2022 Report and Financial Statements

for year ended 31 December 2022

BRITISH FRIENDLY

It feels good to be covered

Contents

Stuart Purdy
Chairman

> The Society's strategy is driven by our purpose to be a trusted and relevant provider of financial support for our members in times of need.

Chairman's Welcome Statement

Introduction

2022 saw most of us returning to many aspects of our pre-pandemic lives. The past year has, however, been extremely difficult for a lot of people due to the rising cost of living. It has been the priority of your Board to ensure we have been able to continue to provide accessible and affordable services to our members. The Society's teams have listened to members and worked tirelessly to provide solutions and support in these challenging times.

The Society was founded in 1902 to provide sickness benefits for its members as they recover from sickness or injury and, although many things have changed since then, our principal objective remains the same. The Society's teams are committed to supporting, and retaining, members through this difficult period and I am very proud that we have supported over 900 new claims in 2022. This achievement has only been possible through the hard work and dedication of the Society's people.

Financial Performance

In 2021 the Society took several important steps to manage the economic and financial impact of the pandemic. These steps included a review of our products and new business propositions to ensure the types of protection we were able to offer remained appropriate. The actions taken in 2021 have greatly benefited the Society and I am delighted that our membership has grown in 2022. The increase in membership has led to a record level of premium income of £11.7m (£11.4 million in 2021) and we are forecasting a further increase in 2023. The volume of new business written in 2022 is more than twice the volume of new business written in 2021 and this has increased the Society's trading surplus to £2.7 million (£0.8 million deficit in 2021). However, rising interest rates have negatively impacted the value of the Society's investment portfolio and the Society has experienced an investment capital loss, after accounting for investment income received, of £4.4m (£2.9m investment capital gain in 2021). It should be noted that a significant proportion of the capital loss will not be realised if the investments are held until maturity of the assets which will guarantee a return of capital. After accounting for member withdrawals of £6.5 million, the Fund for Future Appropriations, which is a measure of the long-term value of the Society, fell in 2022 by £8.1 million.

Holloway Bonus

The Board regularly reviews the level of bonus payments made to the Society's Holloway-Style members. Despite the capital losses described above, the Board agreed that we should continue to pay bonuses on members' capital balances, although they decided that it was prudent to adjust the Final Bonus to be applied to the value of commuted members' capital accounts on withdrawal to 10% (2021: 12.5%). The Annual Interest Bonus earned on members' capital balances was moved to 1.50% (2021: 0.50%) recognising the rise in interest rates. The Apportionment Rate applied to members' capital balances was increased to £1.80 (2021: £1.68) for commuted members and unchanged at £1.08 for non-commuted members.

Interest Rate
1.50%

Apportionment Rate
£1.08
(non-commuted)

Apportionment Rate
£1.80
(commuted)

Final Bonus
10%

Capital Strength

The Board closely monitor, and modify, the capital management strategy in order to maintain the Society's capital strength. At the end of 2022, the Society had a level of capital which covered the Solvency Capital Requirements prescribed by the Regulator by 189% (2021: 161%). Our ongoing Own Risk Solvency Assessment process demonstrated that we had a comfortable margin of capital resources over the Solvency Capital Requirement as required under the provisions of Solvency II regulation. The Board will continue their focus on capital management in 2023 and beyond.

Mutuality and Member Benefits

As a Mutual, the Society exists solely for the benefit of members and there are no shareholders to whom dividends need to be paid. After paying sickness benefits and expenses, any surplus is used for the benefit of the members. One of the ways that the Society looks to provide additional benefit to members is through the Mutual Benefits programme which provides access to resources and support for members and their

Chairman's Welcome Statement

families at no additional cost. In 2022 the Society increased the health services offered to members through our partnership with Square Health. This included increased digital GP consultations, second medical opinions, mental health support, physiotherapy and health MOTs. These services are available to all members and their families irrespective of whether they make a claim or not. In addition to our Mutual Benefits programme the Society's discretionary BF Care programme continues to deliver crucial financial support for members and their families through life changing events such as a close relative needing full time care, terminal illness or death.

Transformation

In January 2021, the Society migrated all Protect policies to a new policy administration system and simultaneously launched a new quote and apply underwriting platform. These new technologies have provided an excellent platform for the Society to efficiently and effectively service existing members and attract new members. In 2022 the Society utilised the new technology to significantly improve the propositions offered to new, and existing, members including the introduction of level guaranteed premiums. Level guaranteed premiums stay the same for the whole of the policy and are a popular option for some members. Providing the option of guaranteed level premiums has significantly increased the accessibility of the Society to new members and intermediaries.

Strategy

Purpose | Aim | Promise | Commitment

The Society's strategy is driven by our purpose to be a trusted and relevant provider of financial support for our members in times of need. We aim to offer attractive Income Protection products that meet the needs of our members and which intermediaries will want to recommend to their clients. We aim to be easy to do business with for intermediaries, so they will consider us for their clients and help us to grow, and for our members by providing a personal service which they will value. We are guided by our promise to do the right thing for our members, rather than pursuing shareholder profit, which allows us to consider the situation of each member and offer access to additional discretionary benefits. By putting our members at the heart of everything we do, more intermediaries will recommend us which will allow us to grow. The Board remain committed to Mutuality which allows us to wholeheartedly focus on the needs of our members and deliver our inclusive strategy to provide support to as many members as possible.

In 2021 the Board undertook a dedicated strategic review focusing on securing the Society's future growth potential, support for members and future financial resilience and sustainability. Crucially, the review considered how the Society will continue to meet its obligations both today and in the future years to come. The review examined the successful migration to the new administration and new business technology platforms and how these capabilities can provide the opportunity for the Society to develop new products and propositions, improve efficiency and improve the support available to new and existing members. Key strategic priorities were set to ensure the Society's future financial resilience and sustainability. These priorities included increasing the Society's membership, enhancing existing and new products and propositions, expanding the size and diversity of intermediated distribution and increasing our active support of members to return to health. I am delighted that the Society has made substantial progress towards these priorities, and I would like to thank all the Society's teams, our technology partners and our intermediary partners who have worked so hard and effectively in 2022.

Regulation

The Society continues to respond fully to the requirements of our two regulators, the Prudential Regulation Authority and the Financial Conduct Authority. In 2022 The Financial Conduct Authority set out the requirements of the Consumer Duty rules which the Society welcomes. The new requirements set higher and clearer standards of consumer protection across financial services and requires firms to put their customers' needs first. As a Mutual, the Society exists solely for the benefit of members and has always put the members' needs first, and we therefore welcome this very significant piece of regulation that sets higher expectations for the standard of care of all firms across the financial services industry.

Chairman's Welcome Statement

Corporate Governance

Perry Thomas became the Society's Chair of the Risk and Investment Committee as part of our planned succession from Audrey McNair who retired from the Board of the Society following the 2022 Annual General Meeting, after six years of valuable service to the Society. I would like to take this opportunity to thank Audrey for her valuable contribution to the Society since she joined in April 2016. In March 2022, Nicole Coll resigned from the Board, following two years of valuable service. I was delighted that Reeshi Harania accepted the position as the Society's Chief Risk Officer following his success in the role of the Society's Risk and Compliance Director. Reeshi was already a member of the Society's Executive Management Team and has played a fundamental role in the development and implementation of the Society's risk and compliance strategy, allowing him to quickly transition into his new role in 2023. Finally, I would like to take this opportunity to thank all of my Board colleagues for the time, effort and expertise they bring to the Society.

Looking Ahead

In 2021 the Society took steps to develop our new business proposition and provide a sustainable platform that will support existing and future members. I am delighted that 2022 has seen the Society return to growth and increase membership whilst improving the quality of propositions and the level of service and care afforded to our members. The Society is benefiting from significantly enhanced capabilities, with a strong Management team and new technology platforms. I would like to thank our members and intermediary partners for their continued support following this period of transition and transformation. Finally, I would like to thank each member of our dedicated staff for their continued passion and commitment to ensure the Society's sustainability and success.

Stuart Purdy
Chairman of the Society
26-May-23

Simon Owens

CEO

> Developing the Society's membership is at the heart of our strategy and a key part of ensuring the Society's future financial sustainability.

Chief Executive Report

Overview

In a time of unprecedented challenge, the Society has been there to support a growing membership, ensuring that the Society's strategies and business model remains sustainable and positioned for future success. In response to the rising cost of living the Society has offered a range of options to pause, or even reduce, premiums in order that our members can continue to benefit from the peace of mind and financial security provided by the Society's products. Many members have taken advantage of these measures and I am delighted that the Society's membership has grown in 2022. Developing the Society's membership is at the heart of our strategy and a key part of ensuring the Society's future financial sustainability.

The Society's growth in membership has been achieved through the implementation of the strategic plans developed by the Society's Board in 2021. The migration to a new policy administration and new business platform in January 2021 provided the technological base to enhance the Society's products, propositions and services. The Society's teams have worked relentlessly to deliver improvements and enhancements that are now benefiting members and providing excellent service to our intermediary partners. One of the many enhancements was the introduction of guaranteed level premiums. Guaranteed level premiums remain the same throughout the life of a policy and are a popular option amongst our members and intermediary partners.

Through reviewing and enhancing the Society's products and proposition we have broadened our reach and increased the number of new members and new intermediary partners throughout 2022. In January 2023 we increased our reach again by providing the option of adding Fracture Cover to new income protection policies. Fracture Cover provides a lump sum payment to support the additional costs associated with an injury. The launch of Fracture Cover has already proved a popular addition to the Society's proposition amongst new members and our intermediary partners.

The new policy administration and new business technology platforms have allowed the Society to improve services to new and existing members and intermediary partners. I am delighted with the fantastic feedback we have received from members and our intermediary partners in 2022 and we will strive to deliver further service improvements throughout 2023.

Despite the positive growth in membership the Society is not immune to the U.K.'s financial challenges and over 2022 took appropriate risk management actions to improve the Society's controls and solvency position which has strengthened to 189% (2021 161%). Through 2022, the Society has enhanced its people, processes and controls capabilities in order to enhance resilience, reduce risk and ensure we deliver great member outcomes. The Society has reduced market risk and insurance risk by decreasing investment exposure in equities and commercial properties and entering morbidity and persistency reinsurance agreements. As always, capital management remains a key priority, and as with other key metrics the solvency coverage ratio is tracked on a monthly basis, and its monitoring forms part of the process to ensure delivery of the strategy is consistent with the Board's risk appetite.

Business development

Strategy

The Society's purpose is to be a trusted and relevant provider of financial support for our members in times of need. The increase in the cost of living has impacted the Society and that includes the Society's members, employees, intermediary partners and their families. As a committed Mutual organisation, we are able to consider the situation of each member and we are committed to pay valid claims as quickly as possible. I believe that the Society can do even more than paying valid claims and we are proud of our partnership with Innovate, a leading provider of recovery and rehabilitation services. Whilst the Society provides financial protection, we believe that we can also improve our members' long-term physical and mental health by helping them return to work as quickly as it is safe to do so. We know how important this can be to our members.

In 2022 we simplified and improved the health and wellness support that the Society can provide to members through the Mutual Benefits programme and our partnership with Square Health. It has been fantastic to see so many members accessing the healthcare services we offer to members and their families through the Clinic in a Pocket app.

Chief Executive Report

Strategic Report

Strategic Aims

The Society focuses on four strategic aims which are:

1. We aim to offer attractive protection products and propositions that meet the needs of working people and which intermediaries will want to recommend to their clients. To do this we will ensure that we understand the needs of our customers, and design value for money products that differentiate against competitors using our Mutual advantage.

2. We want to create an excellent experience for intermediaries, so they will consider us for their clients and our membership will grow. We will ensure that we design services that are simple and easy to use and remove barriers to working with us. We will work closely with intermediaries to develop their business with the common interest of putting their clients first.

3. We strive to deliver the best service for our members, guided by our promise to do the right thing for our members. We are known for being compassionate and caring by our members and achieving fantastic service, including paying valid claims promptly, supporting members through their recovery and finding faster ways of helping new customers get the cover they seek. We want our members to value their membership and want to remain members.

4. We aspire to be a great place for our colleagues to work so that they will want to contribute their talents, deliver the best service for our members and intermediaries, and ensure that the Society can execute its plans in an efficient and agile way so it can prosper in an increasingly competitive market.

By putting our members at the heart of everything we do, more members and intermediaries will recommend us, and we will grow, ensuring we have a strong capital base and are able to deliver even more benefits for our members.

Business Model

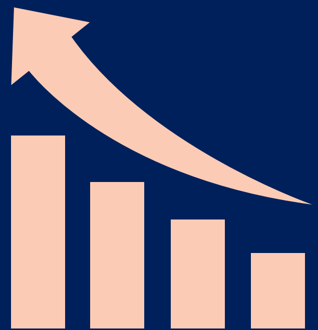
The Society's business model is to take on risk for members to provide them financial security should they become incapacitated and be unable to work. The Society designs, builds and administers products, so that the Society can meet the specific needs of customers and provide excellent service to members and intermediaries.

Operations, Claims and Underwriting, as well as most of the key functions, are managed in-house. We outsource a small number of specialist functions, including Actuarial, Internal Audit and Investment Management and we partner with specialist third-parties for rehabilitation and systems development including the provision of technology services.

Business Performance

Membership

The Society's membership consists of Protect members and members who hold a 'Holloway-style' product. The 'Holloway-style' products are not available for new members and therefore the number of members has been falling for many years. The number of 'Holloway-style' members reduced in 2022 from 6,607 to 6,054. The number of Protect members fell in 2021 but the Society has returned to growth in 2022 as the membership increased from 24,497 to 25,432 due to an increase in the volume of new business sales. In 2023, we aim to grow the Protect membership once again through the product and proposition developments we have undertaken as well as the flexibility our new technology brings to our products and services.



3.8%
increase
in membership

Chief Executive Report

New Business Sales

In 2021 the Society made changes to the list of occupations we were able to underwrite, focussed on quality metrics with distributors and adjusted the moratorium underwriting rules. As we expected, in 2021 these actions reduced the volume of new business written by the Society. However, these positive changes combined with a focused, and well executed, marketing and distribution strategy saw new business sales increase in the second half of 2021 and continued to do so throughout 2022. It has been particularly pleasing to see so many new intermediary partners choosing to work with the Society. As a result, the Society's earned premiums increased to £11.7m (2021: £11.4m) and are forecast to increase further in 2023.

Trading Surplus And Own Funds

The Society's technical provisions increased in 2022 by £6.7m as a result of a change to the approach of modelling future premiums. Despite this change the Society's trading returned a surplus in 2022 of £2.7m (2021 returned a deficit of £0.8m). However, after accounting for the fall in value of the Society's investments and capital withdrawals made by members with 'Holloway-style' products the net deficit is £8.1m (£2.2m net deficit in 2021). The net deficit is taken from the Fund for Future Appropriations which has fallen to £28.1m (£36.1m in 2021). The Society's Fund for Future Appropriations is forecast to grow in 2023 in line with a forecast increase in the Society's membership.

Capital And Solvency

The Society is incorporated within the meaning of the Friendly Societies Act 1992 and, as such, it has no shareholders. Its members are the ultimate owners of the business. The Society's structure is very simple in that all its capital is in tangible and realisable assets. In relation to Solvency II all capital is classed as Tier 1 – high quality capital which is generally more secure and capable of absorbing losses. The Society's solvency capital requirement coverage ratio improved to 189% (161% at 2021). The improvement represents risk management measures taken by the Society and increases in interest rates, which were partly offset by a change in approach to modelling premiums. The risk management actions taken included the use of third party reinsurance to assist in writing new business and growing the Society. However, the Society's balance sheet still holds an increasing amount of intangible 'value in force' representing the future returns of previously sold Income Protection policies. To reduce the risk associated with holding such an intangible asset, the Society regularly reviews options such as further reinsurance or other forms of financing. The Board regularly reviews, and monitors, the Society's capital management strategy and will continue to assess the potential benefits of utilising further reinsurance arrangements in the future.

Claims

Providing financial support to members at their time of need is the very reason for our existence. We expect to receive new claims every year and every claim has a cost. If more members are unable to work than expected or members claim for longer than expected, then the Society becomes financially weaker. The Society continually monitors and reviews the volume of new claims and the reasons that members are unable to work. Active claims management is a key capability in the Society as we continue to support more members financially and aid their recovery and rehabilitation, allowing them to return to work sooner, whilst receiving the valuable support that the Society provides.

Expenses And Capital Investment

The Society's 2022 net operating expenses reduced to £10.1m (£10.5m in 2021). The reduction was driven by lower three-year average commission payments made between 2020 and 2022 in comparison to the three-year average commission payments made between 2019 and 2021. Excluding commission, we can see that the Society's expenses increased to £8.1m (£7.5m in 2021). This increase is driven by an enhanced sales, marketing and product development activity which has supported the Society's return to growth. Developing the Society's membership and managing the Society's expense base in order to achieve a reduction in the cost of maintaining each policy, remains a key part of the Society's strategic objectives.

People And Culture

The Society's culture represents how we treat each other, our members and our partners. Mutuality and inclusivity are at the heart of the Society's culture and drive our behaviours. Being a Mutual organisation owned by its members means we put our members at the heart of everything we do and we try to help every member with financial support and our Mutual Benefits and BF Care programmes.

Chief Executive Report

Being inclusive means that we try to provide solutions for as many people as possible and that can be clearly evidenced in the product and proposition enhancements delivered in 2022. We promote equality and diversity within the organisation and recognise that the Society's people are its most valuable asset. This commitment was once again evidenced in 2022 as we completed our submission to the HM Treasury's Women in Finance Charter. The charter seeks to ensure gender balance at all levels across Financial Services firms. We are very proud that the Society's submission was again able to demonstrate that equality and inclusion, including gender diversity, are very prominent in the Society. The Society is also an Accredited Living Wage employer as certified by the Living Wage Foundation alongside which we provide a comprehensive set of employee benefits.

Future Trends

2022 has seen the U.K. Income Protection market return to growth and the Society's products and propositions remain highly valued by the intermediaries that recommend them. The Society experienced a significant level of transformation and the Board dedicated considerable time and effort analysing and understanding the Income Protection market, the Society's propositions and the associated risks and opportunities. The changes made in 2021, and throughout 2022, have been exceptionally well received by the market and the Society has experienced a growth in membership and a significant growth in market share.

The wider U.K. Protection market, incorporating mortality and critical illness solutions, reduced in 2022. Many of the large corporate Protection providers operate across all areas of the Protection market and this decline may result in increased competitive activity in the U.K.'s Income Protection market in 2023. The Society will continue to work with intermediary partners to further develop, and enhance, our products and propositions to ensure that we can continue to grow. A key element of the Society's proposition is that we are people led and that we passionately care about our members as individuals and our advisors as partners.

Conclusion

The Society has made substantial progress towards its strategic priorities in 2022 and the changes that we have delivered have received fantastic feedback from our members and from our intermediary partners. The improvements to the Society's products, propositions and services in 2022 have been matched by improvements to our controls and governance and as a result the Society is stronger, more resilient and capitalising on its significant potential for growth. These achievements are testament to the capability, expertise, passion and determination of the Society's people. The Society is very much people led and we are listening to the individual needs of our colleagues, members and advisors, and we will be there to support you because we care. I would like to express my sincere thanks to the Society's people who have worked relentlessly for our success in 2022.

Finally, I would like to take this opportunity to thank all my Board colleagues for the time, effort, and expertise they bring to the Society. The Society's Board have crucially supported the management of the Society's capital strength to provide the foundation to create a strong and sustainable Society for the benefit of its members. I am grateful for the significant additional time commitment that the Directors have given to Society matters in 2022. I am very proud to be the Society's Chief Executive Officer and I look forward to leading a Society that members value, that our partners want to work with and that our employees are proud to represent.

Simon Owens
Chief Executive Officer
26-May-23

Risk Management

Introduction

Effective risk management is fundamental to the long-term success and sustainability of the Society. Inherent in the Society's business model, is the assessment and transfer of risk and therefore prudent risk management is key to ensuring strategic objectives can be delivered in a controlled, responsible and sustainable manner. Effective risk management is also a key contributor in delivering good outcomes for members.

Risk Appetite

The Society's risk appetite defines the level of risk the Society is prepared to accept, taking into consideration our strategic objectives and business change initiatives.
The Society's risk appetite is agreed by the Board and sets the type and levels of risk the Society is willing to accept. These qualitative statements are underpinned by quantitative measures aligned to our principal risks and key risk types. These risks are linked to the centralised risk register, are continuously monitored, and reported to the Board and Risk and Investment Committee.

Risk Management Framework

Through the Society's Risk Management Framework, risks are identified, assessed, monitored, and managed which support the Society in driving a strong and proactive risk management culture. The Risk Management Framework is underpinned by risk management policies that have been approved by the Society's Board.

Key Risks

There are 3 key risks inherent to our business model:

1. **Insurance Risks:**
   These risks include the assessment of risk being transferred from the member in relation to the premiums paid, assumed claims and policy tenure. This includes morbidity (sickness), mortality (life expectancy) and persistency (lapsing of policies).

2. **Operational And Business Risks:**
   These include the risk of losses directly or indirectly, resulting from inadequate or failed processes, or systems, such as models and forecasts, human error, or external events such as changes in the regulatory environment. This also includes risks associated with third parties, achieving our strategic objectives and conduct risk.

3. **Financial Risks:**
   These include deviations from expected returns, or defaults arising from investments due to market fluctuations and the risk of the asset issuer, reinsurer or distribution partner not being able to make payments when they fall due. This also includes liquidity risk and associated risks that could impact the Society's financial position.

Risk Governance

The Society operates a three lines of defence model which ensures accountability, oversight, and transparency in risk management. The Board delegates oversight of risk to the Risk and Investment Committee.

Operational Teams First line of defence	Risk and Compliance Second line of defence	Internal Audit Third line of defence

The first line of defence is comprised of the operational areas such as Claims, Underwriting and Member Services and support functions such as Finance, IT and HR. The first line, led by the Chief Executive and supported by the senior management team is responsible for the day to day running of the Society, identifying and managing risks and ensuring their processes and controls remain effective.

The second line of defence is made up of Risk and Compliance. These functions are led by the Chief Risk Officer and ensure the first line are appropriately managing risk and conforming with legislative and regulatory requirements. Risk and Compliance also provide oversight through policies, frameworks, tools, and techniques and are responsible for advice, oversight, and challenge.

The third line of defence provides objective and independent assurance to the Board ensuring the first and second lines of defence are effectively managing risk. The outsourced Internal Audit function reviews and reports on systems of risk management and internal controls to the Audit and Compliance Committee.

Risk Management

Risk Management Process

The risk management process is designed to continuously manage existing risks, identify new and emerging risks, whilst identifying opportunities for mitigation to protect and benefit our members.

The risk management process includes:

1. Identifying risks by function and category, with a quarterly review by the risk function and the risk owner
2. Assessing the risk by potential impact, likelihood, and the key mitigation measures to reduce the severity or probability of the risk materialising
3. Regular monitoring, challenging and prioritisation of the risk by the risk owner to determine the impact on the Society's risk profile and risk appetite
4. Managing the risk through an agreed action plan to resolve the issue or minimise any potential impact

The Society, through its Own Risk and Solvency Assessment (ORSA), continuously assesses the adequacy of its solvency requirements specific to the risk profile, risk tolerance limits and the business strategy which facilitates decision making and strategic analysis. Periodically, the Society uses models to conduct stress testing and undertake scenario analysis to ascertain the current and projected solvency positions under normal and severe, yet plausible scenarios, both individually and aggregated. This allows the Society to fully understand the material risks it faces and consider further mitigating actions.

Whilst it is not possible to foresee all risks, and the combinations in which they could occur, the Society is confident it will continue to exceed requirements under the Solvency II Directive and continue to operate and meet its liabilities as they fall due.

Principal Risks

Throughout 2022, the key risks to which the Society is exposed, have not significantly changed. The table below summarises our principal risks and mitigating actions:

Risk and Description	Mitigating Actions
Financial Risk: This comprises of credit, counterparty, market, and liquidity risks and can materialise due to adverse movements in the financial markets, downgrading, or default of a creditor (including distributors and reinsurance partners), reduced investment income or the inability to meet financial obligations as they fall due.	The Society manages credit and market risk by defining agreed parameters and trigger points established through an investment mandate with its investment managers. Performance of the investment portfolio is regularly monitored, and management are made aware of any deviations. Investment credit exposures are managed by investing in high credit quality assets and ongoing monitoring and management support loss mitigation. Counterparty risk is managed through the setting of financial limits and monitored using internal and external information. The Society also undertakes budgetary planning and cash flow matching to ensure sufficient funds are readily available over the short and medium term to fulfil financial obligations as they fall due. The Society made a proactive decision to reduce its market risk exposure during 2022.
Insurance Risk: This risk relates to the risks transferred to us by our members. Insurance risk considers the uncertainties that arise from mortality, morbidity and persistency and could crystalise if the cost of claims and benefits exceed the amount of premium and investment return received. Included within this risk is concentration and expense risk.	The Society has processes and controls to assess the risk of new business through its product design, pricing, and underwriting processes. Existing business insurance risks such as claims, and lapses are monitored against thresholds and assumptions. Monitoring by distribution channel, adviser and by product option to manage concentration risk and ensure good outcomes for our members. This risk is also managed by our flexible approach which ensures we are able to adapt to changes or movements in the intermediary market to aid our risk exposure. The Society has strengthened controls to reduce insurance risk exposure arising from product design, underwriting and claims. As mentioned above, the Society has also entered into reinsurance arrangements providing morbidity and persistency relief.

Risk Management

Risk and Description	Mitigating Actions
Conduct Risk: This risk considers action that could result in adverse member outcomes resulting from the Society's actions including ineffective controls.	The Society is committed to drive the right culture, behaviours, and values to deliver the best outcomes for our members and exceed regulatory expectations. This risk is managed through outcome focussed policies, processes and ensuring staff are sufficiently skilled to deliver good member outcomes. Conduct risk is monitored through the use of assurance and key indicators. Whilst the Society puts members at the heart of everything it does, the Society continues to enhance its Conduct risk management, incorporating regulatory initiatives.
Operational Risk: This risk considers direct or indirect loss arising from failures from our people, processes, or systems. Included in this risk are legal, regulatory, third party, resilience, data, models, and cyber risks.	The Society has processes and controls in place to minimise the impact and/or likelihood of adverse operational events. The Society conducts regular reviews of operational risks including control adequacy and effectiveness and continues to develop proactive monitoring. This will enable the Society to take preventative action and further reduce operational risk exposures. During 2022, the Society has invested in strengthening its operational controls, ensuring resiliency, improving efficiency, and reducing potential harm to members through failure of services. The Society continues to monitor its operational risks and associated exposure.
Reputational Risk: This risk relates to actions that could reduce trust or confidence of the Society's integrity, values or operations, resulting in either loss of members and/or financial loss, including regulatory censure.	The Society manages this risk by embedding our values with our people and regularly reviews stakeholder satisfaction. This includes member, third party and satisfaction from our people. This risk is continuously monitored to understand where the Society's processes can be optimised for effectiveness, efficiency and to identify emerging risks.
Strategic Risk: This risk considers failed business decisions which have an impact on executing our strategy or meeting strategic objectives within the prescribed timescale. This also includes risks associated with climate change and sustainability.	The Society's strategy plans are clearly defined and regularly reviewed, taking into account internal and external factors. This risk is monitored through a suite of agreed metrics. Due to the Society's non-complex structure and limited geographical footprint, risks arising from recent political and economic events have been mitigated where possible and did not impede the Society's ability to successfully execute its strategic plan. The Society consists of an experienced management team who aligned with and measured against delivery of the strategic objectives. The Society's Board receive regular updates on the execution of the strategic plan.

Climate Change

Through the Society's business model, strategies and practices, the exposure to financial risk arising from climate change is limited primarily driven by our sustainable approach to investing and investment holdings and has reduced further in 2022 due to the Society disinvesting from equities and commercial property. Working with our investment management partners and other stakeholders, we are committed to promote sustainability and reduce the impact on the environment. Throughout 2022, our investment partners have rated us 'Above Average' against their internal Environmental, Social and Governance sustainability criteria.

Whilst physical risks arising from climate change are not expected to fully crystallise for a number of years, such as longevity, morbidity, and mortality to which the Society is exposed, we continue to monitor experience over time.

The Society has limited exposure to asset transition risks due to its sustainable investment portfolio and composition of investments. As a result of this, litigation risks that could arise from parties who have been adversely impacted from climate change is also limited. We regularly review our portfolio sustainability ratings and have agreed parameters through our investment mandate to promote sustainable investing.

Through the Society's operations, we are also committed to reducing our carbon footprint and our impact on the environment. To reduce our carbon footprint and the impact to the environment, the Society is decarbonising its operations and supply chain. These initiatives include reduction of energy consumption and consumables through printing and adopting digital technology where appropriate, promoting hybrid working thus reducing travel emissions and working with our suppliers to increase energy efficiency and sustainability.

Board And Board Committees

Board Governance

The Board of Directors is the governing body of the Society's activities. The Board is committed to delivering high standards of corporate governance and as such the Society complies with the requirements of the Senior Managers and Certification Regime (SM&CR) and complies with the Association of Financial Mutuals' (AFM) Corporate Governance Code.

During 2022, the Board of Directors held thirteen formal meetings alongside scheduled calls and informal meetings between planned Board meetings.

The Board comprises the Chairman, who is an independent Non-Executive Director, four other Non-Executive Directors and the Chief Executive Officer who is an Executive Director.

Two members of the Board of Directors left the Society in 2022; Audrey McNair, Non-Executive Director, retired in June 2022 having served the Society for six years, and Nicole Coll, Non-Executive Director, resigned in March 2022 having served the Society for two years.

The Board remains satisfied with the overall independence of the Non-Executive Directors.

The Board has three main sub-committees:

- Audit and Compliance
- Risk and Investment
- Remuneration and Nomination

The attendance record at meetings during 2022 was as follows:

Name	Board	Risk and Investment Committee	Remuneration and Nomination Committee	Audit and Compliance Committee
Samantha Blackie	13/13	4/4	2/2 C	-
Ian Bullock	11/13	3/4	-	3/3 C
Nicole Coll *	2/3	-	2/2	0/1
Audrey McNair **	6/6	-	-	1/1
Simon Owens	13/13	4/4	2/2	3/3
Stuart Purdy	12/13 C	-	2/2	-
Perry Thomas	13/13	4/4 C	-	3/3
Robin Willison	13/13		2/2	3/3

C – denotes Chair of the Board or sub-committee
* Nicole Coll resigned from the Society in March
** Audrey McNair retired from the Board in June

The Board

The Board is responsible for the overall management and direction of the business of the Society to fulfil its strategic objectives in compliance with its Memorandum and Rules, and to oversee and review the Society's financial position and operations. The Chief Executive Officer is responsible for the day-to-day running of the Society and delivery of the strategy. The Board is satisfied that there is a clear division of responsibilities between the roles of the Chief Executive Officer and Chairman.

There are certain decisions that are reserved for the Board. These include:

- Setting the strategic direction of the Society including the investment strategy
- Approval of changes to the Society's corporate and capital structure
- Monitoring the performance of the business and the Executive
- Establishing a framework of systems and controls
- Agreeing the appointment of members to the Board of Directors.

Our Current Board of Directors

Stuart Purdy | Chairman

Stuart Purdy became Chairman of British Friendly in 2019 and holds several roles in UK financial services businesses. He is the Chair of Assurant Europe Group and is a Board member of Medical Protection Society, a global mutual organisation. He is also a Board Member of International General insurance (UK).

In his executive career, Stuart was Product and Investment Director of Aviva Europe, CEO of Ireland's largest insurance group and led the launch of Aviva's business in India. His last Executive role was as CEO of RSA's Asia and Middle East Region.

While in India, Stuart established a partnership with Arpana Trust to set up the Aviva Balvatika School in the slum resettlement area of Delhi that has now educated more than 6000 children. He has a strong belief in Corporate Social Responsibility. Stuart is also the Chair of Age Scotland. Stuart lives in Edinburgh with his wife and two children.

Ian Bullock | Non-Executive Director

Ian Bullock joined the Board in June 2019 as Non-Executive Director and Chair of the Audit and Compliance Committee. For 40 years he has held senior roles right across the Financial Services sector. His roles have included chairing two Boards, Managing Director and Board-level responsibility for distribution, marketing, operations, and customer experience. He is a qualified actuary and brings expertise and experience in business, finance, and risk management.

Ian has a real passion for people – both customers and colleagues. His most fulfilling role was as Chief Customer Officer at Yorkshire Building Society where his primary responsibility was to ensure that all customers received excellent value, well-crafted service and top-class overall experience. The Society was sector-leading in each of these aspects. Ian is a sport-loving family man.

Perry Thomas | Non-Executive Director

Perry is an actuary with over 30 years in financial services and Chairs the Risk & Investment Committee. Perry is also the Chair of Risk and Capital Committee at Flood Re, who are a flood specialist reinsurer. He has been CEO of HSBC's UK Life insurer, HSBC Re, HSBC Insurance Ireland, and was founding CEO of RGA UK - a pan-European life reinsurer. He's also been Group Chief Actuary for a global bank and a Group Chief Risk Officer of several large firms, recently Scottish Widows and Lloyds Bank's Wealth business, working in stock broking, investment, asset management and wealth advisory. He's held directorships in the UK, Bermuda, Ireland, India, South Africa, Malta & Luxembourg. In 2017 he was elected for a 3-year term to the Council for the Institute & Faculty of Actuaries 'as well a UK Fellow he's been an Associate of the Society of Actuaries in the USA and a Certified Enterprise Risk Analyst (CERA). Perry completed an MBA in 2004 and thoroughly enjoyed it! Perry is dyslexic, which complicated his early school years with some challenges, but he believes this often gives him a different perspective to bring.

Robin Willison | Senior Independent Director

Robin Willison has worked for over 40 years in Financial Services, including a series of senior leadership positions in Lloyds Bank and LV=. He has sat on several industry committees and as a Director of LINK Interchange. In recent years, he has worked as an independent consultant across the Financial Mutual sector and as a coach to senior executives, leaders and their teams. He is also on the Board of Health Shield Friendly Society where he is Senior Independent Director. Robin is an active member of his local community and at various times has been a youth club leader, school governor and a trustee of several charities. He's currently supporting a group of local schools as a Member of a Multi Academy Trust.

He has been married to Anna for 40 years and has four grown up children, with his time increasingly being taken up by proudly supporting nine grandchildren at various activities and events!

Sam Blackie | Non-Executive Director

Samantha Blackie joined the Board in June 2019 as a Non-Executive Director and is Chair of the Remuneration and Nomination Committee. She has 31 years' corporate experience as a Human Resources Director, starting her career in retail followed by several senior positions across the Financial Services sector, including Group People and Corporate Affairs Director at Royal London, the UK's largest Mutual Life Insurance and Pensions company. In addition, Sam has been a trustee of UK and Irish pension schemes, as well as a Council member of Aberystwyth University where she also chaired the Governance and Compliance Committee. Sam is currently a Trustee of the charity Meningitis Now and a Non-Executive Director and Chair of the Remuneration Committee for the Medical Protection Society. Through both her executive and non-Executive career, Sam has extensive experience of the operation of governance committees such as the Remuneration and Nominations Committee and now chairs this committee within the Society. Having completed her Masters in Business Psychology, she has a particular interest in leadership development, culture and organisation change. Outside of work, Sam enjoys the outdoor life that living near the Forest of Dean brings and is a keen gardener.

Simon Owens | Chief Executive Officer

Simon Owens joined the Board in June 2020 as the Society's Chief Financial Officer and subsequently became the Society's Chief Executive Officer in June 2021. Simon has over 20 years' experience of working in the Financial Services sector where he has held financial, commercial and operational leadership positions in Life Insurance, Health Insurance, General Insurance, Pensions and Financial Advice businesses including Legal & General and Aviva. Simon's desire to make a difference and commercial acumen has led to key strategic roles delivering transformation and change.

Originally from Cheshire, Simon now lives in Surrey and is married with four children, two dogs and a cat that would do anything for a quiet life. Simon is a qualified youth football, rugby and cricket coach and spends much of his time away from the Society encouraging and developing children's passion for sport.

Committees of the Board

The Board has the power to appoint committees and to delegate to those committees any authority of the Board. Committees support the work of the Board by analysing key issues and providing support for the decision-making process. Each committee has specific terms of reference which are kept under review and each committee reviews its effectiveness on an annual basis which also forms part of the overarching review of the Board. The responsibilities of the Directors are outlined in the Corporate Governance Section of the report. The Board has established three Committees to support the Society's Corporate Governance structure and work of the Board.

Risk and Investment Committee	Audit and Compliance Committee	Remuneration and Nomination Committee

Risk and Investment Committee

The Risk and Investment Committee comprises three Non-Executive Directors and is attended by the Society's Chief Executive Officer, Chief Risk Officer and the Chief Actuary.

The role of the committee is to ensure that the Society's Risk Management framework is fit for purpose, embedded, and operating effectively within the Society. The committee also ensures that the Society's investments are managed according to an appropriate mandate, meets the requirements of members and the Society's Own Funds, and provides oversight of the effectiveness and performance of the investment manager.

The Non-Executive Directors who served on the Committee during 2022 were:

Perry Thomas

Chair & Non-Executive Director

Ian Bullock

Non-Executive Director

Samantha Blackie

Non-Executive Director

Key responsibilities of the Committee are:

- Recommending to the Board the strategy and policy for risk management and overseeing its ongoing implementation
- Recommending that the Board approves the Society's stated risk appetite and risk tolerances across the full range of risks to which the Society is exposed
- Reviewing the processes and procedures for ensuring that all risks are properly identified, assessed, mitigated, monitored and reported in a timely, consistent, and effective manner.
- Identifying and assessing emerging risks to which the Society may be impacted
- Identifying all risk incidents and ensuring that these are documented and through root cause analysis that appropriate lessons are learnt
- Reviewing the investment strategy of the Society, ensuring asset allocation is appropriate (under actuarial advice), any deviations are flagged and understood and monitoring performance of these investments and the investment managers

Key document that are reviewed by this Committee

A. Own Risk and Solvency Assessment (ORSA) which assesses the adequacy of the Society's Risk Management framework and its current and future solvency position under certain stress scenarios

The Committee met four times in 2022, including an ORSA review meeting in January 2022 prior to submitting the ORSA report to regulators. Given the volatility in investment markets key items that have been reviewed throughout the year included the risk profile of the investments and its appropriateness for meeting future member benefits. These discussions concluded in early 2022 with decisions to sell the listed equity portfolio and the investment properties in the second half of the year, actions achieved by the year-end. Although investment markets fell considerably in 2022 as inflation and interest rates rose, it was noted by the Committee that the investment managers, LGT Wealth Management, convincingly beat the performance benchmarks that had been set for them by the Society and achieved that whilst taking a relatively lower risk budget than in prior years.

Risk and Investment Committee | Audit and Compliance Committee | Remuneration and Nomination Committee

The Society entered 2023 with a much lower investment risk position than in recent years and a closer alignment of its assets and liabilities. The investment managers also improved the Environmental, Social and Governance (ESG) score of the overall portfolio, maintaining an above average rating.

The ongoing effects of the COVID-19 pandemic, as well as the impact of higher-than-expected member claims, on the financial resources of the Society, remained a key focus of the Committee, though operational improvements in claims management, operations and quality distribution had greatly improved the position.

The implementation of the Society's new administration platform was largely completed in 2022, so the Committee's focus was on the risks and opportunities created, including improvements to existing products and the launch of new products, services and distribution relationships. The Committee has focused on the business plan to be pursued in the next few years given these enhanced capabilities, and enhanced executive team, and the new risks that may be encountered. To manage and mitigate those risks, especially to the balance sheet, the Society considered it prudent to enter into several commercial contracts with reinsurance companies.

Committee deliberations in 2022

- A material topic for the Committee, the Board and the Society as a whole, were the risks around implementation of the new Consumer Duty regulations, due to go live in July 2023. The main considerations of preparation for the Consumer Duty regime were at the Board
- Standard agenda items for the Risk and Investment Committee, included claims, IT developments, product development, distribution relationships, the asset and liability management (ALM) positions and new reinsurance arrangements
- Risk reports including the risk appetite, emerging risks, risk register, IT risks, risk incidents, investment performance and forecasts
- Review of the Society's investments
- Actuarial assumptions and models used for forecasts, focusing on controls and risks around potential adjustments
- Review and recommendation to the Board of the ORSA.
- Review and approval of delegated policies

Additionally, these items were reviewed at specific meetings:

January 2022

- The ORSA report and the risks around the business model of the Society

June 2022

- ORSA risks and business planning
- Impacts of an adjustment required to the financial models used by the Society's external actuaries
- Investment performance, investment and ALM strategy, endorsing the equity and property asset disposals
- Solvency II valuations
- Operational resilience strategy of the Society

October 2022

- Consumer Duty
- Operational Resilience and scenario planning
- Product reviews and fair value outcomes
- Future ORSA scenarios, reinsurance and impacts of new business plans on capital
- Review of the investment portfolio, with a focus on ALM and the disposal of the equity and property assets. Investment Sustainability and ESG factors

December 2022

- IT Security and incident management
- Member Loans
- Capital Management and Reinsurance agreements
- ORSA update
- Investment performance, risks, and mandate changes for 2023

Audit and Compliance Committee

The Audit and Compliance Committee is usually made up of three Non-Executive Directors. In addition, the meetings are attended by the Society's Chief Executive Officer, Chief Risk Officer, and Chief Actuary.

The role of the Audit and Compliance Committee is to assist the Board on matters of financial reporting and internal controls including regulatory compliance. The Committee members have been selected with the aim of providing a wide range of financial and commercial expertise necessary to fulfil the Committee's duties.

The Non-Executive Directors who served on the Committee during 2022 were:

Ian Bullock

Chair & Non-Executive Director

Perry Thomas

Non-Executive Director

Robin Willison

Non-Executive Director

Audrey McNair

Non-Executive Director, retired June 2022

Nicole Coll

Non-Executive Director, resigned March 2022

Key responsibilities of the Committee are:

The Committee has a broad sphere of interest on audit and compliance matters. Key elements of its terms of reference include responsibilities for:

- Monitoring the performance and effectiveness of the internal and external audit functions
- Reviewing the annual accounts prior to recommending them for approval by the Board
- Ensuring effective governance of the Society's systems of internal controls
- Providing oversight and guidance to the Society on matters of compliance with applicable regulation

Committee deliberations in 2022

March 2022

- Reviewed the external audit summary
- Reviewed and recommended to the Board approval of the valuation report and 2021 Financial Statements
- Reviewed the internal audit summary report
- Reviewed the IT third party oversight and controls internal audit report
- Reviewed the compliance monitoring report, the money laundering report and associated follow up actions
- Reviewed and recommended approval of the Solvency and Financial Conditions Report 2021
- Reviewed a detailed report on Society product governance and the governance framework going forward

June 2022

- Reviewed a report on market themes and trends, including key areas of regulatory focus
- Reviewed the schedule of proposed areas of future internal audit focus and actions from previous reports
- Reviewed an internal audit on BFS claims practices and procedure
- Reviewed a regulatory risk update, compliance report and an analysis of Society complaints

November 2022

- Reviewed the threshold conditions report
- Reviewed a KPMG report on Society operational resilience
- Reviewed the schedule of proposed actions from previous reports
- Reviewed the Whistleblowing Champion Report
- Reviewed the Chief Actuary's Experience Analysis Report
- Reviewed the Internal Audit plan for 2023, in conjunction with the overall plan for Society assurance and oversight
- Reviewed the plan for 2022 external Society audit by BDO.
- Reviewed the Compliance Monitoring Report, complaints analysis and associated actions

The committee has maintained a close focus on IT security, employee welfare, regulatory compliance and all aspects of claims management and service delivery.

Remuneration and Nomination Committee

The Committee is chaired by a Non-Executive Director and includes two further Non-Executive Directors. The Chief Executive is not a member of the Committee but attends to discuss matters as appropriate.

The Non-Executive Directors who served on the Committee during 2022 were:

Samantha Blackie
Chair & Non-Executive Director

Stuart Purdy
Board Chair

Robin Willison
Non-Executive Director

Nicole Coll
Non-Executive Director, resigned March 2022

Key responsibilities of the Committee are:

The Committee has a broad sphere of interest in Board nomination and remuneration matters. Key elements of its Terms of Reference include responsibilities for:

- Identifying the mix of skills and level of overall competence required by the Board annually
- Ensuring the continuing relevant personal development of Board members to support the strategic aims of the Society
- Appointing Executive and Non-Executive Directors
- Ensuring the Society has a robust Succession Plan
- Carrying out Board Effectiveness Reviews as required
- Reviewing the ongoing appropriateness and relevance of the Society's Remuneration Policy
- Reviewing the strategic effectiveness of the Remuneration Policy so that the Society can attract and retain the quality of people required to administrate and advance its purpose and objectives
- Setting the ranges of salaries and other benefits for the Executives, Senior Managers and staff with due regard to external benchmarking
- Approving the design and metrics for any performance related pay schemes operated by the Society and approve the total annual payments made under such schemes. Ensuring that the personal performance objectives of the Directors are designed to promote the long-term sustainability of the Society
- Regular review of the impact of new or proposed regulation and legislation

Committee deliberations in 2022

The Committee met twice in 2022. Key items considered were as follows:

- Approach to and quantum of pay and bonus pots as well as sales incentives
- Review of performance prior to the payment of deferred bonus awards
- A review of the Society's succession plan
- Agreement of the Board appraisal process
- Ongoing oversight of the allocation of regulatory responsibilities
- Confirmation of the appointment of the Chief Risk Officer
- Confirmation of the appointment of the Financial Controller (subject to regulatory approval)

Outline of Remuneration Policy

The aim of the Remuneration Policy is to attract and retain personnel of the calibre, skills and values required to deliver the objectives and strategy of the Society. It adopts the following key principles:

- The Policy is to promote fair and transparent remuneration structures and adequately disclosed externally
- Remuneration is aligned with applicable statutory regulatory requirements
- Remuneration to promote sound and effective risk management
- Fixed and variable remuneration to be appropriately balanced with arrangements designed to align the interests of employees with those of members.
- Variable remuneration is based on a combination of the assessment of the individual and the collective performance and overall results of the Society
- The Society is an inclusive employer and is committed to ensuring that all its people are remunerated fairly. Whilst the Society is not currently obliged to publish any gender pay calculations relating to diversity, it intends to take steps to monitor equality and reduce or eliminate any pay gap where applicable.
- Employees receive more than the minimum remuneration package that they are entitled to in line with statutory legislation

The Society has chosen, where appropriate, to follow best practice in Corporate Governance and any other relevant regulations including Solvency II and the FCA guidance on remuneration. There is no code requirement for members to approve the Society's Remuneration Policy.

Remuneration of Executive and Non-Executive Directors

Remuneration of the Chairman and the Executive Directors is determined by the Remuneration Committee, while that of the Non- Executive Directors is assessed by the Chairman and Executive Directors. No individual is involved in a decision regarding their own reward.

The Chairman and Non-Executive Directors received fees, reimbursement of appropriate travel expenses and the benefit of death and accident cover when they are carrying out Society business. They received no other benefits. Executive Directors receive a salary and a package of other benefits, including pension, healthcare and car allowance, where appropriate. In addition, they are eligible for the discretionary executive bonus scheme.

The funding of the executive bonus scheme is determined by performance against a balanced scorecard of objectives and measures that assess delivery against the purpose and long-term strategic objectives of the Society.

Individual payments are assessed against a range of qualitative and quantitative objectives including key strategic implementations, conduct and alignment of behaviour with the Society's culture and values.

50% of any bonus earned is deferred for 2 years, to underline the importance of rewarding performance that underpins the long-term sustainability of the Society. All payments made under the scheme are subject to malus and clawback.

Both the design of and payments made under the incentive schemes are subject to scrutiny by the Risk and Investment Committee. Performance objectives for the Chief Risk Officer are designed to effectively manage conflicts of interest.

The strategic effectiveness of all incentive schemes, as a part of overall remuneration, is reviewed annually by the Remuneration Committee with independent external benchmarking being undertaken at least every 3 years.

The overall remuneration paid to both Executive and Non-Executive Directors is externally validated using periodic benchmarking surveys that assess national and local pay and where appropriate refer to remuneration across a peer group of financial Mutuals.

The Executive Directors' terms of engagement allow for termination by either party at six months' written notice, with the exception of a Transfer of Engagements when the notice is increased to twelve months from the Society.

This section of the report sets out details of remuneration paid to Executive and Non-Executive Directors during the financial year ended 31 December 2022.

Name	Fee/Salary 2022 £000	Bonus 2022 £000	Benefits 2022 £000	Total 2022 £000	Total 2021 £000
Stuart Purdy (Chairman)	32.5	-	-	32.5	32.5
Robin Willison (Senior Independent Director)	27.5	-	-	27.5	27.5
Audrey McNair (Retired June 2022)	12.5	-	-	12.5	25.0
Samantha Blackie	25.0	-	-	25.0	25.0
Ian Bullock	25.0	-	-	25.0	25.0
Nicole Coll (Resigned March 2022)	6.5	-	-	6.5	24.0
Perry Thomas	25.0	-	-	25.0	16.5
Simon Owens Note 1	185.0	85.6	43.3	313.9	282.2
Total	339.0	85.6	43.3	467.9	457.7

Remuneration for the Year to 31 December 2022

Note 1: Bonus calculated under the Executive Directors bonus scheme. Includes 50% to be paid in 2022 and 50% deferred until 2024 (2020: 50% paid in March 2021 and 50% deferred until 2023)

Corporate Governance Report

The Board is committed to good corporate governance which is essential to the way the Board runs the Society's business. The Board operates in the best interest of its members and applies robust corporate governance practices in accordance with the Association of Financial Mutuals' (AFM) Corporate Governance Code.

Six principles of the AFM Corporate Governance Code:

Purpose and Leadership	The Board is the governing body of the Society which sets the tone from the top and promotes our purpose – 'to be a trusted and relevant provider of financial support in times of need', as well as ensuring that our values, strategy, and culture align with this purpose. The Board is responsible for the Society's activities, long term sustainability and sets the strategic direction of the Society. Mutuality and our members remain central to the Society's values and underpin how the Society and Board engages and operates in the best interest of members. The Board acts with integrity and regularly reviews performance against strategic goals to ensure the Society remains on target.
Board Composition	The Board consists of five Independent Non-Executive Directors, including the Chairman and one Executive Director. One of the Non-Executive Directors is appointed as a Senior Independent Director, who serves as an intermediary for other Directors and members. The Board is led by an independent Chair who ensures the Board is adequately experienced, balanced and diverse. The Chair of the Board is also responsible for assessing the performance of Board members. The Board has a balance of skills, background and knowledge with individual Directors having sufficient capacity to make a valuable contribution. The Remuneration and Nomination Committee review the mix of skills, experience and independence of the Board and ensures appropriate succession planning for both Executive and Non-Executive Directors. Our Memorandum and Rules require that Directors are subject to re-election at the Annual General Meeting (AGM) and provide members with the opportunity to participate in the re-election. The AGM in 2022 was held at the Society's Head Office in Bedford where members voted in our current Board. The Board has established three committees under its overall authority. These committees consider certain matters and analyse issues within their Terms of Reference, and you will see details of the Committees and their deliberations on pages 19-23.
Director Responsibilities	The Board is collectively responsible for the long-term success of the Society and Directors are individually accountable under the Senior Managers and Certification Regime (SM&CR). There is a clear division of responsibilities between the Chairman as leader of the Board, the Independent Non-Executive Directors who bring oversight and independence and chair the three sub-Committees, and the Chief Executive who is responsible for the day to day running of the Society. The Board is confident in the integrity and quality of the information provided for Board and Committee meetings in decision making and papers submitted to the Board and Committees are expected to be of high quality to support challenge and discussion appropriate for decision making.
Opportunity and Risk	The Board is responsible for setting the Risk Appetite and establishing oversight for the identification and management of risks. The Board agrees the principal risks and tolerance levels the Society is willing to take in order to identify opportunities that support the Society's strategic goals. Opportunities for development and innovation which contribute to the long-term goals of the Society are robustly reviewed and considered against the risk appetite and in the best interests of our members. The Board and the Risk and Investment Committee receive regular updates on the Society's risk management processes, control effectiveness and risk management enabling effective decision making. The Risk Management Report includes key risks that are presented at least quarterly and monitored by the Risk and Investment Committee.
Remuneration	The Society, through its Remuneration and Nomination Committee, promotes a remuneration structure for the Executive Management Team, including the Executive, which is fair and linked to the Society's long term sustainable success. Director remuneration is aligned with statutory and regulatory requirements and designed to promote effective risk management. Any bonus payments are determined against agreed Society objectives and underpinned by established personal objectives. A proportion of any bonus awards to the Executive and Executive Management Team are deferred for two years and are subject to malus and clawback.
Stakeholder Relationships and Engagement	Engaging with members, colleagues and business partners is fundamental to our Commitment of "putting members at the heart of all we do" and our Aim – "easy to do business with". Following the lifting of Coronavirus restrictions, the Society was able to hold a hybrid Annual General Meeting and conduct the usual AGM business. The Society is also committed to deliver positive outcomes for our stakeholders, especially members, considering the needs and characteristics of stakeholders, outcomes received to driving continuous improvement. The Board recognise the importance in maintaining regular contact with our stakeholders, including supporting them through difficult times and providing good outcomes.

Director's Report

Statutory, Regulatory and Other information

Responsibilities of the Board: Under the Friendly Societies Act 1992, the Board is required to prepare Financial Statements for each financial year which gives a true and fair view of the state of affairs of the Society and of the income and expenditure of the Society for that period. In preparing the Financial Statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable them to ensure that the Financial Statements comply with the Friendly Societies Act 1992. They are responsible for safeguarding the assets of the Society and henceforth taking reasonable steps for the prevention and protection of fraud and other irregularities.

Principal Activities

The principal activity of the Society continued to be the provision of Income Protection insurance cover for its members in times of illness and accident and, for those legacy members with a Century, Holloway or a BA in Work Plan, a capital sum on withdrawal. Servicing of existing loan facilities to legacy members continues, with loans being managed through the subsidiary company BFS Members Services Limited, which is a firm regulated by the Financial Conduct Authority for consumer credit activities. The Board are satisfied and of the opinion that all activities performed during the year by the Society and its subsidiary have been carried out within their respective powers.

Subsidiary Company

The results of the subsidiary company are disclosed in Note 10A to these Financial Statements. As of 31 December 2022 the Directors were Simon Owens and Reeshi Harania. The company has no employees, and no remuneration was paid to the Directors.

Member Bonuses and Apportionment

The Board announced the 2022 bonus rates as follows:

Interest Rate	Apportionment Rate	Apportionment Rate	Final Bonus
1.50%	£1.08 (non-commuted)	£1.80 (commuted)	10%

Statement of Disclosure to Auditors

The Directors of the Society have taken reasonable steps to ensure that they are aware of any relevant audit information and that such information has been disclosed to the Society's auditors.

Prudential Risk

The Society has actively reviewed and maintained the required margin of solvency throughout 2022 in accordance with the PRA regulations. The Board has carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency and liquidity. The Society's principal risks are summarised in the Strategic Report. Taking into account the Society's current position, the Board's expectation is that the Society will be able to continue in operation and meet its liabilities as they fall due over the five-year strategy period.

The Society's business activities, together with principal risks and uncertainties are set out in the Strategic Report on pages 9 to 12. In addition, Notes to the Financial Statements include the Society's objectives, policies and processes for managing its capital, its financial Risk Management objectives, details of its financial instruments, and its exposure to credit and liquidity risks. The Board of the Society believes that the Society is well placed to achieve its strategic objectives. As a consequence, the Board believes that the Society is well placed to manage its business risks successfully despite the current uncertain economic outline following recent political and economic events. The Board has a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future.

Director’s Report

Conduct Risk

The Society puts members at the heart of what it does and is focussed on delivering good outcomes for current and future members. The Society’s conduct risk management is key in preventing poor outcomes for its members whilst the Society’s culture, governance and working practices promote acting in the best interests of members and avoiding potential harm through products, services, support and communication. The conduct risk requirements are continuously reviewed and adapted, including taking into account regulatory developments and best practices, to ensure that good customer outcomes are consistently achieved, and we have processes in place for mitigating and monitoring member detriment.

The Society is committed to maintaining high standards of integrity and fairness in its dealings with members and ensures that all documentation and literature is clear, fair, and not misleading.

Systems and documented procedures are in place to ensure that, if any member is dissatisfied, such concerns will be handled with due care and sensitivity and will be thoroughly and impartially investigated. A member who feels dissatisfied with the result of such investigation has the right to refer their complaint to the Financial Ombudsman Service.

Diversity and Inclusion

The Board strongly believes that business success, decision making, and risk management are more effective when underpinned by a diverse and inclusive culture.
The Board is committed to encouraging equality and diversity which includes criteria such as nationality, race, age, and experience and encourage multiple points of view and recognises that diversity will drive innovation in our Society. A diverse workforce not only promotes good business practice, but also reflects our principles.
During 2022, the Society continued its membership and involvement in the Women in Finance Charter initiative and has embedded its principles into recruitment practices and remuneration.

Significant Events since the End of the Financial Year

The Directors continue to respond to and monitor the impact of the Coronavirus Pandemic and the effect it is having on the Society, members, colleagues, suppliers, and the wider population. The Directors are also monitoring the effect of the Ukraine war on members and the Society’s investments. This is a developing situation which has introduced further volatility to financial markets and the Directors will closely monitor and respond.

Throughout 2022 the Society’s Solvency Capital remained above the required level set by our regulators. During the year management actions have been considered and adopted to strengthen the Society’s solvency position and the Society’s solvency position will continue to be a prime consideration of the Board during 2023. The Board remains confident that the Society has sufficient resources to continue to operate and explore new opportunities as it delivers its strategic plan.

Auditors

BDO LLP continues to serve as the Society’s auditors and the Board are grateful to them for their ongoing service and opinions.

On behalf of the Board of Directors

Stuart Purdy
Chairman of the Society
26-May-23

Independent Auditor's Report To The Members Of British Friendly Society Limited

Opinion On The Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2022 and of its net deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements of the British Friendly Society Limited ("the Society) for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 T*he Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS103 *Insurance Contracts* (United Kingdom Generally Accepted Accounting Practice).

Basis For Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 14 November 2017 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 6 years, covering the years ended 31 December 2017 to 31 December 2022. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society.

Conclusions Relating to Going Concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Challenging the appropriateness of the Directors' assumptions and judgements made in their current plans and forecast. In doing so we agreed key assumptions such as forecast growth to historic actuals, relevant market data and our general commercial and sector experience and considered the historical accuracy of the Directors forecasts; and
- Assessment of the latest Own Risk and Solvency Assessment provided by the Society. In addition, we have reviewed the solvency projections, reconciling current positions to the financial statements and challenged the future assumptions embedded within the model. We have also checked that the modelling used for solvency is in line with industry standards.

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

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

Overview

		2022	2021
Key audit matter	Valuation of technical provisions	✓	✓
	Valuation of investment properties and owner-occupied property The Society sold a significant portion of its investment properties during the period under review and realised a gain on disposal (see note 6a). On that basis the valuation of investment properties was no longer considered a key audit matter.	-	✓
Materiality	Financial statements as a whole £477,000 (2021: £361,000) based on 1.7% (2020:1%) of the fund for future appropriations (2021: fund for future appropriations).		

An Overview Of The Scope Of Our Audit

Our audit approach was developed by obtaining an understanding of the Society activities and the overall control environment. Based on this understanding, we assessed those aspects of the Society's transactions and balances which were most likely to give risk to a material misstatement.

All audit work was performed directly by the audit engagement team with the assistance of appointed experts.

Key Audit Matter

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

Key Audit Matter		How the scope of our audit addressed the key audit matter

Valuation of technical provisions
The Society's accounting policies are disclosed in note 17 with the relevant accounting policies set out in note 1
	There is an inherent risk that insurance technical provisions can be misstated due to the fact that estimates are necessarily involved, and as such, there is an element of subjectivity in any such provision.
	The calculation of the Society's insurance technical provisions requires management to make significant judgements about a variety of assumptions including (but not limited to) mortality assumptions, lapsed rate, investment yields, discount rates and the current expectation of future expenses.
	We have assessed this area as being of significant risk to the audit and a key audit matter due to the significance of these amounts in deriving the Society's results and because of the assumptions underpinning the calculation, which can be highly subjective.
		In assessing the valuation of technical provisions, we performed the following procedures:
		▪ We have obtained and reviewed the actuarial reports prepared by the Society's Chief Actuary.
		▪ With the assistance of our actuarial expert, whom we engaged for their expertise in life and income protection insurance, we have:
		  ▪ Assessed the appropriateness of the methodology and the reasonableness of morbidity, persistency, mortality and expense assumptions applied by management in their calculation of the provision;
		  ▪ Examined the validation checks carried out by the actuarial function on the data and results;
		  ▪ Reviewed the documented methods for the best estimate liabilities to confirm they complied with the requirements of the applicable accounting standards.
		▪ We obtained an understanding of the conclusions in the actuarial reports prepared by the Chief Actuary and by our actuarial expert and assessed whether all the relevant judgements and estimates have been considered in the calculation of the provision.
		▪ We have challenged the conclusions arrived at by our actuarial expert and checked that their processes are in accordance with both Technical Actuarial Standards (TAS) and industry practices.
		▪ We considered the competence, capabilities, and independence of the actuarial experts engaged by us.
		▪ We agreed a sample of data for new members to the policy admin system to test that the underlying policy data had been correctly entered.
		Key observations:
		As a result of the procedures performed, we did not identify any matters to suggest that the assumptions applied by management in valuing the technical provisions are inappropriate.

Our Application Of Materiality

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

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

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

	Society Financial Statements	
	2022 £	2021 £
Materiality	£477,000	£361,000
Basis for determining materiality	1.7% of the fund for future appropriation (“FFA”)	1% of the fund for future appropriation (“FFA”)
Rationale for benchmark applied	The fund for future appropriation was considered the most appropriate metric for the friendly society because the entity is a Mutual organisation.	The fund for future appropriation was considered the most appropriate metric for the friendly society because the entity is a Mutual organisation.
Performance materiality	£358,000	£271,000
Basis for determining performance materiality	75% of Materiality	75% of Materiality
Rationale for the benchmark applied	Performance materiality represents 75% of overall financial statement materiality and was based on our overall assessment of the control environment and a low level of misstatements in the past.	Performance materiality represents 75% of overall financial statement materiality and was based on our overall assessment of the control environment and a low level of misstatements in the past.

Reporting Threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £10,000 (2021: £7,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other Information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other Friendly Societies Act 1992 Reporting

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

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

Responsibilities Of Directors

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

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

Auditor's Responsibilities For The Audit Of The Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent To Which The Audit Was Capable Of Detecting Irregularities, Including Fraud

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

Non-compliance with laws and regulations

Based on:

- Our understanding of the Society and the industry in which they operate;
- Discussion with management and those charged with governance;
- Obtaining and understanding of the Society's policies and procedures regarding compliance with laws and regulations; and
- Inspecting Board and Audit Committee minutes

We considered the significant laws and regulations to be the Friendly Societies Act 1992, Friendly Societies (Accounts and Related Provisions) Regulations 1994, Financial Reporting Standards 102 and 103 applicable in the UK and Republic of Ireland and the QCA Corporate Governance Code.

The Society is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory authorities for any instances of non-compliance with laws and regulations; and
- Review of financial statement disclosures and agreeing to supporting documentation.

Irregularities Including Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management, Those Charged With Governance and the Audit Committee regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Society's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Based on our risk assessment, we considered the areas most susceptible to fraud to be the valuation of technical provisions and management override of controls.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation; and
- Assessing significant estimates made by management for bias (refer to the key audit matters section for procedures performed).

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

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

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

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use Of Our Report

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

DocuSigned by:

Geeta Joshi

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Geeta Joshi

(Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, United Kingdom

Date - 30 May 2023

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

Financial Statements

Statement of Comprehensive Income
For the year ended 31 December 2022

Technical Account - Long Term Business	Note	Total 2022 £'000	Total 2021 £'000
Premium Income	5	**11,678**	11,414
Outward Reinsurance Premiums	5	**(7)**	-
Investment Income	6	**208**	2,755
Unrealised Gains on Investments	7	**-**	1,642
Other Technical Income		**52**	333
Total Technical Income		**11,931**	**16,144**
Claims Incurred, Net of Reinsurance (Sickness Benefits To Members)		**(5,046)**	(5,088)
Change in Long-Term Business Provision	16	**6,283**	3,543
Net Operating Expenses	8	**(10,060)**	(10,502)
Investment Expense and Charges		**(109)**	(143)
Unrealised Losses on Investments	7	**(4,627)**	(1,461)
(Deficit) Excess Of Income Over Expenditure For The Year		**(1,628)**	**2,493**
Member Withdrawals	16	**(6,484)**	(4,665)
Net (Deficit)/Surplus for the Year		**(8,112)**	(2,172)
Transfer From / (To) Fund for Future Appropriations	15	**8,112**	2,172
Balance On Technical Account - Long-Term Business		**-**	-

The above results relate wholly to continuing activities.
There were no items of other comprehensive income.
The Society is a Mutual organisation and therefore has no equity shareholders. No statement of changes in equity has been presented as there are no balances to disclose. All surpluses for the year are transferred to the Fund for Future Appropriations.
As described in note 1.2, the above represents the Statement of Comprehensive Income of both the consolidated British Friendly Society group and the standalone British Friendly Society entity.

Statement Of Financial Position
For the year ended 31 December 2022

		Note	Total 2022 £'000	Total 2021 £'000
Assets				
Investments	Land and buildings (investment property)		**235**	6,290
	Other financial investments	10	**37,613**	45,601
			37,848	51,891
Debtors		11	**44**	41
Other Assets	Intangible fixed assets	12	**6,216**	5,888
	Tangible fixed assets	13	**807**	817
	Cash at bank and in hand		**471**	454
Prepayments and accrued income	Accrued investment income		**355**	283
	Deferred acquisition costs	14	**3,144**	2,530
	Other prepayments		**411**	587
Total Assets			49,296	62,491
Liabilities				
Fund for Future Appropriations		15	**28,055**	36,123
Technical Provisions		16	**17,944**	24,227
Deferred Income, Creditors and Accruals	Deferred and Unearned Income	17	**13**	149
	Insurance Creditors		**1,403**	880
	Accruals		**823**	742
	Other creditors including taxation and Social Security		**1,058**	370
Total Liabilities			**49,296**	**62,491**

As described in note 1.2, the table represents the Statement of Financial Position of both the consolidated British Friendly Society group and the standalone British Friendly Society entity.

These financial statements were approved by the Board at their meeting held on 5 April 2023 and were signed on their behalf by:

Stuart Purdy
Chairman
26 May 2023

Simon Owens
Chief Executive Officer
26 May 2023

Notes to the Financial Statements

For the year ended 31 December 2022

1. Significant Accounting Policies

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

1.1. Basis Of Preparation

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

In preparing the financial statements of the Society, advantage has been taken of the disclosure exemption available under FRS102. As such, no cash flow statement has been prepared for the Society. In accordance with FRS 103 on Insurance Contracts, the Society has applied existing accounting practices for insurance contracts, modified as appropriate to comply with applicable standards.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The financial statements are presented in pounds sterling which is also the functional currency of the Society because that is the currency of the primary economic environment in which the Society operates.

After making enquiries, the directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements. In making this assessment the Directors have considered a wide range of stress scenarios as part of the yearly ORSA process, Society's strategic plans, trading forecasts, management's strategic growth projections and the capital and liquidity requirements of the Society. The Society meets its day to day working capital requirements through its own cash resources. When concluding on the going concern status of the Society, the directors have also considered the emerging risks and uncertainties arising from the war of Ukraine. They will continue to monitor the impact and respond accordingly.

The Board will publish the Solvency and Financial Condition Report in May 2023. This is a key public disclosure document under the Solvency II regulations and is available on the Society's website.

1.2. Basis of Consolidation

The consolidated financial statements incorporate the assets, liabilities, and results of British Friendly Society Limited and its subsidiary undertaking drawn up to 31 December each year. All intra-group transactions, balances, income, and expenses are eliminated on consolidation. The Statement of Comprehensive Income and Statement of Financial Position are the same for both the consolidated BFS Group and the Society itself and as such no separate consolidated or Society statements are presented. Further details of the subsidiary are given in Note 10(a).

1.3. Accounting For Net Earned Premiums

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

1.4. Accounting For Investment Income

Investment income includes dividends, interest from investments at fair value and rental payments due from tenants. Dividends are included when received. Other investment income is included on an accruals basis.

1.5. Accounting For Net Gains/(Losses) On Investments

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

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

1.6. Accounting For Other Income

Other income primarily relates to forfeitures where members have withdrawn money or cancelled contracts before their maturity date. It is recognised as charged to members on withdrawal of funds.

1.7. Accounting For Claims And Benefits

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

Death claims and claims for sickness are accounted for when the Society is notified. The value of claims on participating contracts includes bonuses paid or payable. Claims values include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of recoveries. However, it is likely that the final outcome will prove to be different from the original liability established.

Provisions are adjusted at the Statement of Financial Position date to represent an estimate of the expected outcome.

1.8. Accounting For Long Term Insurance Liabilities

The long-term business provision is determined by the Board on the advice of the Chief Actuary as part of the annual actuarial valuation of the Society's long-term business. The provision is determined in accordance with the Solvency II basis' It is calculated to be consistent with the PRA Rulebook: Solvency II Firms Technical Provisions Instrument 2015. The long-term business provision on a Solvency II basis is calculated as the present value of expected future cashflows (benefit payments and expenses less future premiums) plus a risk margin. The risk margin allows for the cost to a third party of holding Solvency II capital until all the contracts are settled. The rate of interest used to discount the expected future cashflows is prescribed by regulation and the expected cashflows are calculated using historic Society experience and include reserves for claims which have occurred but not reported and a reserve for claims already in payment. This makes sufficient provision for future expenses of fulfilling the long-term contracts and includes a provision for existing bonuses and bonuses declared as a result of the valuation. Future bonuses are allowed for within the valuation assuming future rates of allocation bonus and final bonuses continue at current rates and that annual bonuses continue to be paid in line with prevailing risk free investment returns.

1.9. Accounting For Mutual Bonuses And Interest

Bonuses to policyholders in the form of interest and bonuses are recognised in the Technical Account Long-Term Business when declared and Terminal Bonuses when paid.

1.10. Accounting For Property, Plant And Equipment (Assumes No Revaluations)

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

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

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

For owner occupied land and buildings, no depreciation is provided on the basis that such assets are held at fair value. The directors obtain a formal valuation of owner occupied property on a triennial basis. In the years between formal valuations the directors seek desktop reports from the Society's property managers and base their valuations on those reports. Depreciation is charged on other assets so as to write off the cost or valuation of assets, over their estimated useful lives, less estimated residual value, using the straight-line method on the following bases:

Fixtures, Fittings and Furniture	Computer Equipment
10%	33.3%

1.11. Accounting For Intangible Assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful life of up to ten years from the date of being brought into service by the Society. Software in development will be amortised once the asset has been fully implemented.

The assets are reviewed for impairment if any factors come to light that indicate that the carrying value may be impaired.

1.12. Accounting For Financial Instruments - Financial Assets

Financial assets, including debt and equity securities, are initially measured at transaction price (including transaction costs) and subsequently measured at fair value through the profit and loss account.

Financial assets other than investments (including trade and other debtors) are initially measured at transaction prices (including transaction costs) and subsequently held at cost, less any impairment.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Society would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1.13. Accounting For Financial Instruments - Financial Liabilities

Financial liabilities are classified according to the substance of the financial instruments contractual obligations, rather than the financial instruments legal form. Financial liabilities are initially measured at transaction price (after deducting transaction costs) and subsequently held at amortised cost.

1.14. Accounting For Non Financial Assets

The carrying amounts of the Society's non-financial assets, other than investment property, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" (CGU)).

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

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

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

1.15. Accounting For Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An external independent valuer, having appropriate recognised professional qualifications and current experience of the location and type of property being valued, values the Society's investment property triennially. Fair values are based on market values. Market values are the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing.

In the years between formal valuations the directors seek desktop reports from the Society's property managers and base their valuations on those reports.

Where current prices cannot be established by reference to an active market, valuations are prepared by considering the aggregate of the estimated net cash flows to be received from renting the property. A yield that recognises the specific risks inherent in the net cash flows is then applied to the net annual rental cash flows to determine the value.

1.16. Accounting For Cash And Cash Equivalents

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

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

1.17. Accounting For Leases

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

Assets held under finance leases are recognised as assets of the Society at the lower of the assets fair value at the date of acquisition and the present value of the minimum lease payments. The related liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitment and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

1.18. Accounting For Retirement Benefits

The Society operates a defined contribution pension plan under which the Society pays fixed contributions into a separate entity. The Society has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

1.19. Accounting For Deferred Acquisition Costs

In respect of insurance contracts, acquisition costs comprise all direct and indirect costs incurred in writing new contracts. The Society defers only the commission paid to agents and expenses this over 36 months which is the clawback period within agency contracts. All other direct and indirect acquisition costs are expensed in the period in which they are incurred.

1.20. Accounting For Foreign Currencies

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

1.21. Accounting for the Fund for Future Appropriations

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

2. Critical Accounting Judgements And Estimates

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

2.1. Investment Property (See Also Note 10b)

Advice is obtained from property experts to determine the fair value of investment property. Judgement is therefore required to make this assessment of fair value.

When a property is disposed of there is the potential that the amount released may be different to the carrying value in the financial statements.

2.2. Long Term Business Provision (See Also Note 16)

The valuation of liabilities is calculated as the expected present value of expected future cashflows plus a risk margin. The risk margin allows for the cost to a third party of holding capital until all the contracts are settled.

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

The assumptions used for investment returns and discount rates are based on current market risk free rates and are prescribed by EIOPA. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

One key assumption underlying these techniques is the actuarial assessment of claims payment patterns and whether assumptions regarding the prior years payment patterns continue to apply.

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

3. Capital Management

This section details the capital and risk management approach of the Society. The Society seeks to create value for its members by investing in the development of the business while maintaining an appropriate level of capital available.

The risk appetite for each type of principal risk is set based on the amount necessary to meet the PRA's capital requirements.

3.1. Policies And Objectives

The Society's key capital management objectives are:

i. To ensure the Society's strategy can be implemented and is sustainable;

ii. To ensure the Society's financial strength and to support the risks it takes on as part of its business;

iii. To give confidence to policyholders and other stakeholders who have relationships with the Society; and

iv. To comply with capital requirements imposed by its UK regulator, the PRA.

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

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

The Solvency Capital requirement is the capital required when a prescribed range of stress tests are applied. As a minimum the Society must hold sufficient capital to meet the PRA's Minimum Capital Requirement.

Management intends to maintain surplus capital in excess of its solvency capital requirement and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

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

3.2. Capital Statement

Life Business UK non-participating	2022 £'000	2021 £'000
Total capital resources before deductions	28,055	36,123
Adjustments to assets	(5,216)	(5,886)
Total available capital resources	**22,839**	**30,237**

3.3. Measurement And Monitoring Of Capital

The capital position of the Society is monitored on a regular basis and reviewed formally on a monthly basis by the Senior Management Team. Objectives are reviewed and benchmarks are set and agreed by the Board with which to judge the adequacy of the Society's capital and ensure that sufficient capital is available.

The Society's capital requirements are forecast on a regular basis and compared against the available capital and the Society's minimum internal rate of return. The internal rate of return forecast to be achieved on potential investments is also measured against minimum required benchmarks taking into account the risks associated with the investment.

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

3.4. Available Capital – Long-Term Insurance Contracts

All contracts written by the Society are long term insurance contracts. They can be further analysed into those policies which have a contractual entitlement to participate in profit sharing (these are Holloway and Century policies) and those which do not, called Protect policies.

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

An allowance is made for actions that management would take in adverse conditions, such as reducing bonus rates. The assets are taken at market value, estimated where required, with an allowance for the future surplus expected to arise on the non-participating business written in the participating fund. The whole of the available capital resources within each participating fund is available to meet the regulatory and other solvency requirements of the fund.

3.5. Sensitivity Of Long-Term Insurance Contract Liabilities

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

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

Demographic assumptions – Changes in the mortality, morbidity, expense or persistency experienced by the business may result in the need to change the assumptions used to value the liabilities. This may increase or reduce the value placed on the liabilities. The sensitivity of the liabilities to changes in the assumptions varies according to the type of business. For example, a change in mortality rates has a different impact for annuity liabilities than for term assurance liabilities.

4. Risk Management And Control

Risk Management has a regular place on agendas for the Senior Management Team, Risk and Investment Committee and Board. Details of the Society's risk management framework and methods used to mitigate risks are shown on pages 14 to 16 of the Strategic report.

The Society uses its Own Risk and Solvency Assessment (ORSA), Risk Appetite Statement and Risk Register to monitor current and potential risks that could affect its solvency adversely.

An overall risk tolerance is established which is expressed as a minimum level of solvency above the PRA minimum threshold.

Individual risk appetites are then established for each of the primary risks the Society faces. If these appetite limits are breached then management actions would have to be taken which may include:

- Reducing annual bonuses and/or final bonuses
- Reducing annual interest rate
- Reducing costs
- Raising premiums

A summary of the primary risks the Society faces along with sensitivity analysis to show impact on capital are as follows:

4.1. Strategic Risks

Strategic risks are those which affect the business model of the Society. They can come through competitive pressures, failure to develop our own proposition and product in line with the market or economic and political changes.

In our modelling we see strategic risks manifesting themselves in the following ways:

Lower growth volumes

The Society allocates resources based on growth assumptions. If these are not met then the income may not support the cost base of the Society.

Higher lapses

Future profits on contracts assume a contracts contract longevity. If lapses increase then that profit may be reduced.

The table presented below demonstrates the sensitivity of available capital to movements in assumptions on strategic risks:

	Change in Variable	Change in Available Capital £'000
Change in lapse assumptions	+10%	(3,594)

A 10% sensitivity has been used on the basis that it is considered to be a possible outcome.

When lapse rates change, future per policy expenses are likely to change. This has not been reflected in the value of change above. The sensitivity to changing per policy expenses which would occur if projected business volumes were not met are shown within operational risks below.

4.2. Insurance Risk

This is the risk associated with writing contracts of insurance. Each contract has an inherent risk that the claims experience will be higher than estimated. The contracts the Society writes are long term insurance contracts which means once entered into the Society does not have the right to cancel them. This increases the risk in this area. The Society only provides income protection insurance and no other classes. All insured members are resident in the UK when cover is taken out.

Risks arise from morbidity, persistency (lapses) and expense variances. Systems are in place to monitor and mitigate exposure to all of these risks.

Details of the Society's insurance technical provisions are included in notes 16 and 22.

The table presented below demonstrates the sensitivity of available capital to movements in assumptions on insurance risks:

Variable	Change in Variable	Change in Available Capital £'000
Change in morbidity (%CMIR12) inceptions/ recoveries	+10%	(3,537)
Change in morbidity (%CMIR12) inceptions/ recoveries	-10%	3,572

A 10% sensitivity has been used on the basis that it is considered to be a possible outcome.

4.3. Credit Risk

This is the risk that the Society suffers financial loss as a result of another party's failure to meet their financial obligations in a timely manner.

The table below shows the assets of the Society that are subject to credit risk along with their respective credit ratings:

2022	AAAm £'000	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	CCC £'000	Unrated £'000	Total £'000
Government Securities	-	34	13,631	-	1,165	-	-	4	**14,834**
Corporate Bonds	-	814	1,872	2,974	14,180	500	-	908	**21,248**
Cash and cash equivalents	-	-	193	894	-	-	-	218	**1,305**
Unit Trusts/ OEICs								-	-
Equities / Property Funds								-	-
Secured mortgages								18	**18**
Loan to Subsidiary								267	**267**
Derivatives								-	-
Total Assets									**37,672**

2021	AAAm £'000	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	CCC £'000	Unrated £'000	Total £'000
Government Securities	-	208	9,578	-	2,069	-	-	8	**11,863**
Corporate Bonds	-	966	1,470	4,461	13,991	523	7	640	**22,058**
Cash and cash equivalents	-	-	1,324	2,562	46	-	-	183	**4,115**
Unit Trusts/ OEICs								3,689	**3,689**
Equities / Property Funds								3,484	**3,484**
Secured mortgages								23	**23**
Loan to Subsidiary								287	**287**
Derivatives								55	**55**
Total Assets									**45,574**

The Society has managed concentration risk through holding a diversified portfolio, apart form UK Gilts, no more than 5% of the investment portfolio is held with any one counterparty.

No separate sensitivity analysis is carried out for credit risk as this is included within the technical provisions calculation in Note 16.

4.4. Market Risk

As the Society holds significant levels of investments it has exposure to:

- Investment shocks, including movements in property values
- Movements in interest rates

The table presented below demonstrates the sensitivity of the best estimate liability to movements in assumptions on market risks:

	Change in Variable	Change in Available Capital £'000
Change in interest rates used to discount cash-flows	+1%	(2,447)
Change in interest rates used to discount cash-flows	-1%	1,767
Interest Rate Up Stress as defined by EIOPA Solvency II Standard Formula	-	(3,721)
Fall in equity values	-10%	-
Fall in property values	-10%	(99)

The above sensitivities have been used on the basis that they are considered to be possible outcomes.

When interest rates change, any movement in the available capital is partially offset by an opposite change in the value of assets.

The Society's Investment Manager conducts Asset/Liability matching to ensure assets and liabilities are matched as closely as possible.

This has not been reflected in the value of change above.

The table below shows the split of denomination of currencies where investment assets may be subject to currency exposure:

Assets denominated in:	2022 (£'000)	2021 (£'000)
Sterling	37,672	41,576
US Dollars	-	2,904
Euro	-	304
Other	-	790
Total	**37,672**	**45,574**

A 1% fluctuation in exchange rates would not change the value of the above assets (2021: £40k).

A 1% sensitivity has been used on the basis that it is considered to be a possible outcome, and one that provides an indication of the sensitivities.

The Society does not consider itself exposed to liquidity risk as short term liquidity needs for claims payable are covered by cash and cash equivalents.

The Society has no obligation to repay any principal in its contracts of insurance.

FRS 102, under paragraphs 11.41(a) and 11.41(d) requires financial instruments held at fair value to be disclosed according to the following fair value measurement hierarchy:

- **Level 1** - Quoted prices (observable market prices for identical assets and liabilities)
- **Level 2** -Inputs other than quoted prices that are observable for the asset or liability, i.e. non quoted prices or values derived from prices
- **Level 3 -** Values that are not based on observable market data

The value of Level 1 assets held by the Society is:

	2022 £'000	2021 £'000
Level 1 (including cash based investments held at fair value)	37,672	45,574

All other assets and liabilities are level 2. The Society holds no level 3 financial instruments.

4.5. Operational Risk

Operational risks can occur in many ways and are generally modelled as having an impact on the running costs/expenses of the business.

The table presented below demonstrates the sensitivity of available capital to movements in assumptions on market risks:

	Change in Variable	Change in Available Capital £'000
Expense allowances	+10%	(1,347)
Expense allowances	-10%	1,347

A 10% sensitivity has been used on the basis that it is considered to be a possible outcome.

5. Premium Income	Total 2022 £'000	Total 2021 £'000
Income Protection business - regular premiums	**11,678**	11,414
Outward Reinsurance premiums	**(7)**	-
Net earned premium income	**11,671**	11,414

6a. Investment Income	Total 2022 £'000	Total 2021 £'000
Income from land and buildings	**333**	470
Income from investments at fair value through income:		
Income from loans with subsidiary	**16**	22
Income from listed investments	**993**	1,061
Income from other investments	**2**	-
Gains / (losses) on the realisation of investments	**(1,147)**	1,202
Gains / (losses) on the disposal of investment properties	**11**	-
	208	2,755

6b. Future Minimum Lease Income From Investment Property	Total 2022 £'000	Total 2021 £'000
Future minimum lease payments, consisting of rental income due from tenants of properties owned by the Society, are due as follows:		
Within one year	**38**	419
Between one and five years	**51**	1,536
More than 5 years	**-**	1,145
	89	3,100

7a. Unrealised Gain On Investments	Total 2022 £'000	Total 2021 £'000
Investments at fair value through income:		
Revaluation of Investment Properties	-	800
Debt securities	-	2
Equity Securities	-	840
Net gain on investments	-	1,642

7b. Unrealised Loss On Investments	Total 2022 £'000	Total 2021 £'000
Revaluation of Investment Properties	-	(160)
Debt securities	**(4,627)**	(1,301)
Equity Securities	-	-
Net loss on investments	**(4,627)**	(1,461)

8. Operating costs	Total 2022 £'000	Total 2021 £'000
a) Acquisition costs:		
Staff costs	**2,459**	2,059
System and product development	**104**	241
Marketing and Promotions	**625**	490
Underwriting and Medical reports	**144**	208
Commissions	**1,986**	2,962
	5,318	5,960
b) Administration costs		
Staff costs	**1,491**	1,659
Board fees and expenses	**175**	208
Actuarial Function Holder's fees	**166**	195
Legal and professional fees	**384**	297
Depreciation of fixed assets	**744**	648
Maintenance of software and equipment	**1,116**	1,056
Other administration costs	**666**	479
	4,742	4,542
Net operating costs	**10,060**	10,502
Net operating costs include the following:		
Depreciation and amortisation charge for the year	**744**	648
Auditors remuneration (exclusive of VAT):		
Audit	**76**	72
In respect of costs of Reviewing Actuary (engaged by Auditor)	**28**	23
In respect of other services provided	**-**	-
Actuaries remuneration (exclusive of VAT)		
Actuarial Function Holder & With Profits Actuary	**138**	127
Other actuarial fees	**156**	98
Amortisation of Deferred Acquisition Costs	**2,026**	2,874

9. Employee Benefits Expense	Total 2022 £'000	Total 2021 £'000
The average monthly number of persons employed by the Society in the year was as follows:		
Non executive Board members	**6**	7
Staff - Administration	**30**	28
Staff - Acquisition	**30**	28
	66	63
The aggregate staff payroll costs were as follows:		
Wages and salaries	**3,444**	3,341
Social Security costs	**332**	294
Other pension costs	**349**	291
	4,125	3,926

Wages and salaries includes a deferred bonus provision of £83,250 payable in 2025 (2021: £ 66,813 payable in 2024) in line with the senior management bonus scheme introduced in 2018.

	Total 2022 £'000	Total 2021 £'000
The aggregate remuneration of key management personnel, being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, were as follows:		
Wages and salaries	**438**	673
Social Security costs	**26**	53
Other pension costs	**28**	22
	492	748

Full details of Directors' emoluments are contained in the Directors Remuneration report on page 24.

Key management personnel wages and salaries includes a deferred bonus provision of £41,625 payable in 2025 (2021: £ 39,313 payable in 2024) in line with the senior management bonus scheme introduced in 2018.

10. Investments	Total 2022 £'000	Total 2021 £'000
a) Subsidiary undertaking		
Shares at cost	**100**	100

The subsidiary undertaking, British Friendly Member Services Limited, issues loans to members with capital balances secured on those capital balances.

The other component of its balance sheet is intercompany, therefore loans to subsidiary at the British Friendly Society level are merely reclassified as loans at the consolidated level. There are no other changes to the British Friendly Society's statement of financial position on consolidation.

The financial statements of that company show a profit of £nil for the year to 31 December 2022 (2021 - profit of £nil). The net liabilities of the subsidiary amounted to £nil at the year end (2021 - £nil).

The subsidiary incurs only a small amount of expenditure and has little profit or loss activity, all costs are recharged to the British Friendly Society and therefore the Statement of Comprehensive income for the British Friendly Society is the same as that for the consolidated Group.

10. Investments	Total 2022 £'000	Total 2021 £'000
b) Freehold Land and Buildings (Investment Properties)		
Valuation		
At 1 January	**6,290**	5,690
Property Disposals	**(6,055)**	-
Revaluation	**-**	600
At 31 December	**235**	6,290

The Society disposed of seven of its investment properties in 2022 for a total of £6.22m.

10. Investments	Total 2022 £'000	Total 2021 £'000
c) Other financial investments		
Dated		
Government Securities	**14,703**	11,458
Corporate Bonds	**18,049**	17,605
Undated		
Unit Trusts/ OEICs	**-**	376
Equities / Property Funds	**-**	7,122
Secured mortgages	**18**	23
Loan to Subsidiary	**267**	287
Cash and cash equivalents	**4,576**	8,730
	37,613	45,601
Total of listed investments included above	**32,752**	36,561

The loan to subsidiary disclosed above equates to loans issued by the subsidiary. At the consolidated level, loan to subsidiary would be replaced by loans to members of an equivalent amount. The total amount of other financial investments would remain unchanged.

Loans to members are currently repayable within a period of 1 to 5 years with an interest charge of 5.15%

Loans amounting to £163,000 fall due after more than 1 year.

11. Debtors Arising Out Of Direct Insurance Operations	Total 2022 £'000	Total 2021 £'000
Members	**44**	37
Other debtors	**-**	4
	44	41

12. Intangible Assets	Administration System £'000	Other Computer Software £'000	Total 2022 £'000
Cost			
At 1 January 2022	6,434	3,741	**10,175**
Additions	1,020	25	**1,045**
Disposals	-	-	**-**
At 31 December 2022	7,454	3,766	**11,220**
Depreciation			
At 1 January 2022	564	3,723	**4,287**
Charge for the year	696	21	**717**
Impairment	-	-	**-**
At 31 December 2022	1,260	3,744	**5,004**
Net book value			
At 31 December 2022	6,194	22	**6,216**
At 31 December 2021	5,870	18	**5,888**

13. Tangible Assets	Office Property £'000	Fixtures and Fittings £'000	Computer Equipment £'000	Total 2022 £'000
Cost				
At 1 January 2022	750	115	118	**983**
Additions	-	-	17	**17**
Revaluation	-	-	-	**-**
Disposals	-	-	-	**-**
At 31 December 2022	750	115	135	**1,000**
Depreciation				
At 1 January 2022	-	72	94	**166**
Charge for the year	-	8	19	**27**
Disposals	-	-	-	**-**
At 31 December 2022	-	80	113	**193**
Net book value				
At 31 December 2022	750	35	22	**807**
At 31 December 2021	750	43	24	**817**

The owner occupied office property is carried at fair value.

14. Deferred Acquisition Costs	Total 2022 £'000	Total 2021 £'000
At 1 January	**2,530**	4,334
Acquisition costs deferred	**2,649**	1,087
Amortisation	**(2,026)**	(2,874)
Increase in provision for non recoverable costs	**(9)**	(17)
At 31 December	**3,144**	2,530

Deferred acquisition costs relate to commission paid to agents on the sale of income protection insurance contracts.

At 31 December 2022 the amount of acquisition costs that will not be recognised in the income for more than one year is £1,612,000 (2021: £ 927.000)

Deferred acquisition costs are allowed for in the technical provision. As disclosure in note 16 and consistent with the approach taken in prior year, the technical provisions and deferred acquisition costs have been presented on a gross basis as management consider this to be useful information to a reader of the financial statements.

15. Fund For Future Appropriations	Total 2022 £'000	Total 2021 £'000
Balance at 1 January	**36,123**	**38,156**
Transfer to / (from) technical account	-	-
Long term business	**(8,112)**	**(2,172)**
Adjustments to FFA	**44**	**139**
Balance at 31 December	**28,055**	**36,123**

16. Technical Provisions	Total 2022 £'000	Total 2021 £'000
Balance at 1 January	**24,227**	27,769
Expected cashflows over the year	**(2,001)**	(2,073)
Unwind of discount rate	**132**	(13)
Model changes	**6,669**	-
Assumption changes	**(1,268)**	2,384
Actual data movements	**(1,402)**	3,047
New business written during the year	**(5,602)**	(3,192)
Other adjustments	**1,507**	-
Change in Risk Margin	**(4,932)**	(1,891)
Change in Deferred acquisition costs	**614**	(1,804)
Balance at 31 December	**17,944**	24,227

The insurance technical provisions are calculated using cash flows including commission costs. As such the technical provisions are initially calculated inclusive of commission, including deferred acquisition costs. An adjustment is made to the technical provisions by including a provision for those deferred acquisition costs.

As part of the changes to adopt Solvency II regulations, members funds are now included within technical provisions above using a discount factor to reflect the expected future cash flows.

The analysis below shows the movement to members balances and their undiscounted value as at 31 December 2022. This information is presented for memorandum purposes only.

	Total 2022 £'000	Total 2021 £'000
Bonuses and rebates	**643**	235
Interest on members' balances	**1,392**	1,444
Apportionment	**733**	413
Interest and apportionment paid to withdrawn members	**2,768**	2,092
Withdrawals during the year		
Death	**1,481**	1,268
Retirements	**1,943**	1,156
Resignations and lapses	**2,278**	1,777
Other withdrawals	**767**	444
Apportionments forfeited - taken to income	**15**	20
	6,484	4,665
Net decrease in member funds during the year	**(3,716)**	(2,573)
Balance at 1 January	**48,622**	51,195
Balance at 31 December	**44,906**	48,622

17. Deferred And Unearned Income	Total 2022 £'000	Total 2021 £'000
Deferred Income	3	140
Unearned premiums	10	9
	13	149

18. Pension Costs

The Society operates a staff pension scheme based on defined contributions whereby the Society contributes up to 15% of the basic salary of qualifying members.

19. Capital Commitments

At 31 December 2022 the Society had no capital commitments (2021 - nil).

20. Board Members' Loans And Transactions

There were no amounts outstanding at either 31 December 2022 or 31 December 2021 in relation to loans to members of the Board and related parties.

The register of loans to members of the Board is available for inspection at the registered office of the Society.

21. With-Profits Actuary

Statement in accordance with Rule 9.36 of the Accounts and Statements Rules

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

The With-Profits Actuary of the Society for the period 1 January 2022 to 31 December 2022 was S Robinson FIA, an employee of Zenith actuarial.

He was not a member of the Society or the subsidiary of the Society at any time during the year.

He had no pecuniary interest in any transactions with the Society subsisting at any time during the period.

The only remuneration was the fees for professional services paid for services provided by the company as follows:

Zenith Actuarial professional fees for the year ended 31 December 2022 were £138,320 (2021: 127,000) for actuarial function holder and with-profits actuary fees and £155,950 for other related services (2021 - £94,000) exclusive of VAT.

The With-Profits Actuary did not receive, nor will receive, any other pecuniary benefit.

22. Long Term Insurance Liability Valuation Assumptions

Long term insurance liability valuation assumptions

The following sets out the assumptions underlying the valuation of the Society's long term insurance liabilities.

The section also details the analysis of change in the Society's capital resources over the year.

This may be used for the relevant section of the notes to the Report and Accounts.

A gross premium method of valuation is used for calculating the Society's liabilities.

The principal assumptions used to calculate the Society's insurance liabilities are set out below:

Discount rate of interest

Discount rates are set having regard to risk free rates of return (without volatility adjustment) as specified by the PRA for use as at 31 December 2022.

The same approach was used at the end of 2021.

Expenses

Maintenance expenses have been allowed for in the valuation of the Society's liabilities allowing for new business in accordance with the Society's business plans for the period 2023-2026.

Thereafter expenses are assumed to increase in line with an expense inflation assumption of 3.3%pa (2021: 3.1%).

Morbidity

The Society's sickness experience has been analysed both by the rate of inceptions and by rates of recovery and are split between Holloway style contracts (Holloway and Century) and the Society's pure Income Protection business (Protect and Breathing Space). The inceptions and recoveries are explicitly allowed for in the cash flow methodology. The sickness tables used are based on the industry standard "CMIR12" tables.

Persistency

The rates of lapse and withdrawal assumed to apply to the Society's business are split between the Holloway and Century non-commuted and commuted policyholders, as well as the Society's Protect and Breathing Space policyholders.

Mortality

The rate of mortality assumed to apply to the Society's business are split between the Holloway and Century non-commuted and commuted policyholders, as well as the Society's Protect and Breathing Space policyholders.

Options and guarantees

The Society has no options or guarantees and accordingly holds no reserves for them.

Analysis of change

There has been an decrease in the Society's available capital resources from 31 December 2021 to 31 December 2022.

This is predominantly driven by £4.8m reduction in asset values due to increase in interest rates and £4.0m increase in liabilities due to changes to premium modelling approach and valuation assumptions. An analysis of the change is set out below:

	Change in available capital £'000	Available capital £'000
2021 available capital		**30,237**
New business	(1,645)	
Investment gains	(4,821)	
Trading surplus	1,551	
Model and assumption changes	(3,978)	
Other	1,495	
2022 available capital		**22,839**

23. Post Balance Sheet Events

There were no significant post balance sheet events.

General Information

Society Information

As at 31 December 2022

British Friendly Society Limited

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