The Oddfellows
SINCE 1810
making friends, helping people

Reports & **Financial Statements 2017**

For the Year Ended
31 December 2017

Board of Directors and Advisors

**INDEPENDENT ORDER OF ODD FELLOWS
MANCHESTER UNITY FRIENDLY SOCIETY LIMITED**

Registered under the Friendly Societies Act 1992

Register No. 223 F

REGISTERED OFFICE:	Oddfellows House 184-186 Deansgate Manchester M3 3WB
BOARD OF DIRECTORS:	
CHAIRMAN:	A P Luckett, Grand Master
	W J Henchliff, PPGM, Deputy Grand Master
	V P Ashcroft, Immediate Past Grand Master
	S P Doulton Smith, PGM, Term Director
	C E Vaughan, PGM, Term Director
	D Randall, PPGM
	D Ogden, PPGM
	W S Connolly (External Non-Executive Director)
CHIEF EXECUTIVE AND SECRETARY OF THE ORDER:	C J Nelson, FCCA, FCMA DiploD
INSURANCE DIRECTOR:	S J Code, MBA
CHIEF ACTUARY:	M Green, FIA, (Willis Towers Watson Limited)
WITH PROFITS ACTUARY:	K Miller, FIA, (Willis Towers Watson Limited)
SOLICITOR:	Hill Dickinson LLP
AUDITOR:	Deloitte LLP
TAX:	Pricewaterhouse Coopers (PwC) LLP
BANKER:	Lloyds Banking Group PLC

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Overview

I am pleased to report that in 2017, the Society continued to successfully meet the challenges it faced, both centrally and for all our Branches. For the first time in over eight years, the Monetary Policy Commission (MPC) at their meeting in November raised the base rate by 0.25% to 0.50%. The volatility generally in the stock market in 2017 remained low but continued its previous growth and, as at the end of 2017 was some 7.6% higher than at the end of 2016. The forecasters and economists appear to think that a further base rate increase could well happen before the end of 2018, but that of course remains to be seen. The forecast by many for inflation is some reduction in 2018 to anything between 2.2% and 2.6%. The expectations are that volatility will continue to be low, and that the potential returns from equities will be high single digit returns as opposed to the double digit returns experienced in the last couple of years. What all agree on though, is that the returns will be dividend based with share prices potentially being detrimentally affected if Companies projected results are not met. Achieving good returns in investments in this market will still remain a challenge. For our Branches, the range of investment opportunities that are made available to them through Unity Office gives them the opportunity to take advantage of the returns being achieved, which are appropriate to the nature of the assets backing those funds. By Unity Office and its Branches maintaining a balanced portfolio across the different asset classes of equities (UK and Global), Fixed Interest (Gilts and Bonds), Property (both direct holdings and through a Fund) and cash, we try to ensure that no Branch or Unity Office investment is overly affected by movements in one asset class, nor indeed, one holding within an asset class.

The Society is now well into the regulatory environment of Solvency II that came into force in January 2016. The Society's second ORSA (Own Risk and Solvency Assessment) report was agreed at the December 2017 Board Meeting and this year included more specific scenarios that the Society is likely to consider in 2018. The ORSA continues to be more embedded within the breadth of the Society's business operations and, as a result, the Board has become more confident in its risk management and strategic decision making processes.

Membership of the Society in overall terms fell in 2017, with total membership as at 31 December being 314,876 of which 239,195 were CTF members.

In terms of Branch membership, the numbers continued to reduce through deaths and lapses, and by the end of 2017 there were 53,547 Lodge members. With the age of our membership profile it is inevitable that there will be some deaths each year. Recruitment and, equally as importantly, retention, remain a key objective for the Society and all its Branches, as without that, the future is challenging in terms of Branch membership. In this regard it was gratifying to see how many of the Society's Branches did recruit new members in 2017 and in greater numbers than previous years. There is obviously still room to grow to try and at least gain as many new members as we lose through deaths alone, but the passion of the Branches in delivering service to our members and the positivity that so many are now showing is tangible.

As a Society, we use Social Media via Facebook (www.facebook.com/OddfellowsUK) and Twitter (www.twitter.com/oddfellowsuk) as vehicles for telling both our membership and the general public about who we are and what we do. Following on from the success of the workshops held in 2016, further training sessions on Social Media were held in 2017 and as a result, by the end of the year the Society had 52 Branches operating effective and up to date Facebook pages which are being used to interact with their members and show what is happening in their locality. Guidance and support continues to be given to any Branch who wants to set up their own page to be on brand with the Society and make the best use of what Social Media has to offer and given the success of the training in the last two years this will continue going forward.

Development and growth are key to any organisation and this includes the Society and its Branches. By the end of 2017 95% of the Society's Branches were actively developing and trying to grow, of which 77% had SMART plans in place. That was a real game changer in 2017 and the members at Branches as well as the staff supporting them from Unity Office are to be congratulated for their achievements. This gives us a great basis on which to go forward into 2018 and beyond. As previously mentioned, as well as those Branches that are able to develop there are those that cannot. During 2017 there were a few more Branches that chose to transfer to another Branch so that their chance of success and growth is more secure because they realise that "doing nothing is not an option". Those Branches who have not gone down this path of transfer nor are developing are still in discussions and receiving 'Strategic Visits' by Directors to discuss their future and this work will continue into 2018 to help strengthen the future of the Society. Branches are not alone whilst they are developing and all Branches have a dedicated Branch Development Officer to help and assist them in their endeavours.

Chief Executive's Operational Report

We are living through a time where there are continuing cut backs in services and increased public awareness of loneliness being such a massive issue in the UK. It is organisations like ours, therefore, that have such a role to play within society at large to support members both in terms of services and also those critical areas of being welcoming and friendly to try and address and support those people who are lonely without that "neighbourly" friend. I truly believe that as a Society, we are well placed to deliver to our members and to prospective new members, services and products which will help them in these challenging times. This is our opportunity to make Oddfellows known to all and we should grasp that opportunity with both hands.

With effect from 1 January 2018, the membership package, as agreed at the Annual Conference in May 2017, was amended to give both existing and new members the option of which type of membership they want. One option with no discretionary financial benefits and one that does have those benefits. This offering does, in our mind, give everyone that choice, so that they can decide what aspects they want from their membership. The take up of both these packages will, of course, be monitored so that we can see which offering is the one that appears most attractive to our members.

I mentioned last year that we relaunched the Society's website in February 2017. It has a fresh new and vibrant feel and the increased visits and usage of the website can now be measured through the use of Google Analytics. We can now measure how many people visit the site, how long they stay on the site, which pages they visit etc., which then means we can see which elements they are finding interesting and engaging. The website is very much a part of our brand and our literature was also refreshed in 2017 to ensure that it too reflected the new brand.

The Society continues to manage and develop its Long Term Business across four key elements. Firstly, managing the run-off of the legacy business which aims to achieve a balance between policyholders' reasonable expectations, expense management and maintaining the required solvency capital requirements. Secondly, the Society remains open to inward transfers of engagement opportunities although no transfers took place in 2017. Thirdly, new product development opportunities continue to be investigated and the business case to launch a Lifetime ISA in 2018 is currently being assessed. Finally, compliance with all legal and regulatory requirements remains a key priority for the Society. During the first quarter of 2018 our Insurance business will be rebranded as 'Unity Mutual' and a new website will be launched.

Summary

If recent years are anything to go by, I am sure that 2018 will see as many challenges as 2017. New Governance proposals in terms of the structure of the Board will be placed before the Annual Conference in May which I believe will strengthen the Society. I am excited about seeing how the Society will develop both from a fraternal perspective as well as an Insurance perspective. I will continue to work with our Branches to ensure that there is growth and continuity which in turn will strengthen the Society. I believe the Society is well placed both fraternally and from a Long Term Business perspective to meet all the challenges head on and drive the Society forward. Now is our time and we must take every opportunity that we can.

Finally, I would like to offer my thanks to the Branch Secretaries, Branch Committees of Management, all our volunteers, the Staff at our Offices in Manchester and Liverpool and all my colleagues on the Board for their hard work, support and enthusiasm during the year.

C J Nelson
Chief Executive Officer
27 March 2018

Strategic Report

This Report has been compiled in line with Section 414c (amended) from the Companies Act which the Financial Reporting Council (FRC) has indicated should be considered best practice.

Business objectives and activities

The Society's aim is to improve the quality of life of its members by meeting their social and welfare needs through a mutual national Branch network and provide a fair return to its policyholders.

In order to achieve this aim, the Society's main objectives are:

- To ensure that the Branch delivery of our core product is of a high standard throughout the UK.
- To expand and rejuvenate the Branch Network, ensuring that there are sufficient Branches within the UK meeting members' expectations providing them with access to our core product.
- To proactively seek incoming Transfers of Engagements from other Friendly Societies thus giving those policyholders access to the range of supportive benefits we offer.
- To ensure the Society remains fully compliant with the requirements of Solvency II.
- To focus recruitment of new members via local promotion of Branches and the services and facilities they offer.
- To ensure that the necessary schemes are in place to assist Branches to retain their membership.
- To increase the number of active members within the Society via Social events and then encouragement to involve them in more local participation.
- To ensure that benefits and services remain attractive to both existing and prospective members, the Society will monitor other schemes and benefits with affinity partners.
- To investigate the Corporate Market with a view to opening up more geographical areas of the country.
- To ensure the Society has in place effective Compliance, Risk, Management, and Governance arrangements.
- To ensure that payments are made to policyholders at the appropriate time and that free assets in the Long Term Business (LTB) funds are distributed in a manner that is fair across policy types and over generations of policyholders.

Throughout 2017 the Society's Board of Directors continued to demonstrate that it has in place the appropriate systems and controls to comply with the needs and requirements of the Financial Conduct Authority's (FCA), Prudential Regulatory Authority (PRA), the Treating Customers Fairly (TCF) regime and the European Insurance and Occupational Pensions Authority (EIOPA) in respect of Solvency II. This continues to be evidenced by:

- The TCF and Conduct Champion actively promotes and raises the profile of TCF throughout the Society and ensures that the implications for TCF are considered by the Society at all stages during times of reorganisations or strategic changes such as:
  - entry into new markets, mergers, acquisitions or disposals;
  - cost cutting, outsourcing or centralisation; and
  - major new systems.
- The Management Information (MI) indicates that the Society continues consistently to treat Customers fairly and maintains delivery of the required consumer outcomes. Processes are in place which monitor the MI, this enables the right people to take appropriate action as part of "business as usual."
- The timely submission of regulatory returns.

In addition, the Society also supports the provision of convalescent homes and housing associations and the less advantaged members of society by charitable donations to projects perceived to benefit society as a whole.

The Society uses a variety of measures to monitor its objectives and activities. In the main, a Balanced Scorecard approach is used to review progress in the key areas and in addition, management monitor progress of the operational areas of the Strategic Plan on a quarterly basis.

Principal risks and uncertainties

The Society has identified the following primary risk categories which reflect the internal and external risks in the operation of its business and strategy as detailed in the report:

- The Society does not meet its Solvency Capital Requirements;
- Failure to achieve the LTB Business Plan objectives;
- Failure to achieve the Fraternal Strategic Business Plan;
- The Society's reputation is adversely affected;
- Failure to comply with the Annotated Combined Governance Code;
- Non-compliance with legal and regulatory requirements; and
- Failure to achieve the Society's Investment Strategy.

Throughout 2017 the Society did not identify any new primary risks or close any existing primary risks.

Underpinning the primary risks are a number of secondary risks. Both the primary and secondary risks are covered by the Society's suite of Risk Policies within the overall Risk Management Framework.

Whilst these are the principal risks, the Board and Management have in place a number of key internal controls to mitigate the impact of these risks which are measured and reported to the Board and its Committees.

Each primary and secondary risk is allocated a Risk Owner, the body / individual that has designated oversight responsibility to manage a particular risk(s) and who is accountable for:

- ensuring that risk(s) remain within acceptable risk levels, that gaps are identified and that risk responses and control activities are adequate and appropriate; and
- ensuring the timely implementation of risk mitigation recommendations and/or action plans.

The Society operates a priority based risk monitoring and reporting procedure:

- 'High' rated risks will require immediate management attention and will be monitored and reported on a monthly basis or more frequently if required.
- 'Medium and Low' rated risks will be monitored on a quarterly basis or more frequently if required.
- All identified risks will be monitored at least annually or more frequently if required.

In 2017, there were two material changes to the overall risk scores for the following risks:

- Actions and behaviours of Third Parties have a negative impact on Society increased from an overall impact score of 4 to 6 (although it still remained low risk) due to forthcoming regulatory changes (General Data Protection Regulation) increasing the likelihood of the risk; and
- Business interrupted for an unacceptable length of time decreased from an overall score of 12 to 8 to reflect the fact that a number of the outstanding mitigating actions had been completed, thus reducing the risk from medium to low.

Current activities

Development Planning

Embedding development plans as part of the day-to-day management activity in Branches is ongoing and is still central to the strategy of building and sustaining the Branch network. Focussed development planning is becoming an accepted part of Branch management and tangible results are evident across the country – positively changing communication, recruitment, care and social delivery, training and skills development.

The target for 2017 was to get SMART development plans established in 80% of Branches and by the end of the year 71% had such plans. Although some Branches do not have SMART plans, there is evidence they are progressing and addressing issues which will bring about positive change in their Branches.

There are also more Branches starting to develop because of the Boards' Strategic Visits – as a result, a number of them have been motivated to significantly change things for the better while others have had to transfer into stronger and supportive neighbouring Branches.

Active member involvement was also a focussed area of work in 2017 which is critical to having a healthy Branch network. Active members are the backbone of the Society, doing everything from serving tea to organising events. They represent the 'life blood' of the Society and a successful future depends on Branches being able to effectively recruit and manage volunteers. They also have to educate and encourage members to become active participants in the running of their Branch and Society as a whole.

During 2017 research was undertaken to fully understand what volunteering and 'Oddfellowship' meant within the Society. The research highlighted some issues and a number of recommendations and actions were made for 2017/18. These were:

- establishing a volunteer vision, mission statement and guide to best practise;
- volunteer training sessions being held at the Weekend School workshops in March and September;
- refining roles and responsibilities (formal and informal); and
- improving communication so members have a better understanding about volunteer opportunities, the history and traditions of the Society and how to get involved in the running of their Branch.

Resources were also directed at expanding and updating the way social events are promoted – this included creating a new simple web-based platform (On-line Events Listing (OEL)) for Branches to populate the website with their latest event information. This helps to keep the events section (one of the most visited areas of the website) vibrant and relevant. Members had the opportunity to attend one of two Weekend School workshops devoted to the subject of on and offline promotion of events.

Improving Skills and Knowledge

Underpinning the Branches ability to deliver the membership proposition has been a number of training initiatives and inductions to improve the knowledge, expertise and confidence of key volunteers and paid workers within the Branch network. These included:

Weekend School Workshops:

- Who we are, what we offer and why it matters: an update on the Oddfellows Brand Framework - this introduced and explained what brand values, attributes and personality traits mean in terms of the day-to-day activities and business of the Branch;
- Volunteering best practise - shared tips and ideas on recruiting, supporting and recognising the contribution of volunteers in the Branches;
- Switch on to our digital opportunities – this provided members with a basic understanding of the Society's digital channels and the opportunities they provide (eg Facebook, website and e-communications);
- Conversion skills – as 'word of mouth' is the most effective recruitment tool, this workshop focussed on giving members to the tools to talk confidently about the Oddfellows and why people should join;
- New ways to promote events – this workshop fully explored the growing online potential to advertise events using tools such as Meetup, Streetwise and the Society's Online Events Listing System; and
- Citizens Advice Line – this gave an insight into the work of the Advice Line, the type of help it can offer and an introduction to welfare benefits for older and disabled people.

Bespoke Branch workshops

The Branch Development and Care Departments delivered a number of one day workshops in 2017 to support skills development in the following specific areas:

- Facebook masterclasses: three workshops were organised in London and Manchester to help members with social media experience develop their skills further, including how to take and use live content ;
- Selling membership: this training was delivered to the Lancashire Group Conference and this workshop focussed on how to promote and sell membership; and
- Sharing your experience of welfare visiting: two workshops were held in Manchester and London attended by 20 Branches and 34 individuals. The training enabled Welfare Visitors and those supporting them to improve their confidence and skills and ensure high quality and safe practice.

Inductions

- Throughout 2017 the Care, Branch Development, Membership Services, and Print and Design departments delivered induction programmes to new and existing secretaries, Social Organisers and members of Committees of Management at Unity Office in Manchester.
- The Care Department delivered Welfare Visitor Induction/Refresher training days for 16 Branches hosted in Leeds, Bedford, Manchester and Nuthall (near Nottingham) and attended by 37 individuals.

Branding and Online Development
Following more than 12 months of intense activity, the new website was successfully launched and Key Performance Indicators (KPIs) established to monitor the website's performance. Current results indicate increased visits and positive engagement in most of the key areas of the site.

Ongoing management and promotion is being carefully monitored and several areas of the site have been developed over the year including refreshing content to accommodate the new membership packages which went live on 1 January 2018.

Communicating the Society's Brand Framework internally to all key staff continues to be an area of focus and ongoing investment. Strategically this is important as its influence is far reaching - it touches every aspect of the Society's business delivery and ultimately creates a unified membership able to bring the brand vision to life in their day-to-day activities.

As part of the Brand Framework Communications Plan, the following projects were delivered in 2017:
- Two Weekend School Brand training workshops – refreshed versions of these will be developed in 2018;
- Oddfellows' Brand Framework video presented by the CEO and distributed to the Branches who have ongoing access via Oddspace – live content in relation to brand personalities will be explored further in 2018;
- Brand Guide reference material made available on 'Oddspace' – this version which covers the basics will have additional design templates created to help streamline internal design processes early in 2018;
- Rebrand of all printed marketing material; and
- Refresh of all member communications to include the new tone of voice and brand values.

The new marketing collateral has fresh content that more succinctly sells the benefits of membership under the banner of 'Five great reasons to join' (ie social, care, offers, travel and online archive). Work has been done to develop the Active Travel Club proposition by exploring new partnerships and holiday destinations, planning and advertising more in advance and responding to members needs.

Campaign Monitor was introduced as the new e-marketing tool used to share the news and benefits of membership to a growing online audience. It enables the Society to fully track engagement and target audiences with personalised messages. This will become increasingly important as more of the Society's target market (which includes existing as well as prospective new members) rely on electronic communication to access information about membership.

Online engagement continues to increase within the Society with targets for the UK Facebook page being exceeded several times in 2017. 52 Branches now have their own Facebook page and keeping these pages active, relevant and engaging will require ongoing Branch support and training.

Three Facebook Masterclasses were organised in London and Manchester in 2017 with more beginners and advanced classes being organised in the coming year.

Partnerships
This year additional resource was allocated to reviewing and managing the Society's third party arrangements (TPAs) and regular performance reporting has created a benchmark against which future uptake can be measured. The monitoring of TPAs also included research and development of new partnerships with Medicash Healthcare Plan being launched as a new member benefit. The Society is currently discussing other mutually beneficial projects with several organisations and companies.

The strategy for developing any future partnerships will focus on organisations that can offer recruitment opportunities. There will also be an increase in promotional activity of existing products to members.

Recruitment
One element of development planning is for Branches to include their own target for recruitment - it is critical that they take responsibility for and get actively involved in recruitment of new members.

The strategy to increase recruitment in 2017 focussed on the following tactics:

1. ***Promotion of the new refreshed Refer a Friend scheme*** – to both new members and existing recruiters.
2. ***Testing two new integrated advertising campaigns*** encompassing a mixed approach of direct mail, on and offline advertising and editorial – one focussed in the north, the other in the south.
3. ***Engaging in the Healthy Heart campaign associated with the British Heart Foundation*** – this included a number of progressive Branches in events led activity supported by targeted advertising.
4. ***Building Friendship Month*** – each year aiming to increase Branch engagement, recruitment and brand awareness.
5. ***Training*** – two workshops were delivered, 'Conversion Skills' and 'Selling Membership'. Elements of these will be developed for the Weekend School workshop in 2018 with specific focus on the new membership packages.

Some tactics worked better than others and overall there was an increase in members recruited (1,078 compared to 956 in 2016). Most of these approaches will be repeated in 2018 with fresh planning (having learnt some valuable lessons from the 2017 experiences). In addition to these activities there will be national advertising, improvements to increase conversions and targeted collaborations with third party partners.

Activities outside scope of powers

The Board of Directors considers neither the Society nor its Branches have carried out activities during the year outside the scope of their powers.

Financial review of the year

The financial outcome for the year is detailed in the Income and Expenditure Accounts shown on pages 37 and 38, with the Statement of Other Comprehensive Income being shown on page 39, and the Assets and Liabilities as at 31 December 2017 shown in the Balance Sheet on pages 40 and 41. The Technical Account for Long Term Business on page 37 shows a transfer to the Fund for Future Appropriations of £2.38m compared to a transfer from the Fund for Future Appropriations of £2.73m in 2016. The Non Technical Account shows the income and expenditure arising from the Society's business objectives as outlined on page 38 and produces a surplus of income over expenditure of £11.49m (2016: deficit of £1.11m).

The total investment return for the Non Technical Account amounted to £12.57m (2016 : £17.17m) of which a decrease of £2.16m (2016: increase of £16.55m) was attributed to Branches in the various internally operated unitised funds (See Note 17).

The Balance Sheet gross asset value has increased to £430.38m from £386.90m in 2016 which is an overall increase of £43.48m (11.2%), the key driver being the growth of the Property Fund during 2017.

Liquidity strategy

The current economic climate is showing some signs of improving but it will still be a long haul to more stable times. It is important therefore that we continue to monitor our investments including cash, and maintain our balanced portfolio approach to all our areas of business ensuring that no area is left exposed to changes in any market movements in any one asset class. This approach includes reviewing the spread of such assets, to maximise long term investment returns whilst meeting forecast liquidity needs in the short term. The maturing profile of our assets are matched with our liabilities, and in conjunction with the advice from the Society's Actuary we adapt our investment model according to the needs of our insurance book. For our non insurance activities we are diversified into a number of funds which enable us to spread risk.

Supervision of Branches

The Board of Directors has overall responsibility for the supervision of all Branches in addition to the direct responsibilities of the Branch Committees of Management themselves. The central and local systems of reporting continue to identify areas that require improvements to systems and these are rectified within appropriate time scales.

The above Strategic Report was approved by the Board of Directors and signed on its behalf by:

C J Nelson
Chief Executive Officer
27 March 2018

Board of Directors Report

The Directors present their Annual Report together with the Financial Statements for the year ended 31 December 2017. In producing this Report, the Directors have considered the Annotated Corporate Governance Code (ACGC) and reference is duly made on those areas where the Directors feel that compliance is not appropriate for the Society.

Member relations

The Board of Directors communication strategy for the whole Society aims to fulfil the following objectives:

1. To ensure that relevant information is given to all our *key stakeholders in a timely and appropriate manner. This means our communications:
   a) are clear, fair and not misleading;
   b) use plain English;
   c) aim to keep members informed;
   d) provide sufficient information at the right time for key stakeholders to make informed decisions; and
   e) fully utilise all available communication channels (eg email, fax, letter, telephone, website, member magazines, social media).

2. To support open communication between the Society and its key stakeholders, a range of publications and information will be made available on a regular basis – these will include annual statements, circulars, newsletters and other documents on the intranet and website.

3. To continuously monitor our communications to ensure best practice and to undertake an annual review to get feedback from members and policyholders. This will include distribution and analysis of customer surveys.

4. To review staff skills and experience on an annual basis to ensure adequate training is provided. This will mean the Society can continue to achieve its communications objectives.

Underpinning the Society's ongoing communication strategy (as outlined above) are the FCA/PRA's current rules and guidance (Principles **6, 7 and 8) also ***E.1 of the Annotated Corporate Governance Code – see notes below:

*Key stakeholders include Branch Officers, members, policyholders, Board of Directors, Standing Committee members, staff and FCA, PRA and other relevant regulatory bodies.

**Principles 6, 7 & 8: 'A firm must pay due regard to the interests of its customers and treat them fairly'. 'A firm must pay due regard to the information needs of its customers, and communicate information to them in a way which is clear, fair and not misleading'. 'A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client'.

***E.1 The Board as a whole should take responsibility for ensuring that a satisfactory dialogue with the Society's members takes place.

Complaints by Members

The Society aims to deliver the highest standard of service to its members. However, we recognise that there may be occasions where our members believe that our service has fallen below their expectations. In this event, they have recourse to our complaints procedure.

The Society's philosophy is that the effective management of complaints is a key part of treating members fairly and ensuring good member outcomes.

The following values have long been embedded in the Society's culture and procedures:

- The provision of excellent standards of service to our members;
- Treating our members fairly and ensuring that all complaints receive fair, consistent and prompt investigation and resolution; and
- Valuing member feedback with a commitment to review our working practices and procedures to deliver good member outcomes.

The Compliance & Risk Function, the Audit, Risk & Compliance Committee, the Insurance Committee and the Society's TCF and Conduct Risk Champion regularly review the number and type of complaints received. The objective is to:

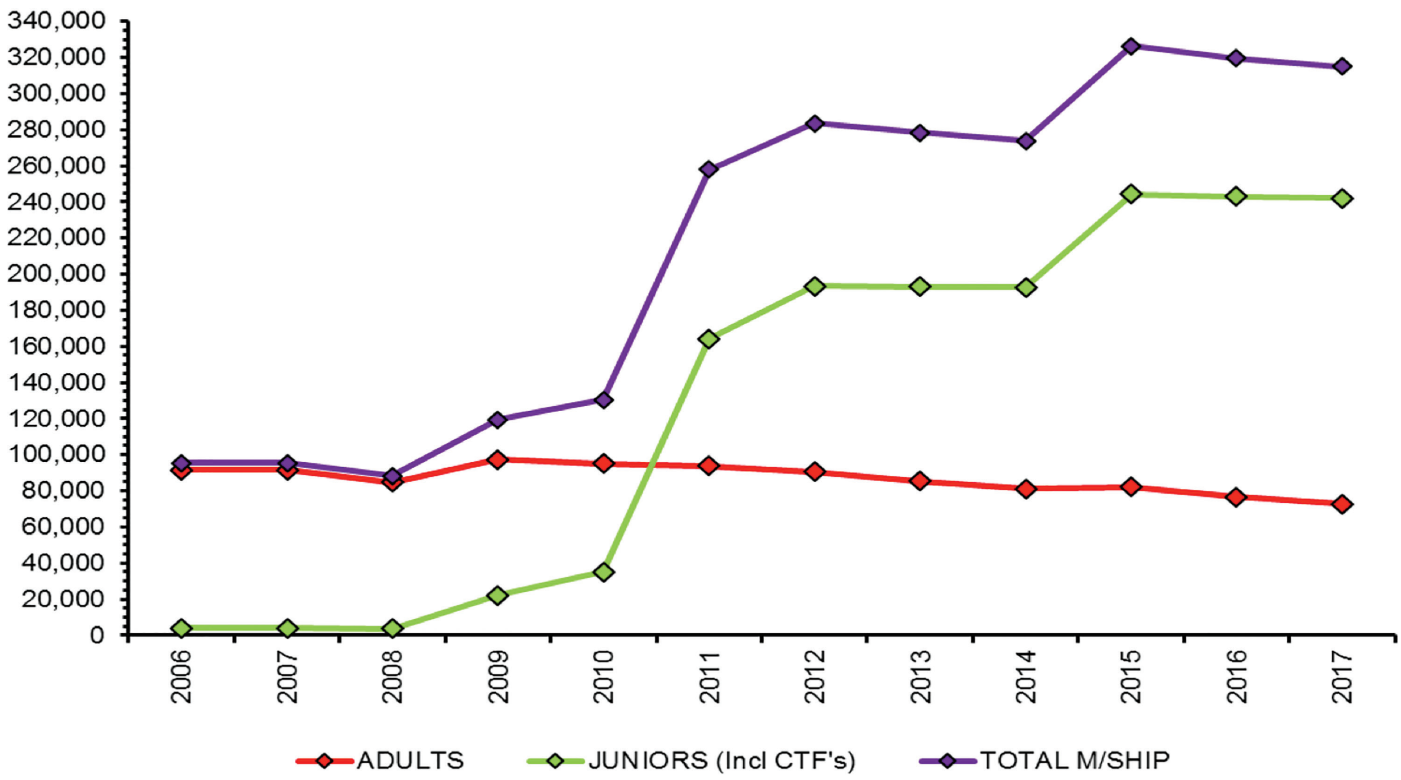
- ensure that complaints are properly dealt with and that appropriate corrective action has been taken to prevent complaints of the same or similar nature occurring again; and
- ensure that the Society's members are treated fairly.

In the unlikely event that a complaint cannot be resolved to the member's satisfaction, the member is made aware of the option to appeal to the Financial Ombudsman Service (FOS).

Over the last three years, the Society has received 47 regulated business complaints. Following appropriate investigation, nine were upheld and 36 refuted. Of the 36 refuted complaints, 12 members decided to appeal to the Financial Ombudsman Service of which two were upheld in favour of the member. The remaining two complaints involved sales or advice provided by third party organisations and were referred to those organisations for investigation.

Number of Members

The Society had 314,876 members on 31 December 2017, of which 242,003 were Junior Members (239,195 being Child Trust Fund Members and 235 Junior ISAs).



Total membership (including Policyholders)

Statement of Directors' responsibilities

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

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

The Directors are responsible for keeping proper accounting records which must show and explain the transactions of the Society and disclose the financial position of the Society with reasonable accuracy at any time, and enable them to ensure that the Financial Statements comply with the Act and the regulations under it. They are also responsible for the systems of internal control, for safeguarding the assets of the Society and hence taking reasonable steps for the prevention and the detection of fraud and other irregularities.

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

Going concern and Viability Statement

The Board of Directors discussed the issue of the Society being a going concern of at least 12 months after the date of signing the Accounts, and of its longer term viability, at the December 2017 Board meeting. The Board conducted this review using a detailed budget for the forthcoming year (ie 2018), the 2016 Strategic Plan which covers the three year period of 2016 to 2018, the Society's Own Risk and Solvency Assessment (ORSA) and the Medium Term Capital Management Plan which have been prepared in accordance with the requirements of the Solvency II directive. The ORSA document considers the Society's, projected and stressed Balance Sheet (ie assuming that certain risks the Society faces may happen) and capital requirements. The future liquidity and cash flow requirements were also considered as well as actions that are available to management. The Own Risk and Solvency Assessment Report ('ORSA') itself is prepared and approved on an annual basis, and more frequently should any material changes in the Society's risk exposures and/or business strategy occur. The 2018 budget and Strategic Plan are also reviewed and approved by the Board of Directors.

The Directors have determined that the two year period to December 2019 is an appropriate period over which to provide its viability statement. In making their assessment, this period was selected for the following reasons:

- The projected capital under the forward looking assessment of own risks, as prepared within the ORSA, is performed using a look forward period to December 2019;
- The strategy and associated principal risks underpinning the Society are monitored over a forward looking two year period; and
- The level of confidence within the judgments made as part of the forward looking two year assessment is in line with the Society's risk tolerance and business objectives.

The Board also considered the Principal Risks and Uncertainties as described in the Reports and Financial Statements. Based on the results of this analysis, the Board of Directors consider that the Society has adequate resources to continue in business and meet its liabilities as they fall due over the assessment period recognising that future assessments are subject to a level of uncertainty that increases with time and therefore outcomes cannot be guaranteed or predicted with certainty.

The Board, in determining the Going Concern principle, also continues to evaluate and consider the potential implications in respect of Brexit, paying particular attention to market impacts. Given that the Society trades within the UK it is envisaged that market impacts will be the main item resulting from the UK leaving the EU that will impact on the Society.

Notwithstanding this, the Society has continued to adopt the going concern basis in preparing the Financial Statements.

Corporate Governance

The Board is accountable to the Society's members for the operation of the Society and good governance is fundamental to this responsibility. The principal role of the Board is to focus on the Society's strategy. As the business develops and changes, and as the challenges the Society faces change, the Board has to ensure that there are the necessary resources in place with the relevant knowledge, skills and experience. It is also essential that financial and Risk Management procedures and controls are robust and effective. In particular, the Board's role is to provide general direction to the Society and to safeguard the interests of its Members.

Board of Directors Report

The Board's approach to Corporate Governance is influenced by the following matters:

- That the Board is accountable to the Society's Members for the conduct and performance of the business;
- That the interests of Members are at the heart of the Board's decision making;
- That the interests of other parties, such as employees and the communities in which the Society operates, are also taken into account;
- That the Society should be managed in a prudent and efficient manner with effective decision making and robust management of risks that the Society may face; and
- That the effectiveness of the Board is vital to the financial strength and future success of the Society.

The Board is committed to complying with best practice in Corporate Governance and the Society complies with the standards and disclosures required under the provisions of the Associated of Financial Mutuals (AFM) Annotated Corporate Governance Code (ACGC). The ACGC does not demand compliance with each and every aspect covered by its provisions. However, the Society is obliged to make explicit disclosure about the relatively small numbers of those parts of the ACGC where we are not compliant under the principle of "comply or explain". These disclosures cover matters which are specific to the Society's circumstances or where it is considered that there is a justifiable reason for a departure from the ACGC, particularly if it is believed that such a departure is in the best interests of its members and that the governance of the Society is not compromised.

The Board considers that throughout the period under review, it has applied and complied with the substantial majority of the relevant principles and provisions of the ACGC, the exceptions being as shown below:

Code Provision	Explanation
Did the Non-Executive Directors meet without the Chairman present during the year to appraise the Chairman's performance? Were all such meetings led by the Senior Independent Director? On other such occasions as deemed appropriate, did the Non-Executive Directors, led by the Senior Independent Director, meet without the Chairman present?	The Society's Chairman is normally appointed for one year, but the Senior Independent Director fed back to the Chairman the results of his evaluation by the rest of the Board.
Did an Independent Non-Executive Director rather than the Chairman chair all meetings of the Nomination Committee (or part of such a meeting) that were dealing with the appointment of a successor to the Chairmanship?	Proportionate to the size and complexity of the Society's business, we do not have a Nomination Committee. The Society's Governance Committee acts as a Nominations Committee in this regard. The Governance Committee elects a Chairman from its own number.
Does the Board have a policy on diversity, including gender, and measurable objectives for implementing the policy? Does this section include a description of the Board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives?	The Society does not operate a gender policy nor a diversity policy and has no plans to introduce these. Members of the Board are elected on their knowledge, experience and skills. The Board is satisfied that the Society's processes for appointments to the Board demonstrate that these formal policies are not required. This can be evidenced by the existing and historical make-up of the Board.

Board of Directors Report

Code Provision	Explanation
Did the Nomination Committee prepare for the appointment of a Chairman a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises? Were the Chairman's other significant commitments disclosed to the Board before appointment and included in the annual report? Are changes to such commitments reported to the Board as they arise and included in the next annual report?	The Society's Rules and constitution define the Chairman's role. In common with all Board appointments, the Chairman is subject to the Society's Approved Persons regime, which includes the obligation to disclose any actual or potential conflicts of interests.
Has the evaluation of the Board been externally facilitated at least every three years?	Although, the ACGC did not require any explanation this year, it is felt appropriate to put the Society's reasoning for not doing so in the Board of Directors Report. Whilst a formal evaluation is undertaken annually of the performance of the Board, its Committees, and individual Directors, it is not felt appropriate or necessary to have this process externally facilitated, largely because the Society's business and governance arrangements are not considered complex enough to warrant it. However, this will be kept under review.
The ACGC includes a number of references to the Remuneration Committee ensuring that a significant proportion of Executive Directors' remuneration is structured to link rewards to corporate and individual performance and having elements of performance related remuneration in place that are stretching and rigorously applied to give the Executive Directors keen incentives to perform at the highest levels in the best interests of the Society's members.	There are no elements of performance related remuneration in place within the Society. Proportionate to the size and complexity of the Society's business, the Board does not consider a performance related bonus scheme is necessary. However, when considering Executive Directors remuneration, corporate and individual performance are taken into account during the formal appraisal of the Executive Directors which is undertaken on an annual basis by the Remuneration Committee, and salary recommendations are subsequently made to the Board.
Is the Board satisfied that levels of remuneration for Non-Executive Directors reflect the time commitment and responsibilities of the role?	The Society's Non-Executive Directors, including the Chairman, are not remunerated and they only receive subsistence allowances and reasonable expenses for attending officially convened meetings.

Has there been delegated to the Remuneration Committee responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments?	The Remuneration Committee recommends remuneration arrangements to the Board for the Executive Directors. However, the Society's Non-Executive Directors, including the Chairman, are not remunerated, and they only receive subsistence allowances and reasonable expenses or attending officially convened meetings.
Does the Remuneration Committee recommend and monitor the level and structure of remuneration for senior management?	The responsibility for the remuneration of Senior Management rests with the Board who delegate this matter to the CEO.
Does the Board (or where permitted by the constitution of the Society, a Sub-Committee of the Board) determine the remuneration of the Non-Executive Directors within the limits set in the constitution?	The Society's Non-Executive Directors, including the Chairman, are not remunerated, and they only receive subsistence allowances and reasonable expenses for attending officially convened meetings.
The ACGC contains a number of references to the use of proxy voting at an AGM.	The Society does not operate a proxy voting system. It has a deputy system of voting at its Annual General Meeting (AMC).

Nominations for the Board of Directors

The Board of Directors nominate Executive Directors and external Non-Executive Directors and the Branches nominate Member Non-Executive Directors (MNED's).

The Governance Committee acts as the Nominations Committee in interviewing all new nominated MNED's and is comprised of a Term Director, three MNEDs, the CEO, one External Non-Executive Director (who is the Committee's Chairman) and the Company Secretary.

A resolution is put to the members' representatives (Deputies) at each Annual General Meeting (AMC) to appoint the whole Board. The Rules of the Society specifically prohibit canvassing by individuals with a view to them being elected to the Board of Directors. The Curriculum Vitae (CV) of each member of the Board of Directors is printed on the following pages and also in the Agenda Book for the Annual General Meeting (AGM) which is sent to each Deputy at least 20 working days before the start of each AGM.

One of the provisions of the AFM ACGC refers to the Board making a statement about Director's independence. In particular, the provisions of the AFM ACGC require the Board to consider the independence of Directors who have served on the Board for more than 9 years.

To conform to the principle of "comply or explain", the Board believes it is appropriate to make reference to its rationale in this regard for three of its Directors, those being Directors Doulton Smith, Vaughan and Connolly. The Board continues to have the highest regard for the abilities of the individuals concerned in discharging their duties as members of the Board and, of course, from a regulatory perspective is pleased to confirm their on-going fitness and propriety, as indeed it does for all other Directors. Notwithstanding the length of service that the Directors concerned have had as members of the Board, it is considered that the value they add to the Society and its members from the wide experience gained of both the Society and the markets in which it operates far outweighs any concerns about the length of such tenure affecting their independence.

Board of Directors Report

Your Board of Directors

Tony Luckett
Chairman (Age 57)

Tony joined the Society in 1994, after a recommendation from an active Lodge friend. He took an active part from the beginning, joining his wife and two children during the next five months. Nieces and nephews along with a grandchild have also been made members of the Society. Tony became interested in all aspects of his local Branch, and he has served in all Lodge positions. He took the purple Degree in 1999 and has been Prov GM three times. He has been a District Trustee since 1997 and he was awarded the District Merit Jewel in 2008.

He served on the Midland Group Conference Executive for two years, serving the Offices of Vice President in 2009, President in 2010 and Immediate Past President in 2011. During this time he was elected to serve on the Special Arbitrators and the following year the Benevolence Committee, on which he served four years, two of those years serving as Vice Chairman. Tony was elected to the Board in May 2012 and elected as Grand Master of the Order in at the 2017 AMC.

Tony is self-employed and has been for over 34 years, and runs his own small building company, employing three people. Tony's Company is a Member of the Federation of Master Builders (FMB), as was his father's and grandfather's companies before him. The Company is registered with Trust Mark and Build Assured (Warranty Builder). He sits on the local Branch of the FMB and is serving as Chairman for the third time. He served from 2010 to 2014 as the Chairman of the Midlands Regional Council for the FMB, and served as the Midlands Regional Vice President 2010 - 2014. In April 2014 the Midland Regional Council, along with other restructuring changed its name to Central Area Board and Tony was unanimously elected as its first President in April 2014 and was subsequently re-elected in June 2015 and April 2016 for a third term of Office and now serving his first term as Past President.

Tony also served as a Director of the Manchester Unity Credit Union Ltd from 2004 to December 2016 serving as President for six years.

Tony also enjoys a game of darts and dominoes, playing in local pub teams for nearly 40 years in Coventry and surrounding towns and villages.

Bill Henchliff
Deputy Chairman (Age 68)

Bill joined the Society in 1989, serving his Lodge in all positions. He took the Purple Degree in 2000 and has served on the Derby District Committee of Management, becoming Prov GM in 2003 and has served as a District Trustee for 18 years. Bill was an AMC Deputy for 14 years before election to the Board and has been awarded both Lodge and District Merit Jewels.

He was Midland Group Conference Secretary for 6 years, served on the Executive Committee for 5 years and was elected President in 2008.

Bill has attended the Pride of Leicestershire Lodge of Past Provincial Grand Masters for 14 years and is a Past Worthy Master.

He served on the Unity Special Arbitrators for 3 years, on the Investigation Committee for 1 year and has been a Director for 4 years, becoming Deputy Grand Master in May 2017.

Prior to retirement, Bill worked in the Printing Industry for 48 years.

Valerie Ashcroft, BA Hons, Cert Ed
Immediate Past Chairman (Age 70)

Valerie was enrolled into the Society by her father in 1947. When he died in 1954 she became a recipient of the Orphan Gift Fund. She began her activity in the Society in the 1970s, serving in all the Lodge Officer positions on more than one occasion and as Lodge Trustee. She has served as Prov GM on three occasions and has been District Lodge Trustee for 21 years. Her service includes one year (2016-17) as Grand Master of the Order.

Valerie served on the Benevolence Committee for four years with one year as Chairman before being elected to the Board in 2012. She also served on the Southern Group Conference Executive for three years.

In her professional life she was a schoolteacher and latterly a lecturer in Mathematics at a College of Further Education. She has been a fully accredited Methodist Local Preacher for 44 years and has held the position of Property Secretary in her Church for three years, up to May 2012.

Jane Nelson, FCCA FCMA, Dip IoD
Chief Executive Officer/Secretary of the Order/Executive Director (Age 52)

Jane joined the Society in 1995 as Financial Controller and joined the Board of Directors in May 2000 after being appointed as Secretary of the Order. In October 2007 she became the Society's Finance Director. She was appointed as Chief Executive Officer on 16 July 2012 after being appointed as Acting CEO in March 2012.

Qualifying as an Accountant in 1991, she is a Fellow of both the Association of Chartered Certified Accountants as well as the Chartered Institute of Management Accountants. Prior to joining the Society, Jane worked in a variety of Finance roles in the industrial sector thus gaining a wide range of experiences. She has been a member of the Institute of Directors (IoD) for eight years and during 2011, studied for and took the exams for the Certificate level and Diploma level of the Chartered Director examinations, both of which she passed with distinction.

In 2011, she was also awarded the IoD's Institute prize for outstanding performance in the diploma examinations after achieving the highest examination score in the UK.

She was appointed to the Association of Financial Mutuals (AFM) Board in July 2013, the AFM being the trade body that represents Friendly Societies and Mutual Insurers and has served as its Vice Chair since January 2016. She was heavily involved in 2015 in the reforming of the new AFM which is aimed on focussing on the needs, aims and challenges of the small and medium sized Mutuals.

She has been involved with the Manchester Unity Housing Association and the MU Pension Scheme since 1995 and has served as Company Secretary to both these organisations since 1998. She served on the Board and as Treasurer of the Manchester Unity Credit Union from 2000 – 2008 relinquishing the post of Treasurer in September 2012. Within the Society, Jane is an active member of the Stockport Combermere District Lodge serving as Provincial Grand Master (Prov GM) in 2003 and again in 2010, and has served as Trustee of the District since November 2003.

Outside of the Society, Jane is also a Trustee of Stalybridge Celtic Foundation Trust, which seeks to work with the local community at all levels and all abilities.

Sue Doulton Smith
Term Director (Age 69)

Sue entered local government employment after 'A' levels and took the ONC in Public Administration working in the Welfare Department which subsequently became Social Services. She was a Cub Scout Leader, a member of the District Service Team and Education Secretary on the local Nalgo Branch as well as serving on the District Education Committee.

Having joined the Bedford Lodge in 1962, Sue became involved in the Lodge and District from the mid 60's and has served on Lodge and District Management Committees, been Chairman of both Lodge and District as well as the Minor Degree Lodge and Provincial Lodge of Past Grands.

She took her Purple Degree in 1975. Sue was Bedford Lodge Secretary for 33 years and is now a Lodge Trustee and a member of the District Committee of Management. District Meeting, Group Conference and AMC Deputy, she also served on the Group Conference Executive for nine years and was President for one year and Secretary for one year. Elected to the Benevolence Committee for four years, followed by four years on the Investigation Committee, she was Chairman of the latter for one year. Elected to the Board of Directors in 1991, she was Grand Master in 1997/8 and has been a Unity Trustee/Term Director for 20 years.

Sue is married with one grown up married daughter and enjoys watching sport, seeing friends, reading and local history.

Charles Vaughan
Term Director (Age 70)

Charles was elected to the Board of Directors at the 2008 AMC. After joining the Society in 1971 he became Secretary of the Duke of Norfolk Lodge in the Wigan and Standish District. In 1988 he became Financial Secretary of the Heritage District Lodge, the newly created Financial Lodge. In 2000 he was appointed Provincial Corresponding Secretary of the East Lancashire District Lodge and in 2005 became Prov CS of the newly created South East Lancashire District Lodge after the merger of the Wigan and Standish District and the East Lancashire District. In 1999 he became President of the Lancashire and Associate Districts Group Conference.

Charles retired from HJ Heinz after 34 years' service as a Production Planner after his election to the Society's Board and served on the Audit, Risk and Compliance Committee in his first year. The following two years he was appointed to serve on the Insurance Committee and also the Management Committee of the Manchester Unity Housing Association, a position he still holds. In 2010 Charles was appointed Deputy Grand Master and then served two terms as Grand Master of the Order. In 2014 he was appointed a Term Director and is currently serving as Chairman of the Commercial Board and is a serving member of the Insurance Committee and the Audit, Risk and Compliance Committee.

David Alan Randall
MNED (Aged 66)

David attended social functions for a number of years before joining, being enrolled into the Society by his father-in-law in 1992. He attended the local Branch holding various positions becoming Noble Grand in 2007 and Provincial Grand Master in 2011. He became a District Trustee and a Financial Branch Secretary in 2008, where he still holds both positions.

He was a member of East Anglian Group Conference Executive Committee for 7 years becoming President in 2015/2016. He retired before standing and being elected to the Board in 2016.

He is a time serviced apprentice carpenter and joiner working in the construction industry for 47 years holding a number of senior project management positions and run his own Building management and Safety company for 10 years. He is a past member of the Federation of Small Businesses, and Associate to the Institution of Occupational Safety and Health (IOSH).

He was in the Scouts for 18 years and was awarded the Queens Scout award in 1969. He held the position of Assistant Air Scout Leader for 4 years and then Venture Scout leader for 5 years. He was Secretary and Treasurer of a local Sunday league football team for 18 years.

David R Ogden, MNED (Age 68)

David was enrolled into his District's Juvenile Lodge at birth and subsequently initiated into the Loyal Fleetwood Lodge No 1992 on 30 November 1965. He passed through the chairs of the Lodge and then the District; serving as Provincial Grand Master in 1978. He has served on the District Committee of Management for 21 years, 15 of them as a Trustee.

He holds the CAMU qualification, and served on the LADGC Executive for 11 years, 7 of them as Secretary, and 10 years as Honorary Auditor. He served 6 years on the Investigation Committee, 4 of them as Chairman. Prior to his election to the Board of Directors he was a Unity Special Arbitrator.

Outside of Oddfellows he was a Divisional Superintendent in the St John Ambulance, and a Regional Group Chairman of the British Junior Chamber.

David worked in domestic banking for 26 years prior to taking voluntary redundancy. He then worked for his local authority in European projects prior to moving to the role of Business Support Manager in the Youth Offending Team on its inception in 2000. David is now retired and enjoys spending time with his two children and five grandchildren.

Stephen Code, MBA
Insurance Director/Executive Director (Age 57)

Steve joined the Board of Directors of the Society in March 2011 as Insurance Director having previously been Chief Executive and Secretary of the Schoolteachers Friendly Society. He has worked in the financial services industry and the Friendly Societies Movement for over 38 years, half of which have been spent in various senior management positions.

He has worked both in the UK and Ireland and his management experience stretches across general management, strategic change, operations, programme management, sales and marketing. Steve achieved a Masters in Business Administration in 1998.

Steve was Provincial Grand Master in 2017/18 and is a Trustee of the Mersey District Lodge.

Bill Connolly, ACII
External Non-Executive Director (Age 62)

Bill joined the Board in May 2007 as an external Non-Executive Director. He is the current Chairman of the Governance and the Remuneration Committees and serves on the Insurance Committee. He also acts as the Society's Treating Customers Fairly (TCF) and Conduct Risk Champion. Bill spent all of his working life at Royal Liver Assurance. He was appointed Assistant Secretary in 1999 and was invited to join the Society's Executive Team at that time.

In 2003 he was appointed as Group Secretary and he also occupied the post of Secretary to all of Royal Liver's Subsidiary Companies and the Pension Trustee Companies. Bill became Royal Liver's Chief Executive in January 2010 until he retired on 30 September 2011 following Royal Liver's transfer of engagements to Royal London.

Bill is a former President of the Insurance Institute of Liverpool and is a member of its Management Council. He has also been involved at a senior level in the Association of Friendly Societies, the Association of Mutual Insurers and the Association of Financial Mutuals.

Board of Directors
During the year to 31 December 2017, seven Board meetings were held. The Board at 31 December 2017 consisted of two Executive Directors, seven Member Elected Non-Executive Directors (MNED) and one External Non-Executive Director. The size and composition of the Board is kept under review to ensure that there are sufficient skills and experience represented on the Board for the direction of the Society's activities. The Board is of the opinion that its composition is appropriate to the business.

The members of the Board of Directors during the financial year and to the date of this report were:

Non-Executive (MNED)
Tony Luckett (Chairman)
Bill Henchliff
Valerie Ashcroft
Sue Doulton Smith
Charles Vaughan
David Randall
David R Ogden (Appointed May 2017)
Maggi Winter (Retired May 2017)
Clive Tayler (Retired May 2017)
Alan Cole (Retired May 2017)

Executive
Jane Nelson
Steve Code

External Non Executive
Bill Connolly
Martin Jackson (Not nominated for re-election)

Board Attendance

Attendance at 2017 Board Meetings and Committees:

	Main Board		Commercial Board		Fraternal Board		Audit, Risk and Compliance Committee		Governance Committee		Insurance Committee		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Tony Luckett	7	7			5	2¤+	4	3¤	7	2¤	8	1		
Bill Henchliff	7	7			5	5	4	4	7	7	8	1		
Valerie Ashcroft	7	7			5	3*			7	5*	8	1	1	1*
Jane Nelson	7	7	6	6	5	5	4	3+	7	6*+	8	4#~^		
Sue Doulton Smith	7	7	6	6					7	6♦	8	7~		
Charles Vaughan	7	7	6	6			4	*~			8	6#	1	1
David Randall	7	7	6	1	5	5	4	4			8	1		
David Ogden	7	4*	6	3*	5	1*			7	5*	8	1		
Steve Code	7	7									8	8		
Bill Connolly	7	7	6	1					7	7	8	7~	1	1
Maggi Winter	7	2♦¤			5	2¤			7	1♦				
Alan Cole	7	3¤	6	3¤			4	3¤					1	¤
Clive Tayler	7	2^¤			5	2¤	4	3#						
Martin Jackson	7	#												

♦ Sickness   # Business   ^Bereavement   ~Holiday

* Newly appointed Director to the Board and/or Committee
¤ Retired from Board or Committee May 2017
© Attended as Chairman of the Audit, Risk and Compliance Committee
\+ The Grand Master and Chief Executive Officer are ex-officio on all Committees and meetings attended have been included in the numbers

The Board has a number of Sub Committees and Working Groups that are formed to deal with specialist areas in more detail than would be possible at a Board meeting. Each Committee operates with defined Standing Orders and Terms of Reference. All Terms of Reference are reviewed annually by those Sub Committees and Working Groups and then submitted to the Board for approval.

All members of the Board are encouraged to attend meetings of other Boards and/or Sub Committees to which they are not a member.

Independence

The Society defines that a Non-Executive Director is independent provided that the individual:

- has not been on the Board of Directors for more than nine years; and/or
- is not a member of the Society's Occupational Pension Scheme.

As at 31 December 2017 there were seven Directors including the Chairman classed as independent.

Two MNED's and one External NED have served longer than nine years and remain on the Board of Directors because of the skills and experience the individuals have to offer to the Board. The Board considers that the three individuals are independent in experience, character and judgement.

MNED Charles Vaughan was appointed the Senior Independent Director for the calendar year 2017. He has been available to members for unresolved concerns during the year.

Determining whether or not there are relationships or circumstances that are likely to affect a Director's judgement or independence is delegated to the Secretary of the Order and Company Secretary, who review the contents of the Related Party Transactions declarations as required by the FRS 102 Section 33, and Annual Fit & Proper Monitoring Form completed by each Director. In addition, Directors are required to declare any interests they may have when discussions take place.

Induction Training and Evaluation of Directors

The Regulators are taking a more stringent approach to the assessment of applicants under the PRA Senior Insurance Manager Regime (SIMR) and the FCA Approved Persons Regime (APR), particularly relating to the applicant's core competencies and capabilities in the following areas:

- Market Knowledge;
- Business Strategy and Model;
- Risk Management and Controls;
- Governance, Oversight and Controls; and
- Regulatory Framework and Requirements.

A skills and knowledge gap analysis for new Board and/or Sub Committee members is covered as part of their induction for new Board and Sub Committee members, in accordance with the Society's Training and Development Scheme.

In accordance with that Scheme, each member of the Board and Sub Committees were evaluated by their peers on an individual basis before the end of 2017. During 2017, each member of the Board has undertaken continuing professional development appropriate for themselves. Full records are kept of the progress of the individual's training which is updated as appropriate. This therefore enables the Society to ensure that the Directors continually update their skills and knowledge required for them to fulfil their roles both on the Board and on Sub Committees.

Election to the Board is followed by a formalised tailored induction process on the Society's business and regulatory environment. All Directors are required to update their skills and knowledge through meetings with the Executive of the Society, its Senior Management and relevant external courses, all of which is fully documented in the Training and Development plan. Any individual training requirements resulting from the evaluation process are documented and the necessary arrangements made.

During their time as a Director each individual is assessed annually by all Directors by way of "Peer Evaluation" which highlights strengths and areas for development which can be appropriately addressed. In the months preceding Chairmanship each Deputy Grand Master (Deputy Chairman) attends a Chairmanship course at the Institute of Directors to hone the skills they have developed during their time on the Board and prepare them for their year as Chairman of the Board.

The evaluations of the members of the Board of Directors included team evaluations as well as the individual evaluation by peers. The team evaluation process included the Main Board, Commercial Board, Fraternal Board, Audit, Risk and Compliance Committee and Insurance Committee, whilst the individual assessments were designed to ensure that each member was evaluated across all their duties and responsibilities as a Director of the Society. The results of the evaluations are taken into account when assessing the overall balance, effectiveness, appropriateness and competence of the Board.

The Chairman meets each member of the Board after each evaluation to discuss the development needs of each individual. The evaluation of the Chairman is carried out by the Senior Independent Director. Given that the Chairman of the Board is elected for a one year term only, it is not thought necessary for the Directors to meet annually without the Chairman being present in order to evaluate the Chairman's performance. There were no occasions during 2017 where the Directors met without the presence of the Chairman.

The Training and Development Scheme ensures that the training, development and knowledge standards are appropriate not only to demonstrate a level equal to the regulatory requirements and obligations, but also appropriate and suitable to meet the needs of Directors and the Society. A key element of the Training and Development Scheme is the requirement for all Directors to undertake the following e-learning modules on at least a biennial basis. Newly appointed Directors also undertake "Introduction to UK Financial Regulations".

- Senior Management Arrangements
- Approved Persons
- TCF & Complaints Handling
- Anti Money Laundering and Counter Terrorism Financing
- Whistleblowing
- Conduct Risk
- Anti Bribery
- Data Protection
- Information Security
- Working Safety
- UK Financial Services Regulation

Sub Boards, Committees and Working Groups

Sub Boards, Committees and Working Groups are appointed where necessary with specific delegated responsibilities including, in the case of Sub Boards, the ability to pass resolutions of a non policy nature. The Chief Executive is a member of the Commercial Board, Fraternal Board, Insurance Committee and Membership Working Group and by virtue of her office is ex-officio on all other Committees. The Chairman is by virtue of his office ex officio on all Committees. Those Committees appointed in 2017 were:

Audit, Risk and Compliance Committee:	Martin Berry	(Chairman) External Skilled Person
	Clive Tayler	(Vice Chairman) External Skilled Person
	Bill Henchliff	
	David Randall	
	Charles Vaughan	

Composition of the ARCC

The members of the Audit, Risk and Compliance Committee (ARCC) as at 31 December 2017 are as stated above.

At the November 2017 ARCC meeting, Tony O'Leary tendered his resignation from his role as a member of the ARCC and Chairman due to external work commitments. Martin Berry, Vice Chairman of the ARCC agreed to take on the role of ARCC Chairman on an interim basis, until after the 2018 AMC when a new Chairman will be appointed. Clive Tayler agreed to take on the role of ARCC Vice Chairman. Both of these appointments were approved by the ARCC.

The ARCC is appointed annually by the Board of Directors and consists of at least three persons who are either Non-Executive Directors who are members of the Society, or persons with relevant financial and audit experience. To these are added external skilled persons to create a skills balance. Currently the Committee is seeking an additional External Skilled Person with financial and/or audit experience.

No person may serve on the ARCC for more than nine years and only members of the Committee have the right to attend meetings. However, other individuals (e.g. Members of the Board of Directors, Chief Executive, Compliance & Risk Officer, Departmental Managers, Branch Internal Auditor and Financial Controller) are invited to attend all or part of any meeting as and when appropriate. Representatives of the External Auditor and Internal Auditor are also invited to attend meetings on a regular basis.

Meetings

The ARCC meets quarterly and otherwise as required.

The ARCC receives written and/or verbal reports from the following:

- CEO;
- Branch Internal Auditor;
- Compliance & Risk Officer;
- Other Senior Management;
- Society's Internal and External Auditors; and
- Society's Actuaries.

A Branch Internal Auditor is employed at Unity Office to undertake the internal audit work at Branches. The outcome of these audits for financial administration and compliance is reported at all meetings of the Committee. The Branch Audit is a rolling function causing regular visits to every financial Branch with the regularity adjusted by the size and financial worth of each Branch.

Four meetings of the ARCC were held during the reported year. Representations from the Internal Auditors were made at each meeting and representatives of the External Auditor attended as required at two of those meetings. The Branch Internal Auditor attended the relevant parts of each meeting.

Responsibilities of the ARCC
The ARCC has responsibilities in the following areas:
- Risk Management and internal Controls and Procedures, including oversight and approval of the Society's processes with regards to the production of the Own Risk Solvency Assessment (ORSA) and Solvency Financial Condition Report (SFCR);
- Compliance & Prevention of Financial Crime;
- Financial Reporting;
- Internal Audit;
- External Audit; and
- Whistle blowing.

The overall role of the ARCC is to protect the interests of the members as regards the appropriate management of risk, the integrity of the published Financial Information and the effectiveness of the various audits.

Due to the diverse nature of the Society, there being effectively two separate responsibilities for the LTB and Fraternal Society, the Committee have to address the Compliance requirements in each of these parts from a different perspective, one in responding to the Regulator's requirements and the other in acting as the regulators for the Society's Branches.

In 2017, the Society did not receive any whistleblowing reports.

Risk Management Framework (RMF) and internal control
The Society's RMF is designed to create, protect, and enhance stakeholder value and the Society's viability by managing the principal uncertainties that could prejudice it achieving its objectives.

In having a RMF the Society strives to achieve the following objectives:

- *Oversight:*
  All critical risks have been identified and are being managed and monitored under a holistic approach consistent with the Board's approved Risk Appetite Statements.

- *Ownership and Responsibility:*
  The ownership of risk is assigned to risk owners who are responsible for identifying, evaluating and reporting risk exposures.

- *Assurance:*
  The Board and members have reasonable assurance that risk is being appropriately managed within the defined levels of risk appetite to bring value to the Society.

The RMF includes the strategies, risk appetite statements, policies, tools, processes and reporting procedures necessary to identify, measure, manage, monitor and report on the risks to which the Society is, or could be, exposed.

The RMF operates around the proven 'three lines of defence model' for overseeing its internal control frameworks:

First line of defence: this encompasses the controls the Society has in place to deal within the day-to-day business. The controls are embedded within the Society's business departments' systems and processes to highlight control breakdown, inadequacy of process and unexpected events, and appropriately mitigate risk.

Second line of defence: this encompasses the Society's Sub Committees and key functions that are in place to provide an oversight of the effective operation of the internal control framework. The Society's Sub Committees review the management of risk in relation to the particular risk appetite of the business, as determined by the Board.

Third line of defence: this encompasses the independent assurance and challenge provided by the Society's ARCC and internal audit functions, which undertake a programme of risk based audits covering all aspects of both first and second lines of defence, and External Auditors who provide independent challenge of the internal control framework in respect of financial reporting.

This model is widely accepted as best practice and has support from the Regulators.

The Society's Compliance & Risk Officer has the day to day responsibility for the Society's RMF.

The Compliance & Risk Officer provides the ARCC with assurance reports to confirm the adequacy and effectiveness of the Society's compliance and risk management systems and controls, and that they are appropriate and proportionate to the Society's scale, complexity and business model.

The Chairman of ARCC holds the role of the Society's Risk Champion with oversight responsibility for promoting and building a risk awareness culture within the Society.

Financial risk management objectives and policies
The Society's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The source of risk and further details around the management of risks which are faced by the Society are disclosed and discussed in greater detail within note 25 to the Financial Statements.

The use of financial derivatives is governed by the Society's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Society does not use derivative financial instruments for speculative purposes.

Assessment of internal controls
The Society has in place an internal control environment to protect the Society from the material risks which have been identified. Management is responsible for establishing and maintaining adequate internal controls over financial reporting and the ARCC provides oversight for ensuring the effectiveness of these controls.

The ARCC has reviewed the process by which the Society evaluated its control environment. Its work here was driven primarily by the Society's Internal Audit reports on the effectiveness of internal controls and any other operational issues reported.

The ARCC has continued its review of the effectiveness of the Society's systems of risk, governance and internal control commenced last year and continually updates the internal procedures to maintain a consistent low-risk environment.

External Audit
The Unity Office External Audit service is provided by Deloitte LLP (Deloitte). They were appointed as external auditor for the year ended 31 December 2010 following a competitive tender process and have been re-appointed annually since then by the AMC.

In addition to reviewing and monitoring the External Auditor's independence, objectivity and the effectiveness of the audit process, the ARCC has undertaken a review of the External Auditor effectiveness in line with the requirements of the UK Corporate Governance Code. The Committee is satisfied that their non-audit service provision is work that they are best suited to perform, it does not involve the audit of their own firm's work and does not involve them making management decisions for, or acting as advocate for the Society. On this basis there will be a recommendation to the Main Board for the re-appointment of Deloitte for a further term.

As previously reported, due to the latest changes to the Auditing Standards the Society, as a Public Interest Entity will have to review its auditors in 2020 and change auditors in 2030 at the latest, and this will be progressed accordingly.

Independence of External Auditor
The Audit, Risk and Compliance Committee is responsible for monitoring the relationship between the Society and the External Auditor, and as part of this process the Committee considers the External Auditor's effectiveness on an annual basis. There are no contractual obligations restricting the Society's choice of External Auditor. In order to ensure that the Auditor's objectivity and independence are safeguarded the following procedures are in place:

Audit Partner rotation
In line with the requirements of the Auditing Standards, the audit Partner has been rotated. The new Partner can perform the role for a period of 5 years.

Audit related services
This is work that the External Auditor performs in its capacity as Auditor, where the nature of the work is closely allied to that of the audit of the Reports and Financial Statements. Accordingly, this work is undertaken by the External Auditor unless unusual circumstances apply.

Tax advice
As previously mentioned, following the implementation of Solvency II, the Society is a Public Interest Entity and as such certain tax advice and compliance services are prohibited under this definition. The tax department of Deloitte LLP were used to complete the Corporation Tax computations for the year ended 31 December 2016. However, with changes in regulations it is no longer appropriate for the Tax Advisers to be from the same firm that carry out the Audit. As the tax advice is now deemed to have a direct or material impact on the Financial Statements then the Society approached two firms towards the latter part of 2017 and, as a result PwC LLP were appointed as Tax Advisors and were in place before the end of the financial year.

Significant Issues related to the Reports & Financial Statements
The Committee's role in monitoring financial reporting issues is fundamental to ensuring that all the Society's stakeholders maintain their trust in its activities and reporting. The External Auditor, Deloitte LLP, is used to help ensure that suitable accounting policies have been implemented and appropriate judgements have been made by management. The key significant risks which we considered during 2017 were as follows:

Code Provision	Explanation
Technical provisions assumptions	The ARCC received copies of the Insurance Committee minutes regarding the Valuation Assumptions presentations and reports to the Insurance Committee by the Society's Actuarial Technician, Chief and With Profits Actuaries. The ARCC were satisfied that the assumptions adopted were appropriate to the Society. Refer to note 21.
Integrity of the data used in the reserving process	The information provided to the Chief and With Profits Actuaries for inclusion in the reserving process is extracted directly from the Society's own financial information and a Data Report is presented to the Insurance Committee detailing the data quality results and movement analysis. The information above sets out the governance processes and responsibilities of the ARCC including the oversight that the ARCC has over the Society's risk of inaccurate financial reporting.
Pricing of investments	Inaccurate pricing of investments would generate a significant change in the reported results and position of the Society. As noted above, the ARCC monitors Financial Reporting. This includes reviewing the reported results prior to approval and discussion with the Board around significant fluctuations. The ARCC also considers the results of Internal Audit work and External Audit reports in coming to their conclusion.

Internal Audit of Unity Office
The Internal Audit service for Unity Offices (both in Manchester and Liverpool) is provided by MHA Moore and Smalley. This service is responsible for reviewing the Society's internal systems and controls and reports the outcome to each meeting of the ARCC, who continually monitor the planning and progress of this work.

The internal audit plan was agreed by the ARCC following an assessment of the results of the audit work already undertaken.

The audit needs analysis was taken into account when developing the internal audit strategy, strategic plan and annual plan of work. All work follows a risk based systems audit approach.

Board of Directors Report

During the year ended 31 December 2017 audit work was conducted across departments within the Offices in Manchester and Liverpool. Each department, where recommendations to changes in their procedure had previously been made, were revisited as and when recommendations became due. Of the Internal Audit recommendations made in previous years, there were recommendations made which were still in the process of being actioned at the end of 2017. The ARCC are reviewing these on a regular basis to ensure that appropriate action is taken. The ARCC are satisfied that there were no material risks to internal controls as a result of the recommendations still outstanding at the end of 2017.

The Society's Internal Audit function has confirmed in their Annual Report to the Committee that they are satisfied that sufficient internal audit work has been undertaken to allow them to draw a reasonable conclusion as to the adequacy and effectiveness of the Society's risk management, and control processes. In their opinion the Society's management, and control processes are adequate to manage its achievement of the Society's objectives.

Branch Audits
In the same way as the internal audit plan for the ensuing year is agreed by the ARCC, the same process is used for planning the work of the Branch Internal Auditor. A schedule of Branches due for visit is prepared and rationalised so that work in adjacent areas can be conducted where possible to minimise the Branch Auditor spending unnecessary time in travel.

There were 18 Branch audits, of which 12 were reported to the ARCC meetings during 2017, with the majority of the visits being completed and recommendations accepted by their Committee of Management. In 2017 there were no cases where re visits were considered necessary, but some chasing up of actions and/or recommendations was required. In general, the Branch administration in the majority of our Branches is deemed to be consistent and satisfactory.

All Branch audit reports and the responses of their Committee of Management to the Branch Auditors findings are critically reviewed by the ARCC, so that the Committee can be satisfied that both the Branch function and the approach of their Committees, in general, is appropriate and 'fit for purpose'. Where there is any doubt expressed that the Branch administration is in need of further scrutiny then the ARCC are empowered to request the appointment of a deputation to ensure that all assistance necessary can be afforded to the Branches.

It has to be emphasised that Unity Office are the Regulators of all Branches since the Society became incorporated under the 1992 Act. Therefore, a greater degree of scrutiny will continue to appear within the Branch Audits to ensure total compliance of every Branch administration with the requirements of the 1992 Act as well as compliance with the Society's Rules and Procedures.

During 2017, MHA Moore and Smalley assisted in a review project regarding the audit approach of the Branch Internal Audit system, with a view to making this more efficient, with a risk based focus. As a result, the November 2017 ARCC meeting agreed revised Audit work programmes and the new approach will be rolled out to Branches in 2018.

Summary
The ARCC is empowered to take action at any time if it believes that it is necessary, including reporting to the Main Board and the Annual Movable Conference. There were no exceptions that the Committee consider should have been reported during 2017.

Commercial Board:	Charles Vaughan	(Chairman)
	Jane Nelson	
	Sue Doulton Smith	
	David Ogden	

The members of the Commercial Board as at 31 December 2017 are as stated above.

The responsibility of the Commercial Board is to pass resolutions of a non-policy nature to ensure that:
- Unity Office delivers a high quality customer service to Branches, members and prospective members;
- Unity Office and Branches plan development and budget accordingly for investment in the future, spending capital when appropriate; and
- the Society's culture and structure encourages member and staff involvement in the running and development of the Society.

In achieving this, the Commercial Board is responsible for the tactical application of strategy and implementation of policy with respect to:

- Finance;
- Investments;
- Legislation;
- Office Administration; and
- Society Rules and Procedures.

The Commercial Board being responsible for the investments of the Society, appoint Investment Managers, with whom representatives of the Commercial Board meet on a quarterly basis to challenge and discuss their performance. The Strategy for the investments of the Society is determined with the benefit of advice from the Actuaries as and when appropriate. In the case of Long Term Business investments, the Insurance Committee and the Actuaries are consulted on the strategic aspects before decisions are made. The role of the Commercial Board is therefore also to act as the Investment Committee. The Commercial Board is also responsible for reviewing of Financial, Investment, Unity Office and Branch risks relating to the Society.

Fraternal Board:	Bill Henchliff	(Chairman)
	Jane Nelson	
	Valerie Ashcroft	
	David Randall	

The members of the Fraternal Board as at 31 December 2017 are as stated above.

The Fraternal Board is appointed annually by the Board of Directors and consists of at least four Directors one of whom shall be the Chief Executive Officer/Secretary of the Order. The Deputy Grand Master of the Order is the Chairman and is appointed at the first meeting following the AMC.

The Grand Master is a member by virtue of his office and has voting rights. A quorum consists of three members, one of which must be the Chief Executive Officer/Secretary of the Order or the Grand Master.

The Fraternal Board has access to the Actuary, Internal and External Auditors, Solicitors and any other advisors approved by the Board of Directors as required.

The Fraternal Board is responsible for the tactical application of strategy and implementation of policy with respect to matters listed below:

- Administration of goods:
- Administration and supervision of Branches including Branch Financial Statements, Branch Special Rules, amalgamations of Branches and transfers of engagements, transfers of funds, variations of Lodge Benefits;
- Benevolence – including Distress Grants, Educational Awards, Apprenticeship Awards, H A Andrews Memorial Fund, Legal Aid Scheme; Convalescent Benefit;
- Recruitment and retention;
- Branch delivery of social and care;
- Branch training including Weekend Seminars;
- Public Relations;
- Group Conferences;
- Society's Publications;
- Traditions of the Society; and
- Oddfellows Brass.

The Fraternal Board is also responsible for Fraternal risks relating to the Society and for the passing of resolutions in furtherance of the aims and directives of the Society's strategy and in accordance with the policy of the Board of Directors which will receive and approve its minutes.

Board of Directors Report

Governance Committee:	Bill Connolly	(Chairman)
	Jane Nelson	
	Bill Henchliff	
	Valerie Ashcroft	
	Sue Doulton Smith	
	David Ogden	
	Gary Morley	(Company Secretary)

The members of the Governance Committee as at 31 December 2017 are as stated above.

The Governance Committee is responsible for monitoring the appropriateness of the Society's corporate governance arrangements. In doing so, it needs to take account of the regulatory matters that affect the Society and, where appropriate, makes recommendations based on its deliberations and conclusions to the Board of Directors and/or other Standing Committees.

The Governance Committee has received written and/or verbal reports from the following during the course of 2017:

- The Chief Executive Officer;
- The Compliance and Risk Officer; and
- The Company Secretary.

By far the most significant work of the Governance Committee during 2017 has been the review of the composition and structure of the Society's Board and its effectiveness. A presentation about the principles of the review and its wide-ranging extent was included in an advisory way as the main part of the Governance Clause 10 at the AMC in May 2017. This review has been driven by the need to ensure that:

- the Society's Board has an appropriate blend of knowledge, skills and experience;
- the individual members of the Board are fit and proper and complement each other to drive the Society's strategy for its Fraternal and Long Term Insurance Business operations;
- effective oversight is provided of the risks facing the Society; and
- the Society's governance arrangements meet the requirements of the Regulatory Authorities.

The review will continue to be progressed in 2018. A series of workshops has been arranged in January/February 2018 to give all Branches the chance to consider the changes that will be proposed. The finalised and formal mechanisms necessary to bring the revised structure of the Board into place, together with the requisite Rule and Procedure amendments will then be presented to the AMC in May 2018.

The Governance Committee also undertook reviews and reported back on the following matters during 2017:

- The oversight and management of governance related risks within the Society's Risk Management Framework;
- The various changes that came about from the Prudential Regulatory Authority's Senior Insurance Managers Regime and the Financial Conduct Authority's Approved Persons Regime;
- The PRAs Supervisory Statement 5/16 entitled 'Corporate Governance Board Responsibilities';
- The year end questionnaire issued by the Association of Financial Mutuals in respect of compliance with the Annotated Corporate Governance Code;
- The AFM commissioned Survey relating to Board Culture across its membership in recognition of maintaining and promoting the right culture in Board Rooms;
- The introduction by the AFM of a Non-Executive Directors Toolkit to prepare NEDs for any regulatory interviews;
- The annual assessment of the on-going fitness and propriety of the Society's Approved Persons;
- Some amendments to the Board's Peer Evaluation forms, following comparison with those in use at other Friendly Societies and after the forms were externally assessed and considered fit for purpose;
- The Directors Leaflet; and
- A number of amendments were made to the Terms of Reference for the Governance Committee.

The Governance Committee acts as the Society's Nominations Committee in respect of Member Nominated Non-Executive Directors. As part of the process by which the Board has to satisfy itself about a candidate's fitness and propriety to stand for election to the Board as a Member Nominated Non-Executive Director, potential candidates are invited to receive some training after Branches submit their nominations for the AMC.

The purpose of the training is to make the individuals concerned aware of the regulatory expectations regarding the role and what they would be committing themselves to by seeking election to the Board. In February 2017, the Governance Committee interviewed two prospective candidates who sought election to the Board. One candidate subsequently withdrew and the Committee confirmed that it was satisfied with the initial fitness and propriety of the other candidate, David Ogden, to stand for election at the AMC, who was duly elected.

Insurance Committee:	Sue Doulton Smith	(Chairman)
	Jane Nelson	
	Charles Vaughan	
	Steve Code	
	Bill Connolly	
	Richard Gough	External Skilled Person
	Colin Nugent	External Skilled Person
	Diane Simpson	External Skilled Person

The members of the Insurance Committee as at the 31 December 2017 are as stated above.

The Insurance Committee, including its With-Profits Advisory Arrangement responsibilities, is accountable to the Board of Directors for monitoring, controlling and directing the business affairs of the Society in relation to the Society's Long Term Business, subject to matters reserved to the Board of Directors or delegated to the Commercial Board by the Board of Directors.

The Insurance Committee reviews and reports back on the following matters:

- Strategy and Management of the Society's Long Term Business (LTB) including:
  - Business Planning and new developments;
  - Actuarial Valuation under Solvency II;
  - Own Risk and Solvency Assessment (ORSA);
  - Solvency and Financial Condition Report (SFCR);
  - Regulatory Supervisory Report (RSR);
  - Reserves and Allocation of Free Assets;
  - Bonus Recommendations; and
  - Annual expenditure budget for the LTB.

- Operational Management of the Long Term Business Funds including:
  - Treating Customers Fairly (TCF);
  - Investment Performance; and
  - Risk Management relating to the conduct of the Society's Insurance Business.

Throughout the year the Committee has received written and/or verbal reports from the Society's Executive Directors, other Sub-Committees, Senior Management, Society's Actuaries and the Society's Internal Auditors.

Regulatory Commentary
Solvency II: The Society is required to comply with the European Union Solvency II Directive regulations via the UK regulatory regime which came into effect on 1 January 2016. The Committee has monitored papers and approved various policies, processes and procedures, including the production of the Society's Own Risk and Solvency Assessment (ORSA) and preparation for the revised reporting requirements in 2017 under Pillar 3.

Regulatory Bodies: The Insurance Committee continues to keep a watching brief on the regulatory frameworks. This includes the evolving Solvency II environment referred to above, and the regulatory feedback and consultation papers issued by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The Committee has been actively involved with the exchange of correspondence with the FCA on the cessation of the Ideal Fund.

Solvency
The Committee continues to monitor the solvency position of the LTB funds on an on-going basis and takes action to strengthen the solvency, through specific management actions, where appropriate.

Transfer of Engagements
The Committee is committed to pursuing further transfers providing they prove to be in the interests of the Society's members and policyholders.

Strategic Development
The Society's membership base is a valuable asset and the Committee believes that there exists an opportunity to increase product penetration through cross-selling new products. During 2017 the Committee approved a business case to develop and launch a Lifetime ISA and made a recommendation to the Board of Directors in this regard. The target date for launch of this product is April 2018. The Committee is actively involved in the launch of a new brand for the Society's Long Term Business and this is expected to go live in early 2018.

General
All the recommendations made by the Committee for financial provisions, appropriation of surplus, regulatory compliance, bonus rates and new product development were accepted by the Board of Directors.

Membership Working Group:	Jane Nelson	(Chairman)
	Bill Henchliff	
	Charles Vaughan	
	David Randall	

The members of the Membership Working Group as at 31 December 2017 are as stated above.

Remuneration Committee:	Bill Connolly	(Chairman)
	Valerie Ashcroft	
	Charles Vaughan	

The members of the Remuneration Committee as at 31 December 2017 are as stated above.

The Remuneration Committee is responsible for:

- determining and agreeing with the Board the framework or broad policy for the remuneration of Executive Directors;
- determining targets for any performance-related pay schemes operated by the Society; and
- fulfilling duties as laid down by the Directors' Remuneration Report Regulations 2002.

For the year 2017, the Committee again decided not to use the services of an external consultancy. As reported previously, this is largely because the data provided by the consultant engaged by the Society is capable of being collated internally and is also in the public domain. Furthermore, the market conditions in which the remuneration of the Society's Executive Directors was set did not warrant the expenditure that would have been incurred by engaging external support.

However, the main sources of data used to benchmark the remuneration of the Executive Directors were the ones previously obtained via the external consultancy, namely:

- The Croner Rewards Charities Salary Survey; and
- A Survey of Remuneration packages of its member organisations commissioned by the Association of Financial Mutuals.

The Chief Executive Officer is invited to attend meetings of the Committee to participate in the consideration of the remuneration of the Insurance Director and associated matters but she is excluded from discussions relating to her own remuneration. The Committee then makes recommendations to the Board of Directors regarding the basis of the Executive Directors' remuneration.

This is not required for Member Elected Non-Executive Directors and External Non-Executive Directors as they receive no remuneration.

Annual performance reviews of the Executive Directors are undertaken by the Remuneration Committee, based on the Executive Directors' objectives derived from the Society's Strategic Plan. Formal appraisals were held with both Directors in this regard.

Board of Directors Report

The Remuneration Committee reviews Executive Directors' remuneration annually. It considers it is in the Members' interests for remuneration packages to be competitive in order to attract, retain and motivate people of the required calibre.

The details shown in the following tables reflect the remuneration arrangements that have been in place for Jane Nelson and Steve Code during 2017.

	Salary	Cash Allowance in lieu of pension	Taxable Benefits	Total	
				2017	2016
Chief Executive Officer/Secretary of the Order	£145,566	£44,576	£6,661	£196,803	£196,841
Insurance Director	£128,930	£39,456	£9,131	£177,517	£178,402
Total	£274,496	£84,032	£15,792	£374,320	£375,243

Taxable Benefits currently offered are private medical insurance and a company car or car allowance.

The Executive Directors both have notice periods of 12 months.

Pension entitlements

The following figures comply with the relevant requirements set out in the Large and Medium-sized Companies and Groups (Accounts and Report) Regulations 2008 (SI 2008/410), as amended for financial years ending on or after 30 September 2013. The figures are in respect of benefits within the M.U. Pension Scheme.

Position	Accrued pension 31.12.17	Transfer value of accrued pension at 31.12.16	Transfer value of accrued pension at 31.12.17	Pension input amount over 2016 less Director's contributions	Pension input amount over 2017 less Director's contributions
Chief Executive Officer/Secretary of the Order	£65,543	£1,505,201	£1,621,097	£28,159	Nil
Insurance Director	£7,261	£132,210	£143,422	£6,834	Nil

Notes

Mrs C J Nelson and Mr S Code both ceased accruing in the Scheme and became deferred pensioners on 31 March 2016.

- The accrued pensions are the deferred pension amounts which the Directors would be entitled to from normal retirement age based on accrued service prior to the relevant date.
- The transfer values represent the present value of the accrued deferred pension and associated benefits at the relevant date and have been calculated using a methodology set by M.U. Pension Trustees Limited, in accordance with the Pensions Regulator's guidance and applicable legislation.
- All accrued pensions and transfer values include the value of the Directors' AVC benefits, where applicable.
- The Pension input amount represent the value of the increase in excess of inflation (where inflation is measured as the annual increase in the Consumer Prices Index to the September before the financial year end) of the accrued deferred pension over the period, less Director contributions. The increase in benefits has been calculated using HMRC methodology and then multiplied by a factor of 20 which is in line with our understanding of the Directors' Disclosure regulations.

Board of Directors Report

Statement of Solvency

The Board of Directors considers that the value of the assets of the Society and its Branches at the end of the year, together with future income significantly exceeds future liabilities and operating expenses and is capable of providing adequate income to sustain the reasonable expectations of the members.

The Board of Directors confirms that the Society, at the end of the financial year, held eligible own funds to cover both the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR) as prescribed in the PRA rulebook for Solvency II firms.

Conflicts of Interest

The Society's code of conduct and conflicts of interest policy requires any members of staff, Advisers or Directors to declare any potential or actual conflict of interest in respect of any business matter or transaction which is being considered.

In the event of such a conflict of interest, the individual must disclose to the Society any benefit they may receive from the business matter or transaction concerned. This requirement applies whether or not the Society sets aside the particular business matter or transaction concerned. It is not necessary for the individual concerned to have to account for the benefit if they are allowed to have an interest or duty by the rules of the Society and the interest or duty has been disclosed to and approved by the Board of Directors.

Charitable Donations

In October 2017, the second of three donations was presented to Professor Des Tobin and research leader Anisa Hanif from the Centre for Skin Sciences. Jane Nelson, CEO and Grand Master Tony Luckett presented a cheque to them for £29,500 at Bradford City Football Club, the site of the 1985 fire disaster which led to the Plastic Surgery and Burns Research Unit being set up.

The University of Bradford will be the base for the research entitled, 'Exploiting the Hair Follicle as the Preferential Source of Wound Healing Cells in the Human Skin'. Their work will also explore how to improve the treatment of wounds for those with diabetes.

The research, led by Professor Tobin, Director of the Centre for Skin Sciences is looking into the treatment of non-healing wounds. The project will receive a total donation of £88,000.

Liability Insurance

The Board of Directors continues to effect Directors and Officers liability insurance on the Directors and executive management as permitted by the Friendly Societies Act 1992.

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

Statement of Disclosure of Information to Auditor

Each of the persons who is a Director at the date of this report confirms that, so far as each of them is aware, there is no information relevant to the audit of the Society's Financial Statements for the year ended 31 December 2017, of which the Auditor is unaware. Each Director has taken all steps that he/she ought to have taken in his/her duty as a Director to make himself/herself aware of any relevant audit information and to establish that the Society's Auditor is aware of that information.

The above report was approved by the Board of Directors and signed on its behalf by:

C J Nelson
Chief Executive Officer
27 March 2018

Independent Auditor's Report

In our opinion the Financial Statements:

- give a true and fair view of the state of the society's affairs as at 31 December 2017 and of the society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the Friendly Societies Act 1992.

We have audited the financial statements of The Independent Order of Odd Fellows Manchester Unity Friendly Society (the 'society') which comprise:

- the income and expenditure accounts;
- the statement of other comprehensive income;
- the balance sheet; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the society.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Expense assumptions used in the Technical Provision calculation; • Completeness and accuracy of policyholder data used in the Technical Provision calculation; and • Investment property valuation in relation to the Druids portfolio. There have been no new key audit matters identified in the year. The key audit matter we identified in the prior year around the change in the Technical Provision accounting basis was specific to the 2016 audit and has not been identified as a key audit matter for the 2017 audit.
Materiality	The materiality that we used for the financial statements was £600k (2016: £580k) which was determined on the basis of 0.15% of the total assets balance at 30 September 2017.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Independent Auditor's Report

Conclusions relating to going concern, principal risks and viability statement

Going concern
We have reviewed the Board of Directors Report and the directors' statement in note 1a to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

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

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

- the disclosures on page 4 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 10 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 10 as to how they have assessed the prospects of the society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expense assumptions used in Technical Provision calculation

Risk	How the scope of our audit responded to the risk
The Technical Provisions balance is the largest liability on the Balance Sheet, held at £246.3m in 2017 (2016: £235.4m). Significant judgment is required in the setting of assumptions that underpin the Technical Provision valuation and we note that the Society appoints an external actuarial consultant to assist in the determination of the actuarial Technical Provision. We identified a key audit matter in relation to the future expense assumption used given it is the most relevant to the members; the use of an inappropriate assumption, whether through error or deliberate management bias, could result in a material misstatement particularly because of the high sensitivity of the provision to this assumption. The accounting policy disclosure for the Technical Provisions is set out in note 1a and the financial disclosures are set out in note 21. This has been included in the Audit Committee report on page 23.	• We have assessed the design and implementation of the key internal controls put in place by management to manage the risks associated with setting the expense assumptions. • We have obtained the per policy expense assumptions, as split by fund and product group. • We have used actuarial specialists within our audit team to challenge the appropriateness of the expense assumptions input into the Technical Provision model provided by the external valuation actuaries. • We have agreed the actual expense base used in the assumption setting process through to audited current year information to validate consistency.
Key Observations	We noted the approach to setting the policy expense assumptions was consistent with the prior year and in line with market practice. We did not note any misstatements that warranted reporting to the audit committee.

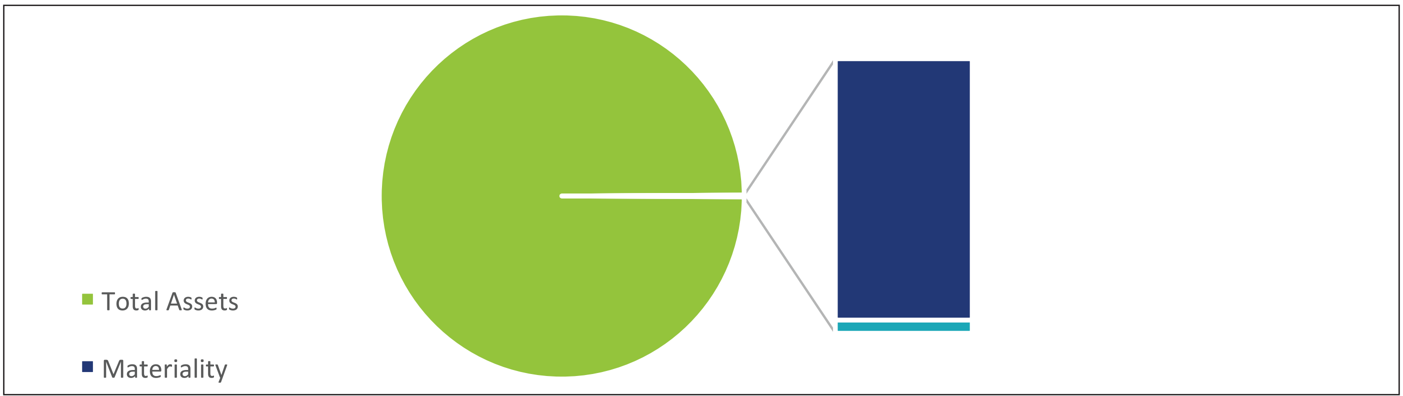
Risk	How the scope of our audit responded to the risk
Completeness and accuracy of policyholder data used in the Technical Provision calculation The Society extracts data from a number of different platforms before passing this to external valuation actuaries for processing through the actuarial models. We identified a key audit matter in relation to the completeness and accuracy of data used in the calculation given the quantum of the Technical Provisions; the use of incomplete or inaccurate data, whether through error or deliberate manipulation, could result in a material misstatement because the data extracted from the underlying platforms is integral to the material accuracy of the calculation at the year-end date. The accounting policy disclosure for the Technical Provisions is set out in note 1a and the financial disclosures are set out in note 21. This has been included in the Audit Committee report on page 23.	• We have tested the design and implementation of key controls in place to test the integrity of the data in the extraction process. • We have engaged IT specialists to test the operating effectiveness of the key controls around data security including access privileges and change management to the different platforms. • We have challenged the data validation checks performed as part of the data cleansing process. • We have reconciled the number of policyholders included in the 2017 data extract to the 2016 audited data and tested a sample of the policyholder movements to supporting documentation to check the data is complete and accurate.
Key observations	We found the data used to be appropriate and reasonable.
Risk	**How the scope of our audit responded to the risk**
Investment Property valuation in relation to the Druids portfolio The value of the investment properties in the Druids portfolio in 2017 is £13.1m (2016: £13.5m). Although the responsibility for the valuation of property portfolios remains with the Society, the process is outsourced to third party valuation specialists who are registered with RICS (The Royal Institution of Chartered Surveyors). The valuation reports provided to management are expected to comply with the RICS Red Book requirements in order to enable management to have a sufficiently detailed understanding of the valuation methodology applied, and therefore assess its appropriateness. We identified a key audit matter relating to the assumptions and valuation methodology underpinning the Druids portfolio valuation, given that these are highly subjective in nature; also the valuation report received by the Society in respect of this portfolio was not fully Red Book compliant. This increases the likelihood of an incorrect valuation being used, as a result of the assumptions and valuation methodology not being clear or potentially not in line with market practice. The accounting policy disclosure for the investment properties is set out in note 1a and the financial disclosures are set out in note 5. This has been included in the Audit Committee report on page 23.	• We have assessed the design and implementation of the key internal controls put in place by management to manage the risks associated with the valuation of the investment property portfolio. • We have reconciled the fair value of the investment properties through to the external valuation reports provided at the year-end date. • We engaged property valuation specialists within our audit team to assess the work of the external valuation specialists and challenge the assumptions and methodologies used in the valuation process using published information sources to check that they are within a reasonable range. • We have performed substantive testing on the portfolio to test the completeness and accuracy of the information used by the property valuation experts.
Key observations	We found that the valuation, including its assumptions and methodology, was appropriate. We recommended to management that they continue to engage their external valuation specialists to report to them in full compliance with the RICS Red book requirements for future periods, to better enable them to discharge their oversight responsibilities over the valuation process.

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 of our work.

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

	Society financial statements
Materiality	£600k (2016: £580k)
Basis for determining materiality	0.15% of September 2017 Total Assets
Rationale for the benchmark applied	Total assets is deemed an appropriate benchmark as it is the financial measure most relevant to the users of the financial statements.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £30k (2016: £29k) for the society, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. The audit procedures designed to respond to the risks of material misstatement were performed directly by the audit team based in Manchester.

Other information

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

We have nothing to report in respect of these matters.

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

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

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

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

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

Responsibilities of Directors

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

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

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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the society’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent Auditor's Report

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Friendly Societies Act 1992

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

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

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

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the audit committee, we were appointed at the Annual Movable Conference (AMC) in 2010 to audit the financial statements for the year ending 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 8 years, covering the years ending 31 December 2010 to 31 December 2017.

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

Adam Addis (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK

Income and Expenditure Accounts

TECHNICAL ACCOUNT: Long Term Business	Note	Years ended 31/12/2017 £'000	31/12/2016 £'000
Earned premiums, net of reinsurance		1,342	1,534
Investment Income	14	9,670	10,017
Unrealised gains on linked investments		15,379	18,077
Unrealised (losses)/gains on non-linked investments		(1,354)	1,157
Total technical income		23,695	29,251
Gross claims paid		(4,948)	(6,299)
Net claims paid		(4,948)	(6,299)
Gross change in Long-Term Business Provision			
Decrease/(Increase) in non-linked investment contract liabilities		2,147	(5,232)
Decrease/(Increase) in insurance contract liabilities		3,373	(6,108)
Net Change in Long-Term Business Provision		5,520	(11,340)
Gross Changes in technical provision for linked liabilities			
(Increase) in linked investment contract liabilities		(16,887)	(15,769)
Decrease/(Increase) in insurance contract liabilities		419	(607)
Net change in technical provisions for linked liabilities		(16,468)	(16,376)
Net operating expenses		(2,163)	(2,205)
Investment expenses and charges		(271)	(302)
Tax	15	(239)	-
Other technical (expenses)/income		(4,087)	3,007
Transfer (to)/from Funds for Future Appropriations	13	(2,381)	2,730
Balance on the Long Term Business Technical Account		-	-

Income and Expenditure Accounts

NON TECHNICAL ACCOUNT	Note	Years ended 31/12/2017 £'000	31/12/2016 £'000
Investment income	14	4,812	4,900
Gains on realisation of investments		128	16,519
Movement in unrealised gains/(losses) on investments		5,964	(4,252)
Movement in unrealised (losses) on Oddfellows House		-	(1,021)
Annual lodge levy		2,003	1,893
Investment expenses and charges		(360)	(243)
Other income		418	495
Investment return to investing branches	17	2,158	(16,546)
Net operating expenses		(2,868)	(2,451)
Non-contractual benefits		(459)	(404)
Pension scheme benefits	24	(291)	49
Transfer to the reserves provided for by the rules and other specific purposes	12	(15)	(48)
Excess / (Deficit) of income over expenditure	13	11,490	(1,109)

All the amounts above are in respect of continuing operations.

Statement of other Comprehensive Income

	Note	Years ended 31/12/2017 £'000	31/12/2016 £'000
Surplus / (Deficit) on Non Technical Account		11,490	(1,109)
Reserves provided for by the rules and other specific	12	15	48
Pension Scheme actuarial gains/(losses)	24	1,434	(4,311)
Total recognised gains/(losses) for the year		12,939	(5,372)

Balance Sheet

ASSETS	Note	As at 31/12/2017 £'000	31/12/2016 £'000
Investments			
Land and buildings	5	74,937	60,420
Other financial investments			
Shares and other variable yield securities	6	60,075	57,904
Debt and other fixed income securities	7	94,912	87,060
Loans secured by mortgage	8	453	539
Assets held to cover linked liabilities	9	169,365	151,074
Debtors due within one year			
Other debtors	10a	1,073	923
Other assets			
Tangible assets	11	4,830	4,852
Other cash at banks, building societies and in hand		21,098	20,149
Prepayments and accrued income			
Accrued income		2,810	3,053
Prepayments		830	921
		430,383	386,895

Balance Sheet

LIABILITIES	Note	As at 31/12/2017 £'000	31/12/2016 £'000
Reserves			
Reserves provided for, by the rules and other specific purposes	12	2,353	2,338
Fund for future appropriations	13	22,655	7,349
Technical provisions			
Long term business provision	21c	84,242	89,278
Claims outstanding		915	796
Provision for unearned premiums		88	90
Technical provisions for linked liabilities	21c		
Insurance contracts		2,467	2,892
Investment contracts		159,544	143,184
Liabilities to investing branches		136,449	135,085
Creditors and accruals due within one year	10b	2,656	2,289
Creditors, amounts falling due after more than one year	10b	16,000	-
Deferred income		1,035	472
Pension scheme liability	24	1,979	3,122
		430,383	386,895

These Financial Statements were approved by the Board of Directors on 27 March 2018 and were signed on its behalf by:

C J Nelson
Secretary of the Order

1a ACCOUNTING POLICIES

Basis of accounting

The principal accounting policies are summarised below. They have been applied consistently throughout the year and to the preceding year.

General information and basis of accounting

The Independent Order of Odd Fellows Manchester Unity Friendly Society Limited is a registered Friendly Society under the Friendly Society Act 1992. The nature of the Society's operations and its principal activities are set out in the Strategic Report on pages 3 to 7.

The Financial Statements have been prepared under the historical cost conventions, modified to include certain items at fair value, in accordance with Financial Reporting Standards 102 and 103 (FRS 102 and FRS 103) issued by the Financial Reporting Council. The Financial Statements are also drawn up in accordance with the rules set out in Schedule 6, Part III of the Friendly Societies (Accounts and Related Provisions) Regulations 1994 No. 1983.

The functional currency of the Society is considered to be pounds sterling because that is the currency of the primary economic environment in which the Society operates.

In accordance with Section 7, Part II of the Friendly Societies (Accounts and Related Provisions) Regulations 1994, consolidated Financial Statements are not presented since the Board of Directors believe that the results of the subsidiary's operations (Oddfellows Support Services Limited) are not material for the purpose of giving a true and fair view of the Society and its subsidiary as a whole.

Classification of contracts

The Society classifies its products for accounting purposes as insurance or investment. Insurance contracts are defined as a contract under which one party accepts significant insurance risk. As a general guideline the Society defines a significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits:

- That are likely to be a significant proportion of the total contractual payments; and
- Whose amount or timing is contractually at the discretion of the issuer and that is contractually based on:
  - The performance of a specified pool of contracts or a specified type of contract;
  - Realised and/or unrealised investment returns on a specified pool of assets held by the Society; or
  - The profit or loss of the Society, fund or other entity that issues the contract.

Such contracts are more commonly known as 'with-profit' or as 'participating' contracts. The terms and conditions of these contracts, together with UK regulations, set out the basis for the determination of the amounts on which the additional discretionary benefits are based and within which the Society may exercise its discretion. All with-profit contracts are classified as insurance contracts under the current accounting rules.

Investment contracts are those which carry financial risk, with no significant insurance risk.

Insurance premiums

Premiums received and reinsurance premiums paid relate to insurance and non-participating investment contracts. They are accounted for when due for payment except for recurring single premium in respect of unit-linked business, which are accounted for when the related liabilities are created.

Investment contracts, premiums and claims

Amounts collected on investment contracts, which primarily involve the transfer of financial risk such as long-term savings contracts, are accounted for using deposit accounting, under which the amounts collected, less any initial fees deducted, are credited directly to the Balance Sheet as an adjustment to the liability to the investor.

For claims and benefits paid on investment contracts, amounts are not included in the Income and Expenditure Account but instead deducted from investment contract liabilities in the period to which they relate.

Insurance claims incurred and claims outstanding

All valid claims and benefits notified in respect of 2017 are included in the Financial Statements whether or not they have been settled. All claims notified but not settled as at 31 December 2017 are included within claims outstanding on the Balance Sheet. Claims are stated as arising from either insurance contracts or investment contracts under FRS 103. In addition, the costs of administering the claims paid have been included in the claims incurred figure in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 No. 1983 Schedule 1, Part III.

Investment income

Investment income is included on an accruals basis. Dividends are included by reference to ex dividend dates. Income on fixed interest investments is adjusted for purchased accrued interest.

Realised gains and losses on investments

Realised gains and losses on investments, other than unit trusts held in the Long Term Business Fund, are calculated as the difference between net sales proceeds and the original cost. Realised gains and losses on unit trusts held in the Long Term Business Fund are calculated as the difference between net sales proceeds and the aggregate of additions at cost.

Unrealised gains and losses on investments

Unrealised gains and losses on investments, other than unit trusts held in the Long Term Business Fund, are calculated as the difference between the valuation of investments at the Balance Sheet date and the original cost. Unrealised gains and losses on unit trusts held in the Long Term Business Fund are calculated as the difference between the valuation at the Balance Sheet date and the aggregate of additions at cost and the previous Balance Sheet valuation. All movements in unrealised gains and losses on investments arising in the year are shown in the respective Income and Expenditure accounts.

Leases

Payments under operating leases are charged to the Income and Expenditure accounts equally over the lease term.

Investments

Investments are stated in the Financial Statements at market value (bid price). Information on all valuations is given in notes 5, 6, 7 and 9.

All property owned by the Society is long leasehold and is included under investments on the Balance Sheet at open market value, if not occupied by the Society for its own activities, in accordance with Financial Services and Markets Act 2000 and the Friendly Societies Act 1992 and the regulations made under them.

Owner occupied property

Owner occupied investment property is included under Fixed Assets on the Balance Sheet at fair value. The decrease on book value of owner occupied investment property is recognised in the Income & Expenditure account. Any future increase on book value reverses the decrease in value in the Income & Expenditure account with any surplus being transferred to the revaluation reserve. Properties are professionally revalued at least every three years with any surplus book value being transferred to the revaluation reserve, in accordance with generally recognised methods of valuation. The Board revalues the properties in the intervening years. It is the Society's practice to maintain these assets in a continual state of repair and to make improvements from time to time.

Loans secured by mortgage

Loans secured by mortgage are classed as basic financial instruments under FRS102 and are included at amortised cost.

Fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than owner occupied property, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Motor Vehicles	4 years (after residual value allowance)
Office equipment	4 years
Central office computer equipment	3 years or 5 years dependent on expected useful life
Branch Computer equipment	1 year
Owner occupied property	Nil

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

Taxation

As a registered Friendly Society only part of the Long Term Business is subject to corporation tax. Provision for tax has been included for 2017 as interest and capital gains arising during the year are expected to exceed allowable management expenses.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date using tax rates that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax assets are only recognised when it is considered they are more than likely to be recovered.

Fund valuation

The assets and liabilities of the Society were last valued as part of the Long Term Business annual investigation as at 31 December 2017 pursuant to the Solvency II guidance.

Actuaries' reports on the appropriate assets and liabilities of all long term insurance funds of the Society were last made on 31 December 2017, and copies of these reports may also be inspected at the Registered Office.

Long Term Business provision

The Long Term Business provision is determined by the Society's Appropriate Actuary following the actuarial valuation. It is calculated on a basis to comply with the reporting requirements of the Prudential sourcebook and the Friendly Societies Act 1992. In broad terms the calculation uses a net premium valuation method to assess the amount of mathematical reserves. As such it includes explicit provision for regular bonuses declared at 31 December 2017, and regular bonuses declared as a result of the valuation. Wherever possible, implicit allowance is made for future bonuses by a margin in the valuation rate of interest. No provision is made for terminal bonuses as these are declared at the discretion of the Board.

The cost of any new bonus (declared as a result of the valuation) is shown separately in Note 21. This value has been assessed using the same methodology and assumptions as the calculation of the Long Term Business provision.

Linked Liabilities

For unit-linked business, the provision is calculated as the unit value of the individual accounts held by the Society for each member, plus any additional reserves considered necessary.

Going concern

As reflected on page 10, the Board of Directors has adopted the going concern basis in preparing the Financial Statements.

Cash flow statement

The Society has taken advantage of the exemption for mutual life assurance organisations under FRS102 Section 7 Statement of Cash Flows and has not prepared a cash flow statement for the year.

Fund for Future Appropriations accounting policy

The Fund for Future Appropriations represents all funds, the allocation of which has not yet been determined by the end of the financial year. Any surplus or deficit arising on the Technical Account – Long-Term Business is transferred to or from the Fund on an annual basis.

Related party disclosure

Total income during the year received from Branches in respect of the levy was £2,003k (2016: £1,893k). Amounts due from Branches at 31 December 2017 in respect of goods and services was £29k (2016: £29k). Balances are settled within normal credit terms and there is no provision for doubtful debts related to these amounts. In respect of investments, these are disclosed on the Balance Sheet on page 40.

1b CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Society's accounting policies, which are described in Note 1a, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with seperately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

Classification of long-term contracts

The Society has exercised judgment in its classification of Long-Term Business between insurance and investment contracts, which fall to be accounted for differently in accordance with the policies set out in Note 1 Accounting Policies. Insurance contracts are those where significant risk is transferred to the Society under the contract and judgment is applied in assessing whether the risk so transferred is significant, especially with regard to pension contracts, which are predominantly, but not exclusively, created for investment purposes.

Accounting for pension plans

The Society participates in a defined benefit pension scheme based on final pensionable pay. The underlying assets and liabilities of the scheme require an element of judgment in their valuation, with the deficit on the scheme presented within the Balance Sheet. Further details underpinning the valuation of the scheme liabilities are disclosed in Note 24.

Key Source of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fair value of financial assets and unit-linked investments

Fair value measurement has been adopted to reduce volatility in reported earnings in the Income and Expenditure Account as the liabilities so determined are measured in a way which is consistent with the fair value of the underlying invested financial assets.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing, knowledgeable parties in an arms-length transaction. Fair values are determined by reference to observed market prices where available and reliable.

Estimates of future benefit payments arising from Long-Term Business insurance contracts

The Society makes estimates of the expected number of deaths for each of the years that it is exposed to risk. These estimates are based on either standard mortality tables; adjusted to reflect the Society's own experience.

The Society makes estimates of voluntary contract termination, investment returns and administration expenses at the inception of Long-Term insurance contracts. These estimates, which are reconsidered annually, form the assumptions used to calculate the liabilities arising from these contracts.

When assessing assumptions relating to investment returns the Society makes estimates of the impact of defaults on the related financial assets. The estimates are reassessed annually. The assumptions used to establish insurance contract liabilities and appropriate sensitivities relating to variations in critical assumptions are disclosed in Note 21b.

2 SUMS DENOMINATED IN FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling at 31 December 2017. Revenue transactions and those relating to the acquisition and realisation of investments including foreign fixed rate short term cash deposits have been translated at rates of exchange ruling at the time of the respective transactions.

3 STAFF COSTS

	2017 £'000	2016 £'000
Gross contracted service salaries	1,776	1,746
Social security costs	194	183
Pension costs	295	305
	2,265	2,234

The average monthly number of employees during the year was as follows:

	2017	2016
Board members	2	2
Clerical	45	44
Printing, production and dispatch	4	4
	51	50

4 AGGREGATE AMOUNT OF BOARD MEMBERS' EMOLUMENTS

	2017 £'000	2016 £'000
Gross salaries	274	338
Pension costs	84	22
Benefits and allowances	16	15
	374	375

Included in the above re emoluments (including benefits and allowances but excluding pension costs) of:

	2017 £'000	2016 £'000
Highest paid member	197	185
Members emoluments:		
£165,000 to £170,000	-	1
£175,000 to £180,000	1	-
£185,000 to £190,000	-	1
£190,000 to £200,000	1	-

5 LAND AND BUILDINGS

	Occupied properties £'000	Investment properties £'000	2017 £'000	2016 £'000
Valuation as at 1 January	85	60,335	60,420	54,376
Additions at cost	-	15,522	15,522	4,289
Disposal proceeds	-	(2,444)	(2,444)	(2,139)
Realised (loss) / gain	-	(67)	(67)	1,609
Movement in unrealised gains	-	1,506	1,506	2,285
Valuation as at 31 December	85	74,852	74,937	60,420

Property owned by the Society for sponsorship activities was last valued at 31 December 2016 by Keningtons LLP, Chartered Surveyors of 9-13 George Street, London, W1U 3QH. The Directors have considered this valuation and consider it to remain appropriate.

Property owned and occupied by the Society as valued at 31 December 2016 by CB Richard Ellis Limited, Chartered Surveyors of The Chancery, Spring Gardens, Manchester M2 1EW. The Directors have considered this valuation and consider it to remain appropriate.

Freehold and leasehold investment properties were valued at 31 December 2017 by CB Richard Ellis Limited, Chartered Surveyors of The Chancery, Spring Gardens, Manchester M2 1EW. The Directors have considered this valuation and consider it to remain appropriate.

Valuation on property transferred in from the Schoolteachers Friendly Society was last valued at 31 December 2017 by Chris Johnson FRICS of Smith & Sons, Hamilton Square, Birkenhead, Wirral, CH4 15BN. The Directors have considered this valuation and consider it to remain appropriate.

Valuation on property transferred from the Druids Friendly Society was last valued at 31 December 2017 by Handley Gibson of Scott Hall House, Sheepscar Street North, Leeds LS7 3AF. The Directors have considered this valuation and consider it to remain appropriate.

The valuations are based on open market value in accordance with the provisions of the RICS Appraisal and Valuation Manual. No allowances have been made for the costs of realisation. In order for the accounts to show a true and fair view it is appropriate not to provide for depreciation on land and buildings.

6 SHARES AND OTHER VARIABLE YIELD SECURITIES

	Listed Equities	
	2017 £'000	2016 £'000
Valuation as at 1 January	57,904	51,430
Additions at cost	14,371	31,021
Disposal proceeds	(18,192)	(30,217)
Realised gains	2,843	7,231
Movement in unrealised gains/(losses)	3,149	(1,561)
Valuation as at 31 December	60,075	57,904

Listed equities, (quoted on the London Stock Exchange) were valued at 31 December 2017 by Brewin Dolphin Limited of 12 Smithfield Street, London, EC1A 9BD, Investec Wealth & Investment Limited of 2 Gresham Street, London, EC2V 7QN, Legal & General Investment Management of 1 Coleman Street, London, EC2R 5AA, Fidelity International of 25 Cannon Street, London EC4M 5TA and Vestra Wealth LLP of 14 Cornhill, London EC3V 3NR.

7 DEBT AND OTHER FIXED INCOME SECURITIES

	United Kingdom Government Bonds £'000	Non-Government Bonds £'000	2017 £'000	2016 £'000
Valuation as at 1 January	44,347	42,713	87,060	76,690
Additions at cost	9,200	15,356	24,556	75,281
Disposal proceeds	(5,838)	(11,088)	(16,926)	(69,062)
Realised gains	14	269	283	9,609
Movement in unrealised (losses)	(892)	831	(61)	(5,458)
Valuation as at 31 December	46,831	48,081	94,912	87,060

Listed bonds were valued as at 31 December 2017 by Investec Wealth & Investment Limited of 2 Gresham Street, London, EC2V 7QN and Vestra Wealth LLP of 14 Cornhill, London EC3V 3NR.

8 LOANS SECURED BY MORTGAGE

	2017 £'000	2016 £'000
Outstanding as at 1 January	539	567
Advances	10	24
Repayments	(98)	(54)
Interest earned	2	2
Outstanding as at 31 December	453	539

9 ASSETS HELD TO COVER LINKED LIABILITIES

	Cash at Bank & Building Society £'000	Unit Trusts £'000	Equities £'000	Total £'000
Ex-Ideal Fund	850	-	6,275	7,125
Nottingham Fund	-	42,407	-	42,407
Schoolteacher's Fund	-	90,666	-	90,666
Druids Fund	-	25,692	-	25,692
Equity Fund	-	648	-	648
Fixed Interest Fund	-	354	-	354
Money Fund	301	-	-	301
UK Index Fund	-	881	-	881
Growth Fund	-	1,291	-	1,291
Valuation as at 31 December 2017	1,151	161,939	6,275	169,365
Valuation as at 31 December 2016	1,250	144,257	5,567	151,074

Linked business investments were valued as at 31 December 2017 in accordance with the provisions of the Prudential Sourcebook.

Unrealised gains and losses on linked business investments are dealt with in the Long Term Business Technical Account.

Assets invested exceed the technical provision for linked liabilities by £7,354k (2016: £6,325k).

10 DEBTORS AND CREDITORS

10a OTHER DEBTORS

	2017 £'000	2016 £'000
Trade debtors	990	922
Tax to be recovered	83	1
Valuation as at 31 December	1,073	923

10b CREDITORS AND ACCRUALS

	2017 £'000	2016 £'000
Amounts falling due within one year		
Trade creditors	86	76
Other creditors and accruals	2,258	2,213
Tax Creditor	312	-
Valuation as at 31 December	2,656	2,289
Amounts falling due after more than one year	16,000	-

11 TANGIBLE ASSETS

	Office & Computer Equipment £'000	Owner Occupied Premises £'000	New Premises £'000	Motor Vehicles £'000	Total £'000
Cost:					
1 January 2017	1,835	4,170	41	88	6,134
Additions	748	-	-	-	748
Disposals	(608)	-	-	(29)	(637)
31 December 2017	1,975	4,170	41	59	6,245
Depreciation:					
1 January 2017	1,194	-	27	61	1,282
Charge	223	-	10	12	245
Disposals	(71)	-	-	(41)	(112)
31 December 2017	1,346	-	37	32	1,415
Net Book Value:					
31 December 2017	629	4,170	4	27	4,830
31 December 2016	641	4,170	14	27	4,852

12 RESERVES PROVIDED FOR BY THE RULES AND OTHER SPECIFIC PURPOSES

The reserves comprise those funds with specific purposes as laid down in the rules of the Society.

Movement in the year:	2017 £'000	2016 £'000
Balance at 1 January	2,338	2,290
Transfer from Non Technical Account	15	48
Balance at 31 December	2,353	2,338

13 FUND FOR FUTURE APPROPRIATIONS

The fund for future appropriations comprises all funds, the allocation of which had not been determined by 31 December 2017.

Movement in year:

	2017 £'000	2016 £'000
Balance at 1 January	7,349	15,497
Transfer from/(to) Long Term Business Technical Account	2,381	(2,730)
Surplus/(deficit) on Non Technical Account	11,490	(1,109)
Net Pension Scheme actuarial gains/(losses)	1,434	(4,311)
Other	1	2
Balance at 31 December	22,655	7,349

The balance at the accounting date arises as follows:

	2017 £'000	2016 £'000
Technical Account: Long Term Business	7,989	5,608
Non Technical Account	14,666	1,741
Balance as at 31 December	22,655	7,349

14 INVESTMENT INCOME

	2017 £'000	2016 £'000
Technical account: Long Term Business:		
Investment Property	665	784
Shares and other variable yield securities	4,151	4,694
Debt and other fixed income securities	1,999	1,641
Bank and building society interest	23	566
Mortgages	3	2
Capital Return	47	47
Other	7	134
	6,895	7,868
Gain on Realisation of Investments	2,775	2,149
	9,670	10,017
Non Technical Account:		
Land & buildings	2,387	2,589
Shares and other variable yield securities	1,476	1,167
Debt and other fixed income securities	930	1,041
Bank and building society interest	12	94
Branch loan interest	7	9
	4,812	4,900

15 TAXATION

(a) Analysis of the tax charge for the period is	Society 2017 £'000	Society 2016 £'000
Corporation tax Policyholder tax charge/(credit)	207	-
Deferred tax Timing differences, origination and reversal	32	-
Total tax charge/(credit)	239	-

The tax charge for the group is £239k (2016: £nil). There was no current tax charge in 2016 due to the losses the Society was carrying forward.

The Finance Bill 2016 substantively enacted on 6 September 2016 included legislation reducing the UK corporate tax rate to 17% from 1 April 2020. This future change is reflected in the amount of deferred tax recognised as applicable.

The Society primarily writes tax exempt business, with a small proportion of taxable business. The UK rate of income tax applicable to this business is 20% (2016: 20%).

At 31 December 2017, the group did not hold any provisions for uncertain tax positions.

(b) Reconciliation of total tax charge	Society 2017 £'000	Society 2016 £'000
Excess/(deficit) of income over expenditure before tax	11,490	(1,109)
Tax on result	207	(222)
Factors affecting tax charge:		
Accounting (deficit)/surplus not subject to policyholder tax	(207)	222
Items taxed on a different basis	239	-
Total tax charge for the year	239	-

(c) Analysis of deferred tax asset	Society 2017 £'000	Society 2016 £'000
Fixed Asset Timing differences	1	-
Deferred tax provision on unrealised gains	(33)	-
Total recognised deferred tax (provision)	(32)	-
Unrecognised deferred tax assets	-	40
Total	(32)	40

(d) Movement in recognised deferred tax asset/(provision)	Society 2017 £'000	Society 2016 £'000
Provision at start of the period	-	-
Deferred tax charge to Technical Account – Long-term business	(32)	-
Deferred tax charge to Non-Technical Account	-	-
Provision at end of the period	(32)	-

16 LONG TERM BUSINESS - CHANGE IN OTHER TECHNICAL PROVISIONS

	2017 £'000	2016 £'000
Continuing Long Term Business (Note 21c)	10,899	20,094

17 INVESTMENT RETURN TO INVESTING BRANCHES

	2017 £'000	2016 £'000
Investment income	(4,274)	(4,555)
Losses/(gains) on realisation of investments	2,981	(16,089)
Movement in unrealised losses on investments	3,451	4,098
	2,158	(16,546)

18 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Total minimum lease payments payable under non-cancellable operating leases were in respect of leases expiring:

	2017 £'000	2016 £'000
Land and buildings: Within one year	2	1
Other: Between one to five years	26	26
	28	27

Other financial commitments payable witihin one year not provided for in the the accounts amounted to £30k (2016: £30k).

19 AUDITOR'S REMUNERATION

	2017 £'000	2016 £'000
Audit related assurance services	188	177
Other assurance services	51	37
Non-audit fees	-	22
Total (exclusive of Value Added Tax)	239	236

TAXATION REMUNERATION

Taxation services are now provided by PwC LLP	21	-

20 CHIEF ACTUARY

The Society has requested the Chief Actuary to furnish to it the particulars specified in Section 77 of the Friendly Societies Act 1992 and the particulars furnished pursuant to the request are identified below:

(a) The Chief Actuary of the Society, between 1 January 2017 and 31 December 2017, was Mr Michael Green, FIA, of Willis Towers Watson Limited. Mr Green is not a member of the Society.

(b) Mr Green had no other pecuniary interest in any transaction between the actuary and the Society subsisting at any time during the year save their interests in respect of the amounts disclosed in (c) below.

(c) Mr Green was an employee of Willis Towers Watson during the period of his appointment. The only remuneration was the fees for professional services paid to Willis Towers Watson for the services provided by the firm, and the amount payable in this respect amounted to £528,749 exclusive of Value Added Tax. No other benefits were paid.

(d) Mr Green did not receive, nor will receive any other pecuniary benefit.

21 LONG TERM BUSINESS

(a) Capital Statement

The following summarises the capital resources and requirements of the Independent Order of Odd Fellows Manchester Unity Friendly Society Limited as determined for UK regulatory purposes.

Available capital resources

The life insurance business is made up of five funds, the MU Long Term Business Fund (“MU Fund”), the Nottingham Fund, the Schoolteachers Fund, the Druids Fund and the Non Profit Fund (NPF). The Ideal Fund was transferred into the NPF in December 2017. The figures shown reflect the capital resources within the combined life insurance business.

	Total life insurance £’000	Other activities £’000	Total £’000
31 December 2017	7,989	14,666	22,655
31 December 2016	5,608	1,741	7,349

Movement in capital resources	Total Life insurance £'000
Total available capital resources at 1 January 2017	5,608
Change in assets	
Premiums less claims and expenses	(10,420)
Investment income	7,464
Realised and unrealised losses on investments	16,236
Total change in assets	13,280
Change in liabilities	
Change in provision for linked liabilities	15,936
Change in long term business provision	(5,037)
Total change in liabilities	10,899
Total available capital resources at 31 December 2017	7,989

Analysis of liabilities at 31 December 2017	Total Life insurance £'000
With-profit liabilities	49,405
Non-profit business	34,837
Unit-linked	162,011
Total provisions included in the Balance Sheet	246,253

Analysis of liabilities at 31 December 2016	Total Life insurance £'000
With-profit liabilities	57,593
Non-profit business	31,685
Unit-linked	146,076
Total provisions included in the Balance Sheet	235,354

The basis for setting the technical provisions is included in note 21b to the Financial Statements.

Management of risks in the life insurance business

The Society ensures that management of the Long Term Business is appropriate and proportionate for a directive society.

To accomplish this the Society will continue to ensure that:

- sufficient assets are set aside to meet Long Term Business liabilities;
- the strategy for the distribution of any free assets within the Long Term Business is appropriate for the business concerned, and in particular, the discretionary allocation of bonuses is decided by the Board;
- liquid investments are sufficient to meet benefit payments;
- workflow and resources are planned to ensure that Long Term Business can be administered in a proper manner; and
- due regard is paid to risks that might impact on how the Long Term Business is managed.

In implementing these measures, the Society adheres to the PRA principles, rules and guidance applicable to Long Term Business to ensure that the requirement and expectations of customers are met and that they are treated fairly.

Regulatory solvency position

In line with Solvency II requirements the Society calculates it’s solvency capital requirement (SCR) using Standard Formula

As at 31 December 2017 the Society’s estimated SCR and corresponding eligible own funds were as follows:

	Unaudited 2017
Eligible Own Funds	£289.7m
SCR	£81.8m
Coverage (unrounded)	354%

Note, the SCR is an estimate and is unaudited at present, this will be finalised and audited ahead of the Solvency II return which will be submitted by the deadline of 6 May 2018.

Sensitivities of the capital position

The capital position is sensitive to changes in market conditions, which may affect the value of assets and/or liabilities. It is also sensitive to assumptions and experience relating to mortality, expenses and persistency, and to a lesser extent morbidity.

Management of insurance risk

The Society’s management of insurance risk is a critical aspect of its business. The primary insurance activity carried out by the Society comprises the assumption of the risk of loss from persons that are directly subject to the risk. Such risks in general relate to life, accident, health and financial perils that may arise from an insurable event. As such, the Society is exposed to the uncertainty surrounding the timing and severity of claims under the related contracts. The principal risk is that the frequency and severity of claims is adverse to that expected. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. Insured events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. The risk under assurance policies is partly naturally hedged by risks under annuity policies where the exposure is to the risk of longevity.

The main insurance risks can be summarised as follows:

- Mortality – the risk that the Society's experience of life assurance policyholders is different from that expected. For life assurance the risk is that more policyholders die than expected;
- Morbidity – the risk that more of the Society's health insurance policyholders fall ill or become incapacitated than expected;
- Persistency – the risk that policies do not remain in force and are for any reason lapsed, made paid-up, surrendered or transferred prior to maturity or expiry. For policies without guarantees, the risk is generally that fewer policies remain in force than expected. For those with guarantees, the risk is generally that more remain in force than expected;
- Annuitant longevity – the risk that the annuitant lives longer than assumed in the pricing and reserving basis used; and
- Expenses – the risk that actual expenses are higher than those expected.

In addition, it is necessary for the Society to make decisions which ensure an appropriate accumulation of assets relative to liabilities. These decisions include the allocation of investments between classes, the setting of policyholder bonus rates and the setting of surrender terms.

The primary responsibility for managing insurance risk falls to the Insurance Committee. This Committee has responsibility for the setting of policy and for monitoring the levels of risk arising from mortality, morbidity, persistency and expenses. The Committee also considers the Society's reinsurance coverage.

The management of insurance risk and information around sensitivity analysis is disclosed further within note 25.

Concentration risk

The Society has historically written a diverse mix of business across a diverse group of people and has no material concentrations of risk by product type. However, as the Society has written substantially all of their business in the UK, results are sensitive to demographic and economic changes arising in the UK. Concentrations of insurance risk are considered by the Insurance Committee to ensure that the risk is within the Society's overall risk appetite.

The Society seeks to mitigate the risk of excess concentrations of risk through the use of reinsurance, portfolio analysis and risk limits.

The key risks to the Society's life insurance business are market risks, insurance risks and expense risks, particularly the inflation of expenses. The investment performance, expenses and other risks to the life insurance business are monitored regularly by the Main Board, or delegated to the Commercial Board or Insurance Committee as appropriate.

In the event of an adverse situation arising, the Society would take action to reduce the impact. These actions may include:

- reducing the rates of terminal bonus and/or reversionary bonuses;
- immediate sale of higher risk assets; and
- reducing overheads (to the extent possible without affecting the operation of the life assurance business).

(b) Provision

The principal assumptions used in the calculation of the long term business provision in 2017 were as follows:

Class of Business		Mortality tables
UIEF, Ex-UIRF and MSA		
UIEF		
WP annuities		100% IMA92C10/IFA92 - 3
Annuities in payment		100% IMA92C10/IFA92 - 3
Ex – Philanthropic	Non profit	70% AM/FC00
	With profit	
Other UIEF	Non profit	80% AM/FC00
Ex-UIRF		
Fifty Plus		100% MU 1970
Other UIRF		Value of payment offered
Non Profit Fund		
Guaranteed Investment Bond		90% AM/FC00
Ex-Ideal Fund:		
Life and Pensions (non - linked)		
Tax exempt	Non profit	70% AM/FC00
	With profit	
Taxable	Non profit	70% AM/FC00
	With profit	
Pensions term assurance		100% AM/FC00
Life and Pensions (unit - linked)		
Life plans		100% AM/FC00
Sovereign bonds		100% AM/FC00
Pension plans		100% AM/FC00
Sickness		
All		60% AM/FC00
Nottingham Fund:		
Life and Pensions (non - linked)		
With Profit Tax Exempt		115% AM/FC00 (70% whole of life)
With Profit Taxable		15% AM/FC00 (70% whole of life)
Non Profit Tax Exempt		115% AM/FC00 (70% whole of life)
Non Profit Taxable		115% AM/FC00 (70% whole of life)
ISA Bonds and Accumulating With Profit policies		115% AM/FC00 (70% whole of life)
5 Year Bond		115% AM/FC00 (70% whole of life)
Annuities		50% IML92/IFL92 Rated down 3 yrs
Cremation		115% AM/FC00
50 plus plan		90% AM/FC00
Funeral plans		150% AM/FC00
Term assurance / Mortgage protection		100% TM/FC00

Schoolteachers:

Sickness Income Plan	100% AM/FC00
Tax Exempt Investment Plan	100% AM/FC00
Child Trust Fund	n/a
Sickness	n/a

The method of the calculation of the long term business provision is described in the accounting policy note.

Druids:

Child Trust Fund	55% ELT16
Lancashire and Cheshire	100% PML92
	100% PA90 (f) rated down 10 yrs
Free Gardners	91% ELT15
Other non-profit	70% AM/FC00
With-profit	70% AM/FC00
Unitised with-profit	70% AM/FC00
With-profit (6% RB)	70% AM/FC00
With-profit (4% RB)	70% AM/FC00
Non-Profit Fund	70% AM/FC00

(c) Movements in the technical provision (Gross of Reinsurance)

	2017 £'000	2016 £'000
Balance at 1 January		
Long Term Business provision	89,278	72,563
Provisions for linked liabilities	146,076	142,697
	235,354	215,260
Changes in technical provisions	10,899	20,094
	246,253	235,354
Balance at 31 December		
Long Term Business provision	84,242	89,278
Provisions for linked liabilities	162,011	146,076
	246,253	235,354

(d) Assets

The total amount of assets representing the Long Term Business fund valued in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 at 31 December 2017 were £254.3m (2016: 241.1m).

22 RELATED PARTY DISCLOSURES

The Society is controlled by its members through an Annual Movable Conference of Deputies. The Board of Directors governs the affairs of the Society between each conference. The Society is a related party to the following:

MU Pension Scheme
MU Pension Trustees Limited
MU Housing Association Limited
Friends of the Manchester Unity Housing Association Limited
Manchester Unity Credit Union Limited

In every case members of the Society's Board of Directors including the Chief Executive have substantial control or influence by their involvement in the management structure of each organisation.

The Society operates disbursement accounts with the concerns as appropriate. In addition, the Society provides financial support and sponsorship to the Manchester Unity Credit Union Limited in respect of direct overhead costs, which in 2017 totaled £17k (2016: £14k).

23 CONTINGENT LIABILITIES

The Society's General Rule 77D contains provisions to underwrite liabilities and guarantee performance of all Branches.

The Board of Directors is not aware of any such potential liabilities arising at 31 December 2017 (2016: £Nil).

24 PENSION SCHEME BENEFITS

The funds of the Scheme are actuarially valued by Willis Towers Watson Limited every three years. The most recent full valuation was carried out at 31 March 2015.

Total employer contributions in the accounting period ended 31 December 2017 were £441k (2016: £430k). The employer contribution rate remained at 32.7% for all contributing members of the Scheme throughout 2017.

The Balance Sheet surplus for the Scheme has improved slightly, moving from a deficit of £3,122k to a deficit of £1,979k over the accounting period. While Scheme assets have performed fairly well over the period, the actuarial value of Scheme liabilities has only decreased slightly over the year to £24,047k (compared with £24,368k at the end of 2016). This is mainly due a better than expected performance of the Scheme assets.

The cost recognised in the Income & Expenditure Account is higher than the equivalent figure last year (£732k compared with £381k in 2016). This is due to an increase in both the service cost and net interest cost.

The results are particularly sensitive to the key assumptions, such as the discount rate, level of pensionable salary growth, level of price inflation and mortality. Whilst the mortality assumption has remained unchanged, the change in the discount rate has led to an increase in the liabilities. This has been offset somewhat by the change in inflation.

It should be noted that the results and position shown have been calculated by reference to investment market conditions at 31 December 2017. Considerable volatility in these figures is possible from year to year if market returns and yields should differ materially in future years from those assumed. In addition, future actuarial measurements may differ significantly from the measurements presented in this report due to:

- experience differing from that anticipated by the economic or demographic assumptions,
- changes in economic or demographic assumptions,
- increases or decreases expected as part of the natural operation of the methodology used for these measurements,
- changes in the Scheme provisions or applicable law, and
- significant events since the previous actuarial valuation.

The assumptions selected for this valuation generally reflect long-term average expectations. If overall future experience is less favourable than assumed, the relative level of costs determined in this valuation will be likely to increase in future valuations.

The projections are based on an update of a preceding actuarial valuation (as at 31 March 2015), thereby introducing an element of approximation relative to the result of a hypothetical full actuarial valuation at the census date.

Society provisions and assumptions

The benefits have been valued in accordance with the provisions of the Scheme's Trust Deed and Rules dated 26 February 1998, and subsequent deeds of amendment. It is our understanding that there were no significant changes in benefit structure of the Scheme, or the method by which these are valued over the last year.

The Society revalues most of members' deferred pensions between their date of leaving and date of retirement in line with inflation in accordance with statutory requirements. Consumer Price Index ("CPI") is the effective indexation for deferred pension increases and has been used as the basis for the pension increases in deferment in producing these FRS 102 disclosures.

FRS 102 Disclosures

Under FRS 102, a surplus can be recognised to the extent that it can offset contributions for future service, or where it forms part of a potential refund of surplus.

Mortality

The mortality tables used for both males and females is SAPS 2 "All" tables (S2PXA) based on members' years of birth projected in line with CMI 2014 projections from 2007 with a 1.5% pa long term trend rate.

Expected lifetime

The expected lifetime of a participant who is age 65 and the expected lifetime (from age 65) of a participant who will be age 65 in 15 years are shown in years below based on the above mortality tables.

Age	Males	Females
65 in 2017	22.8	24.9
65 in 15 years	24.4	26.7

Income & Expenditure

	2017 £'000	2016 £'000
Effect of employee service in the current period	557	336
Net interest on net defined asset	71	(53)
Defined benefit cost recognised in Income & Expenditure	628	283
Administration costs incurred during the period	104	98
Employer contribution	(441)	(430)
Other Costs	-	-
Cost recognised in Income & Expenditure	291	(49)
Other Comprehensive Income (OCI)		
Actuarial (gain)/loss arising during period	249	5,324
Return on plan assets (greater) than discount rate	(1,683)	(1,013)
Remeasurement effects recognised in OCI	(1,434)	4,311
Total Defined Benefit Cost		
Cost recognised in Income & Expenditure	732	381
Remeasurement effects recognised in OCI	(1,434)	4,311
Total defined benefit cost	(702)	4,692

Assumptions Used to Determine Defined Benefit Cost

Discount rate	2.50%	3.75%
Price inflation (RPI)	3.50%	3.25%
Price Inflation (CPI)	2.50%	2.25%
Long-term rate of return on assets	2.50%	3.75%
Rate of salary increase	4.50%	4.25%
Pension increases for in-payment benefits:		
• in respect of pensions accrued prior to 6 April 1997 (in excess of GMP)	nil	nil
• in respect of pensions accrued prior to 1 April 2006 and after 5 April 1997	3.15%	3.00%
• in respect of pensions accrued after 31 March 2006	2.00%	1.95%
Pension increases for deferred benefits	2.05%	2.25%

[1]These beginning of year assumptions were used to calculate the defined benefit cost recognised through Income & Expenditure. Rates are expressed on an annual basis.

Notes to the Financial Statements

Development of Net Balance Sheet Position	2017 £'000	2016 £'000
Defined benefit obligation (DBO)	(24,047)	(24,368)
Fair value of assets (FVA)	22,068	21,246
Defined benefit (deficit)/surplus	(1,979)	(3,122)

Reconciliation to the Balance Sheet		
Net defined benefit asset at end of prior period	(3,122)	1,140
Effect of employee service in the current period	(557)	(336)
Net interest on net defined benefit asset	(71)	53
Remeasurement effects recognised in OCI	1,434	(4,311)
Employer contributions	441	430
Administration costs incurred during the period	(104)	(98)
Net defined benefit (deficit)/surplus at end of current period	(1,979)	(3,122)

Assumptions and Dates Used for Measurements		
Discount rate	2.40%	2.50%
Price inflation (RPI)	3.40%	3.50%
Price Inflation (CPI)	2.40%	2.50%
Long-term rate of return on assets	2.40%	2.50%
Rate of salary increase	4.40%	4.50%
Pension increases for in-payment benefits:		
• in respect of excess pensions accrued prior to 6 April 1997 (in excess of GMP)	nil	nil
• in respect of excess pensions accrued prior to 1 April 2006 and after 5 April 1997	3.10%	3.15%
• in respect of pensions accrued after 31 March 2006	2.00%	2.00%
Pension increases for deferred benefits	2.40%	2.50%

Change in Defined Benefit Obligation (DBO)		
DBO at end of prior period	24,368	18,743
Effect of employee service in the current period	557	336
Interest cost on the DBO	586	687
Remeasurement of the DBO	249	5,324
Scheme participants' contributions	108	107
Benefits paid from Scheme assets	(1,821)	(829)
DBO at end of current period	24,047	24,368

Change in Scheme Assets

Sheet Position	2017 £'000	2016 £'000
Fair value of assets at end of prior period	21,246	19,883
Interest income on Scheme assets	515	740
Return on plan assets greater than discount rate	1,683	1,013
Employer contributions	441	430
Scheme participants' contributions	108	107
Benefits paid	(1,821)	(829)
Administrative costs paid	(104)	(98)
Fair value of assets at end of current period	22,068	21,246

Scheme Asset Information

	Target Allocation Range	Allocation Percentage 31/12/17	Allocation Percentage 31/12/16
Equity securities	50.0%	41.2%	44.1%
Debt securities	40.0%	35.3%	36.0%
Real estate/property	10.0%	11.5%	9.7%
Cash	0.0%	1.4%	2.1%
Other	0.0%	10.6%	8.1%
Total	100.0%	100.0%	100.0%
Fair value of Society assets (£'000)		£22,068	£21,246

25 FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. The tables over the page show the determination of fair value according to a three-level valuation hierarchy. Fair values are generally determined at prices quoted in active markets (level 1). However, where such information is not available, the Society applied valuation techniques to measure such instruments. These valuation techniques make use of market observable data for all significant inputs where possible (level 2). Where inputs for the assets or liabilities are not based on observable market data (that is unobservable), fair values are classified as level 3. There are no non-recurring fair value measurements as at 31 December 2016 and 2017.

Fair value measurement at 31 December 2017				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets	-	-	-	-
Shares and other variable yield securities	60,075	-	-	60,075
Debt and other fixed income securities	94,912	-	-	94,912
Assets held to cover linked liabilities	169,365	-	-	169,365
Investment properties	-	-	74,937	74,937
Owner occupied property	-	-	4,170	4,170
Total	324,352	-	79,107	403,459
Financial liability	-	-	-	-
Investment contracts at fair value through profit and loss	-	159,544	-	159,544
Total	-	159,544	-	159,544

Fair value measurement at 31 December 2016				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets	-	-	-	-
Shares and other variable yield securities	57,904	-	-	57,904
Debt and other fixed income securities	87,060	-	-	87,060
Assets held to cover linked liabilities	151,074	-	-	151,074
Investment properties	-	-	60,421	60,421
Owner occupied property	-	-	4,170	4,170
Total	296,038	-	64,591	360,629
Financial liability	-	-	-	-
Investment contracts at fair value through profit and loss	-	143,184	-	143,184
Total	-	143,184	-	143,184

The majority of the Society's instruments are valued based on quoted market information or observable market data. Owner occupied and investment properties are stated at their revalued amount, as assessed by qualified external valuers in line with the Society's policy. Further details can be found on page 44.

The investment contract liabilities in level 2 of the valuation hierarchy represent the fair value of linked and non-linked liabilities valued using established actuarial techniques utilising market observable data for all significant inputs, such as investment yields. There have been no transfers between levels 1,2 and 3 in 2017.

Management of financial risk

The risk management strategy forms an integral part of ensuring that risks are managed on alignment with the Society's objectives and business strategy and to maintain the financial stability of our policyholders, our reputation, employees and assets. Further detail on corporate governance structure and the impact of current market conditions are provided in the Strategic Report on pages 7 to 10.

The key financial risks faced by the Society are as follows:

- Market risk;
- Insurance risk;
- Credit risk;
- Operational risk; and
- Liquidity risk.

Market risk

The Society manages its market risks within asset liability matching (ALM) frameworks that have been developed to reduce the degree to which asset and liability values diverge when investment markets change. The following table presents an analysis of the Balance Sheet for each distinct category of assets and liabilities which are referred to in this Note:

31 December 2017	With-profit business	Non-profit business	Unit-linked	Other	Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Land and buildings	10,594	2,478	-	61,865	74,937
Shares and other variable yield securities	5,567	2,394	168,214	52,114	228,289
Debt and other fixed income securities	28,278	29,946	-	36,688	94,912
Loans secured by mortgage	39	10	-	404	453
Other debtors	-	-	-	1,073	1,073
Tangible assets	-	-	-	4,830	4,830
Cash at bank, building society and in hand	2,805	1,933	1,151	16,360	22,249
Other assets	1,689	667		1,284	3,640
Total assets	48,972	37,428	169,365	174,618	430,383
Liabilities					
Reserves provided for, by the rules and other specific purposes	-	-	-	2,354	2,354
Insurance contract provision	43,442	17,212	2,467	-	63,121
Investment contract provision	12,671	10,917	159,544	-	183,132
Claims outstanding	915	-	-	-	915
Provision for unearned premiums	-	-	-	88	88
Other liabilities	-	-	-	180,773	180,773
Total liabilities	57,028	28,129	162,011	183,215	430,383

31 December 2016	With-profit business	Non-profit business	Unit-linked	Other	Total
	£'000	£'000	£'000	£'000	£'000
Assets					
Land and buildings	8,976	4,764	-	46,680	60,420
Shares and other variable yield securities	8,368	4,441	149,824	45,095	207,728
Debt and other fixed income securities	34,763	18,450	-	33,847	87,060
Loans secured by mortgage	54	-	-	485	539
Other debtors	1	-	-	922	923
Tangible assets	-	-	-	4,852	4,852
Cash at bank, building society and in hand	5,758	3,040	1,250	11,351	21,399
Other assets	(336)	-	-	4,310	3,974
Total assets	57,584	30,695	151,074	147,542	386,895
Liabilities					
Reserves provided for, by the rules and other specific purposes	-	-	-	2,338	2,338
Insurance contract provision	43,053	21,360	2,892	-	67,305
Investment contract provision	14,540	10,325	143,184	-	168,049
Claims outstanding	796	-	-	-	796
Provision for unearned premiums	-	-	-	90	90
Other liabilities	-	-	-	148,317	148,317
Total liabilities	58,389	31,685	146,076	150,745	386,895

Asset price risk

Equity risk is the risk that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices, other than those arising from interest rate risks. Those changes may be caused by factors specific to the asset or liability, or its issuer, or by factors affecting all similar assets or liabilities.

The Society's exposure to this risk arises principally from its holdings in equities and investment properties. The Board sets the Society's investment policy and strategy. Day to day responsibility for implementation is delegated to the Society's investment management with monitoring procedures in place.

The investment management agreement in place between the Society and the Investment Manager specifies the limits for holdings in certain asset categories. Asset allocation and performance benchmarks are set, which ensure that each fund has an appropriate mix of assets and is not over or under-exposed to a particular category or specific investment. The Society's Commercial Board monitor the actual asset allocation and performance against the benchmark.

A sensitivity analysis to changes in the market prices of equities and property is included in Sensitivity below.

Liquidity

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due and is managed by forecasting cash requirements and by adjusting investment management strategies to meet those requirements. Liquidity risk is generally mitigated by holding sufficient investments which are readily marketable in sufficiently short timeframes to allow the settlement of liabilities as they fall due. The Society's substantial holdings of money market assets also serve to reduce liquidity risk. The table below represents our best estimate of the undiscounted claim profile arising from the in force contracts. The claim profile allows for full and partial surrenders, regular withdrawals, death claims and retirements as well as maturities. All assumptions on expected rates are consistent with our valuation assumptions.

31 December 2017						
Carrying values and cash flows arising from:	0-5 years	5-10 years	10-15 years	15-20 years	>20 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non-linked liabilities	35,496	16,086	8,027	5,533	8,968	74,109
Unit-linked liabilities	47,682	95,342	29,340	1,439	1,195	174,997
Total	83,177	111,427	37,367	6,972	10,163	249,107

31 December 2016						
Carrying values and cash flows arising from:	0-5 years	5-10 years	10-15 years	15-20 years	>20 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non-linked liabilities	35,784	16,981	8,155	5,127	8,840	74,888
Unit-linked liabilities	31,942	71,825	49,054	1,493	1,470	155,786
Total	67,726	88,807	57,210	6,621	10,311	230,674

The maturity analysis for unit-linked insurance and investment contracts presents all the liabilities as they fall due in the earliest period in the table because they are repayable or transferrable on demand.

Interest rate

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary. For the Society, interest rate risk arises from holding assets and liabilities – actual or notional – with different maturity or re-pricing dates, creating exposure to changes in the level of interest rates, whether real or notional. It mainly arises from the Society's investments in debt and fixed income securities, which are exposed to changes in interest rates.

Exposure to interest rate risk is monitored using scenario testing, stress testing and asset and liability duration control.

The Society manages interest rate risk using performance benchmarks with appropriate durations. A sensitivity analysis to interest rate risk is included in section below.

Sensitivity

The impacts on the Society's results from sensitivities are detailed in the tables overleaf.

All sensitivities consider the change in Solvency II Own Funds. It is assumed that the Risk Margin and liabilities relating to Future Discretionary Benefits are unchanged from the base position under all of the sensitivities considered. Approximations have been made in the derivation of some of the figures backing these sensitivities at 31 December 2017. Specifically it is assumed that for unit linked non-linked reserves, the increase in equity and property values would lead to an equal and opposite change in Own Funds to the decrease sensitivity.

The 2017 sensitivities include the impact on the Non-Profit fund which was set up over 2016.

The Expense sensitivity considers a ± 10% change in the expense assumption alongside a ± 1% change in expense inflation. It is assumed that the decrease sensitivity would lead to an equal and opposite change in Own Funds compared to the increase sensitivity.

The equity price sensitivity considers the changes in prices of UK and other type 1 equities as defined under Solvency II. This is a change in equity prices of ± 39% plus the symmetric adjustment of the equity capital charge as published by EIOPA.

On 31 December 2017, the symmetric adjustment was +1.90% such that the type 1 equity sensitivity shown is ± 40.90% in equity prices.

On 31 December 2016, the symmetric adjustment was -1.44% such that the type 1 equity sensitivity shown is ± 37.56% in equity prices.

The interest rate sensitivities shown are based on the Solvency II Standard Formula interest rate stresses which are expressed as a duration dependent multiplicative factor applied to the base curve.

This stress is not applied symmetrically which results in a more onerous increase sensitivity (compared to the decrease sensitivity) when interest rates are low.

The property value sensitivity considers a ± 25% change in property values.

31 December 2017	Expenses		Equity prices		Interest rates		Property values	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Change in LTB Own Funds	(5,341)	5,341	10,312	(10,075)	760	(338)	3,510	(3,510)

31 December 2016	Expenses		Equity prices		Interest rates		Property values	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Change in LTB Own Funds	(5,946)	5,946	10,969	(10,423)	1,357	(459)	3,807	(3,807)

Credit risk

The Society has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Society is exposed to credit risk are:

- Counterparty risk with respect to debt securities and cash deposits;
- Reinsurers' share of insurance liabilities;
- Amounts deposited with reinsurers in relation to investment contracts;
- Amounts due from reinsurers in respect of claims already paid; and
- Insurance and other receivables.

In addition, there will be exposures to individual policyholders, on amounts due on insurance contracts. These are tightly controlled, with contracts being terminated or benefits amended if amounts owed are outstanding for more than a specified period of time, so that there is no significant risk to the results of the Society.

The Society structures the levels of credit risk taken in by placing limits on their exposure to a single counterparty, or group of counterparties. Such risks are subject to at least an annual review, whole watch lists are maintained for exposures requiring additional review.

Although the Society holds a significant proportion of financial assets in debt securities, the risk of default on these is mitigated to the extent that any losses arising in respect of unit-linked assets backing the insurance and investment contracts which the Society issue, would effectively be passed on to the policyholders and investors through the unit-linked funds backing the insurance and investment contracts.

The following table presents the assets of the Society which are subject to credit risk and reconciliation to the balance sheet carrying value of each item:

31 December 2017	Amounts not subject to credit risk	Amounts subject to credit risk	Balance Sheet carrying value
	£'000	£'000	£'000
Shares and other variable yield securities	-	60,075	60,075
Debt and other fixed income securities	-	94,912	94,912
Assets held to cover linked liabilities	169,365	-	169,365
Loans secured by mortgage	-	453	453
Cash at banks, building societies and in hand	-	21,098	21,098
Total	169,365	176,538	345,903

31 December 2016	Amounts not subject to credit risk	Amounts subject to credit risk	Balance Sheet carrying value
	£'000	£'000	£'000
Shares and other variable yield securities	-	57,904	57,904
Debt and other fixed income securities	-	87,060	87,060
Assets held to cover linked liabilities	151,074	-	151,074
Loans secured by mortgage	-	539	539
Cash at banks, building societies and in hand	-	20,149	20,149
Total	151,074	165,652	316,726

The amounts presented above as not being subject to credit risk, represent unit-linked assets where the risk is borne by the holders of unit-linked insurance and investment contracts, except for (i) reinsurers' share of insurers' contract provisions and (ii) amounts deposited with reinsurers in respect of investment contracts.

The Society's exposure to credit risk is summarised as:

Credit rating						
31 December 2017						
	AAA	**AA**	**A**	**Below A**	**Unrated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Shares and other variable yield securities	-	-	-	-	60,075	60,075
Debt and other fixed income securities	2,093	48,252	7,804	10,429	26,334	94,912
Assets held to cover linked liabilities	-	-	1,151	-	168,214	169,365
Loans secured by mortgage	-	-	-	-	453	453
Cash at banks, building societies and in hand	-	462	18,217	77	2,342	21,098
Total	2,093	48,714	27,172	10,506	257,418	345,903

Credit rating						
31 December 2016						
	AAA	**AA**	**A**	**Below A**	**Unrated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Shares and other variable yield securities	-	-	-	-	57,904	57,904
Debt and other fixed income securities	3,257	48,620	14,553	20,630	-	87,060
Assets held to cover linked liabilities	-	-	1,250	-	149,824	151,074
Loans secured by mortgage	-	-	-	-	539	539
Cash at banks, building societies and in hand	-	312	12,226	-	7,611	20,149
Total	3,257	48,932	28,029	20,630	215,878	316,726

No credit limits were exceeded during the year ended 31 December 2017.