable ISA in 2021. The new ISA is a modern ethical fund, based on ESG principles (Environmental, Social and Governance).

Input from members also means that the Society is hoping to further improve the customer experience and increase new business levels by enhancing the online valuation information what was introduced last year.

Risk Management

The Board recognises the importance of the identification and management of risk within the business. This therefore forms an integral part of day to day operations, procedures and Board discussions. Investment risk is managed directly by the Board and Appointed Actuary. This is achieved by setting parameters for various asset classes within which the Investment Managers operate. In addition, to protect the long term viability of the Society and bonus rates payable on relevant policies, an investment strategy plan has been prepared for any significant fall in equity values whereby agreed proportions of the equity holdings within the fund would be disposed of if the value of equities in the portfolio falls below various trigger points.

Whilst the overall responsibility lies with the Board, the Audit and Risk sub-Committee ensures the effectiveness of the risk framework and procedures.

A quarterly program of internal audits, plus one 'surprise' audit is carried out annually. The Society employs a local firm of Chartered Accountants to undertake the internal audit role. The firm reports directly to the Audit sub-Committee which ensures that the Chief Executive acts on the findings and investigate any significant issues. Areas for improvement in procedures are identified and implementation is monitored closely.
In addition, a separate firm of Chartered Accountants undertake the annual external audit, which includes reviewing the effectiveness of procedures, including Risk Management.

The Audit sub-Committee reports directly to the full Board identifying any matters in respect of which it considers action or improvements are needed and making recommendations as to the steps to be taken.

Principle five: Remuneration

'A board should promote executive remuneration structures aligned to the long term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.'

The Board believes that the remuneration structure for the Chief Executive and other staff members is appropriate for the size of the Society in comparison to its peers. No long term incentive plan is in place but all staff are eligible for annual bonuses based upon their own development and contribution to the business, with a view to the overall performance of the Society.

Non-Executive Board members, including the Chairman are remunerated by way of an annually fee, paid quarterly. No bonuses are paid to the Non-Executive Board members

Principle Six: Stakeholder Relationships and Engagement

'Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.'

The management of the Society is a very flat structure and the Board receives feedback from members, claimants and enquirers for new business via staff members directly and through the Chief Executive. This enables both staff and Board members to be aware of areas of the business that are causing concern for customers, and those that are meeting or exceeding their needs. A culture of constant review and improvement, together with the Society having a small number of staff, means that the Society is agile and can make adjustments to processes and IT swiftly when necessary.

Members of staff play a key part in all areas of the Society's development, including website alterations and improvements, and new product design and development. This enables the Board to have input from both staff members, who will deal with the administration and customers' phone calls, and the members themselves via comments made to staff members.

The Corporate Governance Report was approved by the Board on 7 June 2022 and signed on its behalf by Anthony Totham, Chairman.

Anthony Totham

Anthony Totham
Chairman

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Board Report for the year ended 31 December 2021

Board

Chairman	Anthony Totham FCA, CTA
Non-executive Directors	Alan Guest CITP, MBCS Anthony M Hedley FCA, Chartered FCSI Timothy Williams
Chief Executive	Mark Sedgley ACII
Secretary	Mark Sedgley ACII

Remuneration report

Remuneration and fees paid to Board Members were as follows:

Chairman	£14,320	(2020: £14,040)
Chief Executive	£95,226	(2020: £94,860)
A Guest	£9,547	(2020: £9,360)
A M Hedley	£9,547	(2020: £9,360)
T Williams	£9,547	(2020: £9,360)

The Chairman is a partner in Hayes & Co, the Society's internal auditor, which received fees of £4,800 (2020: £4,800) for internal audit services during the year. The internal audit is managed by another partner in Hayes & Co and the reports are dealt with by the Audit Committee on which the Chairman does not sit.

Attendance at Board meetings during 2021

	Possible	Actual	
Anthony Totham	12	12	Chairman
Mark Sedgley	12	12	Chief Executive
Alan Guest	12	12	Non-executive Director
Anthony M Hedley	12	12	Non-executive Director
Timothy Williams	12	12	Senior Independent Director

Red Rose Friendly Society objectives as set by the Board

To ensure the financial viability and long term future of the Society, the following objectives have been set:

- To increase new business sales of existing products whilst remaining below the Solvency II technical provisions threshold of 25m Euro
- To maintain a strong position with existing members in areas where the Society is most active.
- To explore opportunities for increased sales in areas where the Society is most active.
- To examine the areas where the Society has a low level of activity and explore areas for expansion.

Whilst carrying out these activities, the Society will constantly review its range of products to ensure that they meet the requirements of its identified priorities and will

- Continue to monitor budgets of all of the Society's fixed and variable costs.
- Continue the risk management processes.
- Ensure that it is accountable for its activities by following the regulations and requirements of relevant Government regulators and agencies, the Corporate Governance Code and the written Rules of the Society.

The challenges facing the Society can be summarised as follows:

- To have a long term aim of maintaining the free assets at a level of 15% of non CTF Funds.
- Continued careful control of its budget.
- Ensuring sufficient volumes of new business are written to offset maturities and surrenders.
- The ability to increase bonus levels.
- Increasing the level of equity investment in the With-profits Fund without taking undue risk to the Society's solvency position.
- Ensuring that policyholder's expectations are met.

How will these challenges be met?

- Maintaining free assets will be assisted by increasing the level of investment in equities in our portfolio of investments.
- Tight control of the budget will continue, and there is a constant search for opportunities to reduce fixed and variable expenses wherever possible.
- It is one of the Board's priorities to increase the level of bonuses being paid to members, but any increase in bonus rates will need to be driven by improvements in solvency. The main mechanism by which this could be achieved is a reasonable period of above average investment returns (over 4% a year). Ongoing close monitoring of investment markets takes place by both the investment managers and Board members. The Board is very conscious that any significant fall in the value of its equity investments would impact on the level of solvency.
  In agreement with the investment manager and the appropriate actuary, the Board has prepared an investment strategy plan for this event which involves disposal of equities at certain trigger points in the value of the equity holdings.
- The Board will continue to ensure that policyholders' expectations are met by keeping bonus levels at the highest level possible, ensuring that all policyholders are treated fairly in the distribution of bonuses through the asset share distribution method, and efficient customer service. This will be achieved also by ensuring claims are processed and paid out when due without any delay and by ensuring that members are treated with respect and consideration at all times by the staff and management.
- The Society will seek to build on its relationships with the local Asian heritage members as this now forms a significant proportion of all new business. Staff members have built up excellent relationships with these members and a significant amount of the Society's new business is achieved through recommendations.

Sub Committees

Meetings are also held of the Audit Committee and the Resources, Recruitment and Nominations Committee.

Audit Committee

Members: Anthony M Hedley (Chairman)
Alan Guest
Timothy Williams

The role of the Audit sub-Committee is:

- to monitor the integrity of the annual financial statements,
- to review significant financial reporting judgements contained in them,
- to review the Society's internal financial controls and risk management and monitor the formal announcements relating to the Society's performance,
- to review and monitor the effectiveness of the internal and external auditors' independence, objectivity and the effectiveness of the audit process.

Resources, Remuneration & Nominations Committee

Members: Anthony M Hedley (Chairman)
Alan Guest

The role of this Committee is:

- to monitor the resources available within the Society,
- to monitor and advise on board/staff recruitment,
- to recommend to the Board the appropriate level of salary paid to executives and Directors.

This Committee meets as required to consider resources, recruitment and the organisational structure of the Society.

This Committee examines those skills and knowledge required for the Board both on an ongoing basis and also should there be a vacancy it assists with the appointment of senior members of the team.

The Committee reports directly to the full Board identifying any matters where it considers action or improvements within the structure of the Society are needed and makes recommendations as to how these could be achieved.

Association of Financial Mutuals

The Society is an active member of the Association of Financial Mutuals and has adopted its Charter as a condition of membership. This Charter lays down strict practices and principles for its members and a copy is available to any of our members upon request.

Donations

No donations were made during the year.

Sponsorship

No sponsorships were entered into in 2021.

Appointment and provision of information to auditors

Each of the persons who are Board members at the time when this Report of the Board is approved has confirmed that:

So far as the Board member is aware, there is no relevant audit information of which the Society's auditors are unaware, and each Board member has taken all steps that ought to have been taken as a Board member in order to be aware of any information needed by the Society's auditors in connection with preparing their report and to establish that the Society's auditors are aware of that information.

The Board Report was approved by the Board on 7 June 2022 and signed on its behalf by Anthony Totham, Chairman.

Anthony Totham

Anthony Totham
Chairman

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE RED ROSE FRIENDLY SOCIETY LIMITED

We have audited the financial statements of The Red Rose Friendly Society Limited for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2021 and of its deficit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, including FRS 102 and 103; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Society and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Our application of 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. The application of materiality involves both quantitative and qualitative considerations.

We determined materiality to be £41,000 (2020: £48,000) which is approximately 5% of the Fund for Future Appropriations/ net assets. We consider net assets to be the most appropriate benchmark as it is a stable key performance indicator used by the Society in assessing performance.

On the basis of our risk assessment, together with our assessment of the Society's overall control environment, our judgement is that the overall performance materiality level should be 75% of planning materiality, namely £31,000 (2020: £36,000).

We have reported to the Board all audit differences in excess of £1,500 (2020: £1,800), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

At the conclusion of the audit, we re-assess the materiality levels based on the audited financial statements and then compare this with the planning materiality. The result of this assessment showed there was no significant change to final materiality and we are satisfied with the levels set at the planning stage.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THE RED ROSE FRIENDLY SOCIETY LIMITED (continued)

Our assessment of the risks of material misstatement

The specific risks of material misstatement set out below are those which had the greatest effect on the audit strategy, the allocation of resources in the audit and directing the efforts of the audit team.

Risk	How the scope of our audit responded to the risk
Revenue is not recognised accurately and completely.	We documented systems and performed testing to confirm the systems appear to be operating as documented. We also validated a sample of transactions. We checked investment income received to third party data to test completeness.
The accounts are misstated due to the effects of management override.	We reviewed bank transactions throughout the year and since the year end for material and round sum amounts and evidenced these back to appropriate documentation and authorisation. We reviewed journals and other transactions greater than performance materiality to identify transactions of a higher risk nature and substantiated these to appropriate evidence. We reviewed the completeness of accounting estimates. We checked the consistency and appropriateness of accounting policies and disclosures in the financial statements.
Technical provisions are materially misstated.	We assessed the competence of the actuary engaged by the Society and reviewed his work. We substantively tested the integrity of the Society’s policy administration data to ensure the data being used by the actuary was accurate. The testing included sample checks on premium income streams, claims paid and data integrity checks on key fields. We reviewed the reasonableness of the assumptions used in the calculation and considered the information provided by the actuary as to whether those assumptions were reasonable and the impact they had on the calculation.

The description of risks above should be read in conjunction with the significant issues considered by the Board discussed in note 4.

Other Information

The Board is responsible for the other information which 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. We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THE RED ROSE FRIENDLY SOCIETY LIMITED (continued)

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

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

Matters on which we are required to report by exception
Under the Friendly Society Act 1992 we are required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents that we required for our audit.

We have nothing to report in respect of these matters.

Responsibilities of the Board
As explained more fully in the Board's Responsibilities Statement set out on page 7, the Board is 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 Board determines 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 Board is responsible for assessing the Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

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

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

- At the planning stage of the audit, to help us make appropriate risk assessments we gain an understanding of the laws and regulations which apply to the Society and how management seek to comply with them.
- During the audit we focus on relevant risk areas and review compliance with laws and regulations through making relevant enquiries and corroboration by, for example, reviewing Board Minutes and Sub-committee Minutes and other relevant reports and correspondence.
- We assess the risk of material misstatement in the financial statements through

  I. Review of controls set in place by management
  II. Enquiry of management as to whether they consider fraud or other irregularities may have occurred or where such opportunity might exist
  III. Challenge of management assumptions with regard to accounting estimates
  IV. Identification and testing of journal entries, particularly those which may appear to be unusual by size or nature.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements, or non-compliance with regulation. This risk

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE RED ROSE FRIENDLY SOCIETY LIMITED (continued)

increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we are less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

Use of our report

This report is made solely to the Society's members, as a body, in accordance with section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters that 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 any responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions that we have formed.

Royce Peeling Green Limited

Martin Chatten (Senior Statutory Auditor)
For and on behalf of
Royce Peeling Green Limited
Chartered Accountants & Statutory Auditor
The Copper Room
Deva City Office Park
Trinity Way
Manchester M3 7BG 7 June 2022

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2021

Technical account: Long-Term Business	Notes	**2021**	2020
		£	£
Net Earned Premium Income	5	1,052,803	833,824
Investment Income	6	129,352	141,910
Unrealised gains on Investments	7	1,802,311	0
Realised gains on Investments	7	9,040	0
Other income		0	30,061
Total technical income		**2,993,506**	**1,005,795**
Gross benefits and claims	8	1,298,624	904,970
Claims ceded to reinsurers	8	0	0
Net benefits and claims		**1,298,624**	**904,970**
Change in Long Term Business liabilities	17	1,420,613	(1,193,805)
Bonuses and rebates	9	18,850	33,927
Net operating expenses	10	363,596	373,667
Investment expenses and charges	11	21,844	23,369
Unrealised losses on investments	7	0	938,550
Realised losses on investments	7	4,967	611,644
Tax attributable to the long-term business		0	0
Transfer to/(from) the Fund for Future Appropriations	16	(134,988)	(686,527)
		1,694,882	**100,825**
Balance on the Technical account: Long-Term Business		**0**	**0**

STATEMENT OF FINANCIAL POSITION
at 31 December 2021

	Notes	2021	2020
		£	£
Assets			
Investments			
- Investment in subsidiary undertakings	13	**3,000**	3,000
- Other financial investments	13	**5,889,209**	6,475,712
		5,892,209	6,478,712
Assets held to cover linked liabilities	13	**12,767,493**	10,657,247
Debtors			
- Other debtors	14	**11,493**	15,505
Other assets			
- Tangible assets	15	**221,973**	229,086
- Other financial assets		**0**	0
- Cash at bank and in hand		**103,715**	274,322
Prepayments and accrued income			
- Other prepayments & accrued income		**8,989**	11,164
Total assets		**19,005,872**	17,666,036
Liabilities			
Fund for future appropriations	16	**824,926**	959,914
Technical provisions			
- Long term business	17	**5,086,118**	5,756,901
- Claims outstanding		**255,048**	219,916
Technical provision for linked liabilities	18	**12,767,493**	10,657,247
- Claims outstanding		**0**	0
Creditors			
- Other creditors		**72,287**	72,058
Total liabilities		**19,005,872**	17,666,036

The financial statements on pages 18 to 40 were approved by the Board of Directors on 7 June 2022 and signed on its behalf by:

Anthony Totham *Mark Sedgley*

Anthony Totham
Chairman
7 June 2022

Mark Sedgley
Chief Executive

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2021

1. Significant accounting policies

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

1.1 Basis of preparation

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

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies that have been applied consistently by the Society and its subsidiaries to all periods presented in these financial statements are set out below.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires the Board to exercise its judgement in the process of applying the accounting policies selected for use by the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

Consolidated accounts have not been prepared on the grounds that the results and balances of the subsidiaries, which are dormant, are not material.

1.2 Going Concern

After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. The Covid-19 outbreak that happened in 2020 has continued to impact to the Society, not only in the Society's investments, insurance risk, income from new business and also operationally. As set out in note 3 the Society has capital in excess of the regulatory capital requirement for a non-directive society as at 31 December 2021 therefore the Board believes it is appropriate to prepare the financial statements on a going concern basis. The Society therefore continues to adopt the going concern basis in preparing its financial statements.

1.3 Accounting for net earned premiums

Regular premiums on long-term insurance and participating investment contracts are recognised as income when received. For single premium business, recognition occurs on the date from which the policy is effective. Reinsurance premiums payable are accounted for when due for payment.

1.4 Accounting for investment income

Investment income includes dividends and interest from investments. Dividend income is recognised when the right to receive payment is established. Other investment income is included on an accruals basis.

1.5 Accounting for net gains/(losses) on investments

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

Unrealised gains and losses on investments represent the difference between the valuation of fair value assets at the Statement of Financial Position date and their valuation at the previous Statement of Financial Position date or, where purchased during the year, the purchase price.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

1. Significant accounting policies (continued)

1.6 Accounting for other income
Other income primarily relates to ground rents and is recognised when received by the Society.

1.7 Accounting for claims and benefits
Maturity claims are accounted for when due for payment. Surrenders are accounted for on the earlier of the date when paid or when the policy ceases to be included within the long-term insurance contract liability.

Death claims are accounted for when the Society is notified. The value of claims on participating contracts includes bonuses paid or payable. Reinsurance recoveries are accounted for in the same period as the related claim.

1.8 Accounting for long term insurance liabilities
The long-term business provision is determined by the Board on the advice of the Appropriate Actuary as part of the annual actuarial valuation of the Society's long-term business. The provision is initially determined in accordance with the requirements of the Prudential Sourcebook for Insurers. In accordance with normal insurance practice, certain reserves required for the statutory valuation returns are not required to be included in these accounts that are designed to present a true and fair view. This adjusted basis is referred to as the modified statutory solvency basis. This makes sufficient provision for future expenses of fulfilling the long-term contracts and includes a provision for existing reversionary bonuses and current reversionary bonuses declared as a result of the valuation. Future reversionary bonuses are implicitly provided for by use of valuation rates of interest below those expected. No provision is made for terminal bonuses, which can be varied at any time depending on investment conditions. These liabilities are calculated using historic Society experience.

1.9 Accounting for mutual bonuses
Bonuses to policyholders are recognised in the Technical Account Long-Term Business when declared and terminal bonuses when paid.

1.10 Accounting for Financial Investment
Financial Assets are designated upon initial recognition at fair value through profit and loss on the Statement of Financial Position.

The fair value is based upon quoted prices on the statement of financial position date.

Net gains or loss arising from changes in the fair value are presented in the Statement of Comprehensive Income within 'unrealised gain on investments' or 'unrealised losses on investments' in the period in which they arise.

1.11 Accounting for property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

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

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

1. Significant accounting policies (continued)

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

Long Leasehold Property	2%
Fixtures, Fittings and Furniture	12.5%
Computer Equipment	33.3%

1.12 Accounting for impairments of non financial assets

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

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

1.13 Accounting for cash and cash equivalents

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

Cash and cash equivalents are measured at market value.

1.14 Accounting for leases

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

1.15 Accounting for retirement benefits

The Society has an Auto Enrolment Pension Scheme.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Society’s obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

1. Significant accounting policies (continued)

1.16 Accounting for deferred acquisition costs

In respect of insurance contracts, acquisition costs comprise all direct and indirect costs incurred in writing new contracts. Acquisition costs are written off in the year in which they are incurred so no deferred acquisition costs will be carried forward.

1.17 Accounting for foreign currencies

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

Currently all assets are denominated in sterling.

1.18 Accounting for the Fund for Future Appropriations

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

1.19 Statement of Cash Flows

As a Mutual Life Assurance Society, under FRS102 the Society is exempt from the requirements to prepare a cash flow statement.

1.20 Accounting for Taxation

The Society recognises a current tax liability on the taxable profits of its taxable business. It also takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is material and that it is probable that a liability will crystalize.

2. Critical accounting judgements and estimates

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

Fair value of financial assets

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

2. Critical accounting (continued)

Long term business provision

The valuation of participating contract liabilities is based on assumptions reflecting the best estimate at the time. The valuation of non-participating insurance contracts is based on prudent assumptions; a separate calculation is also performed to assess the non-participating value of in-force business which is based on best estimate assumptions allowing for a margin of risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects the Board's best current estimate of future cash flows.

The assumptions used for mortality are based on standard industry tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for investment returns, expenses and mortality are based on current market yields, product characteristics, and relevant claims experience.

The assumptions used for discount rates are based on current market risk rates, adjusted for the Society's own risk exposure. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

3. Capital Management

Policies and objectives

The Society's objectives in managing capital are:

(i) The Society will always have sufficient funds available to meet its contractual obligations to policyholders

(ii) The Society's exposure to risk is managed to ensure that the capital resources available always meet the minimum capital requirements set out by the PRA

(iii) To give confidence to policyholders and other stakeholders who have relationships with the Society and

(iv) The Society will have sufficient capital resources available to fund its growth expectations

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

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

The capital requirement is the statutory minimum capital requirement as required in the PRA Rulebook.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

3. Capital management (continued)

Capital Statement
The following table sets out the capital available:

	2021		2020	
	£		£	
Fund for future appropriations	824,926		959,914	
Less: Inadmissible assets	(9,450)		(9,599)	
Adjustments for valuation differences	(115,000)		(132,000)	
		700,476		818,315
Capital available to meet regulatory capital requirements		700,476		818,315
Regulatory capital requirements		560,000		560,000
Capital in excess of regulatory capital requirements		**140,476**		**258,315**

The movement in capital resources is as follows

	Amount £000s
Capital available as at 1 January 2021	**818**
Change in valuation basis	95
Change in expense overrun reserve	12
Cost of reversionary bonus	(19)
Investment surplus	97
Expense loading	(142)
Change in resilience reserve	5
Economic factors	31
Valuation surplus	(197)
Model changes	0
Available capital resource as at 31 December 2021	**700**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

3. Capital management (continued)

Measurement and monitoring of capital
The capital position of the Society is monitored on a regular basis and reviewed quarterly by the Board of Management.

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

Available capital – Long term insurance contracts
The liabilities in respect of the Society's participating (with-profits) business are determined in accordance with the regulations of the PRA. The Society does not write sufficient business nor have sufficient reserves to be included in the EU Directive on Solvency (Directive 2009/138/EC) requirements. The Society is a non-directive friendly society i.e. a non-solvency 2 firm under the PRA rulebook

The assets are taken at market value. The whole of the available capital resources is available to meet the regulatory and other solvency requirements of the fund.

Sensitivity of long-term insurance contract liabilities
The value of the long term insurance contract liabilities is sensitive to changes in market conditions and to the demographic assumptions used in the calculations, such as mortality.

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

Demographic assumptions
Changes in mortality, lapse or expense experience by the Society may result in the need to change the assumptions used to value the liabilities. This may increase or reduce the value placed on liabilities. The sensitivity of the liabilities to changes in the assumptions varies according to the type of business. For example, a change in mortality rates has a greater impact on whole life liabilities than ISAs.

4. Risk management and control

The table below sets out the exposure to life insurance risk using the regulatory value of liabilities after allowing for the cost of the declared reversionary bonus:

	2021 **£**	**2020** **£**
Ordinary Business	4,626,909	5,265,590
Industrial Business	459,209	491,311
CTF and ISA's	12,767,493	10,657,247
Total policyholder liabilities	**17,853,611**	**16,414,148**

FRS 103 requires a Society which issues insurance contracts to make certain disclosures regarding their insurance risk. The required information is summarised below.

4. Risk management and control (continued)

a) Objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks:

The Society is principally exposed to risks in relation to lapses, expenses, market, credit and liquidity.

The objective of the Society is to minimise those risks (such as expenses) which are seen as primarily negative in their impact on the Society or policyholders and to carefully monitor and balance those risks (such as market risk) where a positive outcome is of benefit to the members and policyholders.

The principal methods involve:

i. Holding reserves to meet the obligations of the Society,
ii. Monitoring and managing internal and externally generated reports that provide information about the performance or level of key indicators,
iii. Closely matching investments to policy liabilities where those liabilities are tightly defined,
iv. Actively managing the investment portfolio after taking advice from the Appropriate Actuary about the nature and term of the liabilities and the parameters appropriate to limit downside risks

b) Nature and extent of risks arising from insurance contracts

Insurance risk

Insurance risk is risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses.

The Society sells insurance and financial investment products. The types of products include life, participating and non-participating insurance. A variety of assumptions are made when a product is designed and priced. The assumptions are based on Society and industry past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

These assumptions are used to develop the initial measurement of insurance contract liabilities and form the insurance risk. The setting of these assumptions requires a significant amount of professional judgment and therefore, actual experience may be materially different from assumed experience which results in the nature of the insurance risk exposure.

To the extent that emerging experience is more favourable than assumed in the measurement of insurance contract liabilities, surplus will emerge. If emerging experience is less favourable, losses will result. The Society's objective is to ensure that sufficient insurance contract reserves have been set up to cover these obligations.

The following risk factors are components of insurance risk:

Mortality risk

This is the risk that death claims are different than those assumed in pricing or the most recent valuation of actuarial liabilities, adversely impacting income. This risk includes both mis-estimation in pricing, and adverse experience resulting from any combination of weak underwriting, anti-selection by policyholders, or improper claims assessment.

Lapse risk

This is the risk that withdrawals and lapse rates are different than those assumed. This risk can occur on both insurance and investment contracts.

4. Risk management and control (continued)

Lapses that are higher than assumed are usually detrimental, especially if they occur prior to recovering costs to issue a policy, or at a time when the guarantees underlying the with-profits contracts are onerous.

Expense risk

This is the risk that maintenance expense levels will be higher than those assumed. This can arise from an increase in the unit costs or an increase in expense inflation relating to economic conditions. This risk can occur on insurance and investment contracts.

The Society manages insurance risk by establishing Board approved policies and guidelines for product development and product pricing which require that all material risks be provided for at the time of product design and pricing of new products and expenses are closely monitored.

The table below sets out the impact on the long term contract liabilities for movement in key assumptions:

	Increase in policyholder liabilities £000s
Increase in mortality rates by 15%	60
Increase in expenses by 10%	46
Decrease in valuation interest by 0.5%	154

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to fulfil its payment obligations. Worsening or continued poor economic conditions could result in borrower or counterparty defaults or downgrades and could lead to increased provisions or impairments related to the Society's invested assets and an increase in provisions for future credit impairments to be included in insurance contract liabilities. The Board approved Investment Policy sets out the policies and procedures to manage these risks.

Asset portfolios are monitored and reviewed regularly by the Board.

i) Maximum exposure to credit risk

The Society's maximum exposure to credit risk related to financial instruments and other assets is the carrying value of those assets, net of any allowances for losses. The Society's maximum credit exposure is as follows:

Assets	**2021** £	**2020** £
Bonds	4,323,910	6,156,768
Equities	1,041,390	0
Deposits & Debts	103,715	274,322
Other investments – non linked benefits	523,909	318,944
Other investments – for linked benefits	12,767,493	10,657,247
Total	**18,760,417**	**17,407,281**

4. Risk management and control (continued)

ii) Concentration of credit risk

Concentration of credit risk arises from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics.

The Society has investment targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

Total exposure includes the sum of the Society's investment in bonds, equities, money market Instruments and financial instruments.

Bonds and other fixed-term securities

Other than constraints imposed by liquidity requirements, there is no upper limit to the amount of the Society's total assets that can be invested in bonds.

The following table provides details of the carrying value of bonds by type.

	2021
	£
Government Bonds	682,966
Bond Collectives	3,640,944
	4,323,910

Equities

Investments in equities are limited to 35% of total assets.

Equities held by sector are shown below:

	2021
	£
Energy	37,550
Materials	45,176
Industrials	46,081
Consumer Discretionary	35,063
Consumer Staples	55,901
Health Care	37,296
Financials	84,226
Information Technology	24,885
Utilities	9,538
Real Estate	19,268
UK Collectives	43,335
Overseas Collectives	532,189
Emerging Markets Collectives	70,882
	1,041,390

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

4. Risk management and control (continued)

Investment land and buildings

No land and building investments were held by the Society at 31 December 2021 apart from the Society's office property.

Liquidity risk

Liquidity risk is the risk that the Society cannot meet its obligations associated with financial liabilities as they fall due. The Society has adopted an appropriate liquidity risk management framework for the management of the Society's liquidity requirements. The Society manages liquidity risk by maintaining a proportion of its assets in cash and investing in marketable securities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. Liquidity management ensures that the Society has sufficient access to funds necessary to cover insurance claims, surrenders, withdrawals and maturing liabilities.

There were no changes in the Society's liquidity risk exposure in the financial year nor to the objectives, policies and processes for managing liquidity risk.

Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the Society in managing its market risk is to ensure risk is managed in line with the Society's risk appetite.

The Society has established policies and procedures in order to manage market risk and methods to measure it.

There were no significant changes in the Society's market risk exposure in the financial year nor to the objectives, policies and processes for managing market risk.

Below are the key factors that underlie market risk:

i) Currency risk

The Society denominates all of its insurance and investment contracts in Sterling.

As part of its investment diversification policy, the Society can hold certain investments denominated in foreign currencies. As a result, foreign exchange risk may arise from assets denominated in these currencies.

Currently all assets are denominated in Sterling.

ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Society is exposed to interest rate risk as the Society invests in long term securities at both fixed and floating interest rates. The risk is managed by the Society by maintaining an appropriate mix between fixed and floating rate borrowings.

Interest rate risk also exists in products sold by the Society. The Society has no significant concentration of interest rate risk. The Society manages this risk by adopting close asset/liability matching criteria, to minimise the impact of mismatches between asset and liability values arising from interest rate movements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

4. Risk management and control (continued)

iii) Equity market risk

The Society invests in equities it is exposed to price risk arising from fluctuations in the value of equities as a result of changes in the market prices.

This is a significant risk for the Society. Assets held to provide returns on with profit policies comprise a substantial portion of equity assets. The positive return on these assets is used to provide part of the addition of bonuses to the with profit policies. The risk is managed by the Society maintaining an appropriate mix of investment instruments, actively monitoring the level of prices in the stock markets and having the right to apply a market value reduction if policies are surrendered at a time when equity markets are stressed.

Summary of current market risk sensitivities

	Change in surplus assets (£000s)
Fixed interest yields rise by 1%	(117)
Fixed interest yields fall by 1%	136
Equity values fall by 10%	(191)
Equity values rise by 10%	191

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

5. Earned Premium Income

	2021	2020
	£	£
Gross premiums written	1,052,803	833,824
Outward reinsurance premiums	0	0
Net Earned Premium Income	**1,052,803**	833,824

All contracts are written in the UK.

6. Investment Income

	2021	2020
	£	£
Income from investments at fair value through income:		
- Interest income	120,773	101,909
- Dividend income	8,879	40,001
Investment Income	**129,352**	141,910

7. Net unrealised gain/(loss) on investments

	2021	2020
	£	£
Investments at fair value through income:		
- Non linked Investments	(120,608)	125,961
- Linked Investments	1,922,919	(1,064,511)
Investments in Society undertakings	0	0
Net gain/(loss) on investments	**1,802,311**	**(938,550)**

Net realised gain/(loss) on investments

	2021	2020
	£	£
Investments at fair value through income:		
- Non linked Investments	(4,967)	(478,258)
- Linked Investments	9,040	(133,386)
Net gain/(loss) on investments	**4,073**	**(611,644)**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

8. Claims Incurred

	2021	2020
	£	£
Long-term insurance		
Benefits and claims paid	1,298,624	904,970
	1,298,624	904,970
Claims ceded to reinsurers	0	0
Total Claims Incurred	**1,298,624**	**904,970**

9. Bonuses and rebates

The Board declared a mutual bonus of £18,850 (2020: £33,927) in respect of the year ended 31 December 2021, for those participating policies.

10. Net operating expenses

	2021	2020
	£	£
Long-term insurance		
Acquisition costs	109,680	107,432
Administrative expenses	253,916	266,235
Net operating expenses	**363,596**	**373,667**

Net operating expenses include the following:

	2021	2020
	£	£
Long-term insurance		
Fees payable to the Society's auditor for the audit of the annual accounts	17,700	17,400
Depreciation on tangible fixed assets	7,603	8,533
Operating lease rental charges	2,848	2,848

11. Investment expenses and charges

	2021	2020
	£	£
Investment management expenses	21,844	23,369
Investment expenses and charges	**21,844**	**23,369**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

12. Employee benefits expense

	2021	2020
	£	£
Wages and salaries	207,364	199,477
Social security costs	13,379	12,058
Pension costs	10,183	9,666
Employee benefits expense	**230,926**	**221,201**

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

	2021	2020
Board and senior management	5	5
Administration	4	4
	9	**9**

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

	2021	2020
	£	£
Wages and salaries (including social security)	122,223	121,503
Pension costs	9,286	9,267
Key management remuneration	**131,509**	**130,770**

Full details of directors’ emoluments are contained in the Remuneration report on page 11.

13. Investments

a) Investments in Subsidiary undertakings

	2021	2020
	£	£
Cost less provisions at 1 January 2021	3,000	3,000
Additions	0	0
Reduction in carrying value including write offs	0	0
Cost at 31 December 2021	**3,000**	**3,000**

The Society has examined the carrying value of its subsidiaries and concluded that a provision for impairment was not necessary in regard to these investments in 2021.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

b) Other financial investments

	2021 £	2020 £
Financial assets – Fair value through income		
Shares, other variable yield securities and units in unit trusts		
- UK listed	1,041,390	0
- UK unlisted	523,909	318,944
- Overseas listed	0	0
- Overseas unlisted	0	0
Bond and other fixed income securities		
- UK listed	4,323,910	6,156,768
UK unlisted	0	0
	5,889,209	6,475,712
Financial assets – at market value		
Deposits with credit institutions	0	0
	5,889,209	**6,475,712**

c) Assets held to cover linked liabilities

	2021 £	2020 £
Financial assets – Fair value through income		
Shares, other variable yield securities and units in unit trusts		
- UK listed	0	0
- UK unlisted	12,767,493	10,657,247
- Overseas listed	0	0
- Overseas unlisted	0	0
Bonds and other fixed income securities		
- UK listed	0	0
	12,767,493	**10,657,247**

14. Debtors

	2021 £	2020 £
Due from members	0	0
Loans to subsidiaries	0	1,310
Prepayments	11,493	14,195
	11,493	**15,505**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

15. Tangible assets

	Long Leasehold Properties	Computers and Office Equipment	Total
	£	£	£
Cost			
At 1 January 2021	250,000	67,042	317,042
Additions	0	490	490
Disposals	0	0	0
At 31 December 2021	**250,000**	**67,532**	**317,532**
Accumulated Depreciation			
At 1 January 2021	30,000	57,956	87,956
Provided in the year	5,000	2,603	7,603
Disposals	0	0	0
As 31 December 2021	**35,000**	**60,559**	**95,559**
Net Book Value			
At 31 December 2021	**215,000**	**6,973**	**221,973**
At 31 December 2020	220,000	9,086	229,086

The leasehold land and buildings included above were recognised using a previous valuation by the Board after taking appropriate advice, based upon an open market existing use value, as a deemed cost on transition to FRS 102. These assets are being depreciated from their valuation date of 31 December 2014. The historic cost of these assets is £203,455 (2020 - £203,455).

16. Fund for Future Appropriations

	2021	2020
	£	£
Long-term business		
At 1 January 2021	959,914	1,646,441
Transfer included within comprehensive income for the year	(134,988)	(686,527)
At 31 December 2021	**824,926**	**959,914**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2021

17. Long-term business provision

a) Analysis of insurance contract liabilities

	2021 **£**	**2020** **£**
Participating insurance contract liabilities	4,405,020	4,937,553
Non-participating insurance contract liabilities	681,098	819,348
Total insurance contract liabilities	**5,086,118**	**5,756,901**

b) Movement in long-term insurance contract liabilities

	2021 **£**	**2020** £
At 1 January 2021	**5,756,901**	**5,961,646**
Mortality assumption change	-	(2,934)
Valuation interest rate change	(95,441)	33,124
Policy movements	(594,192)	(268,862)
Cost of bonus	18,850	33,927
At 31 December 2021	**5,086,118**	**5,756,901**

18. Technical provision for linked liabilities

Linked fund	**2021** **£**	**2020** **£**
At 1 January 2021	**10,657,247**	**11,612,378**
Premiums received	545,764	267,707
Deaths, maturities, surrenders and transfers	(178,301)	(27,544)
Investment income and growth	1,386,181	(1,195,294)
At 31 December 2021	**12,767,493**	**10,657,247**

19. Lease commitments

Non cancellable operating leases	**2021** **£**	**2020** **£**
Within one year	2,778	2,778
Between one and five years	11,750	11,750
In more than 5 years	24,872	27,650

The Operating leases relate to photocopiers, franking machine and a 125 year lease on the Society's premises. This commenced in March 1996 with a ground rent of £300 p.a. payable.

20. Long term insurance liabilities valuation assumptions

Interest rates

The gross interest rate without any adjustments for tax or bonus is calculated by allocating appropriate assets to the policy groups shown below. The weighted average yield for that group is then calculated. For fixed interest stocks, the yield is reduced by an appropriate factor based on the perceived risk of each individual bond or collectives. The weighted is further reduced by 2.5% to allow for risk as specified by the regulations.

The weighted average yields based on the appropriate asset mix has not been restricted to the maximum reinvestment rate stated in the regulations. This implies there will be no reinvestment in the future on the valuation basis i.e. claims and expenses will be greater than premium and investment income. The maximum reinvestment rate allowed by the regulations was 1.35% after allowing for the 2.5% risk adjustment.

An allowance for investment expenses equal to 0.36% is made and a deduction of 20% for taxable policies. Given the falls in the financial markets in March, there has been no allowance for future bonus in the interest rate.

The resultant interest rates were:

	Interest rate
Industrial Branch with profits tax exempt	1.2%
Ordinary Branch Series I, II & III with profits tax-exempt	1.2%
Non-profit tax-exempt	1.2%
Industrial Branch with profits taxable	0.9%
Ordinary Branch Series I, II & III with profits taxable	0.9%
Non-profit taxable	0.9%
CTF, Shariah & ESG ISA expense reserves	1.2%
Expense Reserve	1.1%

Mortality assumptions

A mortality investigation was completed as part of the year end actuarial valuation. The mortality investigation used data from the preceding three financial years. The mortality assumptions used in the statutory valuation were:

Business	**Assumption**
Ordinary Branch (Ages 0-16)	145% ELT 16
Ordinary Branch (Ages 17+)	145% AMC00 ultimate
Industrial Branch	145% ELT 16
CTF	35% ELT 16
Shariah ISA & ESG ISA	145% AMC00 ultimate

AMC00 is the assured lives tables generated by the actuarial profession based on experience between 1999-2002 for males, collected from UK insurance companies and published in CMI Working papers 21 and 22, 2006 and CMI report 23, 2009.

English Life Table No. 16 is a decennial life table for males and females based on the mortality experience of the population of England and Wales during the three years from 2000 to 2002.

Expenses

The net premium method is used to value the liabilities.

For with-profit policies, the net premium is restricted to a proportion of the office premium to give a margin for future expenses and for future bonuses. Non-profit policies are valued on the same assumptions but do not allow for future bonuses in the level of restriction applied.

There is an acquisition cost adjustment to the pure net premium. The adjustment increases the net premium assumed to be received by a sufficient amount to cover 3.5% of sum assured (a limit stated in the regulations).

The restriction is 70% of the premium collected for Industrial Branch products, 80% of premiums collected for Ordinary Branch policies with pre 1999 entry dates and 90% for Ordinary Branch policies with post 1999 entry dates.

For the Family Group Funeral Plan, the expense allowance is 10% of the office premiums.

For the Child Trust Fund (CTF) and Shariah ISA a sterling or non-unit reserve is calculated by projecting the annual management charge after the resilience drop versus the expenses and other costs in the basis. The expenses allowed for in this calculation are:

Product	Charge by investment manager	Remaining expenses
CTF	0.1%	£0.62pa administration and £6.11 maturity expense plus future RPI (taken to be 3.75%).
Shariah ISA	0.375%	£6.40pa administration plus future RPI (taken to be 3.75%).

The total expenses incurred by the Society were analysed between those that would occur if the Society closed to new business twelve months after the valuation date and those that would not. The expenses of the Society have been projected over a six year period after which a transfer of engagements is assumed to take place at a cost of £100,000. No additional reserve was required as the expenses are covered by margins within the valuation.

Persistency – lapses and surrenders

No allowance for lapses and surrenders has been included.

21. Appropriate actuary

The Society has made a request to the Appropriate Actuary to furnish it with the particulars specified in Rule 9.36 of the Accounts and Statements Rules. The Appropriate Actuary has confirmed that he does not have any pecuniary interest in the Society nor any of its investments. Fees payable to the firm in which the Appropriate Actuary is a director amounts to £21,038 including value added tax (2020: £41,413). The Appropriate Actuary received no other pecuniary benefit from the Society.