



2019

SUMMARY REPORT

uia
mutual
insurance for
trade union members

&

together
mutual insurance

CONTENTS / BOARD OF DIRECTORS

CONTENTS

- | | |
|---|--|
| 03 ANNUAL GENERAL MEETING AGENDA | 07 STRATEGIC STATEMENT |
| 04 CHAIRPERSON'S STATEMENT | 16 SUMMARY DIRECTOR'S REMUNERATION REPORT |

EXECUTIVE DIRECTORS:

| | |
|--------------|--|
| Jon Craven | Chief Executive Officer |
| John Nickson | Finance Director and Society Secretary |

NON-EXECUTIVE DIRECTORS:

| | |
|-----------------|-----------------------------|
| Angie Roberts | (appointed 4 February 2020) |
| Bob Abberley | |
| Eithne McManus | |
| Lucia McKeever | |
| Oliver Peterken | |
| Peter Dodd | Chairperson |
| Tim Holliday | Senior Independent Director |
| Tony Woodley | |
| Marion Saunders | (resigned 24 June 2019) |

ANNUAL GENERAL MEETING AGENDA



The Annual General Meeting of UIA (Insurance) Limited (the Society) will be held at Kings Court, London Road, Stevenage, Hertfordshire, SG1 2TP on Tuesday, 23 June 2020 at 1.30pm to consider the following business and, if thought fit, pass the following resolutions by a simple majority of votes cast on-line and via post from our members.

1. To receive the annual report of the Board, the auditors' report and the audited financial statements for the year ending 31 December 2019.
2. To approve the remuneration report for the year ending 31 December 2019.
3. To re-appoint Deloitte LLP to be auditors of the Society, to hold office until the conclusion of the next Annual General Meeting, and to agree that their remuneration will be determined by the Board.
4. To re-elect Tony Woodley as a member of the Board.
5. To suspend Rule 72 of the Company's rules in respect of Peter Dodd, and re-elect him as Chairperson of the Board for the period of 23 June 2020 until the Annual General Meeting in 2022.
6. To re-elect Angie Roberts* as a member of the Board, having been appointed as a director since the AGM 2019 and pursuant to Rule 71 of the Society.
7. To re-elect Jon Craven as a member of the Board.
8. To re-elect John Nickson as a member of the Board.
9. To transact any other business permissible under the rules of the Society.

In addition;

Copies of the agenda and a form of proxy will be sent to members of UIA and Together, with a link to access the 2019 Summary Report online. The Annual Report and Financial Statements for the year ending 31 December 2019, together with additional copies of the agenda, are available via www.uia.co.uk or on request from the PA to the Chief Executive Officer, UIA (Insurance) Limited, Kings Court, London Road, Stevenage, Herts, SG1 2TP, or SMTPA@uia.co.uk

Jon Craven
Chief Executive Officer
11 May 2020

* Angie Roberts, having been elected by the Board pursuant to Rule 77, retires from office and, being eligible, offers herself for re-election



CHAIRPERSON'S STATEMENT

BUSINESS OVERVIEW FOR 2019

In 2019, we continued to serve our members in their times of need. Thankfully this past year our members didn't face weather events of a similar magnitude to the 2018 Beast from the East, but they did need our help when faced with a range of events including floods, fires, theft, subsidence, escape of water and many other insurable events.

In our results, we can see the positive outcome from the necessary steps that the Society undertook to improve its financial performance. The result on our insurance business was greatly improved following the pricing, risk selection and claims management actions that we undertook in 2018 and 2019. As always in insurance, there is a lag before the full impact of decisions is seen. Our expectation is that the most significant pricing changes have now been made and we hope there will be a period of relative price stability for most of our members.

As a mutual, we do not seek to make excessive profits and aim to charge our members only a fair premium for their insurance needs.

Because we have not charged interest on instalment facilities, or made charges for members who need to make adjustments to their policies, inevitably our headline premiums can appear higher than those of competitors who do charge for these.

The pricing changes inevitably led to some loss of members and this is particularly true of those sourced via the comparison sites, where we no longer write new business.

The significant improvement in our post-tax loss was further helped by the investment gains on our longer term bond portfolio. This resulted in a loss for the year of £1.2m compared with a £8.1m loss in 2018. Due to the significant investment risks associated with Brexit and other worldwide economic uncertainties, the Board decided to further de-risk away from longer term bonds in the autumn. By the year end, the investment portfolio was primarily made up of shorter term bond and cash funds. This does provide some protection from investment variances but, especially in a low interest rate environment, will inevitably mean a reduction in

investment income in 2020.

The loss for the year also includes some £0.6m of amortisation in respect of our 'once in a generation' transformation programme. This is progressing well, and in 2020 we plan to deliver our new policy administration system and pricing and underwriting tools, which are the final major part of our change programme.

Whilst total assets decreased due to the aforementioned losses, our Solvency Capital Requirement (SCR) coverage has broadly been maintained at 194%. This is comfortably above our own internal risk appetite level of 150% or more. Although the modest loss and adverse pension deficit movements could be expected to reduce the solvency cover, these effects have been largely offset by the benefit from the pricing actions that we have needed to take.

GOVERNANCE ARRANGEMENTS

There are no significant changes to our governance arrangements where the Society Board is supported by three Board committees. These are: the Audit Committee, Risk Committee

CHAIRPERSON'S STATEMENT

and Nominations and Remuneration Committee.

The Board has delegated execution of the Society's strategy to the Chief Executive Officer (CEO). The CEO is assisted in the performance of his duties by the Executive Group. There are also executive working groups covering all aspects of the Society's business.

BUSINESS MODEL AND OUTLOOK

Our business model and strategy remain the same. We are a UK-based mutual offering a range of personal lines products, either underwritten by ourselves or by one of our business partners. Our members are based in the UK and we aim to serve those members from our UK operation based in Stevenage, Hertfordshire.

Our primary focus continues to be on working closely with all our union partners to maximise the benefit to them and their members who are also members of UIA Mutual. We will also write business in other markets where this can support our primary objective and provide additional scale for the business. Opportunities include

working with like-minded organisations to offer our core products to their members.

In terms of business outlook, there are a considerable number of uncertainties facing the UK insurance industry. As well as Brexit and the wider economic uncertainties referred to earlier; there are also factors such as the impact of climate change, which is very difficult to predict. The industry is also waiting on the FCA's publication of its General Insurance Pricing Market Study consultation paper and finalised set of proposed remedies. These are due for publication in Q2 2020.

Subject to all these uncertainties we expect to see further improvement in the business results for 2020. This

"In our results, we can see the positive outcome from the necessary steps that the Society undertook to improve its financial performance. The result on our insurance business was greatly improved following the pricing, risk selection and claims management actions that we undertook in 2018 and 2019"

is because 2020 will be the first year where the full impact of our pricing, risk selection and claims management actions will be seen.

SUPPORTING OUR COMMUNITY

Our colleagues have supported a number of national fundraising events such as Comic Relief and Children in Need during the year. Our main area of focus for charitable giving has again been at a more local level in 2019. Donations have been made to various hospices and homeless sanctuaries in the region. Leading up to Christmas, the Society once again donated £2,500 each to the Stevenage Community Foodbank and Stevenage Haven, which looks after young homeless people.

CHAIRPERSON'S STATEMENT



BOARD COMPOSITION

I am delighted to welcome Angie Roberts to the Board. Angie is a UNISON nominee and serves on the UNISON NEC. Angie joined the Board on 4 February 2020 and brings with her a wealth of experience from the trade union movement. Angie will sit on the Board and Nominations and Remuneration Committee. We look forward to working with Angie for many years to come.

In June 2019 Marion Saunders retired from the Board after serving the

Society for nine years. During her time on the Board, Marion sat on all three of our committees and also served as Senior Independent Director. In this role Marion was the Society's whistle blowing champion, dealing sensitively and professionally with difficult issues. I think it is fair to say that colleagues could rely on Marion to be a discrete, confidential sounding board for any issues. I am grateful to Marion for her excellent advice to me as Chair which is the other main role of the Senior Independent Director. Marion performed her duties as a non-executive director with a high regard for the members' interests and always provided appropriate challenges to the Executive. We will all miss Marion's contributions at Board meetings.

OUR COLLEAGUES AND MEMBERS

Our colleagues are the driving force behind all our successes and I would like to thank all our colleagues who have worked so hard in the last year to continue to deliver a high-quality service to our members, often at a point where those members feel vulnerable, due to some event affecting their home.

Our 2019 member survey again provided good evidence that our products and services are valued, with 77% of UIA mutual members saying that they 'definitely will' or are 'very likely to', renew their insurance. Our 'How are we doing?' surveys elicited a 93% member satisfaction rating across the year.

Finally I would like to thank you, our members for your enduring loyalty to the Society, and we hope that we can continue to serve you and your families for many years to come.

"Our colleagues are the driving force behind all our successes and I would like to thank all our colleagues who have worked so hard in the last year to continue to deliver a high-quality service to our members, often at a point where those members feel vulnerable, due to some event affecting their home"

A handwritten signature in black ink that reads "Peter Dodd". The signature is written in a cursive style.

Peter Dodd
Chair of the Board
11 May 2020

STRATEGIC STATEMENT



SOCIETY PURPOSE

Our continued aim is to be the first choice personal lines provider to members of trade unions, their families and other like-minded organisations and their members, through the provision of first class service and products.

BUSINESS MODEL AND STRATEGY

In order to achieve this mission our corporate aim is to remain an independent mutual that is financially strong and operating profitably. Our key measures of strength and profitability are our Solvency Ratio and our Combined Operating Ratio and we aim to deliver these key targets primarily through the underwriting and administration of household insurance, supported by the provision of other complementary products.

During the year under review, the Society continued to underwrite Home Emergency Assistance (Class 18) business and also Before The Event (BTE) legal expenses insurance. We also continue to underwrite After The Event (ATE) legal expenses insurance, although this business is largely in

run-off. As a mutual, we have no shareholders to pay and we are thus able to generate long-term value to our policyholders. We aim to do this through a combination of excellent customer service, competitive premiums and the prompt payment of all valid claims.

Our commercial strategy is dual focused: Firstly, to continue extensive engagement with members of our key business partners, the trade unions, through a number of different communication channels, including direct mail, digital media, magazines, conferences and face-to-face contact with key branch, regional and national officials. Through improved communication and products that meet our member's needs, we will ensure we deliver insurance products that meet their requirements, enhance their journey from quote to buy, and in some cases to claims notification and settlement, and thus provide the best service to our members.

Secondly, to offer our products to members of organisations who share our mutual values. To that end we have secured a new partner

and plan to start delivering our product through that entity to its members in 2020. This is an excellent example of developing 'affinity' relationships with like-minded organisations, as well as demonstrating we have the capability to expand into adjacent markets. Further investment has been made in our sales and marketing teams to do all we can to acquire more members, keep existing members, and to deepen our relationships through offering additional 'value adding' products and services.

Our entire operation is UK-based, with day to day services such as claims handling, policy administration, payments and sales taking place from our office in Stevenage. Our 24/7 out of hours claims service is operated using an external partner based in Cardiff.

REVIEW OF THE BUSINESS

In 2019, the Society continued to make a loss of £1.2m before re-measurement of defined benefit pension liability. We have seen a significant improvement from 2018's loss of £8.1m.

Our underwriting result, a loss of £2.7m was a result of the run-off of the inappropriately priced



STRATEGIC STATEMENT

policies identified in early 2018. Adjusted pricing and underwriting actions were introduced in May 2018.

During 2019, we maintained tight controls of our expenses to ensure these were in line with budget.

2019 saw our investments recover from the losses made in 2018, coupled with a return on our investments of 3%. During Q4 we reviewed our investment strategy and de-risked our investment portfolio further. This was done in order to reduce our spread of risk and to increase our SCR cover. This will have an impact on our investment return, which will be seen in our 2020 results.

Our balance sheet has retained profits of £27.6m (2018: £30.5m), and with a solvency capital ratio of 194% (2018: 194%), the Society remains strong.

BREXIT

We are not expecting to have to alter our business model due to matters arising from any direct or indirect impact of the UK leaving the European Union. We underwrite entirely within the United Kingdom. We will, however, face the indirect consequences of such a move, such as a possible increase in general inflation

and further uncertainty within investment markets.

As expected, we did not see any significant impact in 2019 due to the transition period. The Society continuously monitors and reviews the impact of Brexit.

Some of our reinsurers are non-UK based from within the European Union. We have investigated post Brexit arrangements and are satisfied that such arrangements will continue to be in place.

A severe reduction in values of financial markets was included in our own Risk and Solvency Assessment, and the Society continued to meet the required statutory solvency and capital requirements over the business planning period.

The Board and senior management continue to review the situation and will take whatever action is necessary to protect the interests of the members of the Society.

COVID-19

At the date of signing of these Financial Statements, businesses across the UK, including the Society, are dealing with the challenges posed by the COVID-19 virus.

The Society continues to operate to support

its members and other stakeholders including colleagues. From an operational perspective, the Society's business continuity plans have been enacted to enable more remote working in accordance with government guidance. This has resulted in the majority of colleagues working remotely using laptops and home-based Society desktops. The few roles that cannot be carried out remotely, such as post opening and distribution, customer mailings, essential IT support and essential finance activities, are continuing to operate from Head Office. These roles are focused on providing essential services for our members, and colleagues are applying the safe-distancing guidelines wherever possible.

During this period, the Senior Management Team meet on a daily basis to monitor how the contingency plan is working and also to amend this plan based on updates from the UK Government. This forum also allows the team to deal with and resolve issues as they arise, to ensure continuity of service for our members.

From a market risk perspective, the Society has

STRATEGIC STATEMENT

seen a downward impact on asset valuations. However, these have been relatively modest to date, compared to the equity and other market falls that have occurred. This is due to the Society's investments being mainly in short-dated bond and cash funds.

The Society is also impacted by being part of the UNISON Staff Pension Scheme. To date the net impact of market changes on the Society's liabilities in relation to the Scheme has been relatively modest, as asset falls have been broadly offset by liability gains. The Scheme also has in place equity downside protections; these have limited the loss from falling equity markets. Note that even if these equity protections had not been in place, the Society would still have been well above risk appetite in terms of solvency cover.

The strength of the Society's year end Solvency Capital Requirement cover of 194% has meant that even with the losses seen in March 2020, the Society's cover remains comfortably above its risk appetite. This is largely due to the nature of its lines of business (household, home emergency and legal

expenses) and the de-risked investment strategy.

The directors are confident that COVID-19 will not significantly impact the society's ability to meet all

current regulatory reporting requirements. The year-end reporting requirements are ready to be filed and the relevant teams are set up to meet the Q1 requirements remotely.

KEY PERFORMANCE INDICATORS (KPIs)

The Board considers that, in addition to the overall result, 2019: loss £1.2m (2018: loss £8.1m), the following metrics represent the key financial dynamics of the Group:

| KEY PERFORMANCE INDICATOR | 2019 | 2018 |
|--|--------|--------|
| Financial | | |
| Combined operating ratio | 118.9% | 138.3% |
| Household loss ratio | 58.7% | 80.7% |
| Underlying household expense ratio | 53.2% | 49.0% |
| Commission ratio | 7.0% | 8.6% |
| Retention rate | 80.6% | 76.5% |
| Investment yield excluding capital gains or losses | 3% | 2% |
| Return on capital employed | (4%) | (20%) |
| Solvency II cover | 194% | 194% |
| Non-financial | | |
| New business policy count | | |
| – Traditional | 7,950 | 10,750 |
| – Comparison site | 252 | 10,607 |
| – Together | 28 | 513 |
| Average new business premium | £194 | £171 |
| Acquisition cost per policy | £158 | £74 |

We make use of alternative performance measures as detailed in the Glossary at the end of our Annual Report.

Combined operating ratio (COR) is a common measure for insurance companies and is calculated as total costs (claims plus commission and expenses) divided by net earned premium income.



STRATEGIC STATEMENT

Our retention rate is good in comparison to our peers, particularly in our core affinity group markets. This is despite intense competition from the comparison site channels and the increasingly soft market in which we applied rate increases.

We have maintained our solvency ratio through

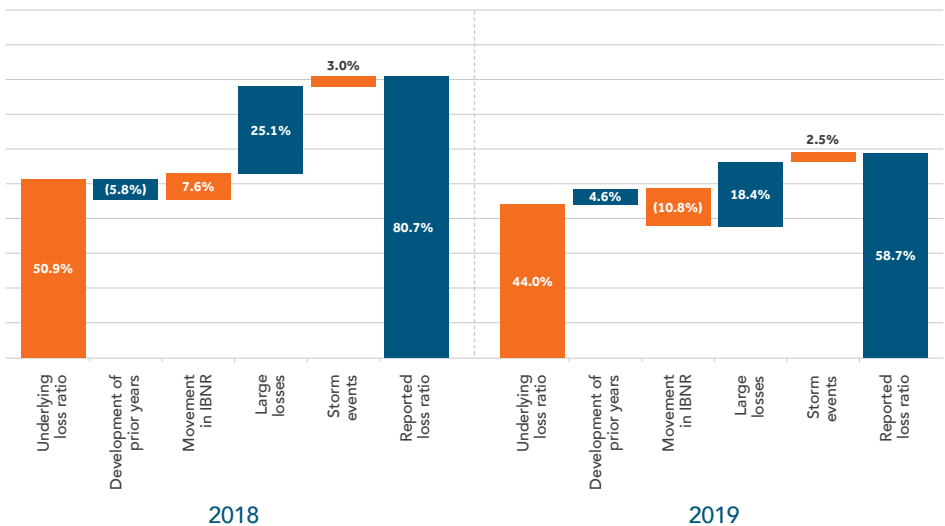
management actions to de-risk our investment portfolio, leading to reduced Market Risk capital required, and significantly re-price our business reducing our technical provisions and Insurance Risk capital required. This is offset against an increase in the pension deficit and costs incurred by

renewing our administration systems.

The significant drop in new business particularly through the comparison site and Together web channels, was a direct result of our repricing strategy and in line with expectations. This has also resulted in an increase in our acquisition cost per policy.

The chart below shows the breakdown of our underlying household loss ratio:

HOUSEHOLD LOSS RATIO – 2018 v 2019



Large losses are losses exceeding £25,000 not included within other categories

STRATEGIC STATEMENT

KEY CONDUCT INDICATORS

One of the ways in which we can continue to differentiate ourselves as a mutual, is to display those attributes that a customer-centric organisation has at its heart. Those attributes of fairness, trust and community, coupled with a high level of member service, are key to what we do.

| CONDUCT RISK INDICATOR | | DECEMBER 2019 | TARGET | DECEMBER 2018 |
|--|---|---------------|--------|---------------|
| Service levels | Customer services (month) | 83.2% | >80% | 83.6% |
| | New business (month) | 95.5% | >80% | 90.1% |
| | Claims abandoned calls (month) | 5.1% | <5% | 8.0% |
| Not taken up | Not taken up (month) | 2.5% | <5% | 2.9% |
| Declined claims | Claims declined (for the year) | 13.9% | <25% | 4.0% |
| Customer satisfaction | Marketing How Are We Doing (month) | 97% | >90% | 92.0% |
| Reportable complaints to Financial Ombudsman | Claims and Customer services (for the year) | 16 | <25 | 40 |

Targets are set internally, based on prior experiences as well as looking at industry standards. If a target is missed, then this is investigated to see if it is short- or long-term and if required what actions need to be taken.

Our claims abandoned calls rate has now reduced to an acceptable level, as a result of our restructuring of the claims department.

EXECUTIVE PAY

The Nominations and Remuneration Committee reviews executive pay using external advisers on a tri-annual basis. On an annual basis, subject to the approval of the Committee, executive pay is increased at the same rate as that applied to our colleagues. For 2019, both non-executive and executive directors declined any increase in pay.

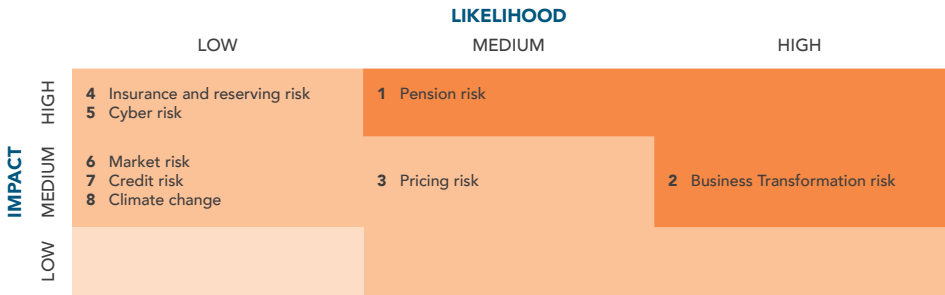
The Nominations and Remuneration Committee approved a Transformation Incentive Plan covering the period 2018 to 2020 for executive directors. Details are also disclosed in the Director's Remuneration Report.



STRATEGIC STATEMENT

PRINCIPAL RISKS AND UNCERTAINTIES

Our heat map of principal risks and uncertainties facing the business is shown below:



| RISK NO. | RISK HEADING | RISK DESCRIPTION | CONTROLS AND ACTIONS |
|----------|-------------------------------------|---|--|
| 1 | Pension risk | The current employer pension scheme is in a deficit position. The latest triennial valuation took place in 2017, with an overall deficit. This deficit is mainly attributable to UNISON, the co-sponsoring employer of the scheme. This deficit or surplus has changed at each annual re measurement and our share is approximately 5.0%. The scheme has last man standing clause in place, which adds to the Society's risk. | A recovery plan is in place and additional deficit repair contributions have been agreed and are disclosed in Note 30: Retirement benefit obligations. UNISON is carrying out a strategic review of its pension provision and the Society is represented at the review meetings. At the date of the accounts, this review is still ongoing. |
| 2 | Business transformation risk | Transformation programme failure and/or significant cost overruns. | The transformation programme progress and implementation is reviewed by management, and costs are reviewed by the Board. Successful and timely implementation relies on a third-party provider, which increases uncertainty. There has been a modest increase in the rating of this risk to reflect a small delay in the delivery of the core policy administration system; the delivery is currently estimated as October 2020. |
| 3 | Pricing risk | The Society operates in a highly competitive market. There is a risk that the Society either charges an inappropriate price for household insurance, or fails to react quickly to changing market circumstances, which could lead to a poor underwriting result. | The Society's pricing team has implemented a number of tactical moves to improve the underwriting portfolio, while remaining within the overall strategy of being the first choice personal lines provider to members of trade unions, their families, and other like-minded organisations and their members; through the provision of first class service and products. The Society also closely monitors the FCA's thematic review of overall pricing in the general insurance market. |

STRATEGIC STATEMENT

| RISK NO. | RISK HEADING | RISK DESCRIPTION | CONTROLS AND ACTIONS |
|----------|------------------------------|--|---|
| 4 | Insurance and reserving risk | The Group's business is to accept insurance risk, which is appropriate to enable the Group to meet its objectives. Reserving risk is associated with insurance risk and it occurs when claims provisions make insufficient allowance for claims, claims handling expenses and reinsurance bad debt provisions. There is a possibility that the Group's management does not make sufficient provision for exposures, which could affect the Group's earnings and capital. | <p>Within a Board-approved underwriting policy and agreed risk appetites, the Group seeks to balance this insurance risk with the pursuit of appropriate reward, in the form of sufficient levels of insurance premiums. Particular attention is paid to actual and forecast loss ratios, being claims incurred divided by premiums. The Group's actuarial team uses a range of recognised actuarial techniques to project the gross written premium, monitor claims development patterns, and determine claims provisions. The Board of Directors reviews the reserving position quarterly.</p> <p>In addition, the Society purchases catastrophe reinsurance, together with per risk and liability protections, on an excess of loss basis. The ability to cede part of the portfolio to Flood-Re has also been utilised.</p> |
| 5 | Cyber risk | The risk that our information technology systems are attacked from external sources, causing loss of proprietary information, personal data breach, or inability to trade. | The Group has invested in up-grading its firewalls and continuously monitors any threats or attempted threats. This form of risk continuously evolves and our response needs to be agile to potential threats. The Society's operational resilience continues to be monitored and developed in this respect. |
| 6 | Market risk | Market risk is the risk arising from fluctuations in the values of, or income from, the Group's assets, due to fluctuations in equities, interest rates, and/or exchange rates. | Market risk is managed through our assets being diversified and regular meetings with our investment fund manager. |
| 7 | Credit risk | The Group's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases, and those of its investment activities. The risk is that the debtor defaults, thereby impacting earnings and capital. | The Group, through the Board and risk committee, seeks to limit, as far as is practical, exposure to credit risk from its investment and reinsurance activities. To achieve this objective, it has established guidelines, procedures and monitoring requirements to manage credit risk. |
| 8 | Climate change | The risk that climate change significantly increases the risk of natural disasters such as flooding and windstorm events in the UK. | As an insurer of property, we are exposed to changes in climate that lead to increased windstorms or flooding events. Climate change is slow and affects all insurers and we believe we can adapt to such changes through our pricing and underwriting mechanisms. |



STRATEGIC STATEMENT

CHANGES TO PRINCIPAL RISKS

Our principal risks are largely similar to last year, with the only change being that the business transformation risk has moved from low impact to medium impact, owing to a delay in the delivery of the new policy administration system.

Although it has yet to form part of our above schedule, we have a separate risk register for COVID-19, assessing the impact across the Society including members. The risk register is assessing the impact and what controls are being put in

place. This is being assessed on a continuous basis.

REINSURANCE ARRANGEMENTS

Our core reinsurance arrangements ran from 1 January 2019 to 31 December 2019. The Board approved purchasing cover in line with our Risk Appetite. In addition, we ceded a small number of policies to Flood Re. Our core arrangements for 2020 are in place from 1 January 2020, also in line with our Risk Appetite. We ceded additional policies to Flood Re on 31 December 2019. All other aspects of our

reinsurance placement (e.g. credit rating of supporting reinsurers) remain in line with our Risk Appetite.

UIA CHARITABLE FOUNDATION

During 2019 the Charitable Foundation ceased to trade, following the decision made in 2018 to focus our charitable work through UIA (Insurance) Limited. The primary reasons were to raise the Society's profile within both the local area and the broader charitable arena, with its continued support of the charitable foundations aims, and to save unnecessary



STRATEGIC STATEMENT

costs associated with having a separate charitable entity. The Group remains committed to reinvesting members' money for good charitable purposes.

FUTURE DEVELOPMENT

Our primary focus continues to be to strengthen and broaden our partnerships within the trade union market, and to offer our members competitive household, and other quality insurance products, underpinned by outstanding service levels. We operate within the personal lines market, which remains both highly competitive and highly regulated, and as a

consequence it is dominated by larger players.

During 2020 we will be launching our new policy administration system to help provide a better service to our members.

Our investment aim is to deliver consistent safe returns for our members in the face of ongoing political and economic uncertainty during our plan period.

Finally, we recognise that our colleagues are the bedrock of our business, and on which our members rely, particularly when claims are made.

A key focus for 2020 and

beyond is, by continuing to underwrite appropriate risks at an acceptable price, while maintaining strict budgetary controls over our expenses and project development costs, to return to long-term financial sustainability.



Jon Craven
Director
11 May 2020





SUMMARY DIRECTOR'S REMUNERATION REPORT

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The policy is that the remuneration for executive directors should reflect performance and enable the Society to attract, motivate, and retain suitably qualified individuals.

SALARIES

Base salaries are reviewed tri-annually using external consultants. This was last carried out in 2019 and the next review is in 2022. In the intervening years, subject to the approval of the Nominations and Remuneration Committee, the policy is to increase base salaries at the same basic inflationary rate as the Society's colleagues.

VARIABLE PAY

Annual bonus

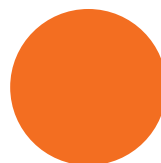
Executive directors are eligible to participate in an annual performance-based, cash performance award scheme. The Committee reviews and agrees performance award targets and levels of eligibility annually. The performance award is based on two factors: overall underwriting performance,

and achievement of a set of personal objectives, which directly support the business plan. The first factor is designed to pay out a maximum of 5% of base salary and there is a threshold below which no performance award is paid. Total awards for exceptional performance will not exceed 35% for the CEO and 20% for the Finance Director. No awards are to be made in respect of the 2019 year financial year.



Transformation Incentive Plan

The Transformation Incentive Plan is a three-year scheme covering the period 2018 to 2020 and is available to executive directors. Non-executive directors are not eligible to participate in the scheme. The scheme will be settled at the end of the three-year period in April 2021.



There are two targets, the bonus target and a higher maximum bonus target. The target bonus and maximum bonus opportunity awards as a % of salary are as follows (see below).

| | BONUS TARGET | MAXIMUM BONUS TARGET |
|-------------------------|--------------|----------------------|
| Chief executive officer | 40% | 80% |
| Executive directors | 24% | 48% |

SUMMARY DIRECTOR'S REMUNERATION REPORT

There are four measures used that are linked to our transformation incentive plan:

- Combined operating ratio
- Solvency capital requirement
- Colleague engagement survey
- Customer satisfaction measures

All measures need to be successfully met before any award is made and the bonus target and bonus opportunity is split equally across all four measures. The measurements are taken for the 2020 financial year. The maximum amount that can be awarded will not exceed 50% of annual salary in any one year over the three year period. No awards have been accrued for in respect of the 2019 financial year.

PENSION

Executive directors are eligible to be members of UNISON's Staff Pension Scheme, which is a defined benefit plan with a pension paid on retirement based on salary and length of service. Contributions of 9.1% were made in 2019 by way of salary sacrifice by the directors that elected to join the scheme, and a further 26.8% by the Society. Additionally, social security

| | J CRAVEN £ | J NICKSON £ |
|------------------------------|----------------|----------------|
| Salary and Fees | 155,754 | 130,000 |
| Pension and travel allowance | 36,861 | 44,440 |
| Other benefits | 560 | 560 |
| Total 2019 | 193,175 | 175,000 |
| Total 2018 | 193,428 | 83,312 |

taxes associated with the salary sacrifice are contributed. Future contribution rates are disclosed in Note 30 of the Annual Report: Retirement benefit obligations. A director who doesn't join the scheme is eligible for a pension allowance. The Society provides a lump sum benefit of four times basic

salary in the event of death in service, to executive directors, either through the scheme or independently.

OTHER BENEFITS

Executive directors are provided with a car or receive a car allowance equivalent in value to the maximum permitted lease cost, plus insurance and servicing costs. The maximum permitted value varies with the role. In addition, executive directors are eligible to participate in the Society's Healthcare Cashplan arrangement which is run by Westfield Health.

All executive directors have contracts of employment incorporating their terms and conditions that are normally terminable by either party giving six months' notice.





SUMMARY DIRECTOR'S REMUNERATION REPORT

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

Fees for non-executive directors are reviewed annually by the Nominations and Remuneration Committee, with changes normally effective from 1 January. Fees are designed to recognise their responsibilities and are reviewed using external third-parties on a tri-annual basis. This was last carried out in 2019. In the intervening years,

subject to the approval of the Nominations and Remuneration Committee, the policy is to increase base salaries at the same rate as the Society's colleagues.

The policy is to allow discretion to accommodate the need to attract different skills, experience and knowledge. Fees comprise a basic annual fee, paid in monthly instalments. Fees are neither pensionable nor performance-related and non-executive directors

do not participate in any bonus schemes. The basic salary for the Chairperson is £47,427. The basic salary for the non-executive directors is £28,035 (2018: £28,035), with industry specialist non-executive directors receiving £31,618. Committee chairs are paid an additional £3,162 in recognition of their additional responsibilities. If non-executive directors and chairs of Committee are appointed or resign during the year, then a pro-rata fee is applied.

SALARY AND FEES 2019 £

SALARY AND FEES 2018 £

| | | |
|-----------------|----------------|----------------|
| Peter Dodd | 47,427 | 48,202 |
| Bob Abberley | 31,197 | 30,422 |
| Tim Holliday | 34,780 | 32,935 |
| Lucia McKeever | 28,035 | 31,197 |
| Eithne McManus | 34,780 | 34,780 |
| Oliver Peterken | 34,780 | 34,780 |
| Marion Saunders | 14,018 | 29,879 |
| Tony Woodley | 28,035 | 28,035 |
| Total | 253,052 | 270,230 |



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