FORESTER LIFE LIMITED

(Registered in England & Wales, no. 02997655)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

Forester Life Limited

Contents

Forester Life Limited

BOARD OF DIRECTORS

J T Young**	(Independent Chairman)
E T Allison	Chief Executive Officer
M Christophers*	
R E Lamoureux*	
D G Robinson**	

* *Non-executive*
****Independent non-executive***

Company Secretary
J C Rose

Principal Banker
National Westminster Bank Plc
City of London Office
PO Box 12258
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Auditor
KPMG LLP
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BR2 9BF

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Forester Life Limited

Chairman's Report

The Year 2020 was dominated by the social and economic fallout of the Covid-19 global health crisis. The pandemic has had an impact on each one of us, but for the key workers among us the strain has been considerable. At Foresters UK, our colleagues have risen to the challenge incredibly, ensuring that excellent customer services continued uninterrupted throughout the year. I thank them for all their hard work and dedication in supporting the members and customers whom we serve.

Despite the difficult circumstances, the Company achieved much during the year. In particular:

- In April, we completed the bulk transfer of the Child Trust Fund ("CTF") business acquired from Halifax, a member of the Lloyds Banking Group. This increased the number of CTF plans under our management by 474,000, making us now one of the largest CTF providers in the UK.

- In September, we successfully launched the new MyPlans for our CTF customers as their policies started maturing. Consequently we now offer self-serve capabilities supported by straight-through processing for a range of transactions: CTF customers can do business with us the way they want to, whenever they want to.

It is a testament to the operational resilience of the business that these key strategic projects were delivered in a year that presented such significant challenges.

Financially, the Company delivered a very good set of results. Our assets under management are now £5.2bn (2019: £4.6bn). New business volumes were, unsurprisingly, lower than prior year, mainly due to restrictions on face-to-face selling activities. However net fund inflows were slightly higher than prior year, even after excluding the impact of the Halifax CTF transfer. Profits were well ahead of prior year, with the impact of reserve releases boosting strong underlying earnings derived mainly from the unit-linked business and excellent investment returns on our surplus funds.

The first of our CTF customers turned 18 on 1 September 2020 and became eligible to access their savings. To date, around 70% of the funds under management in relation to the matured CTFs have remained invested with us. We shall continue to build affinity with our new CTF members and customers, generating awareness of the products we offer and encouraging them to utilise our wide range of Membership benefits.

We expect the year ahead to be another challenging one, but believe that our financial strength and strong solvency position will continue to enable us to pursue new opportunities and seek new sources of profitable growth. As the pandemic unfolds, we shall continue to adapt to the new challenges and opportunities that emerge, while prioritising the continuing safety and wellbeing of our members, customers and employees.

John Young

Chairman
31 March 2021

Strategic Report

The Directors present their Strategic Report for the year ended 31 December 2020.

Principal activity

Forester Life Limited (the "Company" or "FLL") carries on business in the UK, currently consisting of:

- an open book of unit-linked products such as individual savings accounts and investment solutions for adults and children;
- a large book of Child Trust Funds ("CTFs");
- administration of four closed ring fenced funds;
- an open book of protection and deferred annuity business.

Business Performance

The Company's operational resilience and financial strength enabled it to deliver a strong set of results in 2020 despite the significant challenges posed by the Covid-19 pandemic.

Key financial performance indicators are summarised below:

	2020	**2019**
	£'m	**£'m**
New Business	**48.0**	60.1
Net fund flows	**618.7**	38.2
Assets under management	**5,172.6**	4,550.5
IFRS total comprehensive income	**31.9**	22.9

New Business

New business in the year was lower than prior year (2020: £48.0m, 2019: £60.1m) on an Annual Premium Equivalent ("APE") basis. APE is the sum of initial premium on new regular sales plus one-tenth of premiums on new single sales.

Normally, most of the Company's sales derive from unit-linked products sold through its Field Force. Sales through this channel ceased during the five months between April and August 2020 when the Financial Advisers were furloughed. Sales through online and other direct channels charted a strong growth in 2020, partly making up for the lost Field Force new business.

Net Fund Flows

Net fund flows are made up of contributions and premiums less encashments and claims. Higher net fund inflows contribute directly to the growth in assets under management which in turn is the key driver of the Company's profitability. Strong net fund inflows also indicate good persistency which provides more certainty of future earnings.

The Company's total net fund inflows in the year were £618.7m, well above prior year (2019: £38.2m). Of this, £586m related to the acquisition of the CTF book from Halifax, a member of the Lloyds Banking Group. The transaction was completed on 10 April 2020 with the bulk transfer into FLL of c.474,000 CTF plans together with their related assets and liabilities.

Assets Under Management

Assets under management ("AUM") refer to the total market value of investments that the Company looks after on behalf of its customers. This is a key financial performance measure for the Company as its main source of income is from annual management fees taken as a percentage of assets under management.

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Assets under management as at 31 December 2020 were £5,172.6m, an increase of £622.1m compared to prior year. The acquisition of the Halifax CTF book increased FLL's total assets under management by £586m as at the transfer-in date of 10 April 2020.

IFRS Total Comprehensive Income

The Company's profitability is mainly driven by its fee income less operating expenses. The significant volatility in global equity markets in the first half of 2020 adversely impacted fee income, however this was mainly offset by lower acquisition costs and savings in ongoing operating expenses. Excluding one-off items such as reserve assumption updates and a release of tax provision in respect of prior years, underlying profitability remained in the region of £20m.

Overall, faced with ongoing near-term uncertainty, the business has continued to focus on maintaining expense discipline and driving profitable growth. As the financial results show, this strategy has proven to be a successful one.

Covid-19 response

Our priority from the beginning of the outbreak has been the safety and well-being of our employees and customers. Many Head Office staff have been working from home since March 2020, with around half of the customer-facing staff and essential support staff working in the office, ensuring excellent customer service continues uninterrupted. We have adopted government guidelines around making the workplace Covid-secure and are continuing to monitor the latest advice from local public health authorities.

The measures put in place by the government to limit transmission of Covid-19 meant our Financial Advisers were unable to conduct face-to-face visits with customers from mid-March onwards. On 6 April, we took the difficult decision to temporarily furlough the majority of the Financial Advisers. We received £1.3m in financial support from the UK Government's Coronavirus Job Retention Scheme to cover a portion of their wage costs during the furlough period. On 1 September, Financial Advisers returned to work, offering video appointments as an alternative to face-to-face meetings. The new "adviser video appointment" sales process allows the Financial Advisers to build affinity with our customers in a safe environment and has been well received so far.

The full financial impact of Covid-19 on the business is impossible to predict at this stage. Sensitivity analyses performed have shown that the Company's solvency position is resilient to significant stresses on market risk and persistency, its two main risks. We have also considered a range of stress scenarios to understand the potential outcomes and the corresponding recovery actions available.

Child Trust Fund maturities

The Company's CTF book started to mature on 1 September 2020 when our first customers turned 18 and became eligible to access their savings. To support this maturity journey, we launched an online platform providing full self-serve capabilities with straight through processing of full and partial encashments as well as transfer of funds into Adult ISAs. This was the first significant milestone in the Company's vision to create an omni-channel experience where customers can do business with us in the way they want to. Significant investments in technology and related infrastructure will continue throughout 2021 and 2022 as the Company seeks to secure its position in an increasingly digitalised world.

To date, around 70% of funds under management of the matured CTF plans have remained invested with us. This is significantly above our baseline projected retention rates. We shall continue to build affinity with the CTF members and customers, engaging with them on financial planning, ethical investing and our unique Membership proposition.

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Section 172 Statement

In accordance with the requirements of Section 172(1) of Companies Act 2006, this section sets out how the Directors have discharged their duties to promote the success of the Company, having regard to the likely long term consequences of any decision as well as the non-financial matters set out below:

Interests of the Company's employees

Our employees are central to our strategy and purpose. Learning and development is encouraged to build a culture that promotes talent and fosters high performance. The Company provides support for various forms of online learning, classroom-style training as well as external study and qualifications.

Management regularly seek feedback from staff either formally through company-wide employee engagement surveys or informally through one-to-one meetings. Business updates are cascaded via management, complementing email announcements and staff meetings where employees can hear from and exchange ideas with the CEO and the wider Executive Team. As many Head Office staff have been working from home full time since March 2020, it has become even more important to keep these communication channels open.

The care and well-being of our employees has always been an overriding priority and this has taken on even greater significance during the ongoing Covid-19 crisis. In addition to securing health and safety at the workplace, we have also ensured mental health provisioning is available to all members of staff through employee assistance programmes.

Relationships with suppliers, customers and others

The Foresters Financial brand is centred around the mission statement "Helping is who we are". As a wholly owned subsidiary of the Independent Order of Foresters, a fraternal benefit society, the business prides itself on giving back to its members and their local communities. Membership benefits include access to competitive scholarships, lifelong learning and community grants. Members can also participate in the governance of their local Branch Councils where leaders are elected through a democratic process.

In keeping with our core purpose of giving back to communities, staff are encouraged to participate in a 'Day of Caring', whereby they undertake a full day of paid volunteering for a good cause in their local community or a charity of their choice.

The Company recognises a duty of care when the circumstances of some customers warrant more attention than others. The Company proactively monitors its approach to identifying vulnerable customers and giving them the help that they need as appropriate. We participate in various industry focus groups to remain at the forefront of the discussion in this important area.

In managing its relationships with external suppliers, the Company's third-party risk management policy establishes risk management principles, practices and minimum standards to be adhered to. The third-party risk management assessment determines whether existing arrangements are consistent with overall business strategy and risk tolerances.

Environmental impact

The risks associated with climate change are subject to increasing regulatory, political and investor focus. Climate change is being addressed through the existing risk framework in line with regulatory expectations. The main climate change risks for the Company are financial risks arising from the transition to a low-carbon economy and the secondary impacts of physical risks including lower GDP growth, higher unemployment and significant changes in asset prices. Stress testing has demonstrated that the financial impacts are not significant at present. However, if these risks are not appropriately measured and managed, or if the business model does not adapt to regulatory requirements and market expectations there could be an adverse impact on business growth, profitability and competitiveness in the future.

Maintaining high standards of conduct

As a regulated financial services company, entrusted with the plans of over 1.6 million customers, maintaining our reputation for the highest standards of business conduct is of paramount importance. Conduct risk is mitigated through appropriate controls including advice suitability reviews, compliance monitoring controls and complaints management. All staff are required to sign an annual attestation to our Code of Ethics and there is rigorous conduct training for Financial Advisers and customer-facing staff.

The Code of Ethics defines the standards and behaviours expected of the Company's directors, officers, employees and contract employees. It provides a framework for ethical decision making in our day-to-day business, and is supported by policies and mandatory training in anti-corruption and bribery, whistleblowing, data protection and financial crime. The Code also embodies the values and the principles we live by, including respect for human rights, enriching the lives of our members and communities as well as fair treatment of customers and suppliers.

FLL is subject to the Senior Managers and Certification Regime ("SMCR") which aims to deter misconduct by improving individual accountability and awareness of conduct issues. The second phase of the SMCR was completed in 2020. This involved certifying all customer-facing managers and the entire Field Force, together with the automation of annual certification requirements.

Approach to risk management

Effective risk management is fundamental to the Company as it supports the delivery of the business plan through enabling fully informed business decisions to be made, capital to be managed efficiently, value generated for customers to be protected and principal risks to be identified, evaluated and managed. Details of Company's Risk Management Framework, Risk Governance and Risk Processes are set out in the Corporate Governance report.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company on both a current and a forward-looking basis are regularly assessed. These, as well as the actions to mitigate and manage these risk exposures, are further discussed in Note 21 to the financial statements.

Solvency II

The Company is well-capitalised on a Solvency II basis. As at 31 December 2020, FLL reported a Solvency II coverage ratio of 173% (2019: 170%) over its Standard Formula capital requirement. Note 20 provides further details of the Company's capital management policy. The Company has complied with all relevant regulatory requirements throughout the financial year and remained well above its capital risk appetite tolerances.

Going concern

Having considered the position at the date of the Statement of Financial Position and its results, future prospects and risk profile, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, management continues to adopt the going concern basis in preparing the annual report and accounts.

In forming this view the Board considered the following matters:

- The performance of the Company and the future risks and uncertainties it faces as set out in the Strategic Report.
- The quality and expertise of the Company's staff and management team.
- The regulatory solvency position of the Company as at 31 December 2020. Management continues to focus on ensuring regulatory compliance and holding a suitable capital buffer.

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As part of the going concern assessment, management have also considered the impact of the Covid-19 pandemic on the Company's key risks. This assessment considered the Company's 2021 business plan in light of its recent performance and current market conditions, as well as the results of stress and scenario testing around the ongoing impact of the pandemic. Based on the assessment of available evidence, management have concluded that the Company's balance sheet is strong, and its solvency position is resilient to capital shocks.

Approved by the Board on 22 March 2021 and signed on 31 March 2021 on its behalf

E T Allison
Director

Foresters House
2 Cromwell Avenue
Bromley
BR2 9BF

Forester Life Limited

Directors' Report
Forester Life Limited
Registered in England & Wales, no. 02997655

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

Parent company

The Company is a wholly owned subsidiary of Forester Holdings (Europe) Limited ("FHE"), a company registered in England & Wales.

FHE is a wholly owned subsidiary of The Independent Order of Foresters ("IOF"), a fraternal benefit society, incorporated in Canada with limited liability. The Company's registered address is Foresters House, 2 Cromwell Avenue, Bromley BR2 9BF, United Kingdom.

Financial instruments

The Company makes extensive use of financial instruments in the ordinary course of its business. Details of the risk management objectives and policies of the Company in relation to its financial instruments and information on the risk exposures arising from those instruments are set out in Note 21 to the financial statements.

Greenhouse gas emissions

The Company has implemented the reporting of greenhouse gas emissions for the first time for the financial year ended 31 December 2020.

The Company applies the methodology set out in the Greenhouse Gas ("GHG") Protocol Corporate Accounting and Reporting Standard to calculate its emissions. According to the GHG Protocol, emissions-releasing activities are categorised into three groups as follows:

- Scope 1 emissions are direct emissions from activities owned or controlled by the Company, for example gas and oil boilers used in buildings owned by the Company.
- Scope 2 emissions are indirect emissions released into the atmosphere as a consequence of the Company's consumption of electricity, heat or cooling.
- Scope 3 emissions are other indirect emissions. Examples include business travel, waste disposal or emissions released in the distribution of gas, oil and electricity purchased by the Company.

For the financial year ended 31 December 2020, the Company's greenhouse emissions from material emissions-releasing activities were as follows:

	2020
Energy consumption used to calculate emissions:	
Total energy use in kWh	**623,203**
Scope 1 emissions generated from gas and oil used in Foresters House (tonnes CO2e)	**8.4**
Scope 2 emissions from purchased electricity (tonnes CO2e)	**100.2**
Scope 3 emissions from business travel (tonnes CO2e)	**25.5**
Total gross CO2e based on above	**134.2**
Intensity ratio (tonnes CO2e per £m of revenue)	**1.8**

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The Company has stepped up its efforts to reduce its carbon footprint by replacing the company cars with hybrid models, reducing business travel as well as encouraging its customers to accept all correspondence electronically. We are committed to exploring new initiatives to further reduce our greenhouse gas emissions.

Employment policies

As a purpose-driven organisation, we believe in strength through diversity and we actively promote a culture of collaboration, creativity and mutual respect in our everyday workplace. Our commitment to equal opportunities means our recruitment, training and promotion programme is designed to develop talent based on merit and ability. We will not knowingly discriminate against individuals on the basis of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. We do not tolerate any type of discriminatory behaviour by any of our employees against others.

Political contributions

The Company did not make any political donations or incurred any political expenditure during the year.

Directors

The Directors who held office during the year are listed on page 3.

None of the Directors had any disclosable interest in the ordinary shares of the Company.

According to the Register of Directors' interests, no rights to subscribe for shares in the Company were granted to any of the Directors or their immediate families, or exercised by them, during the year.

Directors' indemnities

The Directors have the benefit of a qualifying third-party indemnity provision (as defined in Section 234 of the Companies Act 2006). IOF also maintains Directors' and Officers' liability insurance in respect of its subsidiaries and their Directors.

Statement of disclosure of information to auditor

Each person who is a Director at the date of this report confirms that:

1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ending 31 December 2020 of which the auditor is unaware; and
2) each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors, KPMG LLP, will be deemed to be reappointed and will therefore continue in office.

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Approved by the Board on 22 March 2021 and signed on 31 March 2021 on its behalf

E T Allison
Director

Foresters House
2 Cromwell Avenue
Bromley
BR2 9BF

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Corporate Governance Report

Corporate governance is the system by which companies are directed and controlled. Boards of Directors are responsible for the governance of their companies. Corporate governance is therefore about what the Board of a company does and how it sets the values of the company and is to be distinguished from the day to day operational management of the company by the executives. In line with the UK Corporate Governance Code, the Company ensures business activities are undertaken competently in the best interests of the Company's stakeholders, and that Directors and staff always act with integrity.

Roles and responsibilities of the Board

The Company's organisational structure and relationship to its parent is clearly defined, with the roles of Chairman of the Board and the Chief Executive Officer clearly differentiated and separate. The responsibilities of the Board include setting the Company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting on their stewardship. The Chairman is responsible for leading the Board. The Chief Executive Officer is responsible for implementing strategy and managing the Company through an executive team.

Board Committees

UK Audit and Compliance Committee

The Committee's terms of reference are set by the Board. The Committee is drawn from the independent Non-Executive Directors that sit on the FLL Board of Directors and at least one member has recent relevant financial experience. The membership of the Committee, as at the end of the last meeting held during the year, was as follows:

D G Robinson (Chair)
J T Young

The Audit and Compliance Committee normally meets at least four times a year to help the Board fulfil its responsibilities in respect of:

- Financial Reporting including any regulatory financial reports;
- Compliance function;
- Systems of internal control;
- Internal Audit function; and
- Assessment of reports from the External Auditors.

UK Risk and Investment Committee

The Risk and Investment Committee, on behalf of the Board of the UK Company, is responsible for:

- Investment strategies and performance monitoring;
- Risk management practices; and
- Capital management.

The Committee normally meets at least four times each year to provide input to the quarterly UK Companies' Board meetings. In doing so, it provides regular reports to the respective Boards on its activities together with accompanying recommendations for action as appropriate.

The membership of the Committee, is as follows:
M Christophers (Chair)
E T Allison
R E Lamoureux
D G Robinson
J T Young

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With-Profits Fund Advisory Panels

As the Company manages closed With-Profits Funds it has established With-Profits Advisory Panels. Each Panel acts in an advisory capacity to inform decision-making by the Board in relation to the management of that fund. Each Panel acts in accordance with its own terms of reference, regulations affecting the management of with-profits business and in particular the fund's Principles and Practices of Financial Management ("PPFM").

Chairman's independence

An independent chairman has been in place since October 2017.

Review of the Board's performance

The Board reviews its performance by discussion at the end of each Board meeting and periodically by using a questionnaire. The results of an external assessment were presented to the Board in Q4 2019 and the findings were discussed and acted upon where appropriate. The Board ensures it has a balance of required skills and experience in relation to the size and complexity of the UK operation.

Annual re-election of Directors

Non-Executive Directors are not appointed for specific terms, or subject to re-election, but all appointments are reviewed annually by the Governance Committee of IOF. These arrangements are considered appropriate for a wholly owned subsidiary.

Relations with members

IOF is a fraternal benefit society that provides financial services products and unique benefits to its members and their families. Through the member-governed Branch network, members are provided with opportunities to organise and participate in local volunteer activities and family-focused events. The IOF annual report provides details of the year's activities as well as the results of the business.

Risk Management

Risk management is integral to FLL's business, and key to FLL's success. The risks inherent to our core business of asset management and the risks associated with life, health and protection business are accepted risks. Operational risks are managed through a robust and proportional control environment. The profile of our risks is also subject to external factors, such as the impacts of the ongoing Covid-19 pandemic, the impact of Brexit on UK growth and employment, climate change considerations and the ever present risks arising from potential cybercrime. In addition, there continues to be a focus on the risks arising from the execution of FLL's digital transformation programme.

Risk Management Framework

Risk management is embedded through the Risk Management Framework comprising governance systems, the risk appetite framework, risk management policies, processes, tools, and reporting. The Risk Management Framework is designed to identify, measure, manage, monitor, and report significant risks to the achievement of the company's business objectives. The risk function continues to develop and maintain the risk framework on behalf of the Board.

The key objectives of risk management are to:

- Support the Company's strategy and make sure that risks taken are within risk appetite limits.
- Influence decision–making through the provision of accurate, timely and relevant risk information.
- Improved use and allocation of capital through better understanding of the risk profile across risk categories.
- Contribute to a reduction in loss events through greater capability, stronger lines of defence and improved control activities.

- Encourage a culture of openness and transparency to facilitate risk and event management.
- Provide a universal view and understanding of risk across the business.

The Risk Management Framework is integrated with the Own Risk and Solvency Assessment ("ORSA"). The ORSA is both a set of processes and a report which considers the risks arising from the agreed strategic priorities, the Company's appetite for these risks and the management of them, how much capital is needed to protect the business against those risks and how resilient the business model is under stressed conditions. This analysis involves a forward-looking assessment of the risk and solvency requirements of the Company over the next three years.

Risk Governance

The Risk and Investment Committee is made up of the Board Directors, although other members of IOF's and FLL's Executive Committee are invited to attend. The Risk and Investment Committee is responsible for advising the Board on FLL's overall risk appetite and risk strategy, advising the Board on the current and potential risk exposures of the Company, reviewing and approving the risk management framework and monitoring its effectiveness.

Roles and Responsibilities

The Company adopts a "three lines of defence" model, such that risk management is acknowledged to be the responsibility of everyone within the UK Company.

The first line of defence is management control. Operational managers own and manage risks. They also are responsible for implementing corrective actions to address process and control deficiencies. The first line is responsible for applying the risk framework and for managing risks with the agreed risk appetite and in compliance with the policy framework.

The second line comprising risk and compliance functions, is responsible for advising the Board on its risk appetite and supporting the business in its application as applicable; continuing to develop the risk management framework for agreement by the Board which the first line uses to discharge its responsibilities; and provision of oversight, challenge and support to the first line on its management of risks.

The third line is internal audit, which is responsible for providing independent assurance over the adequacy and effectiveness of the design and implementation of the Company's governance, risk and control framework.

Risk appetite

Risk appetite is used by the executive team to ensure that the business is run in accordance with the Board's expectations. The Company has formally established and communicated its risk appetite through its risk appetite framework.

The Board is responsible for setting risk appetite which outlines the amount and type of risk that the Company is willing to take to meet its strategic objectives. Risk appetite is recommended to the Board by the Risk and Investment Committee. This Committee monitors the principal risks that could threaten the Company's business model, future performance and solvency position and oversees the operation and effectiveness of the risk management framework on behalf of the Board; this includes a suite of risk policies that cover the full range of risks to which the Company is exposed.

Risk appetite is used to ensure that the Company does not take on more risk than the capital base allows. One of the key risk appetite statements relates to maintaining an appropriate capital buffer to meet the internal capital target. To avoid risk appetite being breached, tolerances and limits have been established. These are trigger points indicating when action should be taken to bring the Company back within risk appetite. All risk appetites and limits are well within risk capacity.

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Risk processes

The processes used to identify, measure, manage, monitor, and report risks are designed to enable risk-based decision-making and effective day-to-day risk management.

ORSA

The Company complies with Solvency II requirements using the standard formula to calculate its solvency capital requirement. In addition the Company performs its own risk and solvency assessment which is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks the Company faces or may face and to ensure that its appetite for these risks is in line with its capital and commercial aspirations. This includes the Forward-Looking Assessment of Own Risks which considers the risks to which the successful implementation of the business plan is exposed. Stress and scenario testing are used to assess the potential impact of risks under stress on finances and on capital requirements. Depending on the outcome appropriate management actions are developed to mitigate the position. The ORSA is therefore integral to Board oversight of business planning and capital management related processes within the Company. Formal ORSA reporting takes place on an annual basis and is a key part of the strategic planning cycle.

Directors' Remuneration Report

This section of the report sets out the Company's policy on Directors' remuneration.

Executive Director

The Company's policy is to ensure that total remuneration of the Executive Director is competitive with that of comparable organisations in the financial sector. As far as practicable the policy aims to provide a strong link between pay and performance without encouraging inappropriate risk taking.

The Executive Director's remuneration includes the following:

- Basic salary - this is subject to annual review.
- Annual bonus scheme – the Company has an incentive plan open to all permanent members of staff based on key business targets. Assessment of performance against targets is made in February.
- Long-term incentive plan – IOF operates a long-term incentive plan open to senior executives of the Company. Payments are made annually based on an assessment of performance over 3 years.
- Pension scheme membership – the Executive Director is a member of the Forester Group Employee Pension Plan, a defined contribution scheme open to all permanent employees.
- Benefits in kind - the Executive Director is provided with a company car, private medical insurance, permanent health insurance and an expense allowance.

Non-Executive Directors' remuneration

The remuneration of the Non-Executive Directors is provided below. This is audited information.

Non-Executive Directors	2020	2019
	£'000	£'000
M Christophers	40	40
D G Robinson	40	40
J Young	60	60
R E Lamoureux	40	40

The numbers above are on an accrual basis and do not include associated Value Added Taxes.

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Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements.

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing each of these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORESTER LIFE LIMITED

1 Our opinion is unmodified

We have audited the financial statements of Forester Life Limited ("the Company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 28 June 1996. The period of total uninterrupted engagement is for the 28 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£2.4 million (2019: £2.1 million) 2% (2019: 2%) of Company net assets	
Key audit matters		**vs 2019**
Recurring risks	Valuation of policyholder liabilities	◄►

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters, unchanged from 2019, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk	Our response

Valuation of policyholder liabilities (£446m, 2019 £502m)

The risk compared to the prior year is unchanged

Refer to page 29 to 38 (accounting policy) and pages 39 to 70 (financial disclosures)

The Company has significant policyholder liabilities representing 99% of the Company's total liabilities. Of these £409m is in respect of with-profits liabilities and these are set equal to the fund value as the entire amount of the fund will be distributed, and £37m is in respect of non-profit insurance liabilities.

Only non-profit liabilities involve material subjective judgements.

Subjective valuation:

The non-profit insurance liabilities are £37m (8% of the insurance contract liabilities) and the determination of these involves significant judgement over uncertain future outcomes.

Operating and economic assumptions and sector experience

Management is required to use judgment in the selection of key assumptions covering both operating assumptions and certain economic assumptions.

The key operating assumptions include mortality and maintenance expenses. Mortality refers to rates of death on protection policies and rates of survival on annuity policies.

Mortality requires a high degree of judgement due to the number of factors which may influence mortality experience. These factors include Company's own experience and management's and industry expected levels of future rates of mortality improvement and other external factors arising from developments in the market.

Expenses assumptions require significant judgment. Expenses includes expected level of future expenses based on the expected future costs for administering the underlying policies.

Completeness and accuracy of data

Management uses actuarial models to calculate policyholder liabilities. There is a risk that the modelling does not actually and appropriately reflect the

We used our own actuarial specialists to assist us in performing our procedures in relation to the judgements exercised in these areas. Our procedures included:

Control design

We tested the design and implementation of key controls over management's valuation processes.

We performed the detailed tests below rather than seeking to rely on the Company's controls because our knowledge of the related IT controls indicated that we would not be able to obtain the required evidence to support reliance on controls.

Methodology choice

We have assessed the methodology for selecting assumptions. This included:

- Evaluating the analysis of the movements in insurance contract liabilities during the year, including consideration of whether the movements were in line with the methodology and assumptions adopted during the year;
- Applying our understanding of developments in the business and the need for and impact of changes in methodology on this; and
- Comparing the methodology to our expectations derived from market experience.

Historical comparisons:

Evaluated the mortality base assumptions used in the calculation of insurance contract liabilities by comparing to the Company's historic mortality experience. This included an assessment of the impact of COVID-19.

Benchmarking assumptions and sector experience:

We have assessed assumptions based on benchmarking and sector experience. This included:

- Evaluating the appropriateness of the calibration of the Continuous Mortality Investigation ('CMI') Model (the CMI Bureau releases industry wide mortality tables), adopted based on the analysis of the characteristics of the policyholder population and actual mortality experience.
- Assessing whether the expense assumptions reflect the expected future costs of administering the underlying policies by considering the expected future level of expense inflation and analysing the appropriateness of forecast budgets.

model specifications and / or the product features due to incorrect of incomplete data input into the model and / or unauthorised or erroneous changes to the models.

Estimation uncertainty

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of policyholder liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possible many times that amount.

- Utilising the results of KPMG benchmarking of assumptions and actuarial market practice to inform our challenge of management's assumptions in some of the areas noted above.

Application of the methodology

- Testing that changes to the actuarial model from the prior year have been appropriately reviewed and approved. As part of assessing the appropriateness of the changes made to the model, KPMG considered the expectation of the financial impact of the changes made to the model during the year.

Assessing Transparency

- Considering whether the disclosures in relation to the assumptions used in the calculation of valuation of policyholder liabilities are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs.

Completeness and accuracy of data

Testing the policyholder data by reconciling the underlying source data with the data input used in the model to assess the data is complete.

To test accuracy of the data we reconciled a sample of policies to source policy documents.

Our results

— We found the resulting estimate of the valuation of non-participating insurance contract liabilities to be acceptable (2019 result acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Company financial statements as a whole was set at £2.4m (2019: £2.1m), determined with reference to a benchmark of Company Net Assets, consistent with 2019 of which it represents 2% (2019: 2%).

We consider the Company's net assets to be the most appropriate benchmark as it represents the residual interest that can be ascribed to shareholders after assets and corresponding liabilities have been accounted for. We compared our materiality against other relevant benchmarks, such as total assets, total revenue and profit before tax to ensure the materiality selected was appropriate for our audit.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £1.8m (2019: £1.6m) for the Company.

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.1m (2019: £0.1m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment in which it operates to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that were considered most likely to adversely affect the company's available financial resources over this period were:

- a significant deterioration in longevity experience, potentially caused by market wide event(s);
- a deterioration in the valuation of the Company's investments; and
- Severely adverse policyholder lapse or claims experience.

We also considered less predictable but realistic second order impacts, such as failure of counterparties who have transactions with the Company (such as banks) to meet commitments that could give risk to a negative impact on the Company's financial position.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud , including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of policyholder liabilities and the valuation of defined benefit obligations.

On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited management judgement involved in the valuation and recognition of all material revenue streams.

We also identified fraud risks related to the valuation of policyholder liabilities and valuation of defined benefit obligations in response to the required significant judgement over uncertain future outcomes.

Further detail in respect of the valuation of policyholder liabilities is set out in the audit response to the risks associated with this key audit matter in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included, but were not limited to, journals impacting cash balances that were identified as unusual or unexpected in our risk assessment procedures.
- Evaluating the business purpose of significant unusual transactions.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.
As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company'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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company'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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

31 March 2021

Forester Life Limited

Statement of Comprehensive Income
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue			
Gross written premiums	2	**18,803**	22,699
Ceded premiums		**(369)**	(638)
Net Written Premiums		**18,434**	22,061
Fee income from investment business		**55,173**	52,016
Investment income	12	**67,333**	571,155
Total Revenue		**140,940**	645,232
Policyholder benefits and expenses			
Gross policyholder benefits and payments		**77,660**	89,911
Gross change in insurance contract liabilities	14	**(56,371)**	(31,598)
Ceded change in insurance contract liabilities	14	**917**	881
Change in investment contract liabilities	15	**52,021**	503,026
		74,227	562,220
Operating expenses	3	**36,521**	55,113
Total policyholder benefits and expenses		**110,748**	617,333
Net income before tax		**30,192**	27,899
Income tax (credit) / expense	7	**(1,897)**	11,049
Net income for the year		**32,089**	16,850
Other comprehensive income			
Amounts that may subsequently be reclassified to profit or loss:			
Net unrealised gains on available-for-sale assets	12	**425**	4,135
Amounts that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension obligation	6	**(642)**	1,865
		(217)	6,000
Total comprehensive income		**31,872**	**22,850**

The accompanying notes on pages 29 to 70 form part of these financial statements.

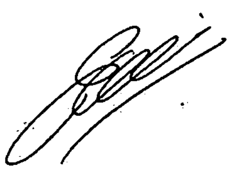
Forester Life Limited

Statement of Financial Position
As at 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Intangible assets	9	**26,616**	13,916
Investment property	10	**5,250**	5,420
Investment in subsidiaries	11	**-**	-
Deferred tax asset	7	**4,784**	7,438
Financial investments	12	**5,128,926**	4,474,238
Insurance and other receivables	13	**22,313**	24,343
Cash and cash equivalents		**48,630**	81,028
Total assets		**5,236,519**	4,606,383
Liabilities			
Insurance contract liabilities	14	**445,931**	502,302
Investment contract liabilities			
Unit-linked	15	**4,549,179**	3,871,045
Non-linked	16	**60,164**	61,581
Employee benefit obligation	6	**3,359**	4,228
Deferred tax liability	7	**3,465**	5,432
Current tax liability		**2,140**	10,039
Benefits payable		**20,333**	17,729
Other liabilities	18	**10,323**	14,274
Total liabilities		**5,094,894**	4,486,630
Equity			
Called up share capital	19	**68,500**	68,500
Capital contribution		**24,189**	24,189
Retained earnings		**48,354**	26,265
Accumulated other comprehensive income		**582**	799
Total equity		**141,625**	119,753
Total liabilities and equity		**5,236,519**	4,606,383

Approved by the Board on 22 March 2021 and signed on 31 March 2021 on its behalf

The accompanying notes on pages 29 to 70 form part of these financial statements.



E T Allison
Director

Forester Life Limited

Statement of Changes in Equity

For the year ended 31 December 2020	Share Capital £'000	Capital Contribution £'000	Retained Earnings £'000	Accumulated OCI £'000	Total £'000
Balance, beginning of year	**68,500**	**24,189**	**26,265**	**799**	**119,753**
Net income for the year	-	-	**32,089**	-	**32,089**
Other comprehensive income	-	-	-	**(217)**	**(217)**
Total comprehensive income	-	-	**32,089**	**(217)**	**31,872**
Dividends paid	-	-	**(10,000)**	-	**(10,000)**
Balance, end of year	**68,500**	**24,189**	**48,354**	**582**	**141,625**

For the year ended 31 December 2019	Share Capital £'000	Capital Contribution £'000	Retained Earnings £'000	Accumulated OCI £'000	Total £'000
Balance, beginning of year	68,500	24,189	19,415	(5,201)	106,903
Net income for the year	-	-	16,850	-	16,850
Other comprehensive income	-	-	-	6,000	6,000
Total comprehensive income	-	-	16,850	6,000	22,850
Dividends paid	-	-	(10,000)	-	(10,000)
Balance, end of year	68,500	24,189	26,265	799	119,753

The accompanying notes on pages 29 to 70 form part of these financial statements.

Forester Life Limited

Statement of Cash Flows
For the year ended 31 December 2020

	2020 £'000	2019 £'000
Cash flows from operating activities		
Profit for the year	**32,089**	16,850
Adjustments for:		
Depreciation, amortisation and impairment	**2,300**	300
Impairment of investment in subsidiaries	**-**	18,976
Change in value of investment property	**170**	280
Financial income	**(26,654)**	(416,641)
Taxation	**(1,897)**	11,049
	6,008	(369,070)
Decrease/(increase) in trade and other receivables	**2,030**	(4,604)
Decrease in trade and other payables	**(1,347)**	(27,927)
Net movement in investment contracts	**676,717**	559,041
Decrease in provisions and employee benefits	**(57,923)**	(33,089)
	619,477	493,421
Tax paid	**(6,509)**	(3,920)
Net cash from operating activities	**618,976**	120,431
Cash flows from investing activities		
Purchases	**(2,464,257)**	(1,553,211)
Sales	**1,822,452**	1,450,009
Interest received	**15,431**	15,409
Dividends paid	**(10,000)**	(10,000)
Acquisition of intangible assets	**(15,000)**	(859)
Net cash from investing activities	**(651,374)**	(98,652)
Net (decrease)/increase in cash and cash equivalents	**(32,398)**	21,779
Cash and cash equivalents at beginning of year	**81,028**	59,249
Cash and cash equivalents at end of year	**48,630**	81,028

All cash and cash equivalents comprised cash at bank and overnight deposits.

The accompanying notes on pages 29 to 70 form part of these financial statements.

Forester Life Limited

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the financial statements are set out below. The accounting policies have been applied consistently to comparative periods presented in these statements, unless otherwise stated.

1.1 Basis of Presentation

a) Statement of Compliance

Forester Life Limited (registered number 02997655) is a company incorporated in England and Wales and is resident for tax purposes in the United Kingdom. The Company's registered address is Foresters House, 2 Cromwell Avenue, Bromley BR2 9BF, United Kingdom.

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements for the year ended 31 December 2020 represent the separate financial statements of the Company only. As a wholly owned subsidiary of the Independent Order of Foresters, the Company has taken advantage of the exemption under Section 401 of Companies Act 2006 from the requirement to produce consolidated financial statements. Refer to Note 26 for further information.

The financial statements have been prepared on a going concern basis in line with the going concern assessment presented in the Strategic Report. In performing the going concern assessment, the Directors have considered an impact of the Covid-19 pandemic including the impact on sales performance, investment returns as well as fee revenue for at least the next 12 months from the date of signing. The results of stress and scenario testing performed have also demonstrated that the Company is resilient to capital shocks in respect of its key risks. This view has been further supported by the Company's Own Risk and Solvency Assessment.

Comparatives

For the year ended 31 December 2019, FLL presented consolidated financial statements for the Group comprising FLL as the parent company and its subsidiaries.

During 2019, following a share capital reduction of FLL's subsidiary undertaking, Forester Investments Limited ("FIL"), the carrying value of FLL's subsidiary investment was impaired to £1 reflecting the net book value of FIL. Both FIL and its wholly owned subsidiary, Forester Fund Management Limited, have been dormant since.

Given FLL's subsidiaries have either been dormant or non-trading throughout the financial year, the Company has elected to prepare Company only financial statements for the year ended 31 December 2020. Any prior year comparatives which were presented on a consolidated basis have not been presented in these financial statements. A reconciliation of the 2019 reported Consolidated Statement of Comprehensive Income and the Company Statement of Comprehensive Income is provided below:

	£'000
2019 Consolidated Total Comprehensive Income	**20,560**
Amortisation of TW intangible asset arising on consolidation	**2,289**
Dividend in specie received from FIL	**18,861**
Impairment of subsidiary	**(18,976)**
Tax	**116**
2019 Company Total Comprehensive Income	**22,850**

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
  The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

- Definition of Business – amendments to IFRS 3
  The amendments clarify that to be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020.

- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
  These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

- Revised Conceptual Framework for Reporting
  The Company has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016 IASB issued an amendment to IFRS 4 'Insurance Contracts' - Deferral of IFRS 9 that addresses the accounting consequences of the application of IFRS 9 to insurers prior to implementing the new accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4.

On 25 June 2020, the IASB issued a revised amendment following publication of the final IFRS 17 standard, in order to align the deferral period with the effective date of IFRS 17 standard.

The amendments introduced two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

The deferral approach provides companies whose activities are predominantly related to insurance, an optional temporary exemption from applying IFRS 9 until 1 January 2023.

Forester Life Limited

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company has determined that it is eligible for, and has elected to apply, the temporary exemption from IFRS 9 as specified in IFRS 4. The Company's business activities are predominantly connected to insurance, its insurance contract liabilities and non-derivative investment contract liabilities measured at Fair Value Through Profit or Loss ("FVTPL") make up a significant part of its total liabilities.

Standards, interpretations and amendments to published standards that have been issued but not yet in effect and have not been adopted early by the Company

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts', replacing IFRS 4, is effective for the 2023 year-end. The standard sets out new requirements for recognising, measuring, presenting and disclosing amounts arising from insurance/reinsurance contracts. It applies to all insurance contracts as well as to certain financial instruments with discretionary participation features.

The impact of adoption of IFRS 17 significantly impacts the measurement and presentation of the contracts within scope of the standard.

The core of IFRS 17 is a general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach).

The main features of the new accounting model for insurance contracts are, as follows:

- the measurement of the present value of future cash flows incorporating an explicit risk adjustment and remeasured at each reporting period (the fulfilment cashflows);
- a contractual service margin that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (coverage period);
- the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and
- extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

Even though the Company has a significant proportion of its policies treated as investment contracts, the scope of the new standard will have a significant operational impact on the Company. The Company has mobilised a project to assess the financial and operational implications of the standard, and work will continue throughout the remainder of 2021 to ensure technical compliance and to develop the required system capability to implement the standard.

The final standard was published on 25 June 2020 and remains subject to endorsement by the EU and the UK. We note the UK's endorsement procedure, following departure from the EU, remained under development through the transition period to the end of December 2020.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments: Recognition and Measurement', replacing IAS 39, modifies the classification and measurement of financial assets and contracts to buy and sell non-financial items.

IFRS 9 incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets.

The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

The IFRS 9 hedge accounting requirements are more closely aligned with risk management practices and follow a more principles-based approach.

The mandatory effective date for applying IFRS 9 is for annual periods beginning on or after 1 January 2019. The Company has elected to apply a temporary exemption from IFRS 9 as specified in the amended IFRS 4 'Insurance Contracts'.

In addition, certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the company. These standards are not expected to have a material impact on the entity in the current or future reporting periods.

b) Use of estimates and judgements

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the financial statements. The Audit Committee reviews the reasonableness of judgements and assumptions applied and the appropriateness of significant accounting policies.

The Company's most significant accounting policies are summarised below, along with the key areas requiring estimation and judgement within each accounting policy:

- Note 1.7 – the classification of contracts as insurance or investment on initial recognition, which requires an assessment of whether significant insurance risk has been transferred to the Company.
- Note 1.3 (a) – the classification of investments including the application of the fair value option. The Company classifies its investments as either FVTPL or AFS. The classification depends on the purpose for which the investments were acquired and is determined by management at initial recognition.

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates.

Information about assumptions and estimation uncertainties as at 31 December 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included below:

- Note 14 and Note 16 - in the measurement of insurance contract liabilities, assumptions of lapse rates, mortality rates and judgements related to expense allocations represent the key estimates in the determination of the liabilities. The sensitivity analysis can be found in Note 21.
- Note 1.9 and Note 6 – in the measurement of employee benefit obligations, Note 6 sets out the major assumptions used to calculate the pension scheme asset and the sensitivity of the schemes' liabilities to changes in key assumptions.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

1.2 Investment property

Investment properties comprise real estate investments held to earn rental income or for capital appreciation. Investment properties are initially recognised at the purchase price including transaction costs. These properties are subsequently measured at fair value with changes in value recorded in investment income. Investment properties are appraised annually.

1.3 Financial assets

a) Financial investments

At initial recognition, financial investments, comprising bonds and equities, are designated or classified as Fair Value Through Profit or Loss ("FVTPL") or Available for Sale ("AFS").

Financial investments supporting insurance and investment contract liabilities are designated as FVTPL to reduce measurement or recognition inconsistencies that would otherwise arise as a result of measuring assets and the corresponding liabilities on different bases. The fair value of unit linked investment contract liabilities is determined by reference to the assets supporting these liabilities. Therefore, changes in the fair value of unit linked investment contract liabilities primarily offset changes in the fair value of the financial investments supporting these liabilities.

Financial investments are also classified as FVTPL assets if they are acquired principally for the purpose of selling or repurchasing in the near term. Financial investments not backing liabilities are classified as AFS assets.

Bonds and equities are designated as either FVTPL or AFS and both are initially recorded at fair value on the trade date with AFS recorded at fair value plus transaction costs.

The fair value of publicly traded bonds is determined using quoted market bid prices. For non-publicly traded bonds, fair value is determined using an indicative price supplied by a broker.

The fair value of publicly traded equities is determined using quoted market bid prices. Transaction costs on FVTPL equities are expensed. Transaction costs directly attributable to AFS equities are capitalised as part of the original cost of the equity.

Changes in the fair value of FVTPL on bonds and equities are recorded in net unrealised gains/ (losses) on fair value through profit or loss on investments, a component of net income in the Statement of Comprehensive Income.

Changes in the fair value of AFS bonds and equities are recorded in net gains/(losses) on AFS assets, a component of Other Comprehensive Income (OCI).

b) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and bank deposits that have an original maturity of three months or less.

The carrying value of cash and cash equivalents approximates their fair value.

c) *Loans to policyholders*

Loans to policyholders are classified as loans and receivables and are carried at cost less any impairment, which in most cases equals their unpaid balance.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial asset impairments

AFS financial assets are assessed individually for impairment at each date of the Statement of Financial Position. The Company considers various factors in assessing impairments, including but not limited to the financial condition and near term prospects of the issuer; specific adverse conditions affecting an industry or region; a significant and prolonged decline in fair value below the cost of an asset; bankruptcy or default of the issuer; and delinquency in payments of interest or principal. Bonds are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due, with the impairment being based on an assessment of the recoverable amount.

When an AFS asset is identified as impaired, the net loss in OCI is reclassified to net realised gains (losses), a component of net income. Any further reduction in value, subsequent to the initial recognition of impairment, is also included in net income in the period in which the change occurs.

An impairment loss on AFS assets is reversed if there is objective evidence of a permanent recovery in the value of the asset based on an event occurring after the impairment loss was initially recognised. Any such reversal for an impaired AFS debt security is reflected in net income. Any subsequent recovery in the fair value of an impaired AFS equity security is recognised in OCI.

1.4 Leases

As a lessor, the Company determines at lease inception whether each lease is a finance lease or operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is a finance lease, otherwise it is an operating lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term. This is reported within "Investment Income".

1.5 Investment in subsidiaries

Investments in subsidiaries are held at cost less any accumulated impairment.

1.6 Intangible assets

a) Communication Workers Friendly Society ("CWFS") management contract

The CWFS management contract asset represents the right to manage the insurance contracts that were acquired in respect of CWFS in 2011. The initial fair value was determined by reference to the amount paid by means of an injection into the segregated CW insurance fund. It is amortised straight line over the life of those contracts, expiring in 2022.

An intangible asset with finite life is treated as an asset with a limited period of benefit to the entity. As there is no reliable market value available to evaluate the value in use of the asset, the most appropriate method will be the present value of future profits emerging from the CW business. If there are indicators of impairment, then the recoverable amount is determined, and the asset is written down to the recoverable amount.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Halifax Child Trust Fund business

On 17 January 2020, Forester Life Limited signed an agreement to acquire the Child Trust Fund book of Halifax, a member of the Lloyds Banking Group. The transaction was completed on 10 April 2020 following the bulk transfer into FLL of c.474,000 CTF plans and their associated assets under management. At the same time, IFRS liabilities of a corresponding value were created in FLL in respect of the transferred investment contracts.

The full value of the Halifax CTF purchase consideration has been capitalised as an intangible asset. This intangible asset represents the economic benefits from the CTF business which will flow to FLL between now and 2028, when the last of the CTF Customers reach maturity. The useful economic life of the intangible asset is therefore estimated as 8 years from initial recognition date.

As the profits emerging from the CTF book are highly correlated with its fee revenue, a revenue-based amortisation method is deemed to be the most appropriate amortisation method to be applied.

For impairment testing purposes, the "value in use" of the intangible asset is based on the book's present value of future profits on a marginal cost basis. If there are indicators of impairment, the recoverable amount will be determined, and the asset is written down to its recoverable amount. The impairment loss is charged to the Statement of Comprehensive Income in the related financial year.

c) Deferred acquisition costs

Deferred acquisition costs ("DAC") represent incremental costs incurred at the time of issue of an investment contract. DAC is capitalised to the extent that it can be offset against management charges on investment contracts and is amortised over the lesser of 10 years or the life of the contract. The rate of amortisation is consistent with the recognition of the related fee income on investment contracts. DAC on lapsed or terminated contracts is written off immediately. DAC is further reviewed at the end of each reporting period and is written down by the amount that is considered to be no longer recoverable.

1.7 Insurance and investment contracts

Product contracts are classified as insurance or investment contracts based on the level of insurance risk that the Company accepts from the policyholder.

a) Insurance contract liabilities

Insurance contracts are those contracts that transfer significant insurance risk to the Company. Insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of an insurance contract for specified future events, such as death or disability that may adversely affect the policyholder and whose amount or timing are uncertain. Insurance contracts are shown as insurance contract liabilities on the statement of financial position.

Non-Profit insurance contracts

Non-profit insurance contracts are written in the Company's Other Business Fund ("OBF").

The Company is aligned with the requirements of Solvency II where insurance contract liabilities are the sum of Best Estimate Liabilities and a Risk Margin. Under IFRS, non-profit liabilities in the OBF are also equal to the sum of Best Estimate Liabilities and Risk Margin. The Best Estimate Liabilities have been calculated using the gross premium method ("GPM") and are reported gross of ceded reinsurance. The GPM requires assumptions to be made about future best estimate cash flows, and there is significant risk that actual results will vary from those estimates. This risk varies in proportion to the length of the estimation period and the potential volatility of each assumption.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Under the Solvency II approach, the Best Estimate Liabilities for an insurance contract may be negative, and any such negatives remaining within the liabilities are not set to zero.

To account for uncertainty in establishing these estimates and to allow for possible deviation in experience, a Risk Margin is added to the Best Estimate Liabilities. The Risk Margin is intended to allow for the cost of the capital which another insurer would need to allocate to take on the business in an arms' length transaction. The Risk Margin is calculated in line with that used for Solvency II regulation purposes, with the following clarifications:

- When assessing multiple direction persistency stresses, the relevant stress will be the direction that bites at a company level for all contracts, not just non-profit insurance contracts in the OBF.
- The cost of capital used in the Risk Margin is currently the 6% per annum laid down by the Solvency II regulations, but the Company may amend this estimate should this be appropriate in the future.

With Profits insurance contracts

The liabilities of each of the closed with-profits funds have been set equal to the total assets of those funds. This reflects the fact that the totality of the assets of these funds will be distributed to the relevant policyholders of those funds. Separately, the Solvency II regime tests to ensure that each of these funds is able to meet its Best Estimate Liabilities (which includes the value of the guaranteed benefits), Risk Margin and Solvency II capital requirements. Should any of these funds not be able to fully cover its own Solvency II requirements, then the balance would be covered by the OBF.

b) Reinsurance assets

The Company enters into reinsurance arrangements with other insurers in order to limit its exposure to significant losses. Maximum limits have been established for the retention of risks associated with life insurance policies by line of business. Risks in excess of these limits are reinsured with well-established, highly rated reinsurers. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance arrangement and with accepted actuarial practice in the UK.

Reinsurance transactions do not relieve the Company of its primary obligation to policyholders. Losses could result if a reinsurer fails to honour its obligations. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Impairment occurs when there is objective evidence that the Company will not be able to collect amounts due under the terms of the contract. Any impairment loss is recorded in net income in the statement of comprehensive income.

Premiums for reinsurance ceded are presented as ceded premiums and reinsurance recoveries on claims incurred are recorded as ceded policyholder benefits. The net balance with reinsurers with respect to ceded premiums and paid claims is recorded as an amount receivable from or payable to reinsurers and included in other assets or other liabilities, respectively, on the statement of financial position.

c) Investment contract liabilities – Unit Linked

Investment contracts are those contracts that transfer financial risk, with no significant insurance risk, to the Company. Investment contracts include unit linked contracts, settlement options with no life contingency and various amounts on deposit.

Investment contract liabilities are recorded at fair value. Deposits to and withdrawals from investment contracts increase and decrease the liabilities respectively. Fee income derived from unit linked contracts is reported in other operating income in the statement of comprehensive income. Investment income and changes in the fair value of the unit linked investments are offset by a corresponding change in the unit linked liabilities.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investment contract liabilities – with Discretionary Participation Features ('DPF')

This category mainly comprises the Company's Deferred Pensions line of business. The business has been categorised as a Ring-Fenced Fund under Solvency II and has been accounted for similarly to with profits business, whereby total liabilities are set equal to the fund assets. A portion of the excess of the fund assets over the guaranteed liabilities accrues to the shareholder, whereby the shareholder receives $1/9^{th}$ of bonuses allocated to the policyholders. This portion is recognised within the total liability until each bonus declaration is made.

1.8 Income taxes

The tax expense for the period comprises current and deferred taxes. Tax is recognised as an expense or income in profit or loss, except when it relates to an item included in OCI or equity, in which case tax is also recognised in OCI or equity as appropriate.

The current tax expense (recovery) is based on taxable income (loss) for the year under UK tax regulations and the enacted or substantively enacted tax rate for the year and any adjustment to tax payable in respect of previous years.

Deferred taxes are accounted for using the liability method, whereby tax expected to be payable or recoverable is calculated on temporary differences arising between the carrying amounts of assets and liabilities under IFRS and the tax assets and liabilities calculated under the regulations of the relevant tax authority. Temporary differences are measured at the tax rates that are expected to be applied to those differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which these tax assets can be utilised. Deferred tax assets and liabilities are offset if a legally enforceable right to offset current income tax assets and liabilities exists.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable income will allow the deferred tax asset to be recovered.

1.9 Employee benefits

a) Defined benefit plan

A defined benefit plan is a post-employment benefit plan under which the Company pays variable contributions into a separate entity to secure certain benefits. The plan liabilities are valued periodically, and to the extent that the liabilities exceed the assets the Company has an obligation to increase its contributions to meet the deficit. Re-measurements of the liability, comprising actuarial gains and losses and the return on plan assets less interest incurred, are recognised in other comprehensive income. The Company operates a defined benefit plan that was acquired as part of the acquisition of The Tunbridge Wells Equitable Friendly Society. See Note 6 for more details.

b) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an operating expense in the statement of comprehensive income in the periods during which services are rendered by employees. The Company provides access to a defined contribution pension plan for eligible employees. This plan is administered by FLL's parent company, Forester Holdings (Europe) Limited.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Other employee benefits

The Company also provides health benefits to eligible employees who are absent from work due to disability. The costs are expensed as they are incurred. The Company does not operate a share option scheme.

1.10 Provisions and contingent liabilities

A provision is recorded when it is probable that there will be a future outflow of resources and the amount can be reliably measured. If the event resulting in a future obligation is less than probable but greater than remote, or the amount cannot be reliably estimated, a contingency is disclosed in the notes to the financial statements.

2.0 Revenue recognition

Revenue is recognised as follows:

a) Insurance contracts

Premiums on long-term insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are recognised at the date when payments are due. Premiums are shown before deduction of commission and before any sales-based taxes or duties.

b) Fees

The Company generates revenue from the management of investment contracts and ring-fenced fund assets. Fees charged on investment management services are based on the contractual fee arrangements applied to assets under management and recognised as revenue as the services are provided. The income from investment contracts is primarily derived from fees for administration and managing of funds. Revenue generated on investment contracts is recognised as services are provided. No significant judgements are applied on the timing or transaction price. No transaction fees are charged to implement trades for clients.

c) Investment income

Investment income, net of investment expenses, realised gains (losses) on the sale of investments and changes in the fair value of FVTPL assets are recorded in investment income within the statement of comprehensive income. Changes in the fair value of AFS assets are recognised in OCI. Upon de-recognition of an AFS asset the cumulative gain or loss that was previously recognised in OCI is recognised in the income statement.

Interest and rental income are recognised on an accruals basis and dividends are recognised when they are declared. Interest on AFS assets is recognised on an effective interest rate basis.

2 GROSS WRITTEN PREMIUMS

a) Analysis of long-term business premiums (excludes new business)

	2020		2019	
	Gross £'000	Net £'000	Gross £'000	Net £'000
Life contracts	**15,178**	**14,829**	18,957	18,541
Pension contracts	**3,625**	**3,605**	3,742	3,520
Total	**18,803**	**18,434**	22,699	22,061
Participating contracts	**15,243**	**14,897**	18,992	18,581
Non-participating contracts	**3,181**	**3,158**	3,130	2,903
Unit linked contracts	**379**	**379**	577	577
Total	**18,803**	**18,434**	22,699	22,061
Periodic premiums	**18,803**	**18,434**	21,430	20,792
Single premiums	**-**	**-**	1,269	1,269
Total	**18,803**	**18,434**	22,699	22,061

b) Analysis of new long-term business premiums, defined as those which arise from new policies written during the year as distinct from premiums received on existing policies. All new business in 2020 and 2019 was in non-participating contracts.

	2020		2019	
	Gross £'000	Net £'000	Gross £'000	Net £'000
Life contracts	**92**	**92**	282	282
Pension contracts	**1,463**	**1,463**	2,071	2,071
Total	**1,555**	**1,555**	2,353	2,353
Periodic premiums	**797**	**797**	1,203	1,203
Single premiums	**758**	**758**	1,150	1,150
Total	**1,555**	**1,555**	2,353	2,353

3 OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2020 £'000	2019 £'000
Employee benefits		
Salaries, benefits	**3,958**	6,902
Social security costs	**977**	998
Pension plan expenses	**772**	758
	5,707	8,658
Head office staff costs	**10,368**	9,948
Amortisation of intangible assets	**5,552**	300
Administration costs	**4,908**	5,241
Technology costs	**8,238**	8,627
Legal and professional fees	**889**	2,205
Auditor's remuneration	**571**	471
Other expenses	**288**	687
Impairment of investment in subsidiary	**-**	18,976
Total operating expenses	**36,521**	55,113

FLL's operating expenses were mainly costs recharged from its parent company, FHE. The average number of employees during the period, all of whom were sales personnel, was 165 (2019: 171). Head Office headcount is not included as staff are employed by the immediate parent company, FHE.

Salaries includes £1.3m of cash payments received from the UK Government's Coronavirus Job Retention Scheme. Between 6 April and 31 August 2020, the majority of the Company's Financial Advisers were furloughed as they were unable to conduct face-to-face sales activity due to the Covid-19 lockdown measures in place. During this period, FHE applied for a grant from the Job Retention Scheme to cover a portion of their monthly wage costs.

The £19.0m impairment of investment in subsidiary in 2019 related to the share capital reduction of Forester Investments Limited a wholly-owned subsidiary of FLL. Following the payment of a £18.9m dividend from FIL to FLL and the reduction of FIL's share capital to £1, FLL reduced its carrying value of the subsidiary from £19.0m to £1.

4 AUDITOR'S REMUNERATION

Amounts receivable by the Company's auditors and its associates in respect of services provided:

	2020 £'000	2019 £'000
Audit of these financial statements	**351**	288
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**24**	35
All other services	**196**	148
Total amounts receivable	**571**	471

5 DIRECTORS' EMOLUMENTS

The aggregate amount of Directors' emoluments, including pension scheme contributions, was as follows:

	2020 £'000	2019 £'000
Emoluments	**633**	606
Payable to one Director under a long-term incentive plan (2019: one Director)	**161**	177
Pension contributions to money purchase scheme	**46**	45
	840	828

The aggregate of emoluments receivable by the highest paid Director, including retirement benefits of £46,000 (2019: £45,000), was £669,000 (2019: £670,000).

Retirement benefits accrued under money purchase schemes to one Director (2019: one Director).

6 EMPLOYEE BENEFIT OBLIGATION

Defined contribution pension plan

The immediate holding company, Forester Holdings (Europe) Limited, operates a defined contribution pension scheme for the Company's employees. Employer's pension contributions during the year totalled £1,114,000 (2019: £1,051,000).

Defined benefit pension plan

The Company acquired the assets and liabilities of the Tunbridge Well Equitable Friendly Society ("TWEFS") retirement benefit scheme in 2013. A number of employees and former employees are members of this scheme, which closed to future accruals on 28 February 2011.

A full actuarial valuation was carried out as at 30 June 2017 in accordance with the Pensions Act 2004 scheme funding requirements and the funding of the scheme was agreed between the Company and the Trustees in line with those requirements. The Company agreed with the Trustees that it would aim to eliminate the deficit over a period of 6 years and 6 months from 30 June 2017 by the payment of annual contributions of £1,620,000 in respect of the deficit. In addition, and in accordance with the actuarial valuation, the Company agreed with the Trustees that it will meet expenses of the scheme and levies to the Pension Protection Fund. The full actuarial valuation for the valuation date as at 30 June 2020 has not been completed.

Based on the latest actuarial valuation as at 31 December 2020, the scheme deficit was £3,359,000 (2019: £4,228,000).

Reinsurance of the pension scheme liabilities

Management implemented a stop-loss arrangement with effect from 1 October 2016 whereby the Tunbridge Wells Ring Fenced Fund ("TW RFF") paid a £4.3m reinsurance premium to the non-profit business fund of FLL ("OBF"). In return, the OBF undertook to reimburse TW RFF for payments in excess of £5.7m made in respect of the TWEFS pension scheme liabilities.

In March 2020, TW RFF fully settled its £5.7m share of the deficit. Under the terms of the reinsurance arrangement, future contributions and movements in the pension deficit will be borne by the OBF. At 31 December 2020, £3,359,000 (2019: £3,991,225) of the TWEFS scheme deficit of £3,359,000 (2019: £4,228,000) was borne by the Company's shareholder fund.

6 EMPLOYEE BENEFIT OBLIGATION (continued)

The IAS 19 pension scheme movements will continue to be recorded in the TW RFF, however the Income Statement impact in the TW Fund will be offset by the reinsurance inflows from OBF. The reinsurance arrangement has no net impact on FLL's Income Statement as a Company.

The pension scheme amounts recognised in FLL's Statement of Financial Position were:

	2020 £'000	2019 £'000
Present value of funded obligations	**(40,671)**	(36,613)
Fair value of scheme assets	**37,312**	32,385
Deficit	**(3,359)**	(4,228)
Additional liability to reflect present value of committed future contributions	**-**	-
Net liability at 31 December	**(3,359)**	(4,228)

The actual return on plan assets in the period was an income of £4,292,000 (2019: income of £4,111,000). The amounts recognised in the income statement were:

	2020 £'000	2019 £'000
Net interest	**68**	138
Guaranteed Minimum Pensions	**538**	479
Total expense	**606**	617

There was no current service cost as benefit accruals ceased in 2011. No past service benefit improvements were implemented during the accounting period.

IFRIC 14

In accordance with IAS 19, a minimum funding assessment was carried out at year end. The assessment showed a liability position of £4.8m (2019: £4.2m). The Company is not required to recognise any additional liabilities in relation to its funding plans. In accordance with the Trust Deeds of the pension scheme, FLL has unconditional right to any surplus arising from the scheme either through future refunds or reductions in future contributions.

Guaranteed Minimum Pensions

The English High Court ruling on the Lloyds Banking Group's defined benefit pension scheme was published on 26 October 2019, and held that UK pension schemes with Guaranteed Minimum Pensions ("GMPs") accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. The case also provided some guidance on related matters, including the methods for equalisation. On 20 November 2020, there was a further High Court ruling on the same case which clarified the obligations of pension schemes to equalise past transfer values for payments made since 17 May 1990.

The TWEFS defined benefit obligations have been adjusted assuming the following:

- The minimum allowable method will be applied to past and future benefit payments
- There will be no limit on the "look-back" period for rectification
- No allowance for members who no longer have GMP liabilities within the scheme (members who have died without a spouse and members who have transferred out for example).

6 EMPLOYEE BENEFIT OBLIGATION (continued)

The allowance has been estimated based on average impacts for schemes with similar service periods and benefit structures.

The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method. The projected unit credit method is an accrued benefits valuation method. In assessing this figure for the purpose of these disclosures, allowance has been made for future statutory revaluation of benefits up to retirement. At 31 December 2020, the accumulated defined benefit obligation was £40,671,000 and the GMP reserve was estimated to be 1.34% of the obligation. This does not include the impact of the 2020 High Court ruling mentioned above, which is not expected to be material.

Changes in the value of defined benefit obligation were as follows:

	2020 £'000	2019 £'000
Opening defined benefit obligation	**36,613**	33,757
Interest cost	**722**	895
Actuarial losses on changes in financial assumptions	**3,783**	2,653
Past service cost arising from GMP equalisation	**538**	479
Benefits paid	**(985)**	(1,171)
Closing defined benefit obligation	**40,671**	36,613

Changes in the fair value of scheme assets were as follows:

	2020 £'000	2019 £'000
Opening fair value of scheme assets	**32,385**	27,825
Interest income	**654**	757
Return on plan assets excluding interest income	**3,638**	3,354
Employer contributions net of charges	**1,620**	1,620
Benefits paid	**(985)**	(1,171)
Closing fair value of scheme assets	**37,312**	32,385

The major assumptions used by the Actuaries to value the defined benefit obligation at 31 December were as follows:

	2020	2019
Financial assumptions		
Rate of increase in pensions in payment (Limited Price Index)	2.30%-3.60%	2.30%-3.60%
Discount rate	1.40%	2.00%
Inflation assumption (RPI)	3.00%	3.00%
Mortality assumptions		
Mortality: assumed life expectancy at age 65	**Years**	**Years**
Male retiring now	21.8	21.6
Female retiring now	23.7	23.5
Male retiring in 20 years	23.1	22.6
Female retiring in 20 years	25.2	24.7

6 EMPLOYEE BENEFIT OBLIGATION (continued)

As the defined benefit scheme has been closed to future accruals since 1 March 2011 the rate of increase in salaries is not applicable because it has no effect on the actuarial liabilities.

The sensitivity to changes in the assumptions has been estimated as follows:

Assumption	Change in assumption	Change in liabilities
Discount rate	Increase of 1.00% p.a. Decrease of 1.00% p.a.	Decrease by 17.0% Increase by 21.1%
Rate of future revaluation of deferred pensions	Increase of 0.25% p.a. Decrease of 0.25% p.a.	Decrease by 2.8% Increase by 2.0%
Rate of future pension increases	Increase of 1.00% p.a. Decrease of 1.00% p.a.	Increase by 2.3% Decrease by 1.7%
Mortality	Increase in life expectancy of +1 year Increase in life expectancy of -1 year	Increase by 4.0% Decrease by 3.9%

The average duration of the defined benefit obligation at 31 December 2020 was 19 years (2019: 19 years).

The assets in the scheme were:

	2020 £'000	2019 £'000
UK equities	**844**	777
Overseas equities	**11,020**	10,156
Gilts	**5,829**	5,372
Corporate bonds	**8,583**	6,478
Property	**1,745**	1,608
Cash	**1,987**	1,942
Liability driven investments ("LDI")	**6,029**	4,877
Other	**1,275**	1,175
Total assets	**37,312**	32,385

7 INCOME TAX EXPENSE

a) Income tax expense

Current and deferred taxes are included in income taxes on the Statement of Comprehensive Income as follows:

	2020 £'000	2019 £'000
Corporation Tax expense / (credit)		
Current period	**4,416**	7,165
Adjustment to prior periods	**(5,805)**	(3,067)
	(1,389)	4,098
Deferred income tax expense / (credit)		
Relating to the origination and reversal of timing differences	**2,646**	7,847
Adjustment to prior periods	**(2,059)**	(896)
Impact of change in deferred tax rate	**(1,095)**	-
Income tax expense	**(1,897)**	11,049

7 INCOME TAX EXPENSE (continued)

The £5.8m prior year adjustment in respect of Corporation Tax was driven by a release of historical tax provisions following the closure of previous periods' tax computations.

b) Income taxes included in Statement of Other Comprehensive Income (OCI)

Other comprehensive income/(loss) is presented net of income taxes. The following items of tax expense/(credit) were included in OCI.

	2020 £'000	2019 £'000
Corporation Tax		
Gains/(losses) on debt securities	-	-
Deferred tax		
Unrealised gains on available-for-sale assets	**299**	786
Remeasurement of defined benefit obligation	**(41)**	-
Adjustment to prior periods	**837**	-
Reduction in deferred tax rate	**99**	-
Income taxes included in OCI	**1,194**	786

c) Reconciliation of effective tax rate

Income tax expense differs from the amount that would be computed by applying the UK statutory tax rates to income before taxes for the following reasons:

	2020 £'000	2019 £'000
Profit for the period before taxation	**30,192**	27,899
UK tax at 19% (2019: 19%)	**5,736**	5,301
Tax on ring-fenced funds*	**1,696**	10,152
Impact of other policyholder tax	**527**	-
Impact of amortisation not deductible for tax purposes	**503**	57
Profits taxed at rates below the standard rate	**(1,400)**	(674)
Effect of change in tax rate on deferred tax	**(1,095)**	-
Overprovided in previous periods	**(7,864)**	(3,787)
Tax Charge	**(1,897)**	11,049

**The surplus after tax for the ring-fenced funds is for the benefit of policyholders, and the allocation of this surplus is treated as a pre-tax expense in these financial statements. The reported pre-tax profit of the ring-fenced funds is therefore equal and opposite to the tax charge of the ring-fenced funds.*

d) Change of tax rate

The Finance Act 2020 maintained the Corporation Tax main rate at 19% for the financial year beginning 1 April 2020. This reversed a previous bill which enacted a reduction in the UK Corporation Tax rate from 19% to 17% from 1 April 2020 onwards. The Corporation Tax main rate has also been set at 19% for the financial year beginning 1 April 2021. This rate has been applied in determining the deferred tax balances.

The Chancellor in his Budget speech on 3 March 2021 announced an increase in the Corporation Tax rate from 19% to 25% effective from 1 April 2023. This increase in the tax rate is not expected to have a material impact on the Company's net assets.

7 INCOME TAX EXPENSE (continued)

e) Deferred income taxes

Where the tax basis of assets and liabilities differs from the carrying amount in the financial statements, these differences give rise to deferred income tax assets and liabilities. The deferred tax assets and liabilities at 31 December 2020 were calculated based on the rate at which they were expected to reverse.

The Company's net deferred tax balances are shown in the table below:

	2020 £'000	2019 £'000
The closing deferred tax balances comprise:		
Tax losses carried forward	**6,065**	8,016
Transitional adjustments	**(318)**	(930)
Excess and deferred expenses	**512**	757
Capital losses carried forward	**-**	-
Unrealised and deferred gains	**(5,141)**	(5,837)
Defined benefit pension scheme	**201**	-
Net deferred tax asset	**1,319**	2,006

The net movements in the deferred tax asset account were as follows:

	2020 £'000	2019 £'000
Beginning of year	**7,438**	9,546
Statement of net income: credit/(expense)		
Adjustment to prior periods	**(154)**	117
Effect of change in tax rate on deferred tax	**857**	-
Utilisation of tax losses	**(3,218)**	(2,225)
Movements in other timing differences	**(139)**	-
End of year	**4,784**	7,438

The net movements in the deferred tax liability account were as follows:

	2020 £'000	2019 £'000
Beginning of year	**5,432**	589
Statement of net income: (credit)/expense		
Adjustment to prior periods	**(1,376)**	1,002
Effect of change in tax rate on deferred tax	**(140)**	-
Movements in other timing differences	**(452)**	3,841
End of year	**3,465**	5,432

Unrecognised deferred tax assets

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the future tax benefit through future taxable profits is probable. As at 31 December 2020, there were no unrecognised deferred tax assets in respect of the Company's tax losses (2019: £nil).

8 ACQUISTION OF CHILD TRUST FUND BOOK OF BUSINESS

On 17 January 2020, Forester Life Limited signed an agreement to acquire the Child Trust Fund ("CTF") book of Halifax, a member of the Lloyds Banking Group. The transaction was completed on 10 April 2020 following the bulk transfer into FLL of c.474,000 CTF plans and associated assets under management totalling £586m. IFRS liabilities of a corresponding value were created in FLL in respect of transferred investment contracts.

This transaction constituted an acquisition of assets and has been accounted for as such:

- FLL's financial investments and IFRS investment contract liabilities both increased by £586m following the transfer-in.
- £0.7m of expenses related to the acquisition and transfer of the business into FLL were fully expensed through the Income Statement during the year.
- The full value of the purchase consideration of £15m has been capitalised as an intangible asset. The accounting policies in relation to the amortisation and impairment of this intangible asset are set out in Note 1.6(b) above.

9 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS

The Company's intangible assets were made up of the following items:

	2020 £'000	2019 £'000
Deferred acquisition costs	**13,585**	13,236
Management contract for CWFS business	**380**	680
Management contract for Halifax CTF business	**12,651**	-
	26,616	13,916

Deferred acquisition costs

In accordance with IFRS 15 requirements, identifiable incremental acquisition costs of obtaining an investment contract are eligible for deferral only if the entity expects to recover these costs. Acquisition costs incurred in respect of FLL's insurance business are not deferred.

	2020 £'000	2019 £'000
Beginning of year	**13,236**	12,377
Additions	**3,252**	1,198
Amortisation	**(2,903)**	(339)
End of year	**13,585**	13,236

Additions during the year were higher than prior year driven by lower lapse rate assumptions applied.

CWFS management contract

On 1 August 2011, FLL acquired the policies and associated assets and liabilities of the Communication Workers Friendly Society Ltd ("CWFS"), increasing its assets under management by approximately £96m. For regulatory purposes the policies are administered and accounted for in a ring-fenced fund.

In accordance with the acquisition agreement, the Company paid £3.3m into the CW ring fenced fund at the date of acquisition, thereby increasing the unallocated surplus of the CW with-profits fund by the same amount. A corresponding intangible asset, representing the value of the contract to manage the CWFS policies, was also recognised.

9 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS (continued)

The intangible asset is amortised over the life of the CW policies, as shown below.

	2020 £'000	2019 £'000
Gross carrying value, beginning and end of year	**3,300**	3,300
Accumulated amortisation, beginning of year	**2,620**	2,320
Charge in the year	**300**	300
Accumulated amortisation, end of year	**2,920**	2,620
Net book value, beginning of year	**680**	980
Net book value, end of year	**380**	680

Child Trust Fund Book of Halifax

On 17 January 2020, FLL signed an agreement to acquire the Child Trust Fund book of Halifax, a member of the Lloyds Banking Group. The transaction was completed on 10 April 2020 with the bulk transfer of 474,000 CTF plans with funds under management totalling £586m. See Note 8 for further details.

	2020 £'000
Addition in the year	**15,000**
Amortisation charge in the year	**2,349**
Net book value, end of year	**12,651**

10 INVESTMENT PROPERTY

Movements in investment property balances were as follows:

	2020 £'000	2019 £'000
Balance, beginning of year	**5,420**	5,700
Additions at cost	**-**	-
Disposals	**-**	-
Revaluation	**(170)**	(280)
Balance, end of year	**5,250**	5,420

The Company has freehold title to its investment property. The property was valued at 31 December 2020 by Adrian G Tutchings (FRICS), of Linays Commercial Limited, acting as an independent external valuer. The valuation was performed accordance with the Valuation Standards as stated within the Red Book including Valuation Technical & Performance Standards published by the Royal Institution of Chartered Surveyors ("RICS"). The basis of valuation was market value.

The market value is usually ascertained through a review of the sale price of properties within the local area from which square meter unit values are derived and multiplied by the user office space. However, the ongoing Covid-19 pandemic has resulted in significant economic, social and political uncertainties so a higher degree of judgement was required this year in performing comparisons to recent market evidence. As the impact of Covid-19 on the real estate market is still unknown, Linays Commercial have reported their market valuation on the basis of "material valuation uncertainty" as per the RICS Red Book.

10 INVESTMENT PROPERTY (continued)

All investment properties are categorised as Level 3 assets in the fair value hierarchy with no movement between categories during the year.

Related amounts included in the statement of comprehensive income were as follows:

	2020 £'000	2019 £'000
Rental income	**369**	369
Revaluation of properties	**(170)**	(280)
Net income from investment property	**199**	89

11 INVESTMENT IN SUBSIDIARIES

The Company's subsidiaries, which are all registered in England and Wales, are as follows:

Name of subsidiary	Class of shares held	Ownership		Principal activity
		Direct	*Indirect*	
Forester Investments Limited	Ordinary	100%	-	Holding company
Forester Fund Management Limited	Ordinary	-	100%	Savings provider
Tunbridge Wells Equitable Friendly Society Trustee Company Limited *	N/A	-	-	Non-trading

** Tunbridge Wells Equitable Friendly Society Trustee Company Limited is limited by guarantee and therefore holds no share capital. The Company has the power to appoint members of the Board.*

For each of the above companies, voting rights exactly match the proportion of shares held.

All subsidiaries have their registered address at Foresters House, 2 Cromwell Avenue, Bromley BR2 9BF, United Kingdom.

All subsidiaries have been assessed and impaired to their net book value. During 2019, Forester Investments Limited ("FIL") paid a dividend of £18.9m to FLL and reduced its share capital to £1. The carrying value of FLL's investment in subsidiaries at 31 December 2020 was £1 (2019: £1).

	2020 £'000	2019 £'000
Investment in subsidiaries	-	-

12 FINANCIAL INVESTMENTS

Summary of financial investments

The carrying values and fair values of the Company's invested assets are shown below:

	Fair Value Through Profit or Loss	Available For Sale	Total carrying value	Total fair value
As at 31 December 2020	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	**750,737**	-	**750,737**	**750,737**
Equities *	**4,269,419**	**74,043**	**4,343,462**	**4,343,462**
Derivatives and Collateral	**34,727**	-	**34,727**	**34,727**
Total financial investments	**5,054,883**	**74,043**	**5,128,926**	**5,128,926**
As at 31 December 2019	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	998,519	-	998,519	998,519
Equities *	3,379,284	77,992	3,457,276	3,457,276
Derivatives and Collateral	18,443	-	18,443	18,443
Total financial investments	4,396,246	77,992	4,474,238	4,474,238

* The Company did not hold any direct equity holdings. All equities exposures were held through collective investment schemes or index futures. On a look through basis, assets held within collective investment schemes include equities, bonds and derivatives.

There were no transfers between Available For Sale ("AFS") assets and assets classified as Fair Value Through Profit or Loss ("FVTPL") during the year.

a) Fair value hierarchy

The Company uses a fair value hierarchy to categorise the inputs to the valuation techniques used to measure the fair value of financial assets and liabilities. The three levels of the hierarchy are:

Level 1
Fair value is based on quoted market prices in active markets for identical assets or liabilities.

Level 2
Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar, but not identical, assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable, such as interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment spreads, credit risks, and default rates.

Level 3
Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 financial instruments are initially fair valued at their transaction price. After initial measurement, the fair value of Level 3 assets and liabilities is determined using valuation models, discounted cash flow methodologies, or similar techniques.

12 FINANCIAL INVESTMENTS (continued)

The hierarchy level for financial assets is based on the following guidelines:

- Bonds
  Bonds are priced from a source which blends prices from external pricing providers. These prices are a mixture of prices based on actual transactions and, in the case of less liquid bonds, modelled prices. The most liquid bonds, comprising those issued or guaranteed by the UK Government, together with AAA-rated sovereign and supranational bonds, are generally categorised as Level 1. Listed corporate bonds are generally included in Level 2.

- Equity securities
  During the year, all equity investments were within collective investment schemes. These were all deemed to be Level 1 assets as quoted market prices are available for these assets. On a look through basis, assets held within collective investment schemes include equities, bonds and derivatives. The Company also has exposures to global equities through collective investment schemes investing in listed companies within the MSCI All Countries World Index.

- Derivatives
  All derivatives including foreign exchange contracts and futures classified as Level 2 as they are either actively traded in an active market or all input data are observable.

The following table presents the financial investments measured at fair value and classified by the fair value hierarchy:

	Level 1	**Level 2**	**Level 3**	**Total fair value**
As at 31 December 2020	**£'000**	**£'000**	**£'000**	**£'000**
Fair Value Through Profit or Loss				
Bonds	**530,072**	**220,665**	**-**	**750,737**
Equities	**4,269,419**	**-**	**-**	**4,269,419**
Derivatives	**-**	**34,727**	**-**	**34,727**
Available For Sale				
Bonds	**-**	**-**	**-**	**-**
Equities	**74,043**	**-**	**-**	**74,043**
Total	**4,873,534**	**255,392**	**-**	**5,128,926**

	Level 1	**Level 2**	**Level 3**	**Total fair value**
As at 31 December 2019	**£'000**	**£'000**	**£'000**	**£'000**
Fair Value Through Profit or Loss				
Bonds	757,961	240,558	-	998,519
Equities	3,379,284	-	-	3,379,284
Derivatives	-	18,443	-	18,443
Available For Sale				
Bonds	-	-	-	-
Equities	77,992	-	-	77,992
Total	4,215,237	259,001	-	4,474,238

Investment properties are categorised as Level 3 assets (refer to Note 10). There were no transfers between Level 1 and Level 2 during the year (2019: £Nil).

12 FINANCIAL INVESTMENTS (continued)

b) Net investment income

The Company's net investment income was made up of the following items:

	2020 £'000	2019 £'000
Interest and dividends	**13,610**	34,974
Realised gains	**127,480**	90,183
Unrealised (losses) / gains	**(67,307)**	452,465
Net return on financial assets	**73,783**	577,622
Net rental income	**369**	369
Unrealised gains/(losses)	**(170)**	(280)
Net return on investments properties	**199**	89
Investment Expenses	**(6,649)**	(6,556)
Total	**67,333**	571,155

Interest and dividends were derived from the following sources:

	FVTPL	AFS	Loans and receivables	Total
For the year ended 2020	**£'000**	**£'000**	**£'000**	**£'000**
Interest income from:				
Cash and cash equivalents	**118**	**-**	**-**	**118**
Bonds and other fixed term securities	**13,229**	**-**	**-**	**13,229**
Loans to policyholders	**-**	**-**	**263**	**263**
	13,347	**-**	**263**	**13,610**
Dividend income	**-**	**-**	**-**	**-**
Total interest and dividends	**13,347**	**-**	**263**	**13,610**

	FVTPL	AFS	Loans and receivables	Total
For the year ended 2019	**£'000**	**£'000**	**£'000**	**£'000**
Interest income from:				
Cash and cash equivalents	337	-	-	337
Bonds and other fixed term securities	15,511	-	-	15,511
Loans to policyholders	-	-	265	265
	15,848	-	265	16,113
Dividend income	-	-	18,861	18,861
Total interest and dividends	15,848	-	19,126	34,974

All equity investments are held through collective investment scheme and all dividend income was reinvested directly back into the collective investment scheme. The £18.9m dividend income in 2019 was received from FLL's subsidiary undertaking, Forester Investments Limited.

Included within interest income was £Nil (2019: £Nil) in respect of interest income accrued on impaired financial assets.

12 FINANCIAL INVESTMENTS (continued)

Net realised gains on financial assets comprised:

	2020			2019		
	FVTPL £'000	**AFS £'000**	**Total £'000**	**FVTPL £'000**	**AFS £'000**	**Total £'000**
Bonds and fixed term securities	**17,737**	**-**	**17,737**	12,560	85	12,645
Equities	**64,765**	**2,913**	**67,678**	47,289	-	47,289
Derivatives	**42,065**	**-**	**42,065**	30,249	-	30,249
Net realised gains on financial assets	**124,567**	**2,913**	**127,480**	90,098	85	90,183

Net unrealised (losses)/gains on financial assets carried at FVTPL comprised:

	2020 £'000	**2019 £'000**
Bonds and fixed-term securities	**12,177**	11,604
Equities	**(85,370)**	441,804
Derivative assets	**11,097**	5,585
Derivative liabilities	**(5,211)**	(6,528)
Net unrealised (losses) /gains on FVTPL assets	**(67,307)**	452,465

c) Net unrealised gains/(losses) on AFS assets

Net unrealised gains on AFS assets shown in the Other Comprehensive Income comprised:

	2020 £'000	**2019 £'000**
Unrealised gains for the current period	**4,573**	4,135
Previously recognised unrealised (gains)/losses transferred to realised gains on disposal	**(2,913)**	-
Net unrealised gains on AFS assets	**1,660**	4,135

Included within the "Net unrealised gains on available-for-sale assets" of £425,000 on the Statement of Comprehensive Income was a £1,235,000 tax charge related to these unrealised gains.

d) Impairments

During 2020 there was no reversal of impairment losses on disposal of AFS assets (2019: £Nil).

13 INSURANCE AND OTHER RECEIVABLES

Insurance and other receivables comprised the following:

	2020 £'000	2019 £'000
Loans to policyholders	**5,182**	5,162
Policyholder debtors	**3,460**	452
Reinsurers' share of insurance liabilities	**4,859**	5,776
Amounts due from reinsurers	**238**	174
Accrued investment income	**3,606**	5,428
Policyholder taxes recoverable	**1,279**	2,377
Prepayments and other	**3,689**	4,974
Total insurance and other receivables	**22,313**	24,343

The fair values of the items in the table above, excluding the reinsurers' share of insurance liabilities, approximates their carrying value.

14 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

a) Nature and composition of insurance contract liabilities and related reinsurance assets

Insurance contract liabilities include life, permanent health, annuities in payment and with-profits insurance.

The accounting policies for insurance contracts and related reinsurance assets are set out in Note 1.7(a) and 1.7(b).

FLL's reinsurance treaty with its ultimate parent undertaking, IOF, ended on 31 December 2019. However, the Company has other treaties in place with third-party reinsurers. Maximum limits have been established for the retention of risks associated with life insurance policies by line of business.

b) Analysis of changes in insurance contract liabilities and reinsurance assets

With-Profits funds	2020			2019		
	Gross liabilities £'000	Re-insurance assets £'000	Net liabilities £'000	Gross liabilities £'000	Re-insurance assets £'000	Net liabilities £'000
Balance, beginning of year	**460,529**	**(5,770)**	**454,759**	493,563	(6,657)	486,906
In-force business	**(52,021)**	**916**	**(51,105)**	(33,034)	887	(32,147)
Change in contract liability	**(52,021)**	**916**	**(51,105)**	(33,034)	887	(32,147)
Balance, end of year	**408,508**	**(4,854)**	**403,654**	460,529	(5,770)	454,759

14 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (continued)

Non-Profit funds	**2020**			**2019**		
	Gross liabilities **£'000**	Re-insurance assets **£'000**	Net liabilities **£'000**	Gross liabilities **£'000**	Re-insurance assets **£'000**	Net liabilities **£'000**
Balance, beginning of year	**41,773**	**(6)**	**41,767**	40,346	(9)	40,337
New business	**(255)**	**-**	**(255)**	(664)	-	(664)
Halifax expense synergies	**(480)**	**-**	**(480)**	-	-	-
In-force business	**3,988**	**1**	**3,989**	1,843	3	1,846
Refinement of assumptions	**(7,603)**	**-**	**(7,603)**	248	-	248
Change in contract liability	**(4,350)**	**1**	**(4,349)**	1,427	3	1,430
Balance, end of year	**37,423**	**(5)**	**37,418**	41,773	(6)	41,767

c) Insurance contract liabilities and supporting assets

For each of the with-profits funds and the deferred pension fund, the entire fund is reserved for the benefit of the fund's policyholders (or the future shareholder share for the deferred pension fund) and hence the liabilities are equal to the assets. The following assumptions therefore apply to the non-profit insurance business only. For non-profit insurance business the valuation assumptions are based on best estimates of future experience. Actual experience is monitored to assess whether the assumptions remain appropriate. Sensitivity analysis can be found in Note 21.

Lapse rates
For non-profit business, the following lapse assumptions apply:

Product	**Lapse rate per annum**
Lifestyle/Mortgage Protection Options	See below
Whole Life	0.0%
Forester Universal Life	7.0%
Monthly Income Benefit	4.0%
Deferred Pensions	4.0%
Annuities in Payment	0.0%
Other Policies	0.0%

Year	**Lifestyle Protection**	**Mortgage Protection**
Year 1	9.0%	8.0%
Year 2	8.0%	8.0%
Year 3	7.00%	9.00%
Year 4	7.00%	11.00%
Year 5	7.00%	12.00%
Year 6 and thereafter	6.00%	10.00%

Investment returns
For non-profit insurance business, liabilities are discounted at risk free rates using Moody's risk-free rate which is aligned to the risk-free rate prescribed by EIOPA in accordance with Solvency II regulation.

14 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (continued)

Maintenance expenses
For non-profit insurance business, amounts are included in actuarial liabilities to provide for the costs of administering in-force policies, including the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and distribution of policy statements, and related indirect expenses and overhead. The process of forecasting expenses requires estimates to be made of factors such as inflation, salary rate increases, productivity changes, business volumes and indirect tax rates. Estimates of future policy maintenance expenses are based on the Company's expected future experience. There is a margin for prudence included in the risk margin. (refer to Note 1.7(a)).

Mortality
For non-profit insurance, best estimate mortality rates are based on standard tables below:

Mortality tables	2020	2019
Term Assurance	TM08, TF08	TM00, TF00
TW Annuities in payment	IML00/IFL00	IML00/IFL00
Pensions in payment	CMI 2019 M/F	CMI 2017 M/F
Life Assurance	AM00, AF00	AM00, AF00

The Company has identified that the principal insurance risks are a worsening of demographic risks, higher expenses and lower interest rates. The nature of the demographic risks varies depending on the specific product within the non-profit insurance block of business. For annuity products longer life expectancies are the key risk, on health and life insurance products higher mortality and morbidity rates create a strain for the Company. If there was a change to mortality rates that affected all non-profit insurance products equally then the Company may benefit from an offsetting effect between some of its products. The interest rate risk derives from a mismatch between the sensitivity of assets and liabilities to changes in interest rates.

15 INVESTMENT CONTRACT LIABILITIES - UNIT LINKED

Changes in the unit linked investment contract liabilities during the year were as follows:

	2020 £'000	2019 £'000
Balance, beginning of year	**3,871,045**	3,314,098
Acquisition of the Halifax CTF business	**585,706**	-
Transfer from TW insurance contract liabilities	**1,629**	2,230
	4,458,380	3,316,328
Additions to the account of the unit holder:		
Deposits received from the unit holders	**306,902**	298,284
Investment income	**3,518**	9,076
Net unrealised (losses)/gains on investments	**(58,558)**	420,818
Net realised gains on sale of investments	**108,798**	70,709
Tax expense	**(651)**	(2,614)
	360,009	796,273
Deductions from the account of the unit holder:		
Amounts withdrawn or transferred by unit holders	**(214,026)**	(189,809)
Management fees	**(55,184)**	(51,747)
	(269,210)	(241,556)
Balance, end of year	**4,549,179**	3,871,045

15 INVESTMENT CONTRACT LIABILITIES - UNIT LINKED (continued)

The acquisition of the Halifax CTF book of business was completed on 10 April 2020 with the transfer-in of 474,000 CTF plans with assets under management totalling £586m. IFRS liabilities of the same value were created in respect of the transferred investment contracts.

The unit linked investment contract liabilities were supported by the following assets/(liabilities):

	2020 £000	2019 £000
Cash and cash equivalents	**20,280**	64,665
Bonds	**416,314**	664,021
Equities	**4,096,230**	3,132,284
Derivative assets	**11,097**	5,585
Derivative liabilities	**(5,211)**	(6,528)
Other assets	**10,469**	11,018
Investments for account of unit holders	**4,549,179**	3,871,045

16 INVESTMENT CONTRACT LIABILITIES WITH DISCRETIONARY PARTICIPATING FEATURES

Changes in the investment contract liabilities with discretionary participating features during the year were as follows:

	2020 £'000	2019 £'000
Balance, beginning of year	**61,581**	59,487
Deposits received during the year	**12**	37
Interest credited and other	**1,057**	5,037
Surrenders and encashments	**(2,576)**	(2,749)
Expenses charged to policyholders	**90**	(231)
Balance, end of year	**60,164**	61,581

The non-linked investment contract liabilities with discretionary participating features were supported by the following assets/(liabilities):

	2020 £'000	2019 £'000
Bonds	**33,002**	34,478
Equities	**19,081**	19,152
Other assets	**8,081**	7,951
Investments for account of plan holders	**60,164**	61,581

17 DERIVATIVE FINANCIAL INSTRUMENTS

FLL's investment policy permits its fund manager to use traded derivatives only for purposes of tactical asset allocation, obtaining or hedging market exposures, and cash flow management. The asset and liabilities of these contracts at 31 December were as follows:

	2020 Market value £'000	2019 Market value £'000
Exchange traded derivatives	**10,547**	3,977
Foreign exchange forward contracts	**550**	1,608
Total derivative assets	**11,097**	5,585

	2020 Market value £'000	2019 Market value £'000
Exchange traded derivatives	-	-
Foreign exchange forward contracts	**5,211**	6,528
Total derivative liabilities	**5,211**	6,528

In addition to the above Derivatives position, the Company held collateral of £24,179,911 as at 31 December 2020 (31 December 2019: £14,466,652).

18 OTHER LIABILITIES

The Company's other liabilities comprised the following items:

	2020 £'000	2019 £'000
Amounts owed to parent company	**1,887**	6,376
Amounts due to reinsurers	**85**	83
Amounts due to policyholders	**2,257**	1,024
Other liabilities and deferred income	**6,094**	6,791
Total other liabilities	**10,323**	14,274

The fair value of these liabilities approximates their carrying value. Substantially all the other liabilities were due within 12 months of the date of the Statement of Financial Position.

19 CALLED UP SHARE CAPITAL

	2020 £'000	2019 £'000
Issued and authorised		
68.5m (2019: 68.5m) Ordinary shares of £1 each	**68,500**	68,500

The Ordinary shares carry full voting rights and qualify for dividends. There are no restrictions on the repayment of capital other than as imposed by the Companies Act 2006.

20 CAPITAL MANAGEMENT

The Company is required to maintain eligible capital, or 'Own Funds' in excess of the value of its Solvency Capital Requirements ("SCR") on the Solvency II basis and to comply with the requirements established by the Solvency II Directive, as adopted by the Prudential Regulation Authority ("PRA") in the UK. The overriding objective of the Solvency II framework is to ensure there is sufficient capital within the insurance company to protect policyholders and meet their payments when due.

The Company has a long-term business fund, four ring-fenced funds and a shareholder fund. The surplus contributed from the long-term business is not attributable to with-profits business and is deemed to be distributable within the Company's shareholder fund. Three of the ring-fenced funds are with-profits funds which are closed to new business with the fourth being the deferred pension fund that has been ring fenced since September 2016.

Ring fenced funds are segregated funds with their own assets and liabilities which are determined on a Solvency II basis.

The Company intends to maintain surplus capital in excess of the SCR in order to meet the Solvency II capital requirements, and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

Capital is held in the form of marketable investment assets. Management has set investment criteria covering asset mix, credit quality, individual counterparty exposure, equity sector limits and fixed income duration to maintain an appropriate balance between risk and return.

There are certain valuation differences between the IFRS balance sheet and the Solvency II balance sheet, for example between IFRS insurance liabilities and Solvency II technical provisions. The Company has complied with the capital requirements under Solvency II throughout the year.

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities closely, taking account of the risks inherent in the business;
- to maintain the financial strength sufficient to support new business growth in line with the Company's business plan;
- to satisfy the contractual entitlements of its policyholders and the requirements of its regulators;
- to ensure financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- to manage exposure to changes in interest and inflation rates by way of a comprehensive hedging programme; and
- to manage exposure to movements in exchange rates.

In line with the Solvency II regulations and guidance, the Company recognises loss absorbency capacity of deferred tax (LACoDT) for its unit-linked business. The Company's capital resources and requirements are shown below:

	2020 £'m	2019 £'m
Eligible Own Funds	**269**	267
Solvency Capital Requirement	**(155)**	(157)
Excess Own Funds	**114**	109
Solvency II coverage ratio	**173%**	170%

21 RISK MANAGEMENT

FLL's approach to risk management is outlined in the Strategic Report on page 5.

The principal risks, including those that would threaten the business model, future performance, solvency and liquidity are set out below including details of how they have been managed or mitigated.

Strategic risk

This is the risk that strategic objectives, as outlined in the business plan, are not met. This can be the result of external events such as changes to regulatory policy or the actions of competitors, or due to the failure of internal initiatives to retain customers and grow the business.

Management and mitigation

As part of the annual business planning process, the risks are identified that could have an immediate or a future impact on the plan. Risks are assessed by reference to their likelihood and impact and compared to the FLL's risk appetite including solvency and internal capital target metrics.

The output from the ORSA, including a forward-looking assessment of own risk, is reviewed in terms of the Board's risk appetite.

The overall business plan taking into account any major strategic initiatives is reviewed, challenged and monitored at both UK and parent company Board level. Stress and scenario testing, including reverse stress testing to ascertain the point of business model failure, are further tools used to assess the impact of key risks on capital and solvency on a forward-looking basis.

Emerging risks are identified and discussed at the Risk and Investment Committee annually and on an ad hoc basis as required.

Key strategic risk

To implement FLL's strategy for growth, improved customer experience and greater operational resilience, the company has given attention to increasing its digital capabilities. The initial focus was to enable the CTF Planholders, the first of whom turned 18 on 1 September 2020, to access their funds on-line and either take their money or invest all or part of their savings into an adult savings product should they wish to do so. The strategy includes Financial Advisers building affinity with the CTF customers and their families, some of whom will have very little knowledge of the Company. This approach has been hampered by Covid-19 as advisers have not been able to sell in person for most of 2020. Future deliverables include rolling out new MyPlans to members with an adult savings and investment product and to offer a choice of funds. If the strategy does not achieve the expected levels of engagement with customers, it could lead to lower than expected levels of revenue and missed opportunities to meet customers' requirements. The risk is mitigated through strong oversight and monitoring by the executive and the Board.

Regulatory risk is the risk that changes in laws or regulations could materially impact strategy, increase the cost of running the business or change the competitive landscape. For example, regulators could change capital requirements, selling practices, the approach to data usage, and/or corporate governance requirements all of which could materially impact the business. All known regulatory risks, including risks arising from new policy initiatives such as those arising from environmental, social and governance (ESG) themes are managed through horizon scanning and impact assessments. There is some uncertainty over the shape of regulation in the near term as financial services were largely overlooked during the Brexit negotiations. The UK Government has indicated that it may diverge from the EU in regulatory matters which would give the UK regulators greater flexibility and could result in new business opportunities.

21 RISK MANAGEMENT (continued)

Investment Market Risk

The performance of investment markets may adversely impact earnings, profitability and/or surplus capital. There are many factors that can cause market volatility such as increased geopolitical risk, increased protectionism and socio-economic factors. In particular, the Covid-19 pandemic and the measures to contain it had a significant impact on financial markets in the early part of 2020, increasing the volatility of equity markets and credit spreads and reducing market liquidity. Although the losses were largely recovered in the second half of the year the future remains uncertain particularly as the success of the vaccine roll-out competes against the various mutations of the virus. Longer-term, the transition to a lower carbon economy may significantly impact asset values.

For unit linked contracts there is a direct link between the investments and the obligations and FLL is not directly exposed to any investment market risk for these contracts. However, there is a risk of volatility in asset management fee income due to the impact of market price movements and interest rate fluctuations on the value of the assets held in the unit linked funds on which investment management fees are based.

The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investments held in the shareholder fund and those to meet the obligations from the insurance business, and therefore will directly impact profitability.

FLL has an Investment Market Risk Policy in place which has been approved by the Board and outlines the basis upon which this risk is managed. Trading is subject to restrictions and limits as outlined in the Investment Policy Guidelines to ensure that market exposures are within appetite. Stress and scenario testing is undertaken to understand the FLL's sensitivities to investment market risks.

Equity Risk

Equity price falls will impact the amount of revenue derived from fees from the unit linked products. Some of the surplus assets have been used to seed equity funds, designed to give customers increased choice, but thereby exposing the shareholder fund to market falls.

Currency Risk

The base currency of investments is GBP. For some funds, overseas assets may be purchased, or cash held in other currencies. A strengthening in sterling will reduce the value of overseas assets, and consequently reduce the value of future charges. For those funds holding overseas assets, currency hedging is at the Fund Managers' discretion, subject to limits as defined in the Investment Management Policy.

Interest Rate Risk

FLL mitigates its exposure to interest rate risk by matching the duration of assets and liabilities by fund which involves allocating financial investments to funds matching a specific type of liability. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the product liability cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities. The risk associated with the mismatch in portfolio duration, cash flow and asset prepayment exposure are reviewed regularly.

Falls in bond yields, inversely correlated with interest rates, boost bond values and unit -linked income, more than offsetting the increase in the present value of expenses, future claims less premiums on protection business and pension liabilities.

Some of the investment business contracts accrue interest at a long-term rate. The margin on this business is sensitive to a sustained decline in interest rates, though FLL can vary the crediting rate to reflect current and foreseen investment returns.

21 RISK MANAGEMENT (continued)

Credit Risk

The Board approved Credit Risk Policy sets out the approach to the management of this risk. Specific guidelines have been established:

- to minimise undue concentration of assets in any single geographic area, industry or Company.
- to limit the purchase of fixed income securities to investment-grade assets; and
- to specify minimum and maximum limits for fixed income securities by credit quality ratings.

Compliance with the guidelines is monitored monthly by Finance.

Counterparty risk in respect of the providers of settlement and custody services is minimised by ensuring that the credit institutions have sound credit ratings.

Policyholder loans are generally covered by the surrender value.

Maximum exposure to credit risk

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

	2020 £'000	2019 £'000
Cash and cash equivalents	**48,630**	81,028
Bonds	**750,737**	998,519
Policyholder debtors	**8,642**	4,751
Other assets subject to credit risk	**48,398**	38,035
	856,407	1,122,333
Equities	**4,343,462**	3,457,276
Investment properties	**5,250**	5,420
Other assets not subject to credit risk	**31,400**	21,354
Total assets	**5,236,519**	4,606,383

Concentration of credit risk

FLL has established investment portfolio level targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

FLL sets limits on its exposure to a single issuer, including total exposure to a parent company, its subsidiaries and any other entity for which the parent acts as a guarantor. Total exposure includes the sum of FLL's investment in bonds, equities, money market instruments and, if applicable, cash and cash equivalents.

21 RISK MANAGEMENT (continued)

The following table provides details of the carrying value of bonds by nature of issuer and geographic distribution.

	2020 £'000	2019 £'000
Bonds issued or guaranteed by:		
UK treasury and other UK agencies	**539,053**	766,432
EU government or agencies	**24,314**	24,568
Other Non EU global government	**-**	-
Supranational bodies	**25,354**	25,679
Total government or supranational bonds	**588,721**	816,679
Total corporate bonds	**162,016**	181,840
Total bonds	**750,737**	998,519

The credit rating of the bond portfolio was as follows:

	2020		2019	
	£'000	%	£'000	%
Investment grade:				
AAA	**58,042**	**7.7%**	45,497	4.6%
AA	**562,277**	**74.9%**	889,098	89.0%
A	**67,821**	**9.0%**	47,395	4.7%
BBB	**62,597**	**8.3%**	16,529	1.7%
Total bonds	**750,737**	**100%**	998,519	100%

Currency Risk

The base currency of investments is GBP. For some funds, overseas assets may be purchased, or cash held in other currencies. A strengthening in sterling will reduce the value of overseas assets, and consequently reduce the value of future charges. For those funds holding overseas assets, currency hedging is at the Fund Managers' discretion, subject to limits as defined in the Investment Management Policy.

Loan impairments

An allowance for losses on loans is established when a loan becomes impaired as a result of deterioration in credit quality, to the extent there is no longer assurance of timely realisation of the carrying value of the loan and related investment income. The carrying value of an impaired loan is reduced to its estimated net realisable value at the time of recognition of impairment. No allowances for losses were taken in 2020 (2019: £nil).

Unrealised gains and losses on AFS assets are recorded in OCI at fair value.

At 31 December 2020, FLL held no bonds on which interest payments were in default (2019: Nil).

21 RISK MANAGEMENT (continued)

Expense Risk

Expense risk arises from higher than expected expenses both currently and in terms of reduced future profits. Current expenses are robustly controlled within risk appetite limits. In pricing long-term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce profitability. Regular analysis of long-term expense assumptions is carried out to ensure that they remain appropriate.

Persistency Risk

Persistency is integral to the successful implementation of FLL's business plan. A deterioration in persistency can result in the acquisition costs associated with the contract not being recouped, a fall in the level of income derived from AMCs on assets under management and a reduction in the number of extant policies and plans thereby impairing economies of scale, leading to an increase in administration costs per plan and a consequent erosion of profit margins.

Deterioration in persistency is normally a by-product of another risk(s) crystallising as follows:

- Strategic Risk – FLL fails to offer products and/or services that meet customers' demands and/or expectations which leads to them taking their business elsewhere.

- Investment Market Risk – poor investment returns or market volatility has the potential, to cause customers to decide to lapse or surrender their policy prior to maturity or partially encash or fully encash their plan;

- Credit Risk – default on corporate bonds could lead to impairment of investment returns which in turn could give rise to customers deciding to lapse or surrender their policy prior to maturity or partially encash or fully encash their plan.

- Operational Risk – a decline in customer service levels could impact customer retention. Equally, regulatory sanctions levied against FLL could affect customer confidence thereby having a detrimental effect on retention.

Risk management activity includes monitoring of surrender, lapse and encashment levels against approved tolerances such that appropriate action can be taken if tolerance levels are breached. The relationship with customers through the field force means that at times of stress the company can respond directly to customers' concerns and provide reassurance as necessary.

Operational risk

FLL does not seek to take on operational risk but accepts that, for the business undertaken, operational risk is inherent. The key operational risks are cyber risk, changes in the legislative and regulatory landscape and risks associated with the transformation project. Remote working arrangements are known to increase cyber risk, with criminals seeking to compromise IT systems through increased social engineering and phishing attacks. This risk has been addressed through existing IT protocols and increased communications to staff. Changes in regulations can adversely impact the Company's ability to implement its business plan or the ability to deliver and implement change. For example, the Government policy to combat the increasing rate of Covid-19 infections prevented the Field Force from carrying out face-to-face visits through much of 2020, impacting sales negatively. The Company monitors regulatory and legislative developments and makes necessary changes to systems and processes as required. The main risk associated with the change programme, aimed at improving digital capabilities and giving customers greater choice in how they do business with FLL, is that the programme does not deliver the expected benefits and efficiencies. This risk is mitigated through strong governance and oversight from the Board and senior management.

21 RISK MANAGEMENT (continued)

Other Risks

The foregoing outlines the principal risks to which the business is exposed. Other risks include:

Insurance risk

FLL's approach to insurance risk is outlined in the Insurance Risk Policy which has been approved by the Board.

The following risk factors are components of insurance risk:

- *Mortality risk* and *morbidity risk* are the risks that paid death claims or permanent health claims occur sooner or are more volatile than assumed. This risk can occur on any contracts where the payment on death or illness is greater than the insurance contract liability held. This includes the risk of anti-selection that results in a requirement to pay claims that FLL had not expected (for example due to non-disclosure).

- *Longevity risk* is the risk that annuities in payment are paid for a longer period than assumed. There is also longevity risk in respect of pension schemes.

FLL manages insurance risk by establishing Board approved polices and guidelines for product development and product pricing which require that all material risks be provided for at the time of product design and pricing of new products. Additionally, experience studies are performed annually, the outcome of which is used to update the valuation of insurance contract liabilities and the pricing of new and existing products. FLL also uses reinsurance to transfer risks in excess of its retention limits.

Covid-19 did not have a material financial impact from a mortality risk and morbidity risk point of view due to the nature and type of liabilities. For longevity risk, the annuity portfolio experienced excess deaths compared to the best estimate basis similar to the levels as seen in the UK population. FLL will continue to monitor the development of the pandemic specifically the efficacy of inoculations.

The actuarial assumptions used in the measurement of insurance contract liabilities take insurance risk factors into account as discussed in Note 14.

Impact of key insurance sensitivities:

Variable	Change in variable	Impact on pre-tax P&L
Fall in lapse rates	10% fall	£(1.2)m
Increase in expenses	10% increase	£(0.7)m
Increase in mortality rates	2% increase	£(0.3)m

Liquidity risk

A number of key processes and controls are in place to ensure that FLL has sufficient liquidity to meet its liabilities. These include daily cash flow forecasts, cash balances/buffer held equivalent to one month's outflow, a high level of investments held in near-liquid assets and the maintenance of overdraft facilities with key banking partners. In 2020 100% of claims were met without any liquidity concerns.

Given the highly liquid nature of the FLL's investment assets, their size relevant to net cash flows and the level of controls in place it is not considered necessary to hold additional capital against Liquidity Risk.

21 RISK MANAGEMENT (continued)

Counterparty Default Risk

There are three principal areas of potential default:

- credit institutions with which FLL has lodged its own assets or those of its customers.
- policyholders in terms of loans; and
- recoveries.

Counterparty risk is minimised by ensuring that the credit institutions and reinsurers used have sound credit ratings. Policyholder loans are generally covered by the surrender value.

Concentration Risk

Concentration risk is not considered material as FLL's investment policy provides limits regarding concentration levels which ensure that sufficient diversification is maintained.

The estimated cash flows based on the contractual maturities of FLL's significant financial assets and liabilities as at 31 December 2020 are shown as follows:

31 December 2020	**1 year or less or undated**	**1-5 years**	**5-10 years**	**Over 10 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	48,630				**48,630**
Bonds	750,737				**750,737**
Equities	4,343,462				**4,343,462**
Derivative assets	11,097				**11,097**
Derivative liabilities	(5,211)				**(5,211)**
Insurance contract liabilities	(41,024)	(125,910)	(86,430)	(192,567)	**(445,931)**
Investment contract liabilities*	(4,609,343)				**(4,609,343)**
Claims and other payables	(20,333)				**(20,333)**
	478,015	(125,910)	(86,430)	(192,567)	**73,108**

31 December 2019	**1 year or less or undated**	**1-5 years**	**5-10 years**	**Over 10 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	81,028	-	-	-	81,028
Bonds	998,519				998,519
Equities	3,457,276	-	-	-	3,457,276
Derivatives assets	5,585	-	-	-	5,585
Derivative liabilities	(6,528)	-	-	-	(6,528)
Insurance contract liabilities	(55,075)	(161,810)	(92,866)	(192,551)	(502,302)
Investment contract liabilities*	(3,932,626)	-	-	-	(3,932,626)
Claims and other payables	(17,729)	-	-	-	(17,729)
	530,450	(161,810)	(92,866)	(192,551)	83,223

**Investment contract liabilities mainly comprise unit linked liabilities, the majority of which are Child Trust Fund policies written to age 18. The remaining unit linked liabilities are whole life and have no maturity date. The assets backing these liabilities have various maturity dates.*

21 RISK MANAGEMENT (continued)

Actual inflows from bonds may differ from contractual maturities either because assets are sold before maturity or because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Ring Fenced Funds (RFFs)

FLL administers 4 closed books of business in RFFs. Three of these are with-profits funds, and each of these are established by reference to a legal contract that outlines the basis upon which the fund will be administered going forward to protect the interests of the policyholders within the fund. While the funds are protected from contagion from FLL, if the RFFs themselves are unable to meet UK solvency requirements, FLL is required to make good any such shortfall.

The RFFs therefore pose the following risks to FLL:

- the potential for the solvency position of one or more of the RFFs to impair the capital position of FLL and thereby affect its ability to deliver its strategy and business plan; and
- the potential for issues arising from the management and administration of the business held within the RFFs to impact the reputation of FLL.

The business administered within the RFFs is exposed to the same risks as those that potentially affect FLL's ongoing business, most notably investment market risk, credit risk, liquidity risk, operational risk, expense risk, and insurance risk. FLL addresses the management of these risks on the same basis as its ongoing business and therefore the policies in place for these risk categories also apply to the management of the RFFs.

Group Risk

The Company recognises that the financial strength and size of the organisation internationally has a significant beneficial impact on its business and brings with it access to resources and support, such as expertise and capital. As a subsidiary, however, the Company recognises that ultimately the direction of its business is at the discretion of its parent, which introduces risks for the Company.

22 RELATED PARTY TRANSACTIONS

Transactions with group companies

FLL is the principal UK operating subsidiary of Forester Holdings (Europe) Ltd ("FHE"). Related party transactions arise as follows:

- FHE incurs substantially all the operating costs for the Company's UK business and recharges the appropriate share to FLL for settlement in cash.
- FLL owns the building housing the UK Head Office and charges rent to FHE.
- FHE employs UK Head Office employees and acts as principal employer for the pension scheme in the UK.
- FHE previously contracted with FLL to provide permanent health insurance for UK employees. Premiums are no longer paid but claims may be made in respect of coverage previously provided.

Transaction details were as follows:

	2020 £'000	**2019 £'000**
Operating costs recharged by FHE (including a charge in respect of salaries, pension contributions and other pension costs)	**24,179**	26,436
Rent charged to FHE by FLL	**369**	369
Reassurance premiums payable to Foresters less claim recoveries	**-**	157
Health insurance payment	**36**	35

22 RELATED PARTY TRANSACTIONS (continued)

Intercompany creditor balances at the year-end were as follows:

	2020 £'000	2019 £'000
Immediate parent company	**1,887**	6,376
Total	**1,887**	6,376

All related party transactions have taken place at terms that would exist in arm's length transactions. The inter-company creditor balances were unsecured and paid in cash on a quarterly basis.

There were no other loans or guarantees provided by FLL to related parties.

Transactions between the Company and its defined benefit pension scheme is disclosed in Note 6.

Transactions with key management personnel

Members of the Board of Directors and Executive Committee are deemed to be key management personnel. Key management personnel compensation during the year was as follows:

	2020 £'000	2019 £'000
Salaries and short-term benefits	**1,468**	1,416
Post-employment benefits under money purchase scheme	**130**	124
Other long-term benefits	**261**	281
Total	**1,859**	1,821

23 COMMITMENTS

The Company had no commitments to make payments as a lessee at the end of 2020 and 2019.

The Company leases out its investment property to its parent company, Forester Holdings (Europe) Limited. The Company has classified this lease as an operating lease because it does not transfer substantially all the risks and rewards incidental to the ownership of the asset. The following table sets out the maturity analysis of undiscounted lease payments to be received under the lease agreement:

	2020 £'000	2019 £'000
< 1 year	**369**	369
1-5 years	**1,476**	1,476
Over 5 years	**830**	830
Total undiscounted lease payments	**2,675**	2,675

The Company had an obligation to make payments under a service contract as follows:

	2020 £'000	2019 £'000
< 1 year	**1,809**	1,809
1-5 years	**7,238**	7,238
Over 5 years	**-**	1,809
Total	**9,047**	10,856

24 CURRENT ASSETS AND LIABILITIES

Amounts expected to be recovered or capable of being settled within and beyond 12 months from the reporting date were as follows:

	2020			2019		
	Total	**Within 12 months**	**Beyond 12 months**	**Total**	**Within 12 months**	**Beyond 12 months**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
ASSETS						
Intangible assets	**26,616**	**2,492**	**24,124**	13,916	2,589	11,327
Investment property	**5,250**	-	**5,250**	5,420	-	5,420
Deferred Tax asset	**4,784**	**1,990**	**2,794**	7,438	1,190	6,248
Financial investments	**5,128,926**	**5,128,926**	-	4,474,238	4,474,238	-
Insurance and other receivables	**22,313**	**5,182**	**17,131**	24,343	19,188	5,155
Cash and cash equivalents	**48,630**	**48,630**	-	81,028	81,028	-
TOTAL ASSETS	**5,236,519**	**5,187,220**	**49,299**	4,606,383	4,578,233	28,150

	2020			2019		
	Total	**Within 12 months**	**Beyond 12 months**	**Total**	**Within 12 months**	**Beyond 12 months**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
LIABILITIES						
Insurance contract liabilities	**445,931**	**41,024**	**404,907**	502,302	55,075	447,227
Investment contract liabilities:						
Unit-linked	**4,549,179**	**4,549,179**	-	3,871,045	3,871,045	-
Non-linked	**60,164**	**60,164**	-	61,581	61,581	-
Employee benefit obligation	**3,359**	**1,620**	**1,739**	4,228	1,620	2,608
Deferred tax liability	**3,465**	**977**	**2,488**	5,432	1,684	3,748
Current tax liability	**2,140**	**2,140**	-	10,039	10,039	-
Benefits payable	**20,333**	**20,333**	-	17,729	17,729	-
Other liabilities	**10,323**	**10,323**	-	14,272	14,272	-
TOTAL LIABILITIES	**5,094,894**	**4,685,760**	**409,134**	4,486,628	4,033,045	453,583

25 EVENTS AFTER THE REPORTING PERIOD

Impact of Covid-19

The Company's operational response to the Covid-19 pandemic is set out in the Strategic Report.

Since 31 December 2020, the spread of new strains of the coronavirus has led to a further tightening of restrictions in the UK. However, there have also been positive developments as the country is well-progressed to meet its vaccination targets. There has been some volatility in the UK and global equity markets in the first quarter of 2021, however the Company's assets under management as at 31 March 2021 were largely unchanged from its year end position. Management have determined that the events after the reporting period do not materially affect the Company's financial position and results for the year ended 31 December 2020.

25 EVENTS AFTER THE REPORTING PERIOD (continued)

In the original Business Plan, management assumption was that there would be a slow return to normal in 2021. At this point, the duration and extent of the pandemic, as well as the shape of any economic recovery to follow, remains very unclear. It is not possible to reliably estimate the impact of Covid-19 on the financial position and results of the Company for future periods. However, based on the going concern assessment set out on Page 8, management believe that the Company can continue as a going concern for the foreseeable future.

26 ULTIMATE PARENT COMPANY AND FINANCIAL STATEMENTS

The ultimate parent undertaking and the undertaking which headed the largest group of undertakings for which the financial statements are drawn up and of which the Company was a member was The Independent Order of Foresters, a fraternal benefit society, incorporated in Canada with limited liability, registered address 789 Don Mills Road, Don Mills, Ontario, M3C 1T9, Canada.

FLL's immediate parent undertaking, Forester Holdings (Europe) Limited, registered address Foresters House, 2 Cromwell Avenue, Bromley BR2 9BF, United Kingdom, is a wholly owned subsidiary of The Independent Order of Foresters. Forester Holdings (Europe) Limited (registered number 3013082) is a company incorporated in England and Wales and is resident for tax purposes in the United Kingdom. The Company's registered address is Foresters House, 2 Cromwell Avenue, Bromley BR2 9BF, United Kingdom