FORESTER LIFE LIMITED

(Registered in England & Wales, no. 02997655)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

Forester Life Limited

Contents

Forester Life Limited

BOARD OF DIRECTORS

Non-Executive Directors

J T Young (Independent Chairman)
D G Robinson
R E Lamoureux (resigned 12 June 2021)
M Christophers (resigned 31 December 2021)
A Sharma (appointed 28 June 2021)
A Clarkson (appointed 1 December 2021)
C Dunn (appointed 1 December 2021)
G Godfrey (appointed 1 December 2021)
E Labovitch (appointed 1 December 2021)
J Taylor (appointed 1 December 2021)

Executive Directors

E T Allison, Chief Executive Officer (died in office 6 August 2021)
L Pilipovic, Interim CEO and CFO (appointed 28 January 2022)

Company Secretary
Jason Rose (resigned 30 November 2021)
Sisec Limited (appointed 27 December 2021)

Principal Banker
National Westminster Bank Plc
City of London Office
PO Box 12258
1 Princes Street
London
EC2R 8PA

Auditor
KPMG LLP
15 Canada Square
London
E14 5GL

Registered Office
Foresters House
2 Cromwell Avenue
Bromley
BR2 9BF

Telephone	020 8628 3400
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Website	www.foresters.com

Forester Life Limited

Chairman's Report

We were greatly saddened by the sudden passing of our Chief Executive Officer, Euan Allison, on 6 August 2021. Euan joined the business in May 1994; he was made Group Managing Director in 2006 and Chief Executive Officer in 2014. Euan led the Company through three significant acquisitions and played a major role in transforming Foresters UK into the strong, stable and vibrant business it is today. He was also a proud Foresters member who was truly passionate about Foresters' purpose, and always sought to ensure that the Company did what was right for its members. His leadership and presence will be missed by all of us.

The Board has appointed Latinka Pilipovic as Interim CEO pending the appointment of Euan's permanent successor. In the meantime, we remain committed to the Company's existing strategy, and Latinka and her management team continue to make progress towards securing a bright future for Foresters UK.

2021 was dominated by further Covid-19 disruption, as well as extreme weather events, and once again I thank all our colleagues who rose to these challenges and ensured that excellent customer service continued uninterrupted throughout the year. Despite the continuing disruption caused by the pandemic, we have been offered hope that vaccines and other medical breakthroughs will enable us to live with the coronavirus in the future. Climate change, however, presents an ever-increasing risk to the way we live, and we recognise that decisive actions will need to be taken to minimise future business risks arising from its impact. This will be one of the key priorities for the Company in 2022 and beyond.

The Company delivered a strong set of results in the financial year. New business volumes showed significant year-on-year growth, with the proportion represented by online sales steadily growing. Strong sales and positive returns from equity markets both contributed to an 11% year-on-year increase in our assets under management ("AUM"). Profits were also well ahead of target, driven by higher fee income due to strong sales, good persistency and positive investment returns.

It is now more than a year since our first Child Trust Fund ("CTF") customers turned 18 on 1 September 2020 and became eligible to access their savings. Of the CTFs that have subsequently reached maturity, we are privileged to have retained a significant proportion of their AUM. The majority of our CTF maturity instructions are already straight-through processed online, and we will continue to invest in enhancements to our customers' digital journey over the next few years. Our key strategy is to build affinity with our CTF customers and their family members, improving their awareness of the products we offer and encouraging them to utilise our wide range of membership benefits.

We foresee a challenging year ahead with the ongoing geopolitical tensions in Europe, rising inflation and weak economic growth persisting in 2022. However, with a robust balance sheet and the continuing support of our community of employees, members and customers, we are confident we can meet the challenges ahead.

John Young

Chairman
31 March 2022

Forester Life Limited

Strategic Report

The Directors present their Strategic Report for the year ended 31 December 2021.

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 ring fenced funds;
- annuity and protection business.

As a wholly owned subsidiary of the Independent Order of Foresters, a fraternal benefit society based in Toronto, Canada, the business prides itself on giving back to its members and their local communities.

Business Performance

The Company delivered a strong set of results in 2021, exceeding all the key financial targets set out in its Business Plan. This has been achieved alongside continued focus on putting customers first, modernising member benefits and increasing employee engagement.

Sales experienced strong year-on-year growth across all products. Sales outperformance was driven by external factors such as historic high household saving rates and strong equity markets boosting investor confidence, as well as internal factors such as new marketing initiatives and offering customers alternative ways of doing business with the Company. Most of the Company's new business in 2021 was generated through a team of Financial Advisers (known as the "Field Force"), however the proportion of sales generated from online and other direct channels has increased compared to prior year.

The Company's key financial performance indicators are summarised below:

	2021	2020
	£'m	£'m
Net fund flows [1]	**(41.4)**	618.7
Assets under management	**5,721.9**	5,172.6
IFRS total comprehensive income	**21.9**	31.9

[1] Net fund flows in 2020 included £586m from the acquisition of the Halifax CTF book of business.

Net Fund Flows

Net fund flows are made up of contributions and premiums less encashments and claims. They 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 for open books of business also indicate good persistency which provides more certainty of future earnings.

The Company experienced net fund outflows in 2021 driven by the run-off of its with-profits business. Overall net fund outflows were significantly favourable to Plan driven by higher sales and better than expected retention of matured Child Trust Funds ("CTFs").

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.

Assets under management as at 31 December 2021 were £5,721.9m, an 11% increase from prior year. This was driven by positive investment returns on equities and strong inflows for the open unit-linked book of business. Equity markets performed well during the year, boosted by economic optimism due to central bank stimulus and Covid-19 vaccine rollouts. The UK equity-only investment funds achieved 18% returns in the year, while multi-asset fund returns were 11%, with the latter being adversely impacted by the fall in bond prices during the year.

A reconciliation of the amounts appearing in the Company's statement of financial position to AUM is provided in Note 25.

IFRS Total Comprehensive Income

The Company's profitability is mainly driven by its fee income less operating expenses. Fee income in 2021 was higher than prior year, driven by AUM growth. Acquisition costs were also higher than prior year, driven by higher sales, however these were partially offset by savings in other operating expenses.

The 2021 financial results demonstrate that the business is resilient to challenging times, and agile enough to quickly adapt to changing conditions. The focus continues to be on strengthening the Company's core business and maintaining profitable growth.

Covid-19

Operational impact

Since March 2020, the majority of head office staff have been working from home, while customer-facing and essential support staff have continued to work from the office. The duty of care owed to employees and customers has been a key focus during this difficult time. To protect office workers and their families, government guidelines around Covid-19 workplace safety have been rigorously implemented. Staff are offered a comprehensive employee assistance programme so that they can access confidential wellbeing and emotional support at any time.

Since Covid-19 restrictions were lifted in England on 27 January 2022, home-working staff have been welcomed back to the office on a voluntary basis. The Company is supportive of the concept of a hybrid working model, and in the coming months management will look to introduce a way of working that strikes a balance between working from home and time spent collaborating with colleagues in the office.

Financial impact

The business was largely insulated from Covid-19 related financial challenges in 2021. Sales bounced back to a record high after poor performance in the previous year. This was helped by historic high household saving rates due to Covid-19 restrictions limiting spending opportunities. Strong sales, good retention of matured CTF plans and positive equity market sentiments all contributed to AUM and fee income growth, lifting the Company's underlying profitability in 2021.

Covid-19 did not have a significant impact on the Company's claims experience during the year. Most of the Covid-19 related claims were on whole-of-life policies in the with-profits business. These claims were paid out of asset shares and did not necessarily impact the Company's profitability. For the Protection and Annuities business, a slight increase in protection claims was partially offset by higher mortality in annuities.

Child Trust Fund maturities

Key to the Company's long-term strategy is the retention of matured CTF customers. As the CTF customers turn 18 and become eligible to access their savings, the Company aims to support them through their maturity journey. The Foresters' online platform, MyPlans, provides full self-serve capabilities with straight through processing of full or partial encashments as well as the option to transfer funds into Adult ISAs.

Outlook

In the coming months, inflation, tax and interest rates are set to rise, putting a squeeze on UK household disposable incomes and reducing the propensity to invest. Geopolitical tensions in Europe are also likely to exacerbate inflationary pressures and cause further volatility in the markets, with consequent impact on investor confidence. Despite the challenging conditions that lie ahead, scenario analysis shows that the business is resilient to short-to-medium term shocks and the Company's focus continues to be on the long-term view.

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:

Stakeholder group and their key priorities	How we engage
Employees	
Learning and development	- Staff are encouraged to pursue formal and informal learning, with study support available for external qualifications - Performance management is taken seriously as a tool to build a skilled and empowered workforce
Transparent communication	- Regular Town Halls, team meetings and email announcements are used to communicate business updates - Regular feedback is collected through the Annual Employee Engagement survey and other informal staff surveys
Diversity and inclusion	- The Company's equal opportunities employment policy (refer to details in the Directors' Report) is strictly adhered to - An Inclusion, Diversity and Equity council has been set up at IOF Group level to promote inclusivity and diversity across the organisation
Health, safety and wellbeing	- A comprehensive Employee Assistance Programme is made available to all staff 24/7 - Staff were given 2 days of additional holiday during the year ("Foresters' Days") to allow them to take time off work and recharge

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Stakeholder group and their key priorities	How we engage
Excellent customer service	- Rigorous training is provided for Financial Advisers and customer facing staff - Customer satisfaction scores are monitored closely
Fair, transparent products that meet customers' needs	- Vulnerable customers are identified and followed up with post sales calls - Data analysis is used to understand customer behaviours and motivations
Positive membership experience	- Member benefits have been modernised to introduce relevant and desirable benefits to UK members - "MyForesters" was launched during the year, enabling members to access their benefits online
Suppliers and partners	
Collaborative and stable partnership	- Every key business relationship has a relationship manager and clear chain of escalation - The Company's third-party risk management policy establishes principles, practices and minimum standards to be adhered to
Regulators	
High standards of conduct	- Conduct risk is mitigated through advice suitability reviews, compliance monitoring controls and complaints management - FLL is subject to the Senior Managers and Certification Regime ("SMCR"), which involves annual certification of customer-facing managers and the entire Field Force
Transparent communication	- Regular meetings are held with supervisory bodies to keep them informed of business developments - All regulatory filings are submitted on a timely basis
Community and environment	
Giving back to communities	- Long-established membership initiatives enable members to enjoy quality family time and give back through volunteering efforts, e.g., community beautification projects, cleaning up beaches - As a mutual organisation members can vote for leaders within their community. In 2021 for every vote placed, a tree was planted, or two trees if the member voted online; nearly 5,000 trees have been planted, with around 3,000 across Scotland to help restore the Caledonian Forest
Impact investing	- The Company actively engages with its proprietary fund manager, Schroders, to integrate ESG compliance across all its funds - A £10m funding commitment was provided to the UK Social Supported Housing investment fund during the year, an investment project aimed at creating a positive social impact for both residents and the wider community

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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 the 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 outlined in Note 20 to the financial statements.

Solvency II

The Company is well-capitalised on a Solvency II basis. As at 31 December 2021, FLL reported a Solvency II coverage ratio of 164% (2020: 173%) of its Standard Formula capital requirement. Note 19 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 2021. Management continues to focus on ensuring regulatory compliance and holding a suitable capital buffer.

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 2022 business plan in light of its recent performance and current market conditions, as well as the results of stress and scenario testing that considers a range of scenarios including operational, financial and wider macroeconomic shocks. 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 28 March 2022 and signed on 31 March 2022 on its behalf

L. Pilipovic

L Pilipovic
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 2021.

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 20 to the financial statements.

Greenhouse gas emissions

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.

The Company's greenhouse emissions from material emissions-releasing activities were as follows:

	2021	2020
Energy consumption used to calculate emissions:		
Total energy use in kWh	**774,707**	623,203
Scope 1 - Emissions generated from gas used at Foresters House (tonnes CO2e)	**12**	8
Scope 2 - Emissions from purchased electricity (tonnes CO2e)	**70**	100
Scope 3 - Emissions from business travel, Waste and Recycling (tonnes CO2e)	**146**	26
Total CO2e (Scope 1,2,3)	**228**	134
Intensity ratio (tonnes CO2e per £m of revenue)	**0.3**	1.0

Total greenhouse emissions from the Company's direct operations increased by 70% from prior year. Greenhouse emissions reported in 2020 did not fully reflect business-as-usual, as the majority of

Financial Advisers were furloughed for six months of the year, and the majority of staff worked from home.

The Company is committed to reducing its greenhouse gas emissions. The Foresters UK head office was refurbished in 2021, which gave an opportunity to install carbon saving technologies. New windows offer more reflective and insulated glass, solar panels have been added to the roof and more energy efficient aircon units have been installed. The introduction of adviser video appointments from September 2020 has enabled Financial Advisers to reduce business-related travel. Paper usage is being reduced, where regulations allow. A climate change forum was launched in June 2021, made up of employees who are dedicated to the cause and contribute ideas towards ways of reducing the Company's carbon footprint.

Engagement with key stakeholder groups

The Section 172 statement in the Strategic Report sets out how the Company has engaged with its key stakeholder groups during the year, and how the Directors have considered the interests of these key stakeholder groups in principal business decisions

Employment policies

The Company's commitment to equal opportunities means that recruitment, training and promotion programmes are designed to develop talent based on merit and ability. Discrimination 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 is not tolerated.

Political contributions

The Company did not make any political donations nor incur 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 2021 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.

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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.

Approved by the Board on 28 March 2022 and signed on 31 March 2022 on its behalf

L. Pilipovic

L Pilipovic
Director

Foresters House
2 Cromwell Avenue
Bromley
BR2 9BF

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 expects that 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 separated. 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 must have recent relevant financial experience.

The current membership of the Committee is as follows:
D G Robinson (Chair)
A Clarkson
C Dunn
J Taylor

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, 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 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 current membership of the Committee, is as follows:
E Labovitch (Chair)
A Clarkson
G Godfrey
D Robinson
J Taylor
J Young

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. External assessments are performed regularly. 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 the 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 Company's key risks may be strengthened or weakened by the external environment. Looking ahead, Covid-19, Brexit and geopolitical tensions in Europe may cause further economic disruption and volatility in the financial markets, with potential impacts on our current and longer term profitability. Note 20 to the financial statements provides further information on these risk trends and how we manage these risks.

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 period of the business plan.

Risk Governance

To enable appropriate focus on risk matters, the Board has delegated oversight of risk management to the Risk and Investment Committee although ultimate accountability for risk management continues to reside with the Board. The Risk and Investment Committee is made up of Board Directors, although other members of IOF's and FLL's Executive Committee are invited to attend. The responsibilities of the Risk and Investment Committee include 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 company.

The first line of defence is management control. Operational managers identify, manage and record risks for their business area. 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; continuing to develop the risk management framework as agreed 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 second line provide independent reports on risk management and regulatory compliance to the board committees.

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 internal control framework.

Risk appetite

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.

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.

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 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. This analysis includes a 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. Reverse stress testing is also performed to identify the point at which the business model becomes unviable. The ORSA is therefore integral to Board oversight of business planning and capital management related processes within the Company. Formal ORSA reporting takes place at least 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 opens to all permanent employees.
- Benefits in kind - the Executive Director is provided with private medical insurance and permanent health insurance.

Non-Executive Directors' remuneration

The remuneration of the Non-Executive Directors who were in service during the financial year is provided below. This is audited information.

Non-Executive Directors	2021	2020
	£'000	£'000
J Young	60	60
M Christophers	40	40
D G Robinson	40	40
R E Lamoureux	23	40
A Clarkson	11	-
C Dunn	11	-
G Godfrey	11	-
E Labovich	11	-
J Taylor	11	-

The numbers above are on an accrual basis.

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

The directors are responsible for preparing 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 the financial statements in accordance with UK-adopted international accounting standards 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 its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for 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, and 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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 2021 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 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; 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 27 financial years ended 31 December 2021. 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	£2.8 million (2020: £2.4 million) 2% (2020: 2%) of Company net assets	
Key vs 2020	**audit**	**matters**
Recurring risks	Valuation of insurance contract 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 2020, 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 insurance contract liabilities (£401m, 2020 £446m)

The risk compared to the prior year is unchanged

Refer to page 30 to 38 (accounting policy) and pages 38 to 70 (financial disclosures)

The risk

The Company has significant insurance contract liabilities, of these £362m is in respect of with-profits insurance liabilities and these are set equal to the fund value as the entire amount of the fund will be distributed, and £39m is in respect of non-profit insurance liabilities.

Only non-profit liabilities involve material subjective judgements.

Subjective valuation:

The non-profit insurance liabilities are £39m (10% of the insurance contract liabilities) and the determination of these involves significant judgement over uncertain future outcomes.

Operating and economic assumptions

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 managements and industry expected levels of future rates of mortality improvement and other external factors arising from developments in the market.

Expense 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 insurance contract liabilities. There is a risk that inaccurate or incomplete data is used in the calculation of the non-profit insurance liabilities.

Estimation uncertainty

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements

Our response

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:

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 assessing 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

as a whole, and possible many times that amount.

analysing the appropriateness of forecast budgets.

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

Assessing Transparency

- Considering whether the disclosures in relation to the assumptions used in the calculation of valuation of insurance contract 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 insurance contract liabilities data by reconciling the underlying source data with the data input used in the model to assess whether the data is complete and accurate.

Our results

- We found the resulting estimate of the valuation of non-participating insurance contract liabilities to be acceptable (2020 result: acceptable).
- We performed the tests above rather than seeking to rely on any of the company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

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 £2.8m (2020: £2.4m), determined with reference to a benchmark of Company Net Assets, consistent with 2020 of which it represents 2% (2020: 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 compare 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% (2020: 75%) of materiality for the financial statements as a whole, which equates to £2.1m (2020: £1.8m) 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 (2020: £0.1m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We were able to rely upon the Company's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

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 and 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 insurance contract liabilities, the valuation of defined benefit obligations and the valuation of the Social Supporting Housing Fund ("SoHo") investment.

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 a fraud risk related to the valuation of insurance contract liabilities in response to the required significant judgement over uncertain future outcomes.

Further detail in respect of the valuation of insurance contract 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 impact 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 strategic report and the directors' 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 18, 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 2022

Forester Life Limited

Statement of Comprehensive Income
For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Revenue			
Gross written premiums	2	**15,962**	18,803
Ceded premiums		**(333)**	(369)
Net Written Premiums		**15,629**	18,434
Fee income from investment business		**65,798**	55,173
Investment income	11	**632,621**	67,333
Total Revenue		**714,048**	140,940
Policyholder benefits and expenses			
Gross policyholder benefits and payments		**125,659**	77,660
Gross change in insurance contract liabilities	13	**(45,018)**	(56,371)
Ceded change in insurance contract liabilities	13	**45**	917
Change in investment contract liabilities	14,15	**560,071**	52,021
		640,757	74,227
Operating expenses	3	**44,240**	36,521
Total policyholder benefits and expenses		**684,997**	110,748
Net income before tax		**29,051**	30,192
Income tax expense/(credit)	7	**9,229**	(1,897)
Net income for the year		**19,822**	32,089
Other comprehensive income			
Amounts that may subsequently be reclassified to profit or loss:			
Net unrealised (loss)/gains on available-for-sale assets	11	**(875)**	425
Amounts that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension obligation	6	**2,946**	(642)
		2,071	(217)
Total comprehensive income		**21,893**	31,872

The accompanying notes on pages 30 to 70 form part of these financial statements.

Forester Life Limited

Statement of Financial Position
As at 31 December 2021

	Note	2021 £'000	2020 £'000
Assets			
Intangible assets	8	**26,418**	26,616
Investment property	9	**6,150**	5,250
Investment in subsidiaries	10	**-**	-
Employee benefit asset	6	**1,460**	-
Deferred tax asset	7	**1,489**	4,784
Financial investments	11	**5,655,182**	5,128,926
Insurance and other receivables	12	**19,617**	22,313
Cash and cash equivalents		**60,448**	48,630
Total assets		**5,770,764**	5,236,519
Liabilities			
Insurance contract liabilities	13	**400,913**	445,931
Investment contract liabilities			
Unit-linked	14	**5,091,542**	4,549,179
Non-linked	15	**81,106**	60,164
Employee benefit obligation	6	**-**	3,359
Deferred tax liability	7	**6,332**	3,465
Current tax liability		**1,405**	2,140
Benefits payable		**28,378**	20,333
Other liabilities	17	**7,571**	10,323
Total liabilities		**5,617,246**	5,094,894
Equity			
Called up share capital	18	**68,500**	68,500
Capital contribution		**24,189**	24,189
Retained earnings		**58,176**	48,354
Accumulated other comprehensive income		**2,653**	582
Total equity		**153,518**	141,625
Total liabilities and equity		**5,770,764**	5,236,519

Approved by the Board on 28 March 2022 and signed on 31 March 2022 on its behalf

The accompanying notes on pages 30 to 70 form part of these financial statements.

L. Pilipovic

L Pilipovic
Director

Forester Life Limited

Statement of Changes in Equity

For the year ended 31 December 2021	Share Capital £'000	Capital Contribution £'000	Retained Earnings £'000	Accumulated OCI £'000	Total £'000
Balance, beginning of year	**68,500**	**24,189**	**48,354**	**582**	**141,625**
Net income for the year	**-**	**-**	**19,822**	**-**	**19,822**
Other comprehensive income	**-**	**-**	**-**	**2,071**	**2,071**
Total comprehensive income	**-**	**-**	**19,822**	**2,071**	**21,893**
Dividends paid	**-**	**-**	**(10,000)**	**-**	**(10,000)**
Balance, end of year	**68,500**	**24,189**	**58,176**	**2,653**	**153,518**

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

The accompanying notes on pages 30 to 70 form part of these financial statements.

Forester Life Limited

Statement of Cash Flows
For the year ended 31 December 2021

	2021	*Restated 2020
	£'000	**£'000**
Cash flows from operating activities		
Profit for the year	**19,822**	32,089
Adjustments for:		
Depreciation, amortisation and impairment	**198**	2,300
Change in value of investment property	**(900)**	170
Financial income	**(497,703)**	(26,654)
Taxation	**9,229**	(1,897)
	(469,354)	6,008
Decrease in trade and other receivables	**2,696**	2,030
Increase/(decrease) in trade and other payables	**5,292**	(1,347)
Net movement in investment contracts	**563,305**	676,717
Decrease in provisions and employee benefits	**(46,603)**	(57,923)
	524,690	619,477
Tax paid	**(4,249)**	(6,509)
Net cash from operating activities	**51,087**	618,976
Cash flows from investing activities		
Purchases	**(1,718,838)**	(2,464,257)
Sales	**1,679,895**	1,822,452
Interest received	**9,674**	15,431
Acquisition of intangible assets	**-**	(15,000)
Net cash from investing activities	**(29,269)**	(641,374)
Cash flows from financing activities		
Dividends paid	**(10,000)**	(10,000)
Net cash from financing activities	**(10,000)**	(10,000)
Net increase/(decrease) in cash and cash equivalents	**11,818**	(32,398)
Cash and cash equivalents at beginning of year	**48,630**	81,028
Cash and cash equivalents at end of year	**60,448**	48,630

*The cash flow statement has been restated as follows:

- Dividends paid were previously included in "investing" activities, they should have been included within "financing" activities and the prior year has been restated accordingly. The impact in the prior period results in a £10m reclassification. This restatement has no impact on the Statement of Financial Position or Statement of Comprehensive Income.

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

The accompanying notes on pages 30 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 Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee ("IFRIC") interpretations, in conformity with the requirements of the Companies Act 2006.

On 31 December 2020, IFRS as adopted by the European Union was brought into United Kingdom law and became international accounting standards as adopted in the UK with future changes subject to endorsement by the UK Endorsement Board ("UKEB").

The financial statements have been prepared on a going concern basis in line with the going concern assessment presented in the Strategic Report on page 9. 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.

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

Interest Rate Benchmark Reform Phase 2

The Company has retrospectively adopted Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS9, IAS 39, IFRS 4 and IFRS 16) from 1 January 2021. Comparatives have not been restated. The retrospective application has had no impact on opening equity as there were no transactions for which the benchmark rate was replaced with an alternative rate as at 31 December 2020.

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

In September 2016, the 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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

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.

The scope of the new standard will have a significant operational impact on the Company. In 2019, the Company had mobilised IFRS 17 project to ensure timely development of the required system capability to implement the standard. The testing work of new systems and processes will continue throughout the remainder of 2022.

The final standard was published on 25 June 2020, however this remains subject to endorsement by the UKEB.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2018. 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 2021 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 judgement within each accounting policy:

- Note 1.6 (c-d) – 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 2021 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:

- Notes 13 and Note 15 - 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 20.
- Note 1.8 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.
- Note 1.3 and Note 11 – fair value of financial instrument and investment property; where quoted market prices are not available, valuation techniques are used to value financial instruments and investment property. The valuation techniques involve judgement with regard to the valuation models used and the inputs to these models.

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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The investment in limited partnerships classified as AFS assets are recorded at fair value. The Company does not have joint control or any significant influence over these participations. The fair value is based on the net asset value of the investment where FLL is a limited partner.

Changes in fair value are recorded as net change in unrealised gains/(losses) on available for sale assets, a component of the Other Comprehensive Income. The realised gains or losses on sale are recorded in the Statement of Comprehensive Income.

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 amortised 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 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.

b) Halifax Child Trust Fund business

In April 2020, Forester Life Limited acquired the Child Trust Fund book of Halifax, a member of the Lloyds Banking Group. The full value of the Halifax CTF purchase consideration was 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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 to its recoverable amount.

1.6 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 Ongoing 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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are 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.

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 1/9th of bonuses allocated to the policyholders. This portion is recognised within the total liability until each bonus declaration is made.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

1.7 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.

1.8 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.

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.

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.

1.9 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.

Forester Life Limited

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

1.10 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

	2021		2020	
	Gross	Net	Gross	Net
	£'000	£'000	£'000	£'000
Life contracts	**12,275**	**11,958**	15,178	14,829
Pension contracts	**3,687**	**3,671**	3,625	3,605
Total	**15,962**	**15,629**	18,803	18,434
Participating contracts	**12,232**	**11,918**	15,243	14,897
Non-participating contracts	**3,510**	**3,491**	3,181	3,157
Unit linked contracts	**220**	**220**	379	379
Total	**15,962**	**15,629**	18,803	18,434
Periodic premiums	**15,962**	**15,629**	18,803	18,434
Total	**15,962**	**15,629**	18,803	18,434

2 GROSS WRITTEN PREMIUMS (continued)

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 2021 and 2020 was in non-participating contracts.

	2021		2020	
	Gross £'000	Net £'000	Gross £'000	Net £'000
Life contracts	**453**	**453**	92	92
Pension contracts	**2,772**	**2,772**	1,463	1,463
Total	**3,225**	**3,225**	1,555	1,555
Periodic premiums	**1,631**	**1,631**	797	797
Single premiums	**1,594**	**1,594**	758	758
Total	**3,225**	**3,225**	1,555	1,555

3 OPERATING EXPENSES

A breakdown of operating expenses by nature is provided below:

	2021 £'000	2020 £'000
Employee benefits		
Salaries, benefits	**7,515**	3,958
Social security costs	**1,764**	977
Pension plan expenses	**1,271**	772
	10,550	5,707
Head office staff costs	**11,362**	10,368
Amortisation of intangible assets	**6,031**	5,552
Administration costs	**4,837**	4,908
Technology costs	**8,859**	8,238
Legal and professional fees	**2,012**	889
Auditor's remuneration	**564**	571
Other expenses	**25**	288
Total operating expenses	**44,240**	36,521

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 175 (2020: 165). Head office staff are employed by the immediate parent company, FHE, and the head office headcount is reported in the statutory accounts of FHE.

Included within salaries in 2020 was a £1.3m of cash payments received from the UK Government's Coronavirus Job Retention Scheme.

4 AUDITOR'S REMUNERATION

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

	2021 £'000	2020 £'000
Audit of these financial statements	**390**	351
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**25**	24
All other services required by regulation	**149**	196
Total amounts receivable	**564**	571

5 DIRECTORS' EMOLUMENTS

The aggregate emoluments paid to Directors who were in service during the financial year, including pension scheme contributions, were as follows:

	2021 £'000	2020 £'000
Emoluments	**518**	633
Payable to one Director under a long-term incentive plan (2020: one Director)	**150**	161
Pension contributions to money purchase scheme	**31**	46
	699	840

The aggregate of emoluments receivable by the highest paid Director during the year, including retirement benefits of £31,000 (2020: £46,000), was £492,000 (2020: £669,000).

Retirement benefits accrued under money purchase schemes to one Director (2020: 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 £1,202,000 (2020: £1,114,000).

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 2020 in accordance with the Pensions Act 2004 scheme funding requirements. Based on this actuarial valuation, a funding plan was agreed between the Company and the scheme's Trustees. The Company is committed to funding the pension scheme with an annual contribution of £1,620,000 for the period 1 July 2020 to 30 June 2026. In addition, the Company agreed with the Trustees that it will meet expenses of the scheme and levies to the Pension Protection Fund.

6 EMPLOYEE BENEFIT OBLIGATION (continued)

Based on the latest actuarial valuation as at 31 December 2021, the scheme surplus was £1,460,000 (2020: £3,359,000 deficit).

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 Ongoing Business Fund ("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 2021, TWEFS scheme had a surplus of £1,460,000 (2020: £3,359,000 deficit) to the benefit of the Company's shareholder fund.

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 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:

	2021 £'000	2020 £'000
Present value of funded obligations	**(37,512)**	(40,671)
Fair value of scheme assets	**38,972**	37,312
Net asset/(liability) at 31 December	**1,460**	(3,359)

The actual return on plan assets in the period was an income of £1,603,000 (2020: £4,292,000). The amounts recognised in the income statement were:

	2021 £'000	2020 £'000
Net interest	**35**	68
Guaranteed Minimum Pensions	**(42)**	538
Total (income)/expense	**(7)**	606

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 £3.2m (2020: £4.8m). 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.

6 EMPLOYEE BENEFIT OBLIGATION (continued)

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).

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 2021, the accumulated defined benefit obligation was £37,512,000 (2020: £40,671,000) and the GMP reserve was estimated to be 1.34% (2020: 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:

	2021	**2020**
	£'000	**£'000**
Opening defined benefit obligation	**40,671**	36,613
Interest cost	**558**	722
Actuarial (gains)/losses on changes in financial assumptions	**(2,112)**	3,783
Past service (benefit)/cost arising from GMP equalisation	**(42)**	538
Benefits paid	**(1,563)**	(985)
Closing defined benefit obligation	**37,512**	40,671

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

	2021	**2020**
	£'000	**£'000**
Opening fair value of scheme assets	**37,312**	32,385
Interest income	**523**	654
Return on plan assets excluding interest income	**1,080**	3,638
Employer contributions net of charges	**1,620**	1,620
Benefits paid	**(1,563)**	(985)
Closing fair value of scheme assets	**38,972**	37,312

Forester Life Limited

6 EMPLOYEE BENEFIT OBLIGATION (continued)

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

	2021	2020
Financial assumptions		
Rate of increase in pensions in payment (Limited Price Index)	2.50%-3.60%	2.30%-3.60%
Discount rate	1.80%	1.40%
Inflation assumption (RPI)	3.20%	3.00%
Mortality assumptions		
Mortality: assumed life expectancy at age 65	**Years**	**Years**
Male retiring now	22.1	21.8
Female retiring now	24.4	23.7
Male retiring in 20 years	23.5	23.1
Female retiring in 20 years	25.9	25.2

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 15.5% Increase by 20%
Inflation (RPI and CPI)	Increase of 1% p.a. Decrease of 1% p.a.	Increase by 9.1% Decrease by 7.7%
Mortality	Increase in life expectancy of +1 year Increase in life expectancy of -1 year	Increase by 4.3% Decrease by 4.3%

The average duration of the defined benefit obligation at 31 December 2021 was 21 years (2020:19 years).

The assets in the scheme were:

	2021 £'000	2020 £'000
UK equities	**1,067**	844
Overseas equities	**9,474**	11,020
Gilts	**140**	5,829
Corporate bonds	**10,950**	8,583
Property	**1,504**	1,745
Cash	**1,857**	1,987
Liability driven investments ("LDI")	**5,710**	6,029
Other	**8,270**	1,275
Total assets	**38,972**	37,312

Included within "Other" assets as at 31 December 2021 were absolute return investments, high yields and commodities.

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:

	2021 £'000	2020 £'000
Corporation Tax expense / (credit)		
Current period	**3,537**	4,416
Adjustment to prior periods	**(22)**	(5,805)
	3,515	(1,389)
Deferred income tax expense / (credit)		
Relating to the origination and reversal of timing differences	**7,155**	2,646
Adjustment to prior periods	**(1,369)**	(2,059)
Impact of change in deferred tax rate	**(72)**	(1,095)
Income tax expense/(credit)	**9,229**	(1,897)

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

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

	2021 £'000	2020 £'000
Corporation Tax	**-**	-
Deferred tax		
Unrealised (loss)/gain on available-for-sale assets	**(257)**	299
Remeasurement of defined benefit obligation	**288**	(41)
Adjustment to prior periods	**20**	837
Reduction in deferred tax rate	**396**	99
Income taxes included in OCI	**447**	1,194

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:

	2021 £'000	2020 £'000
Profit for the period before taxation	**29,051**	30,192
UK tax at 19% (2020: 19%)	**5,520**	5,736
Tax on ring fenced funds*	**2,335**	1,696
Impact of other policyholder tax	**2,485**	527
Impact of amortisation not deductible for tax purpose	**544**	503
Profits taxed at rates below the standard rate	**(191)**	(1,400)
Effect of change in tax rate on deferred tax	**(72)**	(1,095)
Overprovided in previous periods	**(1,392)**	(7,864)
Tax Charge	**9,229**	(1,897)

**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 pretax expense in these financial statements.*

7 INCOME TAX EXPENSE (continued)

d) Change of tax rate

The Finance Act 2021 maintained the Corporation Tax main rate at 19% for the financial year beginning 1 April 2021. However, the rate will increase from 19% to 25% effective from 1 April 2023. This new rate has been taken into account in determining the deferred tax asset.

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 2021 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:

	2021 £'000	2020 £'000
The closing deferred tax balances comprise:		
Tax losses carried forward	**3,040**	6,065
Transitional adjustments	**(159)**	(318)
Excess and deferred expenses	**409**	512
Unrealised and deferred gains	**(8,003)**	(5,141)
Defined benefit pension scheme	**(130)**	201
Net deferred tax (liability)/asset	**(4,843)**	1,319

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

	2021 £'000	2020 £'000
Beginning of year	**4,784**	7,438
Statement of net income: credit/(expense)		
Adjustment to prior periods	**253**	(154)
Effect of change in tax rate on deferred tax	**(323)**	857
Utilisation of tax losses	**(3,337)**	(3,218)
Movements in other timing differences	**112**	(139)
End of year	**1,489**	4,784

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

	2021 £'000	2020 £'000
Beginning of year	**3,465**	5,432
Statement of net income: (credit)/expense		
Adjustment to prior periods	**(1,117)**	(1,376)
Effect of change in tax rate on deferred tax	**2**	(140)
Movements in other timing differences	**3,982**	(452)
End of year	**6,332**	3,465

8 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS

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

	2021 £'000	2020 £'000
Deferred acquisition costs	**16,248**	13,585
Management contract for CWFS business	**80**	380
Management contract for Halifax CTF business	**10,090**	12,651
	26,418	26,616

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.

	2021 £'000	2020 £'000
Beginning of year	**13,585**	13,236
Additions	**5,833**	3,252
Amortisation	**(3,170)**	(2,903)
End of year	**16,248**	13,585

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.

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

	2021 £'000	2020 £'000
Gross carrying value, beginning and end of year	**3,300**	3,300
Accumulated amortisation, beginning of year	**2,920**	2,620
Charge in the year	**300**	300
Accumulated amortisation, end of year	**3,220**	2,920
Net book value, beginning of year	**380**	680
Net book value, end of year	**80**	380

8 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS (continued)

Child Trust Fund Book of Halifax

In April 2020, FLL acquired the Child Trust Fund book of Halifax, a member of the Lloyds Banking Group. The full value of the purchase consideration of £15m was capitalised as an intangible asset. The accounting policies in relation to the amortisation and impairment of this intangible asset are set out in Note 1.5b) above.

	2021 £'000	2020 £'000
Gross carrying value, beginning and end of year	**15,000**	-
Additions	-	15,000
Accumulated amortisation, beginning of year	**2,349**	-
Charge in the year	**2,561**	2,349
Accumulated amortisation, end of year	**4,910**	2,349
Net book value, beginning of year	**12,651**	-
Net book value, end of year	**10,090**	12,651

Impairment tests have been carried out for each the intangible assets in line with the accounting policies adopted. There was no indication of impairment that would require an adjustment.

9 INVESTMENT PROPERTY

Movements in investment property balances were as follows:

	2021 £'000	2020 £'000
Balance, beginning of year	**5,250**	5,420
Additions at cost	-	-
Disposals	-	-
Revaluation	**900**	(170)
Balance, end of year	**6,150**	5,250

The Company has freehold title to its investment property. The property was valued at 31 December 2021 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.

All investment properties are categorised as Level 3 assets in the fair value hierarchy with no movement between categories during the year (refer to Note 11). Related amounts included in the statement of comprehensive income were as follows:

	2021 £'000	2020 £'000
Rental income	**369**	369
Revaluation of properties	**900**	(170)
Net income from investment property	**1,269**	199

Forester Life Limited

10 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

All subsidiaries have been assessed and impaired to their net book value. The carrying value of FLL's investment in subsidiaries at 31 December 2021 was £1 (2020: £1).

11 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 2021	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	**772,451**	**-**	**772,451**	**772,451**
Equities *	**4,771,299**	**85,093**	**4,856,392**	**4,856,392**
Derivatives and Collateral	**26,339**	**-**	**26,339**	**26,339**
Total financial investments	**5,570,089**	**85,093**	**5,655,182**	**5,655,182**
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

* 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.

Included within Equities classified as Available For Sale at 31 December 2021 was £3.6m in respect of the Company's share of the Social Housing ("SoHo") Partnership Limited. SoHo aims to generate income and capital appreciation through forward-funding of social supported housing units in the UK. This investment has been classified as a Level 3 Available For Sale asset. Unrealised changes in fair value are reported in other comprehensive income. Realised changes in fair value (from sale or impairment) are reported in profit or loss at the time of realisation. The fair value of the asset is based on the net assets value of the investment.

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

11 FINANCIAL INVESTMENTS (continued)

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.

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
  All equity investments were within collective investment schemes. Apart from the Company's investment in the Social Housing Partnership Limited, all equity investments are deemed to be Level 1 assets as quoted market prices are available for these assets. On a look through basis, assets held within these 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.

11 FINANCIAL INVESTMENTS (continued)

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

As at 31 December 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'000
Fair Value Through Profit or Loss				
Bonds	**181,358**	**591,093**	**-**	**772,451**
Equities	**4,771,299**	**-**	**-**	**4,771,299**
Derivatives	**-**	**26,339**	**-**	**26,339**
Available For Sale				
Equities	**81,499**	**-**	**3,594**	**85,093**
Total	**5,034,156**	**617,432**	**3,594**	**5,655,182**

As at 31 December 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total fair value £'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				
Equities	74,043	-	-	74,043
Total	4,873,534	255,392	-	5,128,926

There were no transfers between Level 1 and Level 2 during the year (2020: £Nil).

The Company's Level 3 assets comprise its investment in the Social Housing fund and its investment properties (refer to Note 9). Movements in Level 3 assets during the year are shown below:

2021	SoHo Fund £'000	Investment property £'000
Balance, beginning of year	**-**	**5,250**
Purchases	**3,594**	**-**
Net change in realised and unrealised gains included in the OCI	**-**	**900**
Balance, end of year	**3,594**	**6,150**

11 FINANCIAL INVESTMENTS (continued)

The table below show the sensitivity of the fair value of Level 3 assets to changes in unobservable inputs:

	Fair value	Most significant unobservable input	Reasonable alternative	Sensitivities	
				Positive impact	Negative impact
2021	**£'000**			**£'000**	**£'000**
Investment property	**6,150**	Estimated rental value	+/- 10%	615	(615)
Equities - Social Housing Fund ("SoHo")	**3,594**	Estimated rental value	+/- 10%	25	(25)
Total Level 3 investments	**9,744**			**640**	**(640)**

b) Net investment income

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

	2021	2020
	£'000	£'000
Interest income	**9,102**	13,610
Realised gains	**139,396**	127,480
Unrealised gains/(losses)	**490,472**	(67,307)
Net return on financial assets	**638,970**	73,783
Net rental income	**369**	369
Unrealised gains/(losses)	**900**	(170)
Net return on investments properties	**1,269**	199
Investment Expenses	**(7,660)**	(6,649)
Total	**632,579**	67,333

Interest income was derived from the following sources:

	FVTPL	AFS	Loans and receivables	Total
For the year ended 2021	**£'000**	**£'000**	**£'000**	**£'000**
Interest income from:				
Cash and cash equivalents	**1**	-	-	**1**
Bonds and other fixed term securities	**8,838**	-	-	**8,838**
Loans to policyholders	-	-	**263**	**263**
Total interest income	**8,839**	-	**263**	**9,102**

11 FINANCIAL INVESTMENTS (continued)

	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
Total interest income	13,347	-	263	13,610

All equity investments are held through collective investment scheme and all dividend income was reinvested directly back into the collective investment scheme.

Included within interest income was £Nil (2020: £Nil) in respect of interest income accrued on impaired financial assets.

Net realised gains on financial assets comprised:

	2021			2020		
	FVTPL £'000	**AFS £'000**	**Total £'000**	**FVTPL £'000**	**AFS £'000**	**Total £'000**
Bonds and fixed term securities	**(2,515)**	**-**	**(2,515)**	17,737	-	17,737
Equities	**79,685**	**1,225**	**80,910**	64,765	2,913	67,678
Derivatives	**61,001**	**-**	**61,001**	42,065	-	42,065
Net realised gains on financial assets	**138,171**	**1,225**	**139,396**	124,567	2,913	127,480

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

	2021 £'000	**2020 £'000**
Bonds and fixed-term securities	**(13,388)**	12,177
Equities	**495,274**	(85,370)
Derivative assets	**10,100**	11,097
Derivative liabilities	**(1,514)**	(5,211)
Net unrealised gains/(losses) on FVTPL assets	**490,472**	(67,307)

11 FINANCIAL INVESTMENTS (continued)

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

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

	2021 £'000	2020 £'000
Unrealised gains for the current period	**509**	4,573
Previously recognised unrealised gains transferred to realised gains on disposal	**(1,225)**	(2,913)
Net unrealised (losses)/gains on AFS assets	**(716)**	1,660

Included within the "Net unrealised losses on available-for-sale assets" of £875,000 on the Statement of Comprehensive Income was a £159,000 tax credit related to these unrealised losses.

d) Impairments

During 2021 there was no reversal of impairment losses on disposal of AFS assets (2020: £Nil).

12 INSURANCE AND OTHER RECEIVABLES

Insurance and other receivables comprised the following:

	2021 £'000	2020 £'000
Loans to policyholders	**5,300**	**5,182**
Policyholder debtors	**503**	**3,460**
Reinsurers' share of insurance liabilities	**4,814**	**4,859**
Amounts due from reinsurers	**-**	**238**
Accrued investment income	**3,034**	**3,606**
Policyholder taxes recoverable	**1,369**	**1,279**
Prepayments and other	**4,597**	**3,689**
Total insurance and other receivables	**19,617**	**22,313**

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

13 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 1.6(a) and 1.6(b).

FLL has reinsurance treaty 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.

13 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (continued)

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

With-Profits funds	2021			2020		
	Gross liabilities **£'000**	Re-insurance assets **£'000**	Net liabilities **£'000**	Gross liabilities **£'000**	Re-insurance assets **£'000**	Net liabilities **£'000**
Balance, beginning of year	**408,508**	**(4,854)**	**403,654**	460,529	(5,770)	454,759
In-force business	**(46,544)**	**44**	**(46,500)**	(52,021)	916	(51,105)
Change in contract liability	**(46,544)**	**44**	**(46,500)**	(52,021)	916	(51,105)
Balance, end of year	**361,964**	**(4,810)**	**357,154**	408,508	(4,854)	403,654

Non-Profit funds	2021			2020		
	Gross liabilities **£'000**	Re-insurance assets **£'000**	Net liabilities **£'000**	Gross liabilities **£'000**	Re-insurance assets **£'000**	Net liabilities **£'000**
Balance, beginning of year	**37,423**	**(5)**	**37,418**	41,773	(6)	41,767
New business	**(1,344)**	**-**	**(1,344)**	(255)	-	(255)
Risk margin refinement	**(1,490)**	**-**	**(1,490)**	-	-	-
Halifax expense synergies	**-**	**-**		(480)	-	(480)
In-force business	**3,292**	**1**	**3,293**	3,988	1	3,989
Refinement of assumptions	**1,068**	**-**	**1,068**	(7,603)	-	(7,603)
Change in contract liability	**1,526**	**1**	**1,527**	(4,350)	1	(4,349)
Balance, end of year	**38,949**	**(4)**	**38,945**	37,423	(5)	37,418

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 (and 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 20.

13 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (continued)

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%	7.0%
Year 2	8.0%	8.0%
Year 3	7.00%	9.00%
Year 4	6.00%	10.00%
Year 5	7.00%	12.00%
Year 6 and thereafter	5.00%	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 the PRA in accordance with Solvency II regulation.

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 1.6(a)).

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

Mortality tables	2021	2020
Term Assurance	TM08, TF08	TM08, TF08
TW Annuities in payment	IML00/IFL00	IML00/IFL00
Pensions in payment	CMI 2019 M/F	CMI 2019 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.

14 INVESTMENT CONTRACT LIABILITIES - UNIT LINKED

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

	2021 £'000	2020 £'000
Balance, beginning of year	**4,549,179**	3,871,045
Acquisition of the Halifax CTF business	**-**	585,706
Transfer from TW insurance contract liabilities	**3,234**	1,629
Transfer to TW investment contract liabilities*	**(21,560)**	-
	4,530,853	4,458,380
Additions to the account of the unit holder:		
Deposits received from the unit holders	**502,896**	306,902
Investment income	**-**	3,518
Net unrealised gains/(losses) on investments	**485,396**	(58,558)
Net realised gains on sale of investments	**126,706**	108,798
Tax expense	**(3,068)**	(651)
	1,111,930	360,009
Deductions from the account of the unit holder:		
Amounts withdrawn or transferred by unit holders	**(486,188)**	(214,026)
Management fees	**(65,053)**	(55,184)
	(551,241)	(269,210)
Balance, end of year	**5,091,542**	4,549,179

* *During the year, TW matured policy funds, the majority of which were originally non unit-linked policies, were reclassed to Investment Contract Liabilities.*

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

	2021 £000	2020 £000
Cash and cash equivalents	**25,376**	20,280
Bonds	**467,888**	416,314
Equities	**4,545,603**	4,096,230
Derivative assets	**10,100**	11,097
Derivative liabilities	**(1,514)**	(5,211)
Other assets	**44,089**	10,469
Investments for account of unit holders	**5,091,542**	4,549,179

Included within "Other assets" as at 31 December 2021 was an interfund reinsurance asset in respect of the internal reinsurance arrangement between the TW with-profits fund and the Company. This arrangement covers the non-profit and unit-linked business written in the TW with-profits fund and came into force on 1 October 2021.

15 INVESTMENT CONTRACT LIABILITIES WITH DISCRETIONARY PARTICIPATING FEATURES

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

	2021 £'000	2020 £'000
Balance, beginning of year	**60,164**	61,581
Transfer from TW unit-linked liabilities	**21,560**	-
Deposits received during the year	**18**	12
Interest credited and other	**2,686**	1,057
Surrenders and encashments	**(3,136)**	(2,576)
Expenses charged to policyholders	**(186)**	90
Balance, end of year	**81,106**	60,164

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

	2021 £'000	2020 £'000
Bonds	**38,522**	33,002
Equities	**37,295**	19,081
Other assets	**5,289**	8,081
Investments for account of plan holders	**81,106**	60,164

16 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:

	2021 Market value £'000	2020 Market value £'000
Exchange traded derivatives	**5,629**	10,547
Foreign exchange forward contracts	**4,471**	550
Total derivative assets	**10,100**	11,097

	Market value £'000	Market value £'000
Exchange traded derivatives	-	-
Foreign exchange forward contracts	**1,514**	5,211
Total derivative liabilities	**1,514**	5,211

In addition to the above Derivatives position, the Company held collateral of £20,710,026 as at 31 December 2021 (31 December 2020: £24,179,911).

17 OTHER LIABILITIES

The Company's other liabilities comprised the following items:

	2021 £'000	2020 £'000
Amounts owed to parent company	**2,791**	1,887
Amounts due to reinsurers	**68**	85
Amounts due to policyholders	**2,018**	2,257
Other liabilities and deferred income	**2,693**	6,094
Total other liabilities	**7,570**	10,323

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.

18 CALLED UP SHARE CAPITAL

	2021 £'000	2020 £'000
Issued and authorised		
68.5m (2020: 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.

19 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 with the fourth being the deferred pension fund that has been ring fenced since September 2016. All ring fenced funds are closed to new business.

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.

19 CAPITAL MANAGEMENT (continued)

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:

	2021	2020
	£'m	£'m
Eligible Own Funds	**269**	269
Solvency Capital Requirement	**(164)**	(155)
Excess Own Funds	**105**	114
Solvency II coverage ratio	**164%**	173%

20 RISK MANAGEMENT

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.

Risk Environment

Covid-19 impacted the business initially in ways which had been considered under the risk framework, such as market volatility and reduced sales, and ways which had not been foreseen such as back-office staff utilising remote working arrangements for almost two years. The full extent of the longer-term impacts from the Covid-19 pandemic are uncertain, both from a health and an economic perspective. It is likely that Government policy will begin to address the increased national debt that arose as a result of fiscal support programmes. The scenario testing carried out as part of the Own Risk and Solvency Assessment ("ORSA") demonstrates that FLL remains resilient to macro-economic shocks.

There have been multiple changes in management in 2021 at both Board and Executive level. Succession planning has ensured that key positions have been covered and there has been minimum disruption to the business.

The Company supports the government's pledge to achieving net-zero carbon emissions by 2050. Plans have been set in motion to address this and to prepare for Task Force on Climate Related Financial Disclosures ("TCFD") by 2023.

There are two main climate change risks that can increase financial risks: transition risks and physical risks. These risks can have multiple impacts, increasing market risk, credit risk, underwriting risk, operational risk and liquidity risk. One of the main risks for FLL is the strategic risk of not meeting customers' investment preferences and the associated reputational risk. Climate change risk for the open book is assessed in the ORSA through scenario testing and demonstrates that the market risk associated with the current investment strategy is not significant currently.

Forester Life Limited

20 RISK MANAGEMENT (continued)

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.

The key strategic risks are that FLL fails to meet the needs and expectations of its customers and fails to retain its Child Trust Fund plan holders and their family members.

The overall business plan is reviewed, challenged, and monitored at both UK and parent company Board level. The output from the ORSA, including a forward-looking assessment of own risk, is reviewed in terms of the Board's risk appetite. 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.

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. 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

Most equity risk is borne by customers, although equity price falls will impact the amount of revenue derived from fees from the unit linked products. With-profits funds also invest in equities and are exposed to market falls. There is also a small direct exposure through the shareholder funds.

Currency Risk

The base currency of investment is GBP. The stakeholder managed fund includes some global equity and bond sub-funds, and on occasion individual overseas assets. The fund manager has the discretion to apply currency hedging, subject to limits as defined in the Investment Management Policy. For some of the other funds, overseas assets may be held indirectly through the overseas equity sub-funds. There is no currency hedging in these sub-funds. A strengthening in sterling will reduce the value of overseas assets. This risk relates mainly to the unit linked funds where the risk is borne primarily by the policyholder, as the value of the policy is directly linked to the value of the assets. For the Global Government and Corporate bond funds, which hold overseas bonds, all overseas exposure is fully hedged back to sterling.

Forester Life Limited

20 RISK MANAGEMENT (continued)

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.

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:

	2021 £'000	2020 £'000
Cash and cash equivalents	**60,448**	48,630
Bonds	**772,451**	750,737
Policyholder debtors	**5,802**	8,642
Other assets subject to credit risk	**41,614**	48,398
	880,315	856,407
Equities	**4,856,392**	4,343,462
Investment properties	**6,150**	5,250
Other assets not subject to credit risk	**27,907**	31,400
Total assets	**5,770,764**	5,236,519

20 RISK MANAGEMENT (continued)

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.

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

	2021 £'000	2020 £'000
Bonds issued or guaranteed by:		
UK treasury and other UK agencies	**580,609**	539,053
EU government or agencies	**21,270**	24,314
Other Non-EU global government	-	-
Supranational bodies	**25,724**	25,354
Total government or supranational bonds	**627,603**	588,721
Total corporate bonds	**144,848**	162,016
Total bonds	**772,451**	750,737

The credit rating of all assets bearing credit risk was as follows:

	2021		2020	
	£'000	%	£'000	%
Investment grade:				
AAA	**55,988**	**7.2%**	58,042	7.7%
AA	**598,698**	**77.5%**	562,277	74.9%
A	**58,805**	**7.6%**	67,821	9.0%
BBB	**58,960**	**7.7%**	62,597	8.3%
Total bonds	**772,451**	**100%**	750,737	100%

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 2021 (2020: £nil).

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

At 31 December 2021, FLL held no bonds on which interest payments were in default (2020: Nil).

20 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 policies prior to maturity or partially encash or fully encash their plans;
- 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 policies prior to maturity or partially encash or fully encash their plans.
- 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. Operational risk is managed through the operational risk policy and internal controls, supplemented by insurance arrangements. Operational risk exposures are subject to scenario testing to better understand potential losses and the possible management actions to address these.

The key operational risks are:

- Cyber risk: 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, and through cyber risk insurance.

20 RISK MANAGEMENT (continued)

- Regulatory risk: this 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 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. The Compliance function provides expert guidance to the business and monitors adherence to regulatory requirements. As a result of Covid-19 FLL implemented changes to its sales processes in 2020, so that video technology could be utilised. This has become a permanent distribution channel for the financial advisers in addition to face-to-face sales. These sales are made under distance marketing regulations with guidance on the requirements and subsequent monitoring from Compliance. The regulatory and supervisory responses to Covid-19 have included increased scrutiny of operational resilience, and actions have been taken to ensure that FLL complies with the new operational resilience requirements.

- Outsourcing and Third-Party risk: There is a risk that FLL would not be able to meet customer obligations following a significant degradation in these services which could result in major disruption to operations. These risks are addressed through the Third-Party Risk Management process which ensures that there is due diligence, legal oversight of contracts and appropriate monitoring and oversight.

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.

The actuarial assumptions used in the measurement of insurance contract liabilities take insurance risk factors into account as discussed in Note 13.

20 RISK MANAGEMENT (continued)

Impact of key insurance sensitivities:

Variable	Change in variable	Impact on pre-tax P&L
Fall in lapse rates	10% fall	£(1.3)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.

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.

The estimated cash flows of FLL's significant financial assets and liabilities as at 31 December 2021 are shown as follows:

	1 year or less or undated	1-5 years	5-10 years	Over 10 years	Total
31 December 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	60,448	-	-	-	**60,448**
Bonds	772,451	-	-	-	**772,451**
Equities	4,856,392	-	-	-	**4,856,392**
Derivative assets	10,100	-	-	-	**10,100**
Derivative liabilities	(1,514)	-	-	-	**(1,514)**
Insurance contract liabilities	(52,785)	(122,588)	(72,524)	(153,016)	**(400,913)**
Investment contract liabilities*	(5,172,648)	-	-	-	**(5,172,648)**
Claims and other payables	(28,378)	-	-	-	**(28,378)**
	444,066	(122,588)	(72,524)	(153,016)	**95,938**

Forester Life Limited

20 RISK MANAGEMENT (continued)

31 December 2020	1 year or less or undated £'000	1-5 years £'000	5-10 years £'000	Over 10 years £'000	Total £'000
Cash and cash equivalents	48,630	-	-	-	48,630
Bonds	750,737	-	-	-	750,737
Equities	4,343,462	-	-	-	4,343,462
Derivatives assets	11,097	-	-	-	11,097
Derivative liabilities	(5,211)	-	-	-	(5,211)
Insurance contract liabilities	(41,024)	(125,909)	(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	(125,909)	(86,430)	(192,567)	73,108

**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.*

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.

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.

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.

20 RISK MANAGEMENT (continued)

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.

In October 2021, an internal reinsurance was set up between the TW Fund and the Ongoing Business Fund ("OBF"), in respect of non-profit business within that fund. The transaction is expected to have an immaterial impact on FLL's solvency position, on income and on the balance sheet surplus. The most significant risk to the OBF is that the experience does not match the assumptions and the reinsurance premium is not sufficient to pay out liabilities as and when they are due. This is not a significant risk with the economic assumptions, since the assets are those already backing this business.

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.

21 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.

Transaction details were as follows:

	2021 £'000	2020 £'000
Operating costs recharged by FHE (including a charge in respect of salaries, pension contributions and other pension costs)	**34,522**	24,179
Rent charged to FHE by FLL	**369**	369

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

	2021 £'000	2020 £'000
Immediate parent company	**2,791**	1,887
Total	**2,791**	1,887

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.

21 RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel

Members of the Board of Directors and Executive Committee are deemed to be key management personnel. Compensation paid to key management personnel who were in service during the year was as follows:

	2021	2020
	£'000	£'000
Salaries and short-term benefits	**1,540**	1,468
Post-employment benefits under money purchase scheme	**119**	130
Other long-term benefits	**307**	261
Total	**1,966**	1,859

22 COMMITMENTS

The Company had no commitments to make payments as a lessee at the end of 2021 and 2020.

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:

	2021	**2020**
	£'000	**£'000**
< 1 year	**369**	369
1-5 years	**1,700**	1,476
Over 5 years	**106**	830
Total undiscounted lease payments	**2,175**	2,675

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

	2021	**2020**
	£'000	**£'000**
< 1 year	**2,894**	1,809
1-5 years	**8,682**	7,238
Total	**11,576**	9,047

During 2021, the Company became a Limited Partner in Social Supported Housing Partnership, committing to invest £10m in the development of social supported housing in the UK. See Note 11 for further details on the investment. As at 31 December 2021, the total amount drawn on the commitment was £3,530,463.

23 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:

	2021			2020		
	Total	**Within 12 months**	**Beyond 12 months**	**Total**	**Within 12 months**	**Beyond 12 months**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
ASSETS						
Intangible assets	**26,418**	**3,835**	**22,583**	26,616	2,492	24,124
Investment property	**6,150**	**-**	**6,150**	5,250	-	5,250
Employee benefit asset	**1,460**	**-**	**1,460**	-	-	-
Deferred Tax asset	**1,489**	**1,489**	**-**	4,784	1,990	2,794
Financial investments	**5,655,182**	**5,651,588**	**3,594**	5,128,926	5,128,926	-
Insurance and other receivables	**19,617**	**5,300**	**14,317**	22,313	5,182	17,131
Cash and cash equivalents	**60,448**	**60,448**	-	48,630	48,630	-
TOTAL ASSETS	**5,770,764**	**5,722,660**	**48,104**	5,236 519	5,187,220	49,299

	2021			2020		
	Total	**Within 12 months**	**Beyond 12 months**	**Total**	**Within 12 months**	**Beyond 12 months**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
LIABILITIES						
Insurance contract liabilities	**400,913**	**52,778**	**348,135**	445,931	41,024	404,907
Investment contract liabilities:						
Unit-linked	**5,091,542**	**5,091,542**	**-**	4,549,179	4,549,179	-
Non-linked	**81,106**	**81,106**	**-**	60,164	60,164	-
Employee benefit obligation	**-**	**-**	**-**	3,359	1,620	1,739
Deferred tax liability	**6,332**	**1,523**	**4,809**	3,465	977	2,488
Current tax liability	**1,405**	**1,405**	**-**	2,140	2,140	-
Benefits payable	**28,378**	**28,378**	**-**	20,333	20,333	-
Other liabilities	**7,570**	**7,570**	**-**	10,323	10,323	-
TOTAL LIABILITIES	**5,617,246**	**5,264,309**	**352,937**	5,094,894	4,685,760	409,134

24 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.

25 RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES TO FINANCIAL STATEMENTS

Alternative Performance Measures ("APM") are used to supplement the disclosures prepared in accordance with other regulations such as International Financial Reporting Standards ("IFRS") and Solvency II. The key financial performance indicators disclosed in the Strategic Report are APMs derived from IFRS measures that are used by management to enhance understanding of the Company's financial performance. Further details on these APMs are provided below.

Net fund flows

Inflows include net premiums written and deposits made under investment contracts. Outflows include net claims paid and surrenders under investment contracts. Net fund flows exclude fair value changes to investments.

Assets under management

Assets under management ("AUM") represent all assets managed directly or indirectly by the Company.

A reconciliation of amounts appearing in the Company's statement of financial position to AUM is shown below:

	2021	**2020**
	£'000	**£'000**
Assets included in the Statement of Financial Position:		
Financial investments	**5,655,182**	5,128,926
Investment properties	**6,150**	5,250
Cash and cash equivalents	**60,448**	48,630
Other	**116**	(10,211)
Total AUM	**5,721,896**	5,172,595

"Other" includes balances owed to/(from) third parties in respect of trade settlements and annual management charges.