



# **125th Annual Report & Accounts**

Year ended 31 December 2014

# Cirencester Friendly Society Limited

## Founded 1890

Registered No.149F

## Registered Office:

5 Dyer Street, Cirencester, Gloucestershire, GL7 2PP Telephone: 01285 653073 or 652492 Fax: 01285 641246  
Email: info@cirencester-friendly.co.uk Web: www.cirencester-friendly.co.uk

## Board of Management:

Chairman:	M T King BSc Hons DipAdj MRICS MCI Arb MCI OB MAICA
Vice Chairman:	J F Quinn M. Litt. BA (Hons)
Chief Executive:	P R Hudson MBA FCIS MCSI
Deputy Chief Executive:	P L Brown FCA FCCA
Director of Sales & Marketing:	J Bridge DipM FCIM MAE MICM MCI Arb FPC AdvCemap CLTM (Retired 31 March 2015)
Board Members:	A J Knight ACIB
	P A Rouse MIFS DipFA
	W J M Schouten MBA
	P C Whitefield BSc FIA
	D J G Williams APFS FCMI

## Arbitrators:

Phillip Harris LLB, FCI Arb, Solicitor  
Roger Warrington FRICS, FCI Arb, Chartered Surveyor  
Mark Thomas Dip Adj BSc MSc LLM FRICS FCI Arb MAE, Chartered Surveyor (from 29 May 2014)

## Chief Executive and Company Secretary:

P R Hudson MBA FCIS MCSI

## Senior Independent Director (Board Member):

P A Rouse MIFS DipFA

## External Auditors:

Moore Stephens (Bath)

## Internal Auditors:

Case Accounting Ltd

## Actuaries:

Actuarial Function Holder and With Profits Actuary  
C N Critchlow BSc, FIA, Oxford Actuarial Consulting

## Investment Managers:

Quilter Cheviot  
Charles Stanley

## Bankers:

Lloyds Bank Plc

## Solicitors:

Kennedys, London  
Sewell Mullings Logie, Cirencester

# The Board of Management Profiles



**Chairman:** Martin T King BSc Hons DipAdj MRICS MCI Arb MCIOB MAICA

**Term of Office:** Martin joined the Board in December 2000

**Independent:** Yes (On appointment)

**Skills and Experience:** A Chartered Quantity Surveyor and Registered Adjudicator. A Director of Castons King Ltd since 2007 and previously Partner or Director of Businesses within Castons Group. Member of Royal Institution of Chartered Surveyors since 1984. Member of Chartered Institute of Arbitrators since 1992. Member of the West Mercia and Warwickshire Police and Crime Commissioner Audit Committee since June 2013.



**Vice-Chairman:** John F Quinn M. Litt. BA (Hons)

**Term of Office:** John joined the Board in November 2012

**Independent:** Yes

**Skills and Experience:** Retired from Lloyds Banking Group in December 2011 after a career of 36 years during which he held managerial posts in Branch Management, Area Management and as a Senior Manager in Corporate and Commercial Banking.



**Senior Independent Director:** Philip A Rouse MIFS DipFA

**Term of Office:** Phil joined the Board in March 2006

**Independent:** Yes

**Skills and Experience:** A Partner at Focus Independent Financial Advisers since April 1992. Between 1990 and 1992 he was also the Senior Independent Financial Adviser with Tait Conisbee Life & Pensions, Oxford. 1987- 1990 Regional Inspector with Scottish Amicable, between 1976 - 1987 held various positions within Midland Bank (now HSBC).



**Chief Executive and Secretary:** Paul R Hudson MBA FCIS MCSI

**Term of Office:** Paul joined the Board in February 1997

**Independent:** No as an Executive

**Skills and Experience:** A Fellow of the Institute of Chartered Secretaries and Administrators since 1994, Master of Business Administration since 1997 and Member of the Chartered Institute of Securities and Investments from 2011. Prior to joining the Society, he held a number of senior and general management positions at a number of other Friendly Societies.



**Deputy Chief Executive:** Peter L Brown FCA FCCA

**Term of Office:** Peter joined the Board in October 2004

**Independent:** No as an Executive

**Skills and Experience:** Formerly a Partner in an Oxfordshire Accountancy firm for 16 years to 2000 with considerable experience in the audit of Building and Friendly Societies, subsequently owner of an Oxfordshire based company providing Accountancy and Management Services. Associated with the Society as the auditor from 1995 to 2000. Fellow of the Institute of Chartered Accountants (England and Wales) and Fellow of the Association of Chartered Certified Accountants.



**Non-Executive Director:** Philip C Whitefield BSc FIA

**Term of Office:** Philip joined the Board in March 2011

**Independent:** Yes

**Skills and Experience:** An experienced Life Actuary who also owns a consultancy business specialising in Capital Management and Solvency II. Acts as Actuarial Function Holder for Monarch Assurance Limited. Previously acted as Reviewing Actuary for Mazars in respect of three Friendly Society Audit Clients. Formerly a Director and Chief Actuary from 2002 to 2007 of Lincoln Financial Group, where he had worked for 21 years. Currently serves three local charities: Tony's House, Christ Church Cheltenham and Christ Church Playgroup as Hon. Treasurer.

# The Board of Management Profiles (continued)



**Non-Executive Director:** David J G Williams APFS FCMI

**Term of Office:** David joined the Board in August 2004

**Independent:** Yes

**Skills and Experience:** Managing Director of Haven Risk Management. 1984-1996 various roles in Advisory Management capacities in Financial Services. 1996 to present Managing Director DWT Ltd which became Haven Risk Management on taking over another company in 2005. Associate of the Personal Finance Society. Fellow of the Chartered Management Institute.



**Non-Executive Director:** William J M Schouten MBA

**Term of Office:** William joined the Board in November 2012

**Independent:** Yes

**Skills and Experience:** A Senior Executive with more than 30 years' experience in the financial services industry. Held Executive Director positions with varying responsibilities in NFU Mutual 1998 – 2009 and in Royal Insurance 1993 – 1996 and in between worked for a short spell at IBM UK Ltd as an Executive Consultant. Since January 2010 operating as an Independent Management Consultant and Executive Coach assisting mainly mutual organisations with planning and implementing change.



**Non-Executive Director:** Tony J Knight ACIB

**Term of Office:** Tony joined the Board in October 2000

**Independent:** Yes

**Skills and Experience:** Retired in July 1999 from Lloyds TSB after 37 years. Career included spells in Retail Banking, Internal Audit, Area Management and as a Senior Manager in Corporate Banking. Associate Member of the Chartered Institute of Bankers.

## New Board Members:



**Non-Executive Director:** Ian M Maude

**Term of Office:** To commence subject to approval from the Financial Conduct Authority

**Independent:** Yes

**Skills and Experience:** A Senior Board Executive with 40 years in Financial Services, spanning life, pensions, motor, household and health insurance, the last five years of which were in the role of Finance Director. IT Systems Development Manager Legal & General, Municipal Mutual Insurance and Zurich Insurance 1979-1994. IT Director London & Edinburgh Insurance, Frizzell Insurance and Liverpool & Victoria Friendly Society 1994-1997. Independent Consultancy Senior Partner 1997-2000. Simplyhealth/Denplan Executive Director (Finance & IT) 2000-2014.



**Non-Executive Director:** Mark C Sedgley ACII

**Term of Office:** To commence subject to approval from the Financial Conduct Authority

**Independent:** Yes

**Skills and Experience:** Almost 30 year's financial services experience, mainly in the mutual sector. Having worked in both large and small organisations, Mark has a good understanding of many areas including underwriting, budgeting and cash flow management, business planning, strategic reviews, re-branding, due diligence, investments, product and process design and financial education presentations. He has held both technical expert positions and senior management roles including being Chief Executive of a Friendly Society.

For membership of individual sub-committees please see page 10.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the **125th Annual General Meeting of Cirencester Friendly Society Limited** will be held at the **Kings Head Hotel**, 24 Market Place, Cirencester, GL7 2NR on **Thursday 28 May 2015 at 6.30pm** for the purpose of transacting the following business:-

1. To confirm the Minutes of the Annual General Meeting held on 29 May 2014.
2. To receive the Chairman's Statement, the Report of the Board of Management, Financial Statements and the Auditor's Report for the year ended 31 December 2014.
3. To approve the Board of Management's Remuneration Report for the year ended 31 December 2014.\*
4. To re-elect M T King as a Member of the Board (See biography on page 3).
5. To re-elect A J Knight as a Member of the Board (See biography on page 4).
6. To re-elect P A Rouse as a Member of the Board (See biography on page 3).
7. To elect I M Maude as a Member of the Board (See biography on page 4).
8. To elect M C Sedgley as a Member of the Board (See biography on page 4).
9. To reappoint Moore Stephens (Bath) as Auditors for the year 2015.
10. To transact any other business not requiring notice of motion.

Members of the Society over the age of 18 may attend the Annual General Meeting and speak and vote on any item of the Agenda.

Members who wish to attend may be admitted on production of satisfactory evidence of their Membership and identity. Members who are eligible to vote but who are unable to attend the AGM may appoint a proxy to attend and vote at the meeting and direct the proxy how to vote at the meeting. The Proxy Voting Form can be found accompanying the Annual Report and Accounts Highlights Leaflet sent to you in the post. To make voting easier, online voting is available alongside our traditional methods of voting by post or in person. Please see the Proxy Form for full details of the different ways you can vote.

\*The Board's Remuneration Report: You are asked to approve the Board of Management's Remuneration Report by way of an advisory vote. This is not a legal requirement, but your Board considers it is best practice to enable Members to express a view on this issue.

By order of the Board



Paul Hudson  
**Chief Executive**

5 Dyer Street, Cirencester,  
Gloucestershire GL7 2PP

26 March 2015

# A Message from your Chairman



I am very pleased to introduce you to the 125th Anniversary Annual Report & Accounts for Cirencester Friendly Society Limited.

I was very proud to have been elected Chairman of the Board at the 2014 AGM. I am grateful for this wonderful opportunity to serve the Society as I have been a Member for over 50 years.

## Performance

We live in challenging times, but I am delighted to report that the Society has continued to achieve its mission in providing for its Members financially when they need it most. 2014 was a year of encouraging growth in Membership and a healthy surplus was returned. Premium income increased and was supported by strong investment income and well controlled costs. Overall the Society continues in a very good position. As a result, I am pleased to announce that once again participating bonuses have been maintained or improved.

The challenges faced by the industry have not abated but despite this the Society continues to perform well. The successful launch in 2014 of the Society's first ever pure income protection contract, My Earnings Insurance, has been welcomed by the Industry and the Adviser community alike and allows the Society to deal with a broader range of Financial Advisers. Although it is early days, the initial indication is that this has been well received with promising initial sales through different channels.

The Society will continue to work with the Financial Adviser community to deliver growth to the Membership.

## Treating Customers Fairly

The Society takes pride in the high standards of service it offers to Members and Advisers and is grateful that this has continued to be recognised by the industry in the achievement of several prestigious awards.

We are fully committed to supporting our Members when they need us most, and that is why I am pleased to be able to report that once again 94% of claims were paid in 2014.

Nevertheless, we never rest on our laurels and are always striving to improve our product and services for new and existing Members alike and 2015 will see rider benefits for Health and Wealth, Income Assured Plus and My Earnings Insurance. Looking ahead we will continue to develop products that meet the financial health needs of Members.

## Solvency II

Solvency II continues on the Society's agenda and the Society continues to work to ensure that we will remain well placed to meet the requirements of Solvency II regulations, with a level of solvency that exceeds the minimum requirements.

## Corporate Governance

As Chairman, I am elected to lead the Board and a principal role is to ensure that it is effective in setting and implementing the strategy and direction of the Society. I am privileged to serve the Members with an experienced and dedicated Board of Management, who share a commitment to work together in the best interest of our Members.

We again carried out another 360 degree review of each member of the Board in 2014, demonstrating our commitment to Corporate Governance. As part of our ongoing refreshment of the Board, two new Board Members will be joining in 2015, with a further two joining in 2016.

## Thank you

There has been great change in the UK financial services sector in the last thirty years. Many long-established institutions have merged with others; some have even closed their doors. It is a matter of pride, therefore, that Cirencester Friendly Society Limited remains independent and flourishing in its 125th year. Everyone who works for the Society is very conscious of our long history of serving you, the Members of the Society.

Our achievement in 2014 is a credit to the hard work and ongoing commitment from the excellent staff, and I thank them for their continued support and enthusiasm.

We have an exciting year ahead of us and I look forward to our future with confidence. Once again, I am grateful to the Financial Advisers who continue to recommend the Society to their clients and of course, you, our Members, who continue to place your trust and welfare with the Society.

We are by no means complacent in this challenging business climate, but we are committed to building further on the achievements of the Society and to use the strong foundations established over the last 125 years to continue to serve our Members well.

A handwritten signature in black ink, appearing to read 'M. King', with a stylized flourish at the end.

Martin King  
**Chairman of the Board**

26 March 2015

# Report of the Board of Management

The Board is pleased to submit its report together with the audited accounts for the year ended 31 December 2014.

## Members of the Board of Management

The names of Board Members, which include the Executive Directors, are shown on the inside front cover of this report.

## Financial Results and Business Review

Our mission is "To protect our Members financially." To achieve this we have established six supporting pillars.

### 1. Growing the customer base

Despite highly competitive and challenging market conditions we are very pleased to report an increase in Membership and a healthy trading surplus. We believe this creditable performance reflects the continued loyalty, relevance and popularity of our product and service.

### 2. Giving customers products that meet their needs

#### Claims

We are committed to supporting Members financially when they need us most. 94% of claims were paid in 2014. We are proud of our strong record of results in relation to the payment of claims as we believe this clearly demonstrates the importance of income protection insurance in financial planning. Each year we produce a detailed, yet transparent, analysis of our claim statistics enabling Members, Advisers and their clients to judge our performance on the facts. As one of the very first firms to publish these figures, we support the call for a standardisation of claim statistics across the industry so that firms can also be judged on their claims payment record.

#### Bonuses to Members

A key feature of the Society is the opportunity for Members to share in our success. This is done in a number of ways but the most obvious is in the form of bonuses added to Members' credits held by the Society until the end of their contract. As a Member owned organisation we have adopted a cautious approach to business to safeguard Members' interests and this extends to the way we only award bonuses that can be supported by the surplus we create and sustained over time. This also extends to the way we finance our business initiatives. We aim not to put the financial welfare of the Society and Members at undue risk. Our investment policy and control of costs have again delivered encouraging results. As a consequence of this we can report that bonus rates added to Members' Credits for 2014 have either been maintained or increased.

The bonuses for 2014 compared with 2013 are as follows:

	2014	2013
Health & Wealth Dividend	£1.56	£1.56
Income Assured Plus - Surplus Allocation	£7.02	£6.72
Income Assured Plus - Investment Only - Surplus Allocation	£0.51	£0.51
Bonus Allocation / Interest*	2.5%	2.5%

\*Interest Rate (which is set in advance) for retired Members is 2.5% (2013 - 2.5%). The interest added to retired Members' deposits should be declared by Members for tax purposes. (The Board has the right to revise the rate without notice.)

#### New Products

We are committed to the introduction of new products to support ambitious Membership targets. In 2014 a new individual income protection contract 'My Earnings Insurance' was successfully launched. My Earnings Insurance is the Society's first pure income protection product signalling a new era for the Society. My Earnings Insurance has been positively received by the market and we are encouraged by early sales results.

In the coming years, we will be introducing further features to our existing contracts and introducing new contracts to ensure we continue to grow and look after the financial health needs of our Members.

### 3. Protecting capital

There has been significant comment in the press about the vast sums of money that some institutions have lost through speculation and risky strategies.

We do not pursue a speculative or high risk strategy, preferring instead to follow a more cautious approach on the basis that we want to be able to continue to support our Members in the years to come, as we have done in the past.

As a result of our approach we are pleased to report the following:

- **Total investment returns of £2.25m** (growth and income) a return of 3.5%
- **£1.74m transferred into long term business provision** to provide for future claims
- **Total bonus and surplus allocations of £2.0m** to Members
- **The net transfer of 1.73m to the Fund for Future Appropriations** for future development
- **A transfer of £2.05m to the Members' Mutual Fund** for Members

The Members' Mutual Fund was established in 2012 to share even more of the success of the Society with all contributing Members by utilising surpluses earned by the current generation of Members to increase payouts on the closure of their contracts.

The Society's overall investment portfolio increased in 2014 by £8.45m to £67.6m as at 31 December 2014. (2013 £59.2m).

# Report of the Board of Management

At the end of 2014 the total funds of the Society had increased to £74.5m (2013 £68.5m). Of this amount £45.5m represents amounts due to Members and creditors, plus the various reserves established by the Actuary.

## Solvency

At the end of the year the Society had a level of solvency significantly in excess of the minimum capital resource requirements prescribed by the Regulator. The Society prepared a draft Own Risk Solvency Assessment (ORSA) during 2014 which indicated that it had a significant margin of capital resources over the Solvency Capital Requirement as required under the provisions of Solvency II.

## Fixed Assets

There were no significant additions to the Society's tangible assets in 2014.

## Responsibilities of the Board

The Board of Management is required to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Society and of the income and expenditure of the Society for that period. In preparing those accounts, the Board of Management is required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- Make judgments and estimates that are reasonable and prudent;
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Society will continue in business;
- The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and which enable it to ensure that the accounts comply with the Friendly Societies Act 1992;
- It is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

## Auditors

The Society's Auditors, Moore Stephens (Bath), who act as External Auditors to a number of Friendly Societies are willing to continue in office and a resolution will be tabled at the Annual General Meeting on 28 May 2015 supporting their re-appointment.

## Rules and Statutory Powers

We are not aware of any activities that have been carried on outside our powers during the financial year.

## Directors' and Officers' Liability Insurance

The Society has maintained liability insurance cover for Members of the Board as permitted under Section 106 of the Friendly Societies Act 1992.

## 4. Controlling costs

We believe that the control of costs is important to the wellbeing of the Society. Despite the increase in customer base, the overall operating expenses decreased by £0.45m during 2014 or 7% compared with the previous year. The cost of acquiring new business in 2014 was at £3.7m which is comparable with the cost of the previous year.

## 5. Delivering high standards of service

### Award Winning Service

We aim to deliver high standards of service and believe that is evidenced by the many prestigious industry awards we have received in recent years. In 2014 we were very pleased to be 'Highly Commended' in the Moneyfacts: Investment, Life & Pensions Awards for Best Income Protection Provider and also 'Commended' in the Service Beyond the Call of Duty category in the same awards.

We will continue with our commitment to maintain high levels of service and take pride in the recognition we receive for our efforts.

### Treating Customers Fairly

We are committed to the fair treatment of customers.

The number of complaints made against a wide variety of financial institutions has reached epidemic proportions. The numbers of complaints we receive each year are very small. That said, we are not complacent and when we do receive a complaint we aim to make it a positive learning experience.

Complaints are thoroughly and impartially investigated and we aim to resolve them at an early stage using the Society's internal dispute resolution processes. On occasions this is not possible. It is unfortunate when this happens, but as a Member owned business we believe Members expect us to apply a consistent approach in all our dealings with them, particularly where we believe fraud has been perpetrated.



## 6. Developing staff and systems

### Technology Systems

During the year the Society made a number of changes to its technology systems aimed at delivering higher standards of service to Members and other stakeholders and help deliver cost savings in the longer term.

We are pleased to report that despite many challenges, good progress was made and will continue with this initiative in the coming years.

### Staff

Having well trained and knowledgeable staff is important to us.

We are keen to maintain an environment in which employees can develop and grow with the Society and to achieve this we invest in our staff. We have established a policy that encourages and supports the continued professional development of all staff. In return we look to benefit from their continued loyalty, professionalism, support and enthusiasm, which is invaluable to the continued prosperity of the Society.

### Management Changes

Details of the Board appear on pages 3 - 4. The following Board Members are subject to re-election or first election in 2015. In accordance with the Society's Rules, Friendly Societies Act 1992 and Corporate Governance processes, they offer themselves for re-election or first election (in alphabetical order):

#### **Re-election**

- M T King
- A J Knight
- P A Rouse

#### **First election**

- I M Maude
- M C Sedgley

Following an assessment of the skills and mix of the Board, we are happy to support their nomination and, subject to the approval of the Members, look forward to continuing to work with them until the 2016 AGM.

As a part of our Board succession strategy we are delighted to welcome two new Non-Executive Directors, Ian Maude and Mark Sedgley, subject to your support and authorisation from the Financial Conduct Authority. We believe their considerable experience in financial services will add value to our business and help continue to drive the Society forward and wholeheartedly encourage Members to support their nomination.

We are also saying a fond farewell to two long standing Members of the Board, John Bridge and David Williams.

Following a short period of illness, John Bridge retired from his role as Director of Sales and Marketing with effect from 31 March 2015. John was appointed to the role in October 2011 having previously been a non-executive member of the Board from May 2005. The Board would like to thank John for his considerable contribution to the Society and wish him good health and happiness in his well-earned retirement.

David Williams joined the Board as a Non-Executive Director in August 2004. The Board is also extremely grateful to David for his 10 years of invaluable service and support, and he leaves with our sincere thanks and appreciation.

### Outlook for 2015

The Society is committed to increasing the range of products it offers and to improving service through technology and staff training. 2015 will no doubt present even more challenges, but we remain confident that the Society is in a good position to rise to the inevitable challenges it will face.

### Thanks and Appreciation to Staff

Everyone at the Society works hard to look after the interests of the Members and supporters alike. Through their efforts and commitment the Society has continued to grow and deliver positive results.

The Board wishes to place on record its profound gratitude to all those employed by the Society for their continued efforts, without whom the Society would not be where it is today.

On behalf of the Board



Paul Hudson  
**Chief Executive**

26 March 2015

# Report of the Board of Management on the UK Corporate Governance Code and Remuneration for the year 2014

## Introduction

Corporate Governance is about how the Board carries out its duties and responsibilities. The Society is committed to delivering high standards of Corporate Governance and complies with the UK Corporate Governance Code annotated for Mutual Insurers. The Society adheres to the policy of 'Comply or Explain'. After each main principle has been examined a view is given on compliance

## Section A - Leadership

### The Role of the Board

Every company should be headed by an effective Board, which is collectively responsible for the success of the company.

#### Board Response:

The role of the Board is set out within the Rules of the Society. The Board determines the strategic direction of the Society and ensures that it operates within its Rules, legislation and regulation. Individual Board Members are drawn from a wide range of disciplines. The Chief Executive is responsible for the internal organisation, management, day-to-day control of the Society and implementing the Board's agreed strategies

The Board of Management is supported by three sub-committees:

- **The Audit and Risk Committee** that considers matters of finance, risk and compliance;
- **The Nomination and Remuneration Committee** that considers suitable candidates for membership of the Board and also staff pay and performance bonus arrangements;
- **The Investment Committee** that considers investment matters.

The following table shows attendance at meetings during 2014:

Name (Alphabetical)	Board	Audit and Risk	Nomination & Remuneration	Investment
J Bridge	6 of 6	4 of 4	n/a	n/a
P L Brown	6 of 6	4 of 4	3 of 3	4 of 4
P R Hudson	5 of 6	n/a	3 of 3	4 of 4
M T King	6 of 6	n/a	2 of 3	n/a
A J Knight	5 of 6	n/a	3 of 3	4 of 4
J F Quinn	5 of 6	4 of 4	n/a	n/a
P A Rouse	6 of 6	n/a	3 of 3	n/a
W J M Schouten	6 of 6	n/a	3 of 3	n/a
P C Whitefield	6 of 6	4 of 4	n/a	4 of 4
D J G Williams	5 of 6	3 of 4	n/a	n/a

#### Compliance:

In its constitution and Committees, the Board acts in compliance with the UK Corporate Governance Code.

### The Chairman, Chief Executive and Division of Responsibilities

There should be a clear division of responsibilities at the head of the company between the running of the Board and the Executive responsible for the running of the company's business. No one individual should have unfettered powers of decision. The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

#### Board Response:

The post of Chairman of the Board and Chief Executive are separate positions. Each has a specific role and responsibilities which are set out in the job descriptions. The Chairman of the Board is primarily responsible for the effective running of the Board and for ensuring the full and constructive participation of all Board Members. The Chief Executive is responsible for the executive management of the Society within specific guidelines established by the Board. It is current practice and policy that no former Chief Executive will serve as Chairman of the Board of the Society.

#### Compliance:

In its appointment and operations in respect of the Chairman of the Board and the Chief Executive, the Board acts in compliance with the UK Corporate Governance Code.

### Strategy:

As part of their role, Non-Executive Directors should constructively challenge and help develop proposals on strategy.

#### Board Response:

The Society includes input from the Board in the development of strategy. The Board also considers strategy at each meeting as a part of the standing agenda proposing corrective action as required to ensure the Society maximises its prospects in achieving its objectives.

#### Compliance:

In its obligation to constructively challenge and help develop proposals on strategy the Board acts in compliance with the UK Corporate Governance Code.

## Section B - Effectiveness

### Board Balance and Independence:

The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

### **Board Response:**

The Board is made up of individuals drawn from a variety of business backgrounds based on the needs of the Society.

Between January and December 2014, the Board consisted of the Chairman, who is a Non-Executive Director, six other Non-Executive Directors and three Executive Directors being the Chief Executive, Deputy Chief Executive and Director of Sales and Marketing.

Under the Rules of the Society, the maximum number of individuals that may serve on the Board is twelve and the minimum six. The number of Non-Executive Directors exceeds the number of Executive Directors. This is compensated by virtue of the periodic attendance of other Senior Management and the day-to-day working knowledge of the Executive Directors of the Board.

Each year the Board conducts a skills mix audit to ensure that the Directors possess the requisite skills and knowledge.

New Board Members are selected from applicants by means of national press advertising, nominations from Members or use of specialist recruitment agencies. All candidates are subject to an interview and selection process, 'fit and proper' checks and approval by the Financial Conduct Authority before taking up their duties. Board Members are subject to election under the rules of the Society by Members at the Annual General Meeting.

The Society is particularly keen to involve Members in the running of the Society and any Member who considers that they are suitably qualified to serve on the Board and who wishes to be considered for a place on the Board should send their CV to the Company Secretary.

On the matter of independence, the UK Governance Code sets out certain requirements for the independence of the Non-Executive Directors.

The Non-Executive must not have;

- Been an employee of the company or group within the last five years;
- Had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- Received or receive significant remuneration from the company apart from a director's fee;
- Participate in the company's share option or a performance-related pay scheme, or be a member of the company's pension scheme;

- Close family ties with any of the company's advisers, directors or senior employees;
- Hold cross-directorships or have significant links with other directors through involvement in other companies or bodies;
- Represent a significant shareholder;
- Served on the Board of Management for more than nine years.

In addition to this, the Board needs to consider whether Non-Executive Directors are independent in character and judgement and whether there are any other circumstances that might affect, or could affect, their view.

In relation to the matter of independence, the Board gives consideration to the individual circumstances of each Non-Executive Director with due regard to the aforementioned eight tests. The Board may conclude that further comment is warranted in accordance with the 'comply or explain' provisions of the Code.

### Material Business Interest:

The following current Board Members have conducted business with the Society within the last two years. Details of the remuneration each have received are provided in note 18 to the accounts. Having regard to the amounts involved and the individual circumstances of the Board Members concerned, the Board has concluded that they are not material.

P A Rouse

D J G Williams

### Additional Remuneration:

In addition to the test on material business interest, the Board conducts a second test where any payments, not including normal Board fees, are greater than the Board fees paid to the Non-Executive Director. In this respect, extra scrutiny is applied as this might also affect a Non-Executive Director's judgement or give the impression to others that it is likely to have the potential to affect their judgement.

The Board has therefore also considered the level of payments made to the individual Non-Executive Directors in question over the preceding three years. The figures have been disclosed to Members in the Annual Report and Accounts for each of those years.

In addition to the disclosure in the Annual Report and Accounts, each Board Member in question has been individually asked to declare whether the payments made to them for services above and beyond that of being a Board Member represented a significant source of income to them in the year in question. Each Board Member in question has indicated that the amounts concerned do not. Therefore the Board has concluded in each case that as far as the business interest is concerned, it is not material enough to impact on the independence of those Non-Executive Directors concerned.

# Report of the Board of Management on the UK Corporate Governance Code and Remuneration for the year 2014

## Served more than nine years:

The following three Non-Executive Board Members who stand for re-election have served for more than nine years:

M T King  
A J Knight  
P A Rouse

The Board strongly believes that their knowledge of the Society and continued and active contribution to the wellbeing of the business warrants their ongoing service. Any individual who has served on the Board for more than nine years is subject to annual re-election. In the interest of regular refreshment and succession planning, the Board has agreed retirement dates for all Non-Executive Directors as follows (subject to the availability of suitable replacement candidates):

Name	Retire at AGM
D J G Williams	2015
M T King	2016
A J Knight	2016
P A Rouse	2016 (originally 2015 but no suitable replacement candidate identified)
P C Whitefield	2020
W J M Schouten	2021
J F Quinn	2021
I M Maude	2024
M C Sedgley	2024

Non-Executive Directors appointed in 2011 and later are strictly limited to a maximum of nine years service on the Board.

P A Rouse is the Society's Senior Independent Director charged with the responsibility of listening to the views of Members in order to develop a balanced understanding of their issues and concerns. Any Member wishing to contact Mr Rouse may do so, in the first instance, by writing to him at the Society's Registered Office.

The Board believes that there is ample provision for the refreshment of the Board and that the introduction of annual elections would not provide any material benefit to the Membership.

## **Compliance**

The Board is satisfied that having regard to Board balance and independence it satisfies the prevailing requirements of the UK Corporate Governance Code.

## Appointments to the Board:

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.

All directors should be able to allocate sufficient time to the Society to discharge their responsibilities effectively.

## **Board Response**

A Nomination and Remuneration Committee consisting of four Non-Executives plus the Chief Executive and, when considered appropriate the Deputy Chief Executive as a non-voting guest, meets when necessary to identify, assess and put forward suitable nominations to fill vacancies on the Board and to set and apply the remuneration policy of the Society. As a part of its duties the Committee reviews the structure and composition of the Board annually in the form of the skills mix audit.

Board Members are required to confirm their ability to fulfil their role on the Board of Management by virtue of a letter of appointment and are subject to both suitability enquiries and approved by the Financial Conduct Authority before being able to commence their role on the Board.

The Board appoints on merit and for that reason no target has been set for female Board Members as recommended by the Davies Report on "Women on Boards" published in February 2011 for FTSE 350 companies.

## **Compliance**

In its Board Member appointments the Board acts in compliance with the UK Corporate Governance Code.

## Information & Professional Development:

The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

## **Board Response**

The Chairman of the Board is responsible for ensuring the Board receives timely and accurate information with which to properly discharge its functions and responsibilities. On appointment, all new Board Members receive a mixture of informal and formal induction.

Regular contact between the Non-Executive Board Directors and Executive Directors and also Heads of Department, takes place to create strong links and a greater insight into business processes and the key factors affecting the success of the Society.

Throughout their tenure in office, Non-Executive Board Members are kept updated on the Society's business and the competitive and regulatory environment in which it operates. As part of their continuing professional development, they are required to attend a minimum of two workshop/training meetings each year, in addition to managing their own Continuing Professional Development by virtue of their full-time employment and are also encouraged to attend both external and internal courses sponsored by the Society aimed at assisting their self-development.

## **Compliance**

In its information and professional development, the Board of Management acts in compliance with the UK Corporate Governance Code.

## **Performance Evaluation:**

The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.

## **Board Response**

All Board Members are subject to an annual independent 360 degree review of their own performance and that of their fellow Directors. Each Board Member is invited to complete an on-line questionnaire and provide comments on their own effectiveness and that of their fellow Board Members. The results are evaluated and conclusions drawn with corrective action taken where necessary. Individual Board Members also have formal appraisal interviews with the Chairman of the Board. The Senior Independent Director carries out a formal appraisal interview of the Chairman of the Board.

## **Compliance**

In its performance evaluation, the Board acts in compliance with the UK Corporate Governance Code.

## **Re-election:**

All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

## **Board Response**

The rules of the Society require that following their first election, all Board Members are subject to re-election every three years, in addition to the annual evaluation of performance. Where a Non-Executive Board Member serves for more than nine years they are subject to annual re-election and a rigorous review by the Nomination and Remuneration Committee to determine whether their continued service has merit. In cases where it is felt there is, an explanation is given to Members justifying why. The Board has now resolved that Non-Executive Board Members appointed July 2011 and beyond shall not serve more than nine years on the Board.

The annual process of matching the collective knowledge and skills of Board Members to the needs of the Society, along with the self-assessment of personal and other Board Member effectiveness referred to in the response to principles 3, 4 and 6, ensures that the Board remains effective and a planned and progressive refreshing of the Board takes place.

## **Compliance**

In its re-election policy, the Board acts in compliance with the UK Corporate Governance Code.

## **Section C - Remuneration**

Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Director's remuneration should be structured so as to link rewards to

corporate and individual performance.

## **Board Response**

The Board recognises the need to engage staff at all levels of the Society who are capable of delivering enduring success and firmly believe the reward structure at the Society needs to reflect this commitment to attract, retain and motivate all staff towards corporate and individual goals, consistent with the long-term prosperity of the Society.

As the Board serves as an example for the rest of the Society, the Nomination and Remuneration Committee has established a Remuneration Policy for Executive Directors of the Board that has a clear focus on Member value. To this end, the remuneration package of the Executive Directors is linked to the success of the Society and personal performance of the individual.

Their remuneration package is based upon the following principles:

- Executive Directors are rewarded for creating long term value for Members and the Society (performance related rewards);
- Performance related rewards form part of the total remunerative package;
- They are competitive in the market in which the Society operates;
- Failure is not rewarded;
- Contractual terms agreed ensure that on termination, rewards are fair to the individual and the Society.

## **Reward Components for Executive Remuneration:**

### **Base Salary**

Base salaries for Executive Directors are reviewed annually are adjusted from 1 January to recognise the individual's role and performance, as are all staff salaries. These are set with reference to the Towers Watson National Income Survey (excluding London).

### **Annual Incentive Payments:**

Annual incentives using Key Performance Indicators (KPIs) in respect of the under mentioned:

- New Business Activity;
- Business Retention;
- Financial Performance;
- Staff Development and Training;
- Specified Key Projects and Objectives.

The maximum bonus for the Executive Directors is 20% of basic salary which has applied since 1 January 2009. The Nomination and Remuneration Committee retains absolute discretion in the final determination of awards.

# Report of the Board of Management on the UK Corporate Governance Code and Remuneration for the year 2014

## Pensions:

The Society has arranged a Defined Contribution Scheme for all staff in to which employees may make their own contributions in addition to the contributions made on their behalf by the Society.

The contribution made by the Society on behalf of the Chief Executive has been set at 27% of base salary and excludes annual incentive payments. The contribution recognises that the Chief Executive gave up entitlement to a Final Salary Scheme which was an onerous burden upon the Society. The contribution made on behalf of the other Executive Directors is 10% of base salary.

## Service Agreements:

Executive Directors are employed on contracts subject to no more than 12 months' notice in accordance with Corporate Governance best practice. The Nomination and Remuneration Committee endorses the principle of mitigation of damages in the event of the early termination of service agreements.

## Chairman of the Board of Management and Non-Executive Directors:

The remuneration of the Chairman of the Board and Non-Executive Directors is intended to reflect the time commitment and responsibilities of the role.

To this end the Society has established a remuneration structure for the Chairman of the Board and Non-Executive Directors that reflects the expectations and responsibilities of the role.

The UK Governance Code requires the terms and conditions of the Chairman of the Board and other Non-Executive Directors to be available for inspection by Members of the Society 15 minutes before the Annual General Meeting and during the Annual General Meeting. The Society complies with this requirement. In addition Non-Executive Board Members are also paid a travel allowance for own car use. Alternatively Board Members can reclaim authorised cost of travel if travelling by taxi, train or by air.

### Board Members' Emoluments

	Basic Salaries	Annual Incentive Payments <sup>2</sup>	Benefits and other Emoluments <sup>3</sup>	Defined Contributions Pension	Total 2014	Total 2013
	£000's	£000's	£000's	£000's	£000's	£000's
M T King	26.6				26.6	19.0
J F Quinn	19.9				19.9	11.8
P A Rouse	20.4				20.4	15.4
P R Hudson	182.5	20.9	11.7	48.1	263.2	254.3
P L Brown	109.3	12.5	8.2	10.9	140.9	135.8
J Bridge	90.8	10.4	6.3	9.1	116.6	113.1
P C Whitefield	18.7				18.7	11.8
D J G Williams	18.7				18.7	11.8
W J M Schouten	18.7				18.7	11.8
A J Knight	23.7				23.7	25.9
Dr J E Miller	-				-	2.9
<b>Total</b>	<b>529.3</b>	<b>43.8</b>	<b>26.2</b>	<b>68.1</b>	<b>667.4</b>	<b>613.6</b>

#### Notes:

- The salaries paid to all staff, including the Executives, are benchmarked against industry levels using Towers Watson Survey Data throughout the United Kingdom, excluding London. Staff are paid at a rate between the median and upper quartile for similar roles in similar sized organisations. It is the aim of the Society to pay the Executives Director at the median rate and steps are being taken to achieve this. Salaries are reviewed annually against published statistics.
- Annual incentive payments represent targeted bonuses for the Executives.
- The amounts shown under the heading Benefits and other Emoluments represent the taxable benefit based on the value of company cars provided for the Chief Executive and the Deputy Chief Executive. The Chief Executive also had an entertainment allowance of £5,000 which was not used during 2014.
- The amounts represent the contributions made on behalf of the Executives to the Society's defined contribution pension scheme.
- Deductions for personal taxation and National Insurance Contributions apply with the exception of P A Rouse, who invoices the Society for his services.

## Compliance

In its level and make up of remuneration, the Board of Management acts in compliance with the UK Corporate Governance Code.

## Procedure

There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.

## Board Response

The Nomination and Remuneration Committee comprises four Non-Executive Directors and the Chief Executive. The Deputy Chief Executive is invited to attend as a non-voting guest when called upon to do so.

To ensure that the levels of remuneration of staff, Executives and Board Members are sufficient to attract, retain and motivate individuals of the quality required to contribute to, and run the Society successfully in a highly competitive employment market, the Committee takes independent advice. The Society uses the Towers Watson National Income Survey (excluding London) to determine appropriate remuneration at all levels.

To avoid a conflict of interest, Executive Directors do not vote on their pay and Non-Executive Directors rely on the findings of independent studies when their remuneration is being considered.

In view of the potential of an upward ratchet of remuneration levels with no corresponding improvement in performance, the Committee closely monitors the performance of all staff against pre-determined targets of expectation.

## Compliance

In its procedure for developing policy on Executive remuneration the Board acts in compliance with the UK Corporate Governance Code.

## Section D - Accountability

The Board should present a balanced and understandable assessment of the company's position and prospects.

## Board Response

The responsibility of the Board in relation to the Society's position as a going concern and financial statements are set out in the Report of the Board. Every effort is made by the Board to provide comprehensive and accurate information to Members and where necessary, other stakeholders. The Society's full Report and Accounts is available to all Members online or by request. The Board seeks to engage Members' interest by sending all Members a shorter version of the Society's activities during the relevant year and by utilising on-line voting.

## Compliance

In its Financial Reporting the Board of Management acts in compliance with the UK Corporate Governance Code.

## Internal Control and Risk:

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain a sound system of internal control to safeguard Members' investment in the Company's assets.

## Board Response

The Board has collective responsibility for the Society's internal control and for reviewing its effectiveness. The Senior Management of the Society and the Board are responsible for the identification, assessment and mitigation of external and internal risks which might prevent the Society from achieving its business objectives.

The Society has appointed an Operational Risk Officer. The Operational Risk Officer attends the Audit and Risk Committee and has the right of direct access to the Chairman of that forum. This position reports to the Deputy Chief Executive.

The risk review is conducted throughout the year as part of the Society's risk appetite and management framework and includes an assessment of strategic, insurance, operational, counterparty, liquidity and market risks and also reputation risk. Control procedures and policies have been established to manage and mitigate rather than to eliminate risk and these are regularly reviewed and reported upon by the Society's independent internal audit function on behalf of the Audit and Risk Committee, who ensure the systems of control are updated and maintained to best effect.

## Compliance

In its internal control the Board acts in compliance with the UK Corporate Governance Code.

## Audit and Risk Committee and Auditors:

The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

## Board Response

During the year the Audit and Risk Committee comprised three Non-Executive Directors with relevant financial and regulatory experience and two Executive Directors. The Committee invites the Chief Executive to attend when it considers it necessary to do so.

The principal function of the Committee is to ensure that the external audit is conducted in a thorough, objective and cost effective manner and that effective systems of internal control and risk management are in place.

# Report of the Board of Management on the UK Corporate Governance Code and Remuneration for the year 2014

The Committee regularly meets with the external auditors and the outsourced internal audit function to review the audit work of the Society and provides a direct channel of communication between the Board and these functions. Both the external auditors and outsourced internal audit functions have the right of direct access to the Chairman of the Audit and Risk Committee and Chairman of the Board which are both Non-Executive positions. The terms of reference of the Audit and Risk Committee are available to Members on request.

## Compliance

With Audit and Risk Committee and auditors, the Board acts in compliance with the UK Corporate Governance Code.

## Section E - Relations with Members

There should be dialogue with Members based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with Members takes place.

## Board Response

The Board is fully committed to the fair and reasonable treatment of all Members who are both owners and customers of the Society.

Communication with Members is conducted and encouraged via letters, web-site, personal telephone contact, issue of Annual Renewal Notices, Annual Bonus Statements, occasional newsletters and the distribution of the Society's shortened version of the Annual Report and Accounts which is sent to every Member annually along with a personal invitation to attend the Annual General Meeting (AGM).

During the year we also continued to conduct regular Member satisfaction surveys on a variety of topics, the results of which are used to inform our business development.

Staff are not authorised to give Members or the public advice on its products but are able to give information. Members and the public requiring advice on the Society's products are encouraged to seek financial advice from a suitably qualified independent adviser.

The Society's Sales and Customer Care Department has, as its major objective the provision of care and high service standards to Members, Financial Advisers and other stakeholders. In addition, the Senior Independent Director, Mr P A Rouse continues as a point of contact for Members.

## Compliance

In its dialogue with Members, the Board acts in compliance with the UK Corporate Governance Code.

## Constructive use of the Annual General Meeting:

The Board should use the AGM to communicate with investors and to encourage their participation.

## Board Response

Every Member of the Society is sent a copy of the Society's shortened version of the Annual Report and Accounts annually. A full copy of the Annual Report and Accounts is available online or by request to the Society. An invitation to attend the AGM is included with the Annual Report and Accounts along with a Proxy Voting Form for Members who are unable to attend the AGM in person. Voting by Members under the age of 18 is not permitted under Friendly Society legislation.

Members are encouraged to vote on all resolutions. The Society now offers the option of on line electronic casting of votes. Alternatively Members are able to complete and return Proxy Voting Forms.

At the AGM, the Chairman of the Board and the Chief Executive make presentations on the previous year's performance and on the future plans for the Society. This gives Members who attend the AGM the opportunity to ask direct questions about their Society. All Board Members attend the AGM (unless their absence is unavoidable) and each Chair of the respective Board Committees make themselves available to answer direct questions from Members.

## Compliance

In its constructive use of the Annual General Meeting the Board acts in compliance with the UK Corporate Governance Code.

On behalf of the Board of Management



Paul Hudson  
Chief Executive

26 March 2015





# Accounts

Year ended 31 December 2014



# Independent Auditor's Report to the Members of The Cirencester Friendly Society Limited

We have audited the financial statements of The Cirencester Friendly Society Limited for the year ended 31 December 2014 which comprise the Income and Expenditure Account, the Balance sheet and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2014, and the effect of the movement in those provisions during the year on the fund for future appropriations, the balance on the general business technical account and on excess of income over expenditure before tax are disclosed in note 12.

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

## Respective responsibilities of the Board of Management and auditor

As explained more fully in the Board of Management's Responsibilities Statement set out on page 8, the Board of Management is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

## Our assessment of risks of material misstatement

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- the operation and effectiveness of the Society's Member's system during the year and specifically the operation of the system over premium income and claims paid to Members;
- the valuation and ownership of the Society's investments at the year end and the recording of transactions throughout the year;
- the Society's compliance with applicable regulations; and
- the Society's calculation and recognition of deferred acquisition costs;
- the application of revenue recognition accounting; and
- the risk of fraud arising from management override of internal controls.

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the consolidated financial statements. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the consolidated financial statements, would be changed or influenced.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the consolidated financial statements. We determined materiality for the Society to be £290,000 for items impacting the Income and Expenditure account, which is approximately 2% of net premium income. We determined materiality of £700,000 for items which require reclassification on the balance sheet, which is approximately 1% of gross assets. We use these measures to ensure the level of uncorrected misstatements does not materially impact the society's solvency calculations.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement is that performance materiality should be 75% of materiality, namely £217,500 and £525,000. Our approach is designed to have a reasonable probability of ensuring that the total of uncorrected and undetected audit differences do not exceed our materiality of £290,000 for the financial statements as a whole.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the consolidated financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The way in which we formed our response to the risks identified above was as follows:

- In order to address risk around the operation of the Society's Member's system during the year we have tested the operation of the controls over Membership records, premium income and claims paid to Members.
- In order to address risk around ownership of the Society's investments held at the period end, we confirmed the holdings to independent third party confirmations provided by the Society's Custodian.
- In order to address the risk around the valuation of the Society's investments we obtained from independent third parties confirmations of the prices for the purpose of subscription or redemption of interest in the underlying investments in investee funds as at 31 December 2014 and vouched these on a sample basis.
- In order to address the risk of associated with the recording of investment transactions through the year ended 31 December 2014 we have tested a sample of transactions to independent documentation.
- In order to address the risk over the Society's compliance with its regulatory environment we updated our understanding of the regulatory requirements and reviewed the Society's correspondence with its regulators and statutory filings.
- As part of our testing of the deferred acquisition costs we have substantively tested this balance, we have performed analytical procedures and we have compared the movement in these costs to our expectations based on our knowledge of the Society's operations.
- As part of our testing of the Member's system we performed testing relating to controls over the recognition of premium income and the process for the ensuring the accuracy of changes to Member's records, including new Members. We also performed substantive testing on a sample of premium income and analytical procedures to validate whether revenue recognition procedures complied with UK Generally Accepted Accounting Practice.
- Finally we performed analytical procedures and journal entry testing in order to identify and test the risk of fraud arising from management override of controls.

## Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the Society's affairs as at 31 December 2014 and of the income and expenditure of the Group and Society for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

## Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Report of the Board of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the financial statements for the financial year.

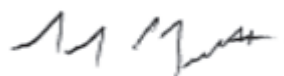
## Opinion on corporate governance statement

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the nine provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

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



M P Burnett ACA  
**Senior Statutory Auditor**

For and on behalf of Moore Stephens  
Chartered Accountants & Statutory Auditor

26 March 2015

# Income and Expenditure Account for the Year ended 31 December 2014

These are the premiums paid by Members to the Society during the year.

This is the investment income earned by the Society on the investments that it holds. The amount also includes increases in the value of investments held.

This is the amount paid to Members in respect of sick pay benefit claims during the year.

This is calculated by the Actuarial Function Holder and added to reserves to help cover future sick pay benefit liability.

These amounts represent the bonuses added to Members' credits during the year.

This is what it has cost to run the Society during the year.

This is the amount of surplus (deficit) left over after all income and expenditure for the year has been taken into account. It is added to (taken from) the reserves held by the Society as required to help meet future running costs and debt liability.

## Technical Account - Long Term Business

	Notes	2014 £	2013 £
Earned premiums	2	14,885,441	14,241,147
Investment income	3	2,249,870	3,081,972
Net other technical income less other technical charges		86,287	73,844
<b>Technical Income</b>		<b>17,221,598</b>	<b>17,396,963</b>
Claims incurred	4	(3,360,725)	(3,284,806)
Increase in Long Term Business Provision	12	(1,741,000)	(714,000)
Interest on retired Members' deposits		(56,938)	(52,308)
Bonus Allocations to Members' capital accounts	13	(495,504)	(493,785)
Surplus Allocations to Members' capital accounts	13	(1,568,775)	(1,603,159)
Net operating expenses	5	(6,204,879)	(6,654,722)
Investment expenses and charges	7	(7,873)	(42,120)
		<b>3,785,904</b>	<b>4,552,063</b>
Transfer (to)/from fund for future appropriations	12	(3,785,904)	(4,552,063)
Balance on the technical account		-	-

The Society has no other recognised gains or losses other than those included in the movements on the technical account and therefore no separate statement of total recognised gains and losses has been presented.

The notes numbered 1 to 22 inclusive form part of these financial statements.

# Balance Sheet as at 31 December 2014

	Notes	2014		2013	
		£	£	£	£
<b>Assets</b>					
<b>Investments</b>					
Land and buildings	8	1,895,000		1,880,000	
Investment in subsidiary	9	100		100	
Other financial investments	10	67,606,176		59,160,312	
			69,501,276		61,040,412
<b>Debtors</b>					
Other debtors			133,827		58,313
<b>Other assets</b>					
Tangible assets	11	373,400		264,749	
Assets under construction		425,765		-	
Cash at Bank in hand		751,089		3,807,231	
			1,550,254		4,071,980
<b>Prepayments and accrued income</b>					
Accrued interest and rent		227,564		244,646	
Other prepayments and accrued income		156,651		99,973	
Deferred acquisition costs		2,883,910		3,019,883	
			3,268,125		3,364,502
			<u>74,453,482</u>		<u>68,535,207</u>
<b>Liabilities</b>					
<b>Reserves</b>					
<b>Provided for by the Rules</b>					
Benevolent Fund	16		896,453		659,613
<b>Fund for Future Appropriations</b>					
General Reserve	12		23,882,887		22,148,864
<b>Members' Mutual Fund</b>					
	14		5,028,045		3,286,724
<b>Technical provisions</b>					
Members' Capital Accounts	13	21,437,576		21,281,813	
Retired Members' Deposits	15	2,305,371		2,096,559	
Long Term Business Provision	12	19,105,000		17,364,000	
			42,847,947		40,742,372
<b>Creditors</b>					
Arising out of Direct Insurance Operations		844,622		860,419	
Other creditors including tax and social security		394,099		254,151	
			1,238,721		1,114,570
Accruals and Deferred Income			559,429		583,064
			<u>74,453,482</u>		<u>68,535,207</u>

These are the investments held by the Society.

These are the accumulated sales costs allocated with acquiring new contracts and are spread over a number of years.

These are the amounts currently standing to the credit of contributing Members and also those who have chosen to leave money with the Society after their contract has reached maturity.

These financial statements were approved by the Board of Management on 26 March 2015 and were signed on their behalf by :



Chairman



Chief Executive

## 1. Accounting Policies

### Accounting Convention

The financial statements have been prepared in accordance with The Friendly Societies Act 1992, The Friendly Societies (Accounts and Related Provisions) Regulations 1994, applicable accounting standards, and with the Association of British Insurers' Statement of Recommended Practice (SORP): 'Accounting for Insurance Business' issued in December 2005.

As a Mutual Life Assurance Society, under Financial Reporting Standard 1, the Society is exempt from the requirements to prepare a cash flow statement on the grounds that all major cash flows arise from long term insurance business and are for the benefit of long term funds.

### Basis of Accounting

The accounts have been prepared under the historical cost convention, modified by the revaluation of certain assets as required by the regulations.

### Tangible Assets (excluding freehold properties)

Tangible Assets are stated at historical cost less accumulated depreciation.

Depreciation has been provided on all tangible assets calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Motor Vehicles - three years with a retained value of 25% at disposal

Office Equipment - two years / four years

Computer Equipment and software - four years

### Investments

#### i) Land and Buildings

The freehold and long leasehold investment properties are shown at open market valuation. The Society is legally required to value properties on an annual basis.

#### ii) Investments in Listed Investments are stated at the middle market price at the year end.

### Premium Income

Premiums are accounted for on a cash basis; the difference between this and an accruals basis is considered immaterial.

### Investment Income

Investment income comprises rents, dividends, interest on deposits and net gains, both realised and unrealised, on investment assets. Rents, dividends and interest on deposits are accounted for on an accruals basis together with any recoverable income tax.

### Realised and unrealised gains and losses

Realised gains and losses, being the difference between the net sale proceeds and the valuation at the previous Balance Sheet date or cost of acquisition if later, are included within investment income or investment expenses in the Technical Account - Long Term Business. Unrealised gains and losses are reported in the Technical Account - Long Term Business and represent the difference between the year end valuation of the investments and their valuation at the previous Balance Sheet date or cost of acquisition, if later.

## Claims and Benefits

Claims and benefits notified in the year are included in the accounts on an accruals basis.

## Investment Expenses and Charges

Investment expenses and charges comprise management fees together with losses, both realised and unrealised, on investment assets. All management fees are accounted for on an accruals basis.

## Leasing

Rentals paid under leases are charged against income on a straight line basis over the lease term.

## Taxation

The Society is exempt from Corporation Tax.

## Acquisition Costs

Acquisition costs comprise direct and indirect costs arising from the obtaining and processing of new business. For new contracts agents commission costs are amortised over the first thirty six months of the contract.

## Pension Costs

Contributions payable under the Society's defined contributions scheme are charged to the income and expenditure account as they become payable.

## Fund for Future Appropriation

The fund for future appropriations represents amounts which have yet to be allocated to Members. Any surplus or deficit arising from the technical account during the year is transferred to or from the fund at each year end.

## Long-term Business Provisions

The long-term business provision is calculated by the Society's Actuarial Function Holder, having due regard to the actuarial principles laid down in the Life Framework Directive (Council Directive 92/96/EC).

# Notes to the Accounts 31 December 2014

## 2. Premium Income

	2014	2013
	£	£
Gross Premiums received	14,885,441	14,241,147

## 3. Investment Income

	2014	2013
	£	£
Net income from land and buildings	51,561	50,694
Mortgage interest	-	-
Listed securities	1,639,962	1,439,796
Interest from monies on deposit	30,364	73,549
	1,721,887	1,564,039
Unrealised gains on investments	127,235	1,966,154
Gains / (Losses) on realisation of investments	400,748	(448,221)
	2,249,870	3,081,972

## 4. Claims Incurred

	2014	2013
	£	£
Gross Claims Payable	3,360,725	3,284,806

## 5. Net Operating Expenses

	2014	2013
	£	£
Acquisition costs	3,755,485	3,724,724
Administrative expenses	2,449,394	2,929,998
	6,204,879	6,654,722
Acquisition costs include:		
Amortised commissions	2,240,621	2,243,517
Depreciation	20,532	22,773
Administrative expenses include:		
Depreciation	106,471	91,665
Amounts payable, including expenses, by the Society to the Auditor in respect of:		
Statutory accounts (Inclusive of VAT)	27,000	30,000
Regulatory returns	-	-
Other services	-	-
Other professional services (Inclusive of VAT)	225,332	952,210
Actuarial fees (Inclusive of VAT)	137,457	111,358
Aggregate amount of Board Members' emoluments	667,409	613,539



Non-Executive Board Members are entitled to be paid a fee for services rendered to the Society together with reasonable out-of-pocket travel expenses. Board Members' emoluments, excluding pension contributions, fell within the following ranges:

Committee Members' emoluments, excluding pension contributions, fell within the following ranges:

	2014	2013
	No.	No.
£1 - £5,000	-	1
£10,001 - £15,000	-	4
£15,001 - £20,000	5	2
£20,001 - £25,000	1	-
£25,001 - £30,000	1	1
£105,001 - £110,000	1	-
£110,001 - £115,000	-	1
£130,001 - £135,000	1	1
£215,001 - £230,000	1	1

The emoluments of the Chairman amounted to £25,913 for the year (2013 - £25,872).

The emoluments of the highest paid member of the Board were £215,119 (2013 - £218,623).

## 6. Employee Information

The average number of persons employed by the Society (excluding members of the Board of Management, but including the Chief Executive, Deputy Chief Executive and the Director of Sales and Marketing) in the financial year was:-

	2014	2013
	No.	No.
Administration	29	27
Acquisition	14	14
	<u>43</u>	<u>41</u>

Staff costs for the above persons were:

	2014	2013
	£	£
Wages and salaries (including the Chief Executive, Deputy Chief Executive and the Director of Sales and Marketing)	1,576,979	1,499,697
Social security costs	144,486	142,387
Other pension costs	153,123	159,991
	<u>1,874,588</u>	<u>1,802,075</u>

## 7. Investment Expenses and Charges

	2014	2013
	£	£
Investment management expenses	<u>7,873</u>	<u>42,120</u>

# Notes to the Accounts 31 December 2014

## 8. Land and Buildings

The Society's land and buildings were valued at £1,895,000 as at 31 December 2014 (2013 - £1,880,000). The Society occupies the freehold premises at 5 Dyer Street, Cirencester which is valued at £1,100,000 as at 31 December 2014 (2013 - £1,100,000) and also the long leasehold property at Unit 7 Shrivenham 100 Business Park, Majors Road, Watchfield which is valued at £130,000 (2013 - £130,000).

## 9. Investment in Subsidiary Undertaking

The Society has one wholly owned subsidiary undertaking, Friendly Computer Services Limited, registered in England.

	2014	2013
	£	£
Cost of investment	100	100

The subsidiary accounts have not been consolidated in the Income and Expenditure Account and the Balance Sheet of the Society as the figures are not material for the purpose of giving a true and fair view for the Society. The subsidiary company became dormant with effect from 1 January 2004.

## 10. Other Financial Investments

	2014	2013
	£	£
Listed investments	66,181,474	53,252,744
Monies held on term deposits	1,424,702	5,907,568
	<u>67,606,176</u>	<u>59,160,312</u>

### Listed Investments

### MARKET VALUES

	2014		2013	
	£	£	£	£
Valuation at 1 January		53,252,744		45,668,683
Additions at Cost		16,412,724		9,037,671
Less Disposals (Sale Proceeds)	(3,993,705)		(3,141,291)	
Net profit/(loss) on Disposals	(297,894)	(4,291,599)	(448,281)	(3,589,572)
General Fund - Appreciation	801,876		2,133,587	
Benevolent Fund - Appreciation	5,729	807,605	2,375	2,135,962
<b>Valuation at 31 December</b>		<u>66,181,474</u>		<u>53,252,744</u>

### Analysis as at 31 December 2013

	COST		MARKET VALUES	
	31.12.14	31.12.13	31.12.14	31.12.13
	£	£	£	£
Fixed Interest Redeemable				
Government Stocks	10,738,511	10,738,511	12,324,762	12,158,181
Other Fixed Interest Stocks	17,253,030	15,511,232	18,108,142	16,063,513
	<u>27,991,541</u>	<u>26,249,743</u>	<u>30,432,904</u>	<u>28,221,694</u>
Direct Equity holdings	2,200,327	2,466,543	2,530,535	2,697,930
Unit Trusts and OEICs	33,276,179	18,532,857	33,218,035	22,333,120
	<u>63,468,047</u>	<u>47,249,143</u>	<u>66,181,474</u>	<u>53,252,744</u>

# Notes to the Accounts 31 December 2014

## 11. Tangible Assets

	Motor Vehicles	Office Equipment	Computer Equipment	Total
	£	£	£	£
<b>Cost</b>				
At 1 January 2014	70,116	248,882	752,393	1,071,391
Additions	63,708	109,486	77,460	250,654
Disposals	(45,000)	-	-	(45,000)
At 31 December 2014	<u>88,824</u>	<u>358,368</u>	<u>829,853</u>	<u>1,277,045</u>
<b>Depreciation</b>				
At 1 January 2014	31,723	228,132	546,787	806,642
Charge for the year	20,669	11,547	94,787	127,003
Disposals	(30,000)	-	-	(30,000)
At 31 December 2014	<u>22,392</u>	<u>239,679</u>	<u>641,574</u>	<u>903,645</u>
<b>Book Value at 31 December 2014</b>	<u>66,432</u>	<u>118,689</u>	<u>188,279</u>	<u>373,400</u>
<b>Book Value at 31 December 2013</b>	<u>38,393</u>	<u>20,750</u>	<u>205,606</u>	<u>264,749</u>

## 12. Reserves and Technical Provisions

	Fund for future appropriations	Long term business provisions
	£	£
Balances at 1 January 2014	22,148,864	17,364,000
Increase in Long Term Business Provision		1,741,000
Transfer from income and expenditure account	3,785,904	
Transfer to Members' Mutual Fund	(2,051,881)	
Transfer to Benevolent Fund		
Balances at 31 December 2014	<u>23,882,887</u>	<u>19,105,000</u>

The Society's Assets and Liabilities are subject to an annual valuation in accordance with the Asset Valuation Rules set out in appendix 4 of IPRU (FSOC) and other applicable legislation. The Actuarial valuation is carried out by Mr Christopher Critchlow BSc, FIA of OAC. The reserves and technical provisions in the financial statements reflect the results of the valuation.

### 13. Members' Capital Accounts

	2014		2013	
	£	£	£	£
<b>Balance at 1 January</b>		21,281,813		21,372,318
<b>Less Withdrawals</b>				
On cessation of Membership and by continuing Members	(1,823,028)		(2,112,381)	
Forfeitures thereon	(88,191)	(1,911,219)	(75,068)	(2,187,449)
<b>Add</b>				
Interest Credited	495,504		493,785	
Dividends Declared	1,568,775		1,603,159	
Commission Sacrifices	2,703	2,066,982	-	2,096,944
<b>Balance at 31 December</b>		<u>21,437,576</u>		<u>21,281,813</u>

### 14. Members' Mutual Fund

A Members' Mutual Fund represents an allocation of part of the Society's surpluses, when available, over and above specific rights conferred to Members by virtue of the contracts they hold for income protection. The fund was established in 2012. At the date of termination of a Member's contract with the Society, the Member may participate in the fund in accordance with the rules of the Members' Mutual Fund.

	2014		2013	
	£	£	£	£
Balance at 1 January		3,286,724		1,475,422
Transfer from Income and Expenditure		2,051,881		1,884,070
<b>Less</b>				
Payments to Members	89,721		-	
Transfers to the Benevolent Fund	220,839	(310,560)	72,768	(72,768)
<b>Balance at 31 December</b>		<u>5,028,045</u>		<u>3,286,724</u>

### 15. Retired Members' Deposits

	2014		2013	
	£	£	£	£
Balance at 1 January		2,096,559		1,910,294
Less Withdrawals		(133,064)		(141,778)
Interest Credited	47,344		42,503	
Transfers from Members' Accounts	294,532	341,876	285,540	328,043
<b>Balance at 31 December</b>		<u>2,305,371</u>		<u>2,096,559</u>

Retired Members' deposits are repayable on demand.

# Notes to the Accounts 31 December 2014

## 16. BENEVOLENT FUND

	2014	2013
	£	£
Investment Income	17,662	2,091
Unrealised Gains on Investments	5,729	2,375
Other Technical Income		
Transfer from General Reserves and the Members' Mutual Fund	220,839	572,768
Donations from Members, Staff and allocated from the main fund	12,356	9,688
<b>Less</b>	<b>256,586</b>	<b>586,922</b>
Other Technical Charges		
Payments made	(19,746)	(1,962)
Decrease/Increase in Fund during year	236,840	584,960
Add: Balance 1 January	659,613	74,653
<b>Balance at 31 December</b>	<b>896,453</b>	<b>659,613</b>

## 17. Pensions Costs

### Defined Contribution Pension Scheme

Pension provision for all employees of the Society has been made by means of an appropriate Money Purchase Scheme. Contributions paid during the year amounted to £153,123 (2013 - £159,991). There were no amounts outstanding to the scheme at the year end (2013 - £nil).

## 18. Transactions with Board Members

There were no loans outstanding from Board Members at 31 December 2014 (2013 - £Nil)

Certain members of the Board provide the Society with professional services through partnerships or companies in which they hold an interest. Payments for services provided during the year, exclusive of VAT where applicable, are set out below:

	2014	2013
	£	£
Dr J E Miller	-	1,106
D J G Williams	3,232	3,194
P A Rouse	1,050	2,350

## 19. Actuarial Function

Mr C N Critchlow, a partner in OAC, was appointed to the position of Actuarial Function and With Profits Actuary to the Society on 8th September 2011. The Society has requested him to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr Critchlow has confirmed that neither he nor his family, nor any of his partners were Members of the Society, nor have they any financial or pecuniary interests in the Society, with the exception of fees paid to OAC for professional services, which amounted to £107,655 (before VAT) (2013 - £91,931).

## 20. Capital Statement

### a) Available Capital

	2014	2013
	£	£
Fund for Future Appropriations	23,882,887	22,148,864
<b>Members' Mutual Fund</b>	5,028,045	3,286,724
Adjustments Inadmissible Assets		
Deferred Acquisition Costs	(2,883,910)	(3,019,883)
Other Assets	(44,229)	(84,055)
<b>Total available capital</b>	<u>25,982,793</u>	<u>22,331,650</u>

The Society has a minimum Capital Resource Requirement of £2,859,084 (2013 £2,761,564). The excess Available Capital Resource is therefore £23,123,709 (2013 £19,570,086). A reconciliation of the movements in the Excess Available Capital Resources for the year is set out below:

	2014	2013
	£,000	£,000
Available Capital as at 31 December 2013	19,570	14,772
New Business and Lapses	(345)	124
Methodology Changes	11	-
Basis Changes	(445)	(11)
Changes in Members' balances and retired Members' balances	(365)	(96)
Changes in Sickness Reserve	(962)	(785)
Changes in Admissible Assets	6,094	6,201
Change in RTR and LTICR	(98)	416
Changes in other liabilities	(337)	(1,051)
	<u>23,123</u>	<u>19,570</u>

# Notes to the Accounts 31 December 2014

## b) Capital Resources Sensitivities

The capital position of the Society is sensitive to changes in market conditions, due to both the changes in the value of the assets and the effect that changes in investment conditions may have on the value of liabilities. It is also sensitive to assumptions and experience relating to expenses, persistency and morbidity.

The table below demonstrates the sensitivity of available capital to movement in assumptions:

Variables	Potential Movement in Available Capital	
	£,000	
An increase in the inception of claims of 10%	(717)	Decrease
A reduction in the inception rate of claims of 10%	110	Increase
An increase in the recovery rate of claims of 10%	1,237	Increase
A reduction in the recovery rate of claims of 10%	(11,178)	Decrease
An increase in the rate of expenses of 10%	-	-
A reduction in the rate of expenses of 10%	-	-
An increase in the rate of mortality of 10%	244	Increase
A decrease in the rate of mortality of 10%	(273)	Decrease
An increase in the interest rate of 1%	707	Increase
A decrease in the interest rate of 1%	(756)	Decrease
An increase in the value of investment assets of 10%	6,756	Increase
A decrease in the value of investment assets of 10%	(6,756)	Decrease

The timing and extent of any impact on the reserves would depend on the interaction of past experience and assumptions about future experience and management actions taken to mitigate that impact. Possible management action would be to amend the investment strategy, reduce where practical the discretionary expenditure of the Society or to reduce the level of future distributions until any adverse conditions had been resolved.



## c) Risk Management

The Society's primary objective in undertaking risk management is to ensure that the achievement of its performance and regulatory objectives is not undermined by unexpected events. The Board has overall responsibility for the Society's risk management framework and for reviewing its effectiveness.

### Risk Management Framework

The Society's risk management framework is built around three principal elements:

- Risk Appetite Statement;
- Risk Policies; and
- The Corporate Governance Structure.

The Society's Risk Appetite Statement sets out explicitly the amount of risk that the Society is currently willing to accept. It is put into practice by the use of principles and procedures and by the setting of tolerances, limits and authority levels.

The Society's risk policies are the high level standards and requirements which determine the way in which risks are to be managed and controlled. The Board ensures that policies are regularly reviewed to reflect the changing commercial and regulatory environment and the Society's organisational structure. Executive Management has been delegated the day-to-day responsibility for establishing and implementing appropriate systems and controls and for managing the risks which impact upon their respective areas of responsibility.

The major risks faced by the Society can be categorised as insurance risk, market risk, counterparty risk, liquidity risk and operational risk. These categories and the risk mitigation undertaken by the Society are described further below.

#### 1. Insurance Risk

Insurance risk arises from the uncertainty over the occurrence, amount and timing of claims payments arising under contracts issued by the Society.

The exposure of the Society depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim. The amount of such future obligations is assessed by reference to assumptions with regard to future morbidity rates, persistency rates, expenses, investment returns and interest rates.

In addition, it is necessary for the Society to make decisions which ensure an appropriate build-up of assets and liabilities relative to one another. These decisions include the allocation of investments between asset classes and the setting of distribution rates to Members.

The Society manages insurance risk within the risk management framework set out above, with the primary responsibility for the setting of policy and the monitoring of risk falling to the Board.

#### 2. Market Risk

Market risk arises from the possibility that the value or cash flows of the Society's assets and liabilities fluctuate as a result of movements in market prices. The most important components of market risk are interest rate, currency and other price risks. Each of these risks is discussed in more detail below.

The Society manages market risk within the risk management framework outlined above and in accordance with the relevant regulatory requirements.

##### (i) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary.

##### (ii) Property price risk

Property price risk is the risk that the fair value or future cash flows of property will fluctuate because of changes in market prices, other than those arising from interest rate.

# Notes to the Accounts 31 December 2014

## 3. Counterparty Risk

Counterparty risk is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Exposure to counterparty risk may arise in connection with a single transition or to an aggregation of transactions with a single counterparty.

The Society has within its Risk Appetites and Statement considered and set out both the quality and the level at which investment may be made with any single counterparty in order to mitigate this risk.

## 4. Liquidity Risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due.

## 5. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

## d) Capital Management

The Society maintains sufficient capital, consistent with its risk profile and the regulatory and market requirements. The Society is subject to a number of regulatory tests and also employs a number of realistic tests to allocate capital and manage risk. Overall, the Society meets all these requirements and has significant resources and financial strength.

In reporting financial strength, capital and solvency is measured using the regulations prescribed by the Prudential Regulation Authority (PRA). These regulatory capital tests are based upon required levels of solvency and a series of prudent assumptions in respect of the type of business of the Society.

### Capital Management Policies and Objectives

The Society's objectives in managing its capital are:

- To match the profile of its assets and liabilities, taking into account the risks inherent in the business;
- To maintain financial strength to support new business growth;
- To satisfy the requirements of its Members and Regulators;
- To retain financial flexibility by maintaining strong liquidity;
- To allocate capital efficiently to support growth; and
- To manage exposure to movements in interest and market rates.

## Restrictions on Capital Resources Available

The Society is required to hold sufficient capital to meet the PRA's capital requirements. The capital requirements for its business are calculated on a statutory basis. Account is also taken of the Individual Capital Assessment which considers certain business risks not reflected in the statutory basis.

The Society's total available capital resources are £25.98m (2013 - £22.33m) all of which is held in a general fund.

The available capital of the Society, not being held within specific funds, is not subject to restrictions on its use and is therefore generally available to meet any requirements.

It remains the intention of management to ensure that there is adequate capital to exceed the Society's regulatory requirements. At 31 December the available capital was 909% of its capital requirements of £2,859,084 (2013 - 808%)

## Basis for Setting Technical Provisions

- Interest Rate 1.00% pa (2013 - 1.50% pa)
- Morbidity Incidence Rate: Health and Wealth 50% of CMIR12 table, Income Assured 30% of CMIR12 and My Earnings Insurance 45% CMIR12.
- Morbidity Recovery Rates: Health and Wealth 65% of CMIR12 for month 1, 100% for month 2, 110% for month 3, 130% for months 4-6, 140% for months 7-12 and 150% thereafter, Income Assured Plus and My Earnings Insurance 45% of CMIR12 for the first month, 65% for month 2, 90% for month 3, 115% for months 4-6, 140% for months 7-12 and 140% thereafter.
- Mortality Rate 50% of CMIR12 (2013 - 50% of CMIR12).

Morbidity - an inception annuity approach is used to reserve for morbidity. The reserving tables used are split by age, sex and deferred period. The rates are reviewed annually to allow for emerging experience.

Interest rates - the Society's admissible assets are notionally allocated to the appropriate liabilities. The valuation interest rate contains a prudent margin.

## 21. Commitments

Capital commitments of the Society at the end of the year for which no provision has been made are as follows:

Contracted

Approved by the Board of Management but not contracted for

Annual commitments of the Society under other non-cancellable operating leases are as follows:

Operating leases which expire:

Within one year

In the second to fifth years inclusive

Over five years

	2014	2013
	£	£
Capital commitments of the Society at the end of the year for which no provision has been made are as follows:		
Contracted		-
Approved by the Board of Management but not contracted for	1,000,000	765,000
	<u>1,000,000</u>	<u>765,000</u>
Annual commitments of the Society under other non-cancellable operating leases are as follows:		
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	7,022	7,022
Over five years	-	-
	<u>7,022</u>	<u>7,022</u>

## 22. Contingent Liabilities

The Society had no contingent liabilities at the end of the year (2013 - £nil).

Cirencester Friendly Society Limited,  
5 Dyer Street, Cirencester, Glos. GL7 2PP  
Tel: 01285 652492/653073  
Fax: 01285 641246  
Email: [info@cirencester-friendly.co.uk](mailto:info@cirencester-friendly.co.uk)  
[www.cirencester-friendly.co.uk](http://www.cirencester-friendly.co.uk)

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Cirencester Friendly Society Limited is Authorised by the Prudential Regulation  
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