

Annual Report & Accounts

Year ended 31 December 2019



A Message from the Chairman

Chairman
John Quinn



Performance

2019 was an excellent year for growth and I am proud to report that our Membership has exceeded 40,000 for the first time in our long history. Premium income continues to increase and investment returns were stronger in 2019.

As a result, once again, participating bonuses have been maintained or improved. Again, we paid in excess of 95% of the claims that we received during 2019, demonstrating our commitment to be here for our Members when they need us most. As a mutual, we returned nearly 50% of premium income to Members through claims, bonuses and interest or transfers to the Members' Mutual Fund. That, I believe, demonstrates our strong belief that our Members should be, and are, at the heart of everything we do.

Customer Service

We take pride in the high standards of service that we offer to Members and Advisers. This has again been recognised by the industry in 2019 through the achievement of several prestigious awards. This includes Cover Magazine's 'Young Insurance Person of the Year' for an impressive third year running, this time going to Eryn Sergeant.

We are determined to carry on refreshing our contracts to ensure that they meet the needs of Members and prospective Members. It's most gratifying, therefore, that both of our contracts, Income Assured Enhanced and My Earnings Protected, have maintained their five-star rating by Defaqto, an independent organisation that considers all the relative features of financial products, scoring all the features and then ranking the products.

Corporate Governance

As Chairman, I am elected to lead the Board and one of my main roles is to ensure that the Board 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 working together in the best interests of our Members. I am glad to have this opportunity publicly to thank my fellow Directors for all their work on behalf of the Society.

As I mentioned in last year's Report, Peter Brown, our Deputy Chief Executive, retired in June 2019. We thank Peter most warmly for his contribution and wish him a long and happy retirement. Led by Paul Hudson, our expanded Leadership Team of Shirley Fell, Andrew Horsley, David Macgregor and Andy Morris has done a fantastic job in 2019, taking the Society through a year of great business success, as well as important and exciting changes.

Society Offices

It gives me great satisfaction to see the Society move to our new Head Office at Mutuality House in South Cerney, just outside Cirencester. This is a vital and exciting step in the continuing expansion of the Society. The Board has made this commitment as a demonstration of our confidence in the long-term future of Cirencester Friendly.

Thank You in Challenging Times

The success of the Society in 2019 is a credit to the hard work and ongoing commitment from our fantastic staff and I thank them sincerely for their continued support, enthusiasm and readiness to embrace change. Currently, the UK faces unprecedented challenges resulting from the Coronavirus crisis. I can reassure Members that our balance sheet remains strong. Our operating systems, including remote working arrangements, are robust and our staff are making huge efforts to support the business. We are far from complacent but are confident we can maintain our service to Members in these difficult times and we thank you for continuing to place your trust and welfare with the Society.

2019 Selected Highlights:

- Membership exceeds 40,000 for the first time
- Bonuses maintained or increased
- Claims paid >95%
- Financial surplus increased
- 'Young Insurance Person of the Year' for 3rd year running
- New Head Office

John Quinn
Chairman of the Board
17 April 2020



Our Mission:

We protect lifestyles



Strategic Review from the Chief Executive

I am immensely proud of the achievements of everyone at the Society in 2019. It has been another very successful year and also one of great change. I write this from our impressive new office, secure in the knowledge that the business has delivered a sustainable and profitable performance against a volatile and uncertain market environment. This gives me confidence that the Society is well placed for long-term success.

Financial Results and Business Review

The Society has a cautious, long-term approach to business as we want to be able to support our Members in the years to come, just as we have for the past 130 years.

I am pleased to report the following superb results that have enabled us to set aside more benefits for our Members:

- **Total Investment gains of £9.1m** (growth and income) a return of 11.0% (2018: loss of 3.4%). Our overall investment portfolio has increased in 2019 by £3m to £86m as at 31 December 2019 (2018 £83m).
- **Total bonus and surplus allocations of £3.6m** (including £1.5m transferred into the Members' Mutual Fund). (2018: £1.4m including £0.9m transferred out of the Members' Mutual Fund).
- **£7.2m** was transferred to the Fund for Future Appropriations for future development in 2019 (2018: £6.6m).

The Members' Mutual Fund was established in 2012 to share more of our success with all contributing Members, by utilising surpluses earned by the current generation of Members to increase pay-outs on the maturity of their contracts.

At the end of the year, we had a level of solvency which substantially covered the minimum capital resource requirements prescribed by the Regulator. We prepared an Own Risk Solvency Assessment (ORSA) during 2019, which indicated that we had a comfortable margin of capital resources over the Solvency Capital Requirement as required under the provisions of Solvency II.

Claims

We are committed to supporting Members financially when they need us most. In 2019, we paid 95.7% of claims (2018: 95.2%). Of those declined, 54% were due to no loss of income by the claimant during incapacity. 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 and transparent analysis of our claims statistics enabling Members, Advisers and potential new Members to judge our performance on the facts. As one of the very first firms to publish these figures, we support the standardisation of comprehensive claim statistics across the industry, so that firms can also be judged on their claims payment record, as well as their financial performance.

“Our Vision: To be the go-to provider when it comes to protecting lifestyles”

Cirencester Friendly 125 Foundation

The Cirencester Friendly 125 Foundation was launched in January 2016.

The 125 Foundation provides financial support to individuals and causes to the benefit of Members and their communities. There are two types of awards which Members, or their Financial Adviser on their behalf, can apply for:

- **Individual Awards** are for the simple things that make a huge difference. Members, or their Financial Adviser on their behalf, can nominate someone close to them who may be suffering due to illness and could benefit from support.
- **Half Yearly Community Awards** are for local projects and causes that Members value and support.

Throughout 2019 the 125 Foundation helped many of our Members and their Communities. Our aim is to always give back to our Members and support them in any way we can. We encourage all Members to get in touch and make the most of this fantastic benefit that we offer.

Bonuses to Members

One of the key benefits of mutuality 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 profit participating Members' credit balances, held by us until the end of their contract, and through the Members' Mutual Fund. 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 sustain over time. We aim not to put our financial welfare and that of Members at undue risk, demonstrated by our long track record of delivering steady and encouraging results.

As a consequence of this, we can report that bonus rates added to Members' Credits for 2019 have either been maintained or increased:

	2019	2018
Health & Wealth Dividend (maintained)	£1.56	£1.56
Income Assured Plus - Surplus Allocation (increased)	£10.80	£10.20
Income Assured Plus - Investment Only - Surplus Allocation (maintained)	£0.51	£0.51
Bonus Allocation/Interest* (maintained)	2.5%	2.5%

*Interest Rate (which is set in advance) for retired Members is 2.5% (2018 - 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).

Treating Customers Fairly

We are committed to the fair treatment of customers.

The number of complaints we receive each year is 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 our 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.

Award Winning Service

We aim to deliver high standards of service and believe that this is evidenced by the many prestigious industry awards we have received in recent years. In the 2019 COVER Customer Care Awards, we were pleased that, for the third year running, one of our staff was named the Young Insurance Person of the year. The award went to Eryn Sergeant, who was also the winner of Cirencester Chamber of Commerce apprentice of the year.

In the Investment Life & Pensions Moneyfacts Awards, the Society was Highly Commended in Best Income Protection Provider category and in the Service Beyond the Call of Duty category.

Developing Staff

Employees are a vital part of the Society as they are the resource through which the strategic ambitions of the Society will be delivered. Having an effective and engaged workforce will enable the Society to grow and prosper.

During 2019 we have continued to embed the values of the Society, as captured in a deliberately clear and straightforward mnemonic:



Employee Engagement is pivotal to the success of the Society, an engaged workforce is an effective workforce working towards the 'Excellence' in our Heart values. An engaged workforce will take accountability for their roles. This reduces staff turnover and creates brand awareness through word of mouth.

Climate Change

At the Society we take an active interest in the local environment and also how we can make our contribution to the efforts to combat climate change. We are committed to the PRA initiative to ensure that insurers prepare for the potential business challenges presented by climate change, with our Finance Director Andy Morris the senior manager responsible. He has set up a working group to collaborate with the Association of Financial Mutuals (AFM) in looking at how the industry will respond.

This working group is also keen to take practical steps to make a difference at the individual level. Our new head office Mutuality House has been constructed as an energy efficient building but we are not yet able to be carbon neutral. As a result, the Board has agreed to contribute to carbon offset schemes to the equivalent of our total carbon footprint, to ensure we play our part even in the short term. We are also looking at how best to reduce our waste and increase the proportion that is recycled, together with supporting local environmental initiatives.



Strategic Objective 1: To be sustainable and profitable, building capital for a stronger future together



Community Contribution

At Cirencester Friendly, we are proud of the difference we make to the communities we work in and whose Members we support. Our chosen charity for 2019 was Gloucestershire Young Carers and we are pleased to be able to say that staff managed to raise £6,345 through their efforts during the year.

In 2019 we held many successful fundraising events such as our 'Big Cycle Challenge', which was held outside our office on Dyer Street and raised a total of £330. We also held many other events throughout the year and had staff at our Society taking part in Charity Walks, 10k runs and we all enjoyed a fundraising week over the Christmas period. We look forward to supporting and fundraising for our new charity of the year in 2020.



Information Technology

During the year, we continued our work to replace existing operating systems, aimed at delivering higher standards of service to Members and other stakeholders. Good progress is being made and we are forging strong partnerships with key suppliers in the industry, helping to progress our infrastructure and put the building blocks in place for the future development of the Society.

Outlook for 2020

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



We are committed to increasing the range of products and services we offer and to improving service through technology and staff training. We remain confident that we are in a good position to rise to the inevitable challenges we will face. Everyone here works to look after the interests of Members and supporters alike. Through all of our efforts and commitment, we have continued to grow and deliver positive results.

Post Balance Sheet Event

The Society continues to monitor the impact of the Coronavirus carefully. Our Chief Actuary has helped the Directors conduct a going concern review, taking the lowest day of the markets in 2020 (March 23rd) prior to signing the accounts and applying this stress to the year-end position. In addition, this reduced asset position was subjected to the stressed scenarios previously applied to 2019 results. Under all of these conditions, the solvency and liquidity of the Society remain strong and within Board risk tolerances. Our auditors have also reviewed this work and their conclusions are contained in the audit report.

The potential impact of the crisis on claims is also being closely monitored, though it is too early to determine the degree of impact at the time of signing. In order to protect the Society and our current Membership, we have temporarily suspended issuing new short deferred income protection contracts and are keeping close contact with all our key stakeholders.

My personal thanks go to my colleagues for their continued support and hard work during 2019 and at this challenging time.

On behalf of the Board

Paul Hudson
Chief Executive

17 April 2020

“ Strategic Objective 2:
To be great to do business with ”

“

Strategic Objective 3: To be a place
where people want to
work and grow

”



The Board of Management Profiles



Non-Executive Director
Janice W Banks
MBA

Term of Office: Janice joined the Board in January 2016

Independent: Yes

Skills and Experience: A Senior Executive with over 30 years' experience in Financial Services. Held senior roles in Nationwide, the largest mutual Building Society, including department head for Member Service, Retail, Communications, HR, Compliance and Company Secretariat. Involved in the sales and regulation of the insurance operations including involvement in the establishment of Nationwide Life. She has also worked as an investment manager and since 2009 has been an independent consultant providing CEO services and transformational change in the charitable sector.



Non-Executive Director
Marian L Evans
FInstLM. ACII. BSC (Hons) Chartered Insurance Broker

Term of Office: Marian joined the Board in January 2016

Independent: Yes

Skills and Experience: Qualified and practiced as both a Chartered Insurer and Chartered Insurance Broker. Marian was awarded the Fellowship of the Institute of Leadership and Management in 2017. A former Director of Thomas Carroll Group, where she headed up the Special Risks Division, working with key clients throughout the UK. Marian spent her early career at NFU Mutual where she became an award-winning Sales Associate and Consultant and latterly a Sales Manager, responsible for 16 NFU Mutual regional offices. Marian now owns a successful property and consultancy business and serves as a Mentor for Women on Boards' UK and School Governor.



Operations Director
Shirley E Fell

Term of Office: Shirley joined the Society in April 2019

Independent: No as an Executive

Skills and Experience: 40 years' experience working in Financial Services. Held senior roles in Zurich Financial Services, Halifax Bank of Scotland and MetLife Inc. including UK Chief Operations Officer and Head of Strategy and Transformation. Appointed as Operations Director for the Society in April 2019. Passionate about delivering excellent Customer Service, she is also a Non-Executive Director for the Institute of Customer Service.



Chief Executive
Paul R Hudson
MBA FCIS MCSI

Term of Office: Paul joined the Board in February 1997

Independent: No as an Executive

Skills and Experience: Over 40 years' experience working in financial services all gained within the mutual sector. 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 and Trade Bodies. Board member of the Trade Body, the Association of Financial Mutuals from March 2016 to present.



Commercial Director
David R Macgregor
CertPFS

Term of Office: David joined the Board in April 2018

Independent: No as an Executive

Skills and Experience: 40 years' Financial Services experience, with more than 35 in the Sales and Marketing of protection, pension and investment products to Financial Advisers. Previous Board experience gained over 20 years with three other Friendly Societies writing Income Protection and held senior positions including Chief Executive and National Sales Manager. A former Director of the Association of Friendly Societies and former member of the ABI Income Protection Working Party. Established a consultancy business in 2010 providing Sales, Marketing, Product Development and Strategic support for Friendly Societies. Provided interim cover for the Society's Director of Sales and Marketing from January 2015 and appointed as Commercial Director in April 2017.



Non-Executive Director
Ian M Maude

Term of Office: Ian joined the Board in May 2015

Independent: Yes

Skills and Experience: A Non-Executive Director with 40 years in Financial Services, spanning life, pensions, motor, household and health insurance. Having worked in senior IT management roles in Legal & General, Municipal Mutual Insurance and Zurich Insurance, he progressed to becoming IT Director at Frizzell Insurance and Liverpool Victoria Friendly Society and then Senior Partner at a prestigious IT consultancy. In the 14 years leading up to his retirement, Ian was an Executive Director of Simplyhealth, the last four of which were as joint Financial Director and Chief Information Officer, as well as being a Director of Denplan.



Non-Executive Director
Katharine S McIntyre
 BA (Hons), ACA

Term of Office: Kate joined the Board in August 2017

Independent: Yes

Skills and Experience: A chartered accountant by background, Kate is an experienced director who has worked in a wide variety of roles and organisations over the last thirty-five years, primarily in financial services. Organisations where Kate has held senior roles include; Skipton Building Society, First Direct, AXA, Lloyds Banking Group and Engage Mutual. Now retired from full time work, Kate provides business advisory services and is a NED at Darlington Building Society. She is also a Trustee at both Tadcaster Community Swimming Pool and The Brathay Trust.



Finance Director
Andy Morris
 MBA, FCA, MCSI

Term of Office: Andrew joined the Society in April 2019

Independent: No as an Executive

Skills and Experience: Andrew is a Fellow of the Institute of Chartered Accountants in England and Wales with over 20 years of international experience across the financial services industry. This experience includes the mutual sector, with his last role being Finance Director for Leek United Building Society in Staffordshire. He is a Member of the Chartered Institute of Securities and Investments and holds a Masters in Business Administration from London Business School.



Chairman
John F Quinn
 M. Litt. BA (Hons)

Term of Office: John joined the Board in November 2012 and has been Chairman of the Board since July 2016

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
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 40 years' experience in the financial services industry. Held Executive Director positions with varying responsibilities in NFU Mutual 1998 to 2009 and in Royal Insurance 1993 to 1996 and in between worked for a short spell at IBM UK Ltd as an Executive Consultant. From 2010 to 2016 operated as an Independent Management Consultant and Executive Coach assisting mainly mutual organisations with planning and implementing change.



Non-Executive Director
Mark C Sedgley
 ACII

Term of Office: Mark joined the Board in May 2015

Independent: Yes

Skills and Experience: Almost 30 years' 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.

The Board of Directors have pleasure in presenting their Annual Report, together with the financial statements for the year ended 31 December 2019.

Business Objectives and Activities

The principal activity of the Society is the provision of Holloway insurance and income protection policies. The Board is committed to the ongoing development of the Society, delivering good value protection products to an increasing audience, through a range of distribution channels.

Business Review

Key business developments and the future outlook for the business are reviewed in the Strategic Report on pages 3 to 6. The Board of Directors are of the opinion that all activities performed during the year have been carried out within our respective powers.

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Board relate to:

- **Insurance risk:** being those risks arising from uncertainties in the level of claims arising, the length of those claims, management costs and the closure rate of the insurance contracts issued. The Society has systems in place to monitor and control, including underwriting procedures in place for the assessment of risk and all claims are subjected to rigorous validation. The Board undertake to ensure that the Society retains sufficient assets to cover the liabilities in relation to its insurance risk.
- **Market risk:** being all risks relating to uncertainties in the value of investments and the returns achievable from them including interest rate, property price, currency and credit spread risk. This risk is mitigated as far as is practicable by the matching of asset types to relevant classes of liabilities by the quality of the investments held and the Society's policy to limit the exposure to any one counterparty and currency.
- **Counterparty risk:** being the risk of third parties not fulfilling their financial obligations to the Society. In order to mitigate this risk, the Society has set out within its investment policy statement both the quality of counterparties in which the Society may invest and the level at which investment may be made with those counterparties.
- **Operational risk:** being the risk of a breakdown of procedures or from an external event. The Society has defined procedures for the monitoring of operational risk and reporting to the Board. This risk is also mitigated by internal audit and compliance monitoring processes and procedures and via oversight by an Operational Risk Officer.

The Board perform a robust and ongoing assessment of all risks and uncertainties facing the Society. Note 3 of the accounts sets out the risks in greater detail together with our approach for managing them.

The Board has assessed the Society's viability over a three-year period to December 2022. This is based on our three-year rolling strategic plan. The three-year strategic plan was last approved by the Board in February 2020.

During 2019, the Directors carried out an ongoing assessment of the principal risks and uncertainties facing the Society. This assessment included consideration of the Group's resilience in severe, but plausible scenarios, supported by the use of stress testing and sensitivity analysis

around the central assumptions of the Society's plans. The scenarios considered included significant variations in the levels of new business, policy lapses and claims compared to those expected and changes to the underlying economic assumptions such as interest rates.

The Coronavirus crisis has placed unprecedented strain on all our activity during early 2020 and this looks set to continue for a significant period of time. The Society's Actuary has helped the Directors perform a going concern review of the impact of the lowest point of the markets so far and has determined that our solvency and liquidity remain resilient and that we have sufficient reserves to deal with the challenges. Considerable uncertainty remains regarding the longer term impact, particularly in relation to claims, so management are closely monitoring the emerging situation and taking decisions where necessary to protect the Society. This has already included a temporary suspension of writing new business for short deferred period contracts and we will maintain careful scrutiny of the crisis and continue to respond accordingly.

The Directors believe that the Society is well placed to manage its risks successfully, having considered its business activities and overall financial position, including liquid cash balances, cash flow forecasts and capital adequacy levels.

Based on this assessment, the Directors are confident that the Society will be able to continue in operation and meet all its liabilities as they fall due over the period considered.

The Board has reviewed the summary of the Guidance for Directors published by the Financial Reporting Council and concluded that in the light of:

- the published year end position on statutory solvency
- available financial resources in liquid form
- the capital projections within our agreed business plans
- the going concern review conducted with the help of the Chief Actuary
- the results of our Own Risk and Solvency Assessment.

The Society has sufficient reserves and liquidity to continue as a viable going concern.

A certain amount of uncertainty remains regarding the future relationship between the United Kingdom and Europe. As a UK organisation, the Society has no direct exposure to the EU. However, the wider economic implications may have an impact on the Society. The Society has carried out stress test scenarios to assess the impact of possible wider economic implications. The Society maintains adequate levels of liquidity and capital and is therefore able to withstand the stresses it has undertaken. Our Board remains vigilant and continues to watch for any adverse signs as the UK navigates its way through the Brexit negotiations.

Staff

The average number of staff (including Executive Directors but excluding Non-Executive Directors) employed by us totalled 72 (2018: 63). The aggregate remuneration paid to Directors and staff employed during the year, amounted to £4.4m including pension and National Insurance contributions (2018: £3.3m).

Communication with and between all employees includes presentations, team briefings and informal meetings with the Chief Executive and senior staff. We have an Equal Opportunities Policy for recruitment and existing staff and are committed to the ongoing development of staff. Our staff are key to our operations and we support the continued learning and development of our staff through regular analysis of training needs and

by the provision of a broad range of training opportunities.

Board of Directors

The profiles of the Board of Directors who held office during the year appears within the Information Section on pages 8 and 9.

We maintain Directors' and Officers' liability insurance cover in respect of legal action against our Directors and Officers. The insurance cover was reviewed and renewed in 2019 at a cost of £5,000.

The Directors in office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Auditor is unaware.

Membership

Membership of the Society stood as follows:

	2019	2018
Active Members	42,136	37,651
Retired Members	633	623
Total Membership	42,769	38,274

Complaints Policy

We aim to deliver a high standard of service to our Members. If any Member believes that we have failed in this aim, they have recourse to our complaints procedures. We have documented procedures for the handling and recording of complaints. We deal with all complaints with due care, ensuring that they are thoroughly investigated. The Board of Directors regularly reviews the number and type of complaints received in order to monitor that complaints are properly dealt with and corrective action is taken to prevent recurrence. Senior management deals with serious complaints. In the unlikely event that a complaint cannot be resolved to the Member's satisfaction, they will be made aware of the option to appeal to the Financial Ombudsman Service.

Supplier Payment Policy

It is our policy and practice to settle invoices within 30 days of receipt, unless specifically agreed otherwise in advance with suppliers.

Pensions Arrangements

We are committed to assisting our staff to make adequate provision for their retirement. For all employees, we have a Defined Contribution arrangement in place whereby we make an agreed percentage contribution of salary.

Environmental, Social and Community Issues

We take our role as a socially responsible organisation very seriously, be that in the way we treat our employees or in the role we play helping and protecting the environment in which we work and live. Our community work has seen us support local charities, which has made a positive contribution to our working environment and the wider community. In 2019, we raised funds for a number of charities, including our charity of the year, Gloucestershire Young Carers.

Appointment of Auditors

The Board is satisfied that BDO LLP continue to offer best quality and value and as a result a resolution to appoint BDO LLP as Statutory Auditors will be proposed at the forthcoming Annual General Meeting. BDO LLP is entirely independent of the Society and no member of the Board has a business relationship with BDO LLP.

By Order of the Board



Andrew Horsley
Company Secretary
17 April 2020

Our Vision

To be the go-to provider when it comes to protecting lifestyles



Report of the Board of Management on the AFM Corporate Governance Code

Good corporate governance provides a framework for the way in which the Board and the rest of the organisation operates. It is also vital in providing effective leadership and in assisting us to continue as a successful organisation, run for the benefit of our current and future Members, in a legal, ethical and transparent manner.

Our approach to corporate governance has in previous years been based on the principles and provisions of the Annotated Corporate Governance Code for Mutual Insurers, operated on a comply or explain basis. For the year ended 2019, the Association of Mutual Insurers has decided to move to an approach which is based on the principles and provisions of the UK Corporate Governance Code ("the Code"). Although, as a mutual friendly society, we are not subject to the Code, the Society has implemented the Code guidelines where it has been practical and appropriate to do so. The Board has also considered the Wates Corporate Governance Principles for Private Business ("Wates Principles") which were published on 10 December 2018, noting that their adoption is voluntary but welcoming the focus on purpose, culture and employee and stakeholder engagement. They introduce 'Principles' of best practice to be adopted on an 'apply and explain' basis and provide suggested guidance as to how organisations might achieve each of the respective principles. These have been summarised in the AFM Corporate Governance Code (the "Code"), which the Board supports:

	Purpose and leadership	An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.
	Board composition	Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.
	Director responsibilities	The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.
	Opportunity and Risk	A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.
	Remuneration	A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.
	Stakeholder relationships and engagement	Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

1. Purpose and Leadership

Everyone who works for the Society has a clear understanding of the key drivers behind what we do. We have distilled this into a clear and succinct Mission, which is to provide financial support to our Members and can simply be expressed as "We Protect Lifestyles". In developing the Society's business, we have a clear Vision of our over-arching intention, which is to be the go-to provider when it comes to protecting lifestyles.

These succinct statements show our determination to go beyond traditional income protection, to offer our Members a range of products to meet their wider needs and demonstrate our commitment to the concept of Mutuality.

The Role of the Board

The organisation is headed by the Board, whose principal role is to:

- Safeguard the interests of Members, ensuring our long-term success;
- Focus on our strategy;
- Ensure that the necessary resources are in place for us to meet our objectives;
- Provide general direction to the organisation;
- Monitor the performance of the Leadership Team.

Matters Reserved for the Board

The Board maintains a schedule of reserved matters in order to ensure that it exercises control over our affairs. These include the approval of our annual results and strategic aims, as well as setting the risk appetite, the tone for our culture, the approval of policies and matters which must be approved by the Board under legislation and our Rules. The Board is also responsible for the recruitment and terms of employment of the Executive Directors. Other matters are delegated to the Leadership Team or to other specified colleagues or Committees, including the Board Committees referred to below.

Board Attendance

The Board held six meetings in 2019. The attendance record of each Director at these meetings and at relevant Board Committee Meetings is set out below:

Name (Alphabetical)	Board	Audit and Risk	Nomination & Remuneration	Investment
J W Banks	6 of 6	N/A	3 of 3	N/A
P L Brown	2 of 2	N/A	N/A	1 of 1
M L Evans	4 of 6	2 of 4	N/A	N/A
S E Fell	4 of 4	N/A	N/A	N/A
P R Hudson	6 of 6	N/A	3 of 3	2 of 2
D R Macgregor	6 of 6	N/A	N/A	N/A
I M Maude	6 of 6	2 of 2	1 of 1	N/A
K S McIntyre	6 of 6	4 of 4	N/A	N/A
A J Morris	3 of 4	N/A	N/A	1 of 1
J F Quinn	6 of 6	N/A	3 of 3	2 of 2
M C Sedgley	5 of 6	3 of 4	N/A	2 of 2
W J M Schouten	6 of 6	2 of 2	2 of 2	N/A

Mr P L Brown, Mrs S E Fell and Mr A J Morris attended meetings of the Audit & Risk Committee in an advisory role. Mr A J Morris also attended meetings of the Nomination & Remuneration Committee in an advisory role.

Board focus and activities during the year

The activities undertaken by the Board are designed to support and advise executive management on the delivery of the Society's strategy, within a framework of effective corporate governance. Focused discussion assists the Board in making good decisions, based on the long-term needs of the business and its stakeholders. Key areas of focus in the year were:

- **Review the Society's vision, mission, values and strategy:** The Board has had full oversight of the progress of the Society strategy during the year. At each meeting the Board had the opportunity to question and challenge the work being undertaken. The October Board Meeting was used to review the strategy for the Society.
- **Review of principal risks:** The Board and Audit & Risk Committee undertake a regular formal review of the principal risks to the Society.
- **Risk appetite:** The Board considers its adherence to and appropriateness of the risk appetite at each meeting, with a formal annual review held in October of each year, in conjunction with the review of strategy.
- **Board evaluation:** Internal Board evaluation is carried out annually, with external reviews commissioned every three years. The next external review will be conducted towards the end of 2020.
- **Operational performance updates:** The Board receives regular operational performance updates from each of the Society's key business streams, giving executive management the opportunity to interact with the Board.

2. Board Composition

Composition of the Board

The size and composition of the Board and the Board Committees are kept under constant review by the Chairman and are reviewed formally by the Nomination & Remuneration Committee at least annually. This is to ensure that there is adequate succession planning for Executive and Non-Executive Directors and that there is the optimum mix of skills and experience on the Board for the direction of our activities and to populate and chair the Board Committees.

Appointments to the Board

The appointment of new Directors is initially considered by the Nomination & Remuneration Committee which is made up of John Quinn, Janice Banks and Paul Hudson (non-voting), under the Chairmanship of William Schouten. The Committee is responsible for considering matters

relating to the composition of the Board, including nominating candidates for the position of Director, considering the balance of skills, knowledge and experience of Directors, and making recommendations to the Board as appropriate. 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.

Diversity

The Board considers all aspects of diversity, including gender, of the Board, although it continues to adopt the principle that all appointments should be based on merit and the skills and experience that the individual can bring. The Board also considers the composition, skills and experience of the Board. As a result, an aspirational target for gender split has not been set. However, the percentage of females on our Board is 27%. As at the end of 2019 the equivalent percentage for all staff (excluding the NEDs) is 67%, and 82% of the Heads of Department are female.

Board Evaluation

The Board undertakes an annual evaluation of the performance and effectiveness of the Board together with an annual review of the performance of individual Directors.

In 2019, internal performance evaluations of the Audit & Risk, Nomination & Remuneration and Investment Committees were carried out at meetings by all relevant Committee Members. The results were discussed by the relevant Committees and any appropriate improvements were identified for action.

In 2019, individual Board Members were subject to formal face to face appraisal interviews with the Chairman of the Board. As part of this process, each Board member provided comments on their own effectiveness and that of their fellow Board Members. The results were evaluated and conclusions drawn with corrective action taken where necessary. The Senior Independent Director carried out a formal face to face appraisal interview of the Chairman of the Board.

Induction and Development

The Chairman ensures that, on appointment, Non-Executive Directors receive a comprehensive tailored induction programme on our business and regulatory environment. All Non-Executive Directors update their skills, knowledge and familiarity, through relevant external and internal courses. Individual training requirements for Non-Executive Directors are discussed as part of the performance evaluation process. All Directors have access to independent professional advice if required and have the benefit of appropriate liability insurance cover at our expense. In addition, they have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are complied with and for advising the Board, through the Chairman, on governance matters.

Re-appointment

All Directors are subject to election by Members at the first annual general meeting after their appointment, and to re-election thereafter by rotation at an interval of no more than three years.

Report of the Board of Management on the AFM Corporate Governance Code

3. Director Responsibilities

The Roles of the Chairman and the Chief Executive

The roles of the Chairman and Chief Executive are held by different people and are distinct in their purpose. The Chairman is responsible for leadership of the Board and for ensuring that the Board acts effectively, promoting high standards of corporate governance. The Chairman is key in setting the tone of the Board Meetings to ensure, amongst other things, that there is a culture of openness. The Chief Executive has overall responsibility for managing the organisation and for implementing the strategies and policies agreed by the Board, supported by the Executive. It is current practice and policy that no former Chief Executive will serve as Chairman of the Board.

Non-Executive Directors

The Non-Executive Directors are responsible for bringing independent judgement to Board debate and decisions using their own experience and skills, and for constructively challenging the Executive Team. The Non-Executive Directors meet, without the Executive Directors present, at least annually to discuss relevant matters including succession planning and the overall performance of the Executive Team. The Senior Independent Director would act, if required, as an intermediary for the other Directors. The Senior Independent Director is also the main point of contact for Members should the normal channels of communication with the Chairman or Chief Executive fail or be inappropriate. The Board has a conflict of interest policy which sets out procedures for regularly reviewing, and if appropriate, dealing with any potential conflicts as they arise. The letters of appointment of Non-Executive Directors give an indication of the time commitment required. The Board is satisfied that all of the Non-Executive Directors are independent.

Independence of Directors

Non-Executive directors are elected for a period of 3 years. Any Non-Executive Director serving in excess of six years are subject to annual re-election by Members. It is our policy to allow Non-Executive Directors to serve no more than nine years in aggregate.

Company Secretary

The Company Secretary is responsible to the Board for ensuring Board procedures are complied with, and that Directors are supplied with information in a timely manner.

4. Opportunity and Risk

Risk Management

The Society recognises that risk management is a vital activity that both underpins and forms part of the vision, values and strategic objectives. Risk is present in everything the Society does and it is therefore the Board's policy to identify, assess and manage the key areas of risk on a proactive basis. The Society seeks to embed risk management into the culture of the Society without introducing unnecessary bureaucracy. The aim for the risk management framework is that it is fit for purpose, reflects the size of the organisation and uses the Society's skills and capabilities to the full.

For risk management to be most effective and become an enabling tool, the Board ensures that there is a robust, consistent, communicated and formalised process across the Society. The risk management policy and its supporting documentation form an integrated framework that supports the Society in the effective management of risk. In implementing the risk management system, the Society seeks to provide assurance to all stakeholders that the identification and management of risk plays a key role in the delivery of the Society strategy and related objectives.

Internal Control

The Board is responsible for the system of internal control. The Audit & Risk Committee report sets out the internal control framework which is designed to safeguard Member and Society assets and to facilitate the effectiveness and efficiency of operations which helps to ensure the reliability of internal and external reporting and assists in compliance with applicable laws and regulations. The Board is also responsible for setting our risk appetite and ensuring that there is a robust system for risk management in place. The Board has delegated to the Audit & Risk Committee oversight of the relationship with the External Auditor to ensure that they remain independent and objective. The Board confirms that it has conducted a review of the effectiveness of the Society's risk management and internal control systems in operation during the year. The Board considers that the risk review activities addressed the key aspects of risk management and internal control for the year under review.

Anti-bribery and the prevention of corruption

The Society has internal procedures in place that are designed to ensure compliance with the UK Bribery Act 2010. The Society's anti-bribery and corruption e-learning is also mandatory for new employees, along with regular refresher training for existing staff.

Whistleblowing

The Society operates an independent whistleblowing procedure to allow staff to confidentially raise any concerns about business conduct.

Board Committees

Certain matters are referred to Board Committees in order that they can be considered in more detail by those Directors with the most relevant skills and expertise. The Board Committees are:

- **The Audit & Risk Committee** which met on four occasions during 2019 considering matters of finance, risk and compliance;
- **The Nomination & Remuneration Committee** which met on three occasions during 2019 - considering Board membership, staff pay and performance bonus arrangements;
- **The Investment Committee** which met twice during 2019 - to consider investment matters.

The terms of reference of the Committees are available on request from the Company Secretary or on our website at www.cirencester-friendly.co.uk. The Chairman of each Committee reports to the subsequent Board Meeting on the matters discussed at each Committee Meeting. The minutes of each Committee Meeting are circulated to all Directors.

Audit & Risk Committee

The Audit & Risk Committee consists of Ian Maude, Marian Evans and Mark Sedgley under the Chairmanship of Kate McIntyre. All of the Committee Members have relevant financial sector experience. The responsibilities of the Committee are in line with the provisions of the Financial Reporting Council Guidance on Audit Committees. The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- **The integrity of the financial statements** and reviewing significant financial reporting judgements contained in them;
- **The effectiveness of systems** of internal control;
- The Internal and External **Audit processes**;
- **Compliance** with applicable laws and regulations;
- **The recommendation to the Board on the appointment, re-appointment and removal of External Auditors**; and the periodic review of their performance and independence and the policy on the use of the External Auditor for non-audit work.

During 2019 the Committee met four times in the execution of its responsibilities. During the meetings the Committee considered reports on:

- **The system of internal control** – the Committee receives reports from the Internal and External Auditors on control matters;
- **The integrity of financial statements** – a review of viability considers the impact on our capital, liquidity and profitability;
- **Compliance with laws and regulations, including adherence to money laundering regulations** – the Committee receives reports from the Head of Compliance and the Head of Non-Prudential Risk on conduct matters, which express an opinion on the effectiveness of the systems of internal control;
- **The activities of Internal Audit and External Auditors** – the Committee receives reports from both the External Auditor and Internal Auditor and closely monitors all issues raised until they have been resolved satisfactorily by management.
- **The level of non-audit fees paid to the External Auditor** – in 2019 was zero. (2018: £0).

The Committee considers that it has met its responsibilities and performed its duties with appropriate levels of care and expertise during 2019.

5. Remuneration

The Board has delegated to the Nomination & Remuneration Committee the policy on remuneration for the Chairman, the Executive Directors and other members of the Executive Team. A review of its activities and the Remuneration Policy is set out in the Remuneration Report.

6. Stakeholder Relationships and Engagement

Member Engagement

Our owners are our individual Members. We encourage dialogue from our Members on any aspect of our activities. This dialogue takes various forms, including issue of Annual Renewal Notices, Annual Bonus Statements, occasional newsletters and the distribution of our shortened version of the Annual Report & Accounts which is sent to every Member annually, along with a personal invitation to attend the Annual General Meeting. During the year we maintained regular telephone contact with Members, and also continue to conduct regular satisfaction surveys on a variety of topics, the results of which are used to inform our business development.

We also run a Member Reward programme, in conjunction with Parliament Hill Limited, to enable our Members to gain access to exclusive offers.

Our Customer Care Department has as its major objective the provision of care and high service standards to Members, Financial Advisers and other Stakeholders. The Senior Independent Director, William Schouten, is a further point of contact for our Members.

Constructive use of the Annual General Meeting

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

All Members who are eligible to vote at the Annual General Meeting receive a proxy voting form, which includes a 'vote withheld' option, and a pre-paid reply envelope to encourage them to exercise their vote if they cannot attend and vote at the meeting. Members are also able to vote on-line. The results of the proxy votes, and the votes cast at the Annual General Meeting, are published on our website. A separate resolution is proposed on each issue, including a resolution on the Annual Report and Accounts.

By order of the Board



Andrew Horsley
Company Secretary

Mutuality House, The Mallards, South Cerney, Cirencester,
Gloucestershire, GL7 5TQ

17 April 2020

We are required to prepare accounts in accordance with the Friendly Societies Act 1992 and applicable accounting standards. This report provides details of the remuneration of the Executive and Non-Executive Directors.

Policy on Remuneration for Executive Directors

The 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 packages of the Executive Directors of the Board are linked to our success 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;
- **Performance related rewards** form part of the total remunerative package;
- **They are competitive** in the market in which we operate;
- **Failure is not rewarded**;
- **Contractual terms** agreed ensure that rewards are fair to the individual and the organisation on termination.

The remuneration includes a performance related element which is linked to the achievement of business and personal objectives. Throughout the business, we aim to ensure that our people are rewarded fairly for their contribution. To achieve this, we obtain independent benchmarking data from Willis Towers Watson and set remuneration for each individual, whether Executive Director or staff member, by reference to a relevant role benchmark. The Remuneration Committee thereby ensures that Executive Director remuneration is determined using processes consistent with those adopted for all employees and is set at a level designed to reflect similar roles carrying comparable responsibility in other organisations.

Reward Components for Executive Director Remuneration

Base Salary

It is the Committee's policy to ensure that the basic salary for each Executive Director is appropriate and competitive for the responsibilities involved. Base salaries for Executive Directors are reviewed annually to recognise the individual's role and performance. These are set with reference to the Willis Towers Watson National Income Survey.

Performance Related Pay

We operate a discretionary performance related pay scheme for employees. The Remuneration Committee meets annually to agree objectives and set incentive targets. The measures used to assess performance comprise:

- New Business Activity;
- Financial Performance;

- Standards of Service;
- Specified Key Projects and Objectives.

The maximum bonus payable to the Executive Directors under the annual scheme is 20% of basic salary. The Remuneration Committee retains absolute discretion in the final determination of awards.

The Society also operates a three-year scheme for the Executive Directors. The Society has established longer term objectives for the Executive Directors, intended to deliver longer term prosperity for the Society and its Members. These measures comprise Business Retention, New Product Development and Membership Growth.

The maximum bonus payable to the Executive Directors under the three-year scheme is 20% of basic salary.

Pension Arrangements

We have arranged a Defined Contribution Scheme for all staff in to which both employee and employer contributions may be made.

The employer contribution made on behalf of the current Chief Executive is 27% of base salary but excluding 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 employer. The contribution made on behalf of the other executives is 10% of base salary.

Service Contracts

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

Share Options

As a mutual, we do not operate a share or share option plan.

Non-Executive Directors

The remuneration of our Non-Executive Directors is recommended and set by the Chief Executive annually. The remuneration of Non-Executive Directors is intended to reflect the time commitment and responsibilities of the role.

The remuneration is determined on the basis of an agreed minimum number of days committed to Society business and is also benchmarked against Non-Executive remuneration in other financial services organisations of similar size, including other mutuals.

The remuneration of Non-Executive Directors does not include any incentive element and Non-Executive directors are not entitled to participate in any of our pension scheme or bonus arrangements.

Non-Executive Directors are elected for a period of three years. The Board may resolve to reappoint a Non-Executive Director at or before the expiry of their term. It is our policy to allow Non-Executive Directors to serve no more than nine years in aggregate.

The terms and conditions of the Non-Executive Directors are available for inspection by Members before the Annual General Meeting.

Details of the fees of our Directors are shown below.

Board Members' Emoluments						
	Basic Salaries	Performance Related Pay	Benefits and other Emoluments ¹	Defined Contributions Pension ²	Total 2019	Total 2018
	£000's	£000's	£000's	£000's	£000's	£000's
J W Banks	23.9				23.9	23.2
P L Brown (retired 30 June 2019)	84.0	44.4	49.2	6.2	183.8	201.5
M L Evans	23.9				23.9	23.2
S E Fell (appointed 1 April 2019)	123.8	33.0	31.9		188.7	-
P R Hudson	228.0	91.2	77.6	10.0	406.8	385.6
D R Macgregor	148.5	56.9	12.6	25.8	243.8	91.7
I M Maude	26.5				26.5	26.3
K S McIntyre	27.0				27.0	26.3
A J Morris (appointed 2 April 2019)	119.6	31.9	17.0	7.5	176.0	-
J F Quinn	37.3				37.3	36.3
W J M Schouten	25.2				25.2	23.2
M C Sedgley	23.9				23.9	23.2
Total	891.6	257.4	188.3	49.5	1,386.8	860.5

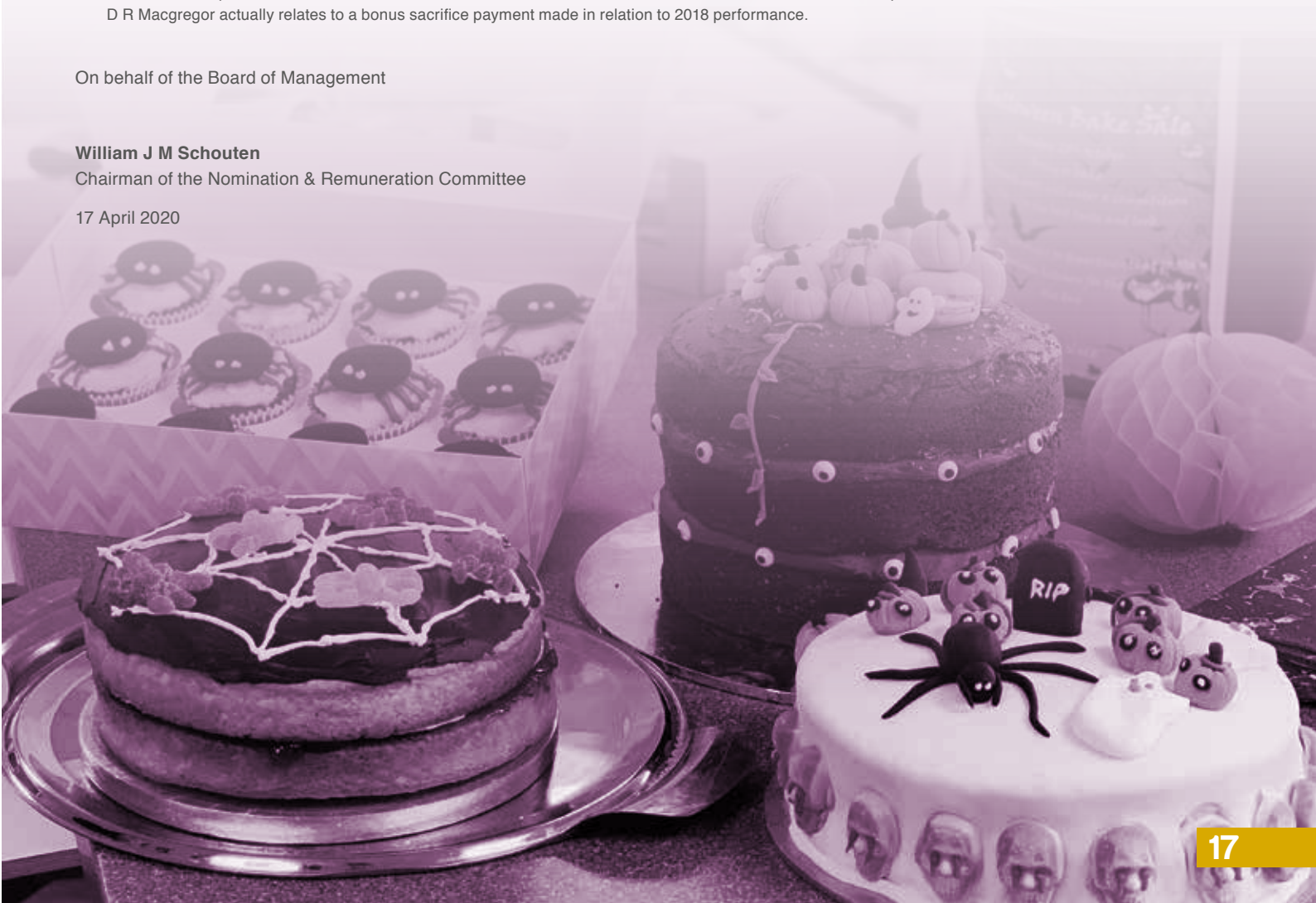
Notes:

- 1 The amounts shown under the heading "Benefits and other Emoluments" represent the taxable benefit based on car provision/allowances, amounts due in respect of pension contributions where direct payment into the pension were limited by legislation, private medical benefit and the severance package provided for the Deputy Chief Executive.
- 2 The amounts represent the contributions made on behalf of the Executive Directors to the defined contribution pension scheme. £8,100 of the contribution for D R Macgregor actually relates to a bonus sacrifice payment made in relation to 2018 performance.

On behalf of the Board of Management

William J M Schouten
Chairman of the Nomination & Remuneration Committee

17 April 2020



Directors' Responsibilities in Respect of the Annual Report and Accounts and the Directors' Report

The following statement, which should be read in conjunction with the Independent Auditors' Report on pages 19 to 21, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts and Directors' Report.

The Directors are required by the Friendly Societies Act 1992 ("the Act") to prepare, for each financial year, Annual Accounts which give a true and fair view of the state of the affairs of the Society as at the end of the financial year and of the income and expenditure and cash flows of the Society for the financial year.

In preparing the Annual Accounts, the Directors are required to:

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

In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' Responsibilities for Accounting Records and Internal Controls

The Directors are responsible for ensuring that the Society:

- Keeps accounting records in accordance with the Friendly Societies Act 1992, and
- Takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Regulator under the Financial Services and Markets Act 2000 and Financial Services Act 2012.

The Directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

The current economic conditions present risks and uncertainties for all businesses. The Directors have carefully considered the risks and uncertainties and the extent to which they might affect the preparation of the financial statements on a going concern basis.

The Directors concluded that in the light of:

- The published year end position on **statutory solvency**;
- **Available financial resources** in liquid form;
- The **capital projections** within our agreed business plans;
- The results of our **Own Risk and Solvency Assessment**, and
- The **post balance sheet** going concern review prepared with the help of the Chief Actuary.

The Society has adequate resources to continue in business for the foreseeable future. For this reason, the Accounts are prepared on a going concern basis.

Independent Auditor's Report to the Members of Cirencester Friendly

Our Opinion

We have audited the financial statements of The Cirencester Friendly Society Limited (the 'Society') and its subsidiary (together the 'Group') for the year ended 31 December 2019 which comprise the consolidated statement of comprehensive income (which shows both group and society result) and the consolidated statement of financial position (which shows both group and society financial position) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2019 and of the Group's and Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Friendly Societies Act 1992.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

Based on our professional judgement, we determined materiality for the financial statements as a whole to be £1,250,000 (2018: £1,250,000). The principal determinant in this assessment was the technical provisions, which we consider to be the most relevant benchmark, as it reflects a key measure of the performance of an insurance body and is used to assess the level of free reserves contextually and in assessing solvency. Our materiality represents 2% (2018: 2%) of this number.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at £875,000 (2018: £625,500) which represents 70% (2018: 50%) of the above materiality level.

A specific performance materiality of £300,000 (2018: £150,000) has been adopted for income and expenditure items to reflect the relative disparity between the high net asset in the statement of financial position and the relatively smaller statement of comprehensive income and ensure that sufficient consideration was given to all primary statements.

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £12,500 (2018: £12,500). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of the audit

The audit of the Group financial statements includes the audit of the Society and its subsidiary M.H. Property Investments Limited. The subsidiary company is a single property owning company and it has been audited for the purposes of consolidation into the Group. For Group reporting purposes, the subsidiary was considered insignificant and hence there was only one significant component, being the Society.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Group when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed external actuarial experts.

In particular, we looked at where the directors made subjective judgements, for example in respect of the valuation of technical provisions which are subject to management judgement and estimation.

Capability of the audit to detect irregularities, including fraud.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Friendly Societies Act 1992, PRA and FCA rules, FRS 102 and FRS 103.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error.

We focused on laws and regulations that could give rise to a material misstatement in the Group financial statements.

Independent Auditor's Report to the Members of Cirencester Friendly

Key audit matter	How we addressed the key audit matter in the audit	Key observations
<p>Valuation of the technical provision asset Note 1.21 and Note 19</p> <p>Included in the Group and Society financial statements is a technical provision asset which represents the estimated costs of settling benefits and claims associated with income protection products. This is set out in further detail in note 19.</p> <p>The provision is calculated by an independent actuarial expert appointed by management utilising policy data and assumptions applied to the valuation calculations.</p> <p>We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Group's and Society's results and because of the assumptions underpinning the calculation, which can be highly subjective.</p>	<p>In assessing the valuation of the technical provision, we performed the following procedures:</p> <ul style="list-style-type: none"> • We have utilised an independent actuary to report to us on the methodology and assumptions underpinning the calculation of the provision and the accuracy of the calculation itself. • We have reviewed and confirmed the independence and expertise of our and the Society's actuarial experts. • We have obtained and reviewed the actuarial reports prepared by the Society's actuary and our reviewing actuary and checked that all relevant judgements and estimates in the Society's calculation have been considered and appropriately challenged in forming our opinion. • We have reviewed and assessed changes to the assumptions used in the technical provisions to check these are reasonable and in line with acceptable parameters based on our independent actuary's assessment. • We have agreed source data provided to management's actuary and to our reviewing actuary to the underlying policy data to check that calculations are based on accurate information. • We agreed a sample of data for new members to the policy admin system to check that the underlying policy data had been correctly entered. 	<p>Overall, based on the assumptions and methodology used at 31 December 2019, we consider the technical provision asset recognised by the Group and Society within their financial statements to be reasonable.</p>
<p>Going concern (please see note 24).</p> <p>Following the year end the Covid-19 virus has hit the UK and may have a significant impact on the business of the Society, being the provision of Holloway insurance products and income protection products. This impact is not limited to significant uncertainty and a fall in the value of the investment markets but also an, as yet, unquantified impact on claims on the Society.</p> <p>Management have concluded that the Society remains a going concern at the date of signing these financial statements.</p> <p>The Society has current coverage of the Solvency Capital Requirement (SCR) of 172% and stress testing of the Solvency position results in the Society remaining able to meet its SCR, prior to implementation of management actions, such as reduction in bonuses.</p> <p>The stress scenarios have considered the combined incidence of significant stock market fall, increased morbidity experience, increased expenses and mass lapse.</p> <p>Due to the potential significance of this event we consider this to be a key audit matter.</p>	<p>In assessing the going concern status of the Society, we have reviewed and considered the following:</p> <ul style="list-style-type: none"> • Budgets and projections of the society, including reworked solvency positions prior to signing for the 12 months from the date of approval of the financial statements. We have considered the impact of Covid-19 on these budgets and management assessment of these. We have also considered the updated solvency position (SCR) at the date of signing and checked that investment market falls in the post balance sheet period have been reflected. • The Own Risk and Solvency Assessment (ORSA) of the Society and the stress tests therein, to check that the Society has considered appropriate stressed scenarios and that it remains able to meet its regulatory capital requirements. 	<p>Our key observations are set out in the conclusions related to going concern section of our audit report.</p>

Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the control environment for monitoring compliance with laws and regulations;
- review of correspondence with the PRA and FCA; and
- review of the Group's breaches register and Internal Audit reports.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely, as auditor of the financial statements, we would become aware of it. We also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit the information given in the Report of the Board of Management for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements.

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary

to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were reappointed by the Society's Members at the Annual General Meeting on 20 June 2019 to audit the financial statements for the year ending 31 December 2019. The period of total uninterrupted engagement, including previous renewals and reappointments is 13 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and Society and we remain independent of the Society in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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



Thomas Reed
Senior Statutory Auditor

For and on behalf of
BDO LLP
Statutory Auditor
London, UK

17 April 2020

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

Consolidated Statement of Comprehensive Income for the Year ended 31 December 2019

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 includes increases in the value of investments held.

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

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

Technical Account - Long-Term Business

		Group and Society	
Notes		2019 £'000	2018 £'000
	Technical Account - Long-Term Business		
	Earned Premium Income		
4	Earned Premium Income	19,885	18,221
	Investment Income		
5	Investment Income	2,240	2,402
	Unrealised gains on Property Investments		
6	Unrealised gains on Property Investments	-	20
	Net gains on Security Investments		
6	Net gains on Security Investments	6,868	-
	Other income		
	Other income	119	173
	Total technical income	29,112	20,816
	Claims for Benefits		
7	Claims for Benefits	(5,860)	(5,088)
	Bonuses and rebates		
8	Bonuses and rebates	(3,618)	(1,382)
	Net operating expenses		
9	Net operating expenses	(16,795)	(9,831)
	Investment expenses and charges		
	Investment expenses and charges	(226)	(220)
	Net losses on investments		
6	Net losses on investments	-	(5,190)
	Movements in the future value of long term insurance contracts		
19	Movements in the future value of long term insurance contracts	2,613	(895)
	Transfer (to)/from the Fund for Future Appropriations		
16	Transfer (to)/from the Fund for Future Appropriations	(7,169)	(6,599)
	Balance on the Technical Account: Long-Term Business	-	-

The above results relate wholly to continuing activities. The Society had no other comprehensive income other than those included in the movements on the Technical Account and therefore no non-Technical account or separate statement of other comprehensive income has been presented.

The Society has not presented a Statement of Changes in Equity as there are no equity holders in the Society as the Society is a mutual organisation.

Consolidated Statement of Financial Position at 31 December 2019

These are the investments held by the Society.

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.

	Notes	Society		Group	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
Assets					
Investments at fair value through comprehensive income					
Land and buildings	11/14	650	2,100	650	4,575
Other financial investments	11	86,040	82,896	86,040	82,896
		86,690	84,996	86,690	87,471
Investment in Group undertaking	12	1,200	1,200	-	-
Debtors					
Other debtors	13	-	146	-	146
Amounts due from Subsidiary Undertaking		3,038	1,275	-	-
		3,038	1,421	-	146
Other assets					
Tangible assets	14	972	131	5,210	131
Intangible assets	15	2,196	1,801	2,196	1,801
Cash at bank and in hand		1,334	1,300	1,334	1,300
		4,502	3,232	8,740	3,232
Prepayments and accrued income					
Accrued interest and rent		496	545	496	545
Other prepayments and accrued income		280	268	280	268
		776	813	776	813
Future value of long term insurance contracts (Net of Risk Margin)	19	57,636	53,080	57,636	53,080
Total assets		153,842	144,742	153,842	144,742
Liabilities					
Funds for Future Appropriations					
Surplus over Solvency Capital	16	49,337	48,565	49,337	48,565
Solvency Capital Requirement		62,512	56,115	62,512	56,115
		111,849	104,680	111,849	104,680
125 Foundation	17	3,060	2,585	3,060	2,585
Members' Funds	18	36,335	35,576	36,335	35,576
Technical provisions					
Claims outstanding		367	172	367	172
Creditors					
Arising out of direct insurance		700	510	700	510
Other creditors including taxation and social security		807	405	807	405
		1,874	915	1,874	915
Accruals and deferred income					
		724	814	724	814
Total liabilities		153,842	144,742	153,842	144,742

The financial statements on pages 22 to 23 were approved by the Board of Directors on 17 April 2020 and signed on its behalf by:


Chairman


Chief Executive

1. Accounting policies

General Information

The Society is a Friendly Society incorporated in the United Kingdom under the Friendly Societies Act 1992. The address of the registered office is given on page 42. The nature of the Society's operations and its principal activities are set out in the Report of the Board of Management on pages 10 to 11.

Going Concern

The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 3 to 6. Note 2 and 3 also describes the financial position of the Society; its liquidity position and borrowing facilities; the Society's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Society meets its day to day working capital requirements through its own cash reserves. The directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Significant accounting policies

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

1.1 Basis of preparation

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

In accordance with FRS 103 on Insurance Contracts, the Society has applied existing accounting practices for insurance contracts, modified as appropriate to comply with applicable standards.

The financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties and financial instruments.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies selected for use by the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.20. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates. After making

enquiries, the directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements.

1.2 Basis of consolidation

The group financial statements consolidate the financial statements of the parent and its subsidiary drawn up to 31 December 2019. The subsidiary has not traded since acquisition in November 2017, but owns the property the Society now occupies. On consolidation all intercompany balances and transactions are eliminated.

1.3 Accounting for earned premiums

Regular premiums on long-term insurance business are recognised as income upon receipt. The Society has not entered into a reinsurance treaty.

1.4 Accounting for investment income

Investment income includes dividends, interest from investments and deposits and rents. Dividends are included on an ex-dividend basis. All other investment income is included on an accruals basis.

1.5 Accounting for financial investments

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

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

Market observable inputs are used wherever possible. In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's length transactions, discounted cash flow analysis and option pricing models. For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. This valuation will also take into account the marketability of the assets being valued.

1.6 Accounting for other income

Other income primarily relates to deductions from Members' capital account upon early termination of their contract with the Society.

1.7 Accounting for claims and benefits

Claims for benefits under the terms of the contracts issued to Members are accounted for on the accruals basis. Recovery of benefits overpaid to Members are accounted for upon receipt.

1.8 Accounting for long term insurance liabilities

The long-term business provision is determined by the Board on the advice of the Chief Actuary as part of the annual actuarial valuation of the Society's long-term business. The provision is determined in accordance with the requirements of Solvency II equal to the value of the best estimate liabilities plus the risk margin. Future reversionary bonuses are allowed for within the valuation of these liabilities. These liabilities are calculated using historic Society experience and include reserves for claims which have occurred but not reported, a reserve for unexpired risks and a reserve for claims already in payment.

1.9 Accounting for mutual bonuses and interest

Bonuses to Members in the form of interest and allocations are recognised in the Technical Account Long-Term Business when declared. Transfers to or from the Members' Mutual Fund are made when declared, payments from this fund are made, dependent upon set criteria, to Members on the termination of their contract with the Society.

1.10 Accounting for plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

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

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

Depreciation is charged on other assets so as to write off the cost or valuation of assets, over their estimated useful lives, less estimated residual value, using the straight-line method on the following bases:

Plant	5% to 10%
Fixtures, Fittings and Furniture	25% to 50%
Computer Equipment	25%
Motor Cars	25%

The Society does not hold any assets subject to finance leases.

1.11 Accounting for intangible assets

Intangible assets relate to the development of computer software for the management of all aspects of Members' contracts with the Society. The assets are amortised over their estimated useful life of up to ten years, from the date of being finalised and being brought into service by

the Society. Amortisation is included within administration expenses within the Statement of Comprehensive Income.

1.12 Accounting for property

Land is not depreciated as it is deemed to have an infinite useful life. Buildings utilised by the Society for its ongoing business are held at cost, typically cost of purchase or construction and are depreciated over fifty years. The value in use is assessed in each accounting year for reasonableness, or when there is a significant change in activity and any impairment is written down to the continuing useful value.

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

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

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

1.13 Investment in Subsidiaries

Investment in subsidiaries are measured at cost less impairment.

1.14 Accounting for impairments of non-financial assets

At each reporting date, the Society reviews the carrying amounts of its tangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Society estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating

unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation.

1.15 Accounting for cash and cash equivalents

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

1.16 Accounting for leases

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

The Society does not hold any assets subject to finance leases.

1.17 Accounting for retirement benefits

The Society operates a defined contribution plan under which it pays fixed contributions into a separate entity.

1.18 Accounting for foreign currencies

The value of the Society's investments denominated in foreign currencies are calculated at the closing market exchange rates as at 31 December, the Society does not have any liabilities denominated in foreign currencies.

Balances are translated into GBP at the rate on the balance sheet date, with any gains or losses recognised through the income and expenditure account.

1.19 Fund for Future Appropriations

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

1.20 Critical accounting judgements and estimates

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

1.21 Long term business provision

The valuation of the Society's business is based on assumptions reflecting the best estimate at the time. The assumptions used for mortality, morbidity and longevity are based on standard industry tables, adjusted where appropriate to reflect the Society's own experience. Assumptions for expenses, lapse and surrender rates are based on product characteristics and relevant claims experience.

The assumptions used for discount rates are based on risk-free rates of return specified by the European Insurance and Occupational Pensions Authority (EIOPA). Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

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

1.22 Cash Flow Statement

The Society, being a mutual life assurance company, is exempt from the requirement under FRS 102 to produce a cash flow statement.

1.23 Taxation

Friendly Societies are taxed on their life or endowment business so far as the annual premiums or sums assured exceed limits prescribed in tax law, and on certain investment returns referable to their subsidiaries (where applicable). No tax is due in the current or prior year.

2. Capital management

Policies and objectives

The Society's key capital management objectives are:

- (i) To ensure the Society's strategy can be implemented and is sustainable;
- (ii) To ensure the Society's financial strength and to support the risks it takes on as part of its business;
- (iii) To give confidence to policyholders and other stakeholders who have relationships with the Society; and
- (iv) To comply with capital requirements imposed by its UK regulator, the PRA.

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

The assessment depends on various actuarial and other assumptions about potential changes in market prices, future operating experience

and the actions management would take in the event of particular adverse changes in market conditions.

The capital requirement in the annual PRA return is the statutory minimum capital. The statutory minimum capital requirement is based on EU directives.

Management intends to maintain surplus capital in excess of the Risk Capital Requirements to meet the PRA's total requirements and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

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

Capital Statement

	Group and Society	
	2019 £'000	2018 £'000
Funds for future appropriations	111,849	104,680
Members' Mutual Fund	10,884	10,223
Total capital resources before deductions	122,733	114,903
Regulatory solvency adjustments		
Other Assets*	(4,134)	(1,801)
Capital available to meet regulatory capital requirements	118,599	113,102

*2019 includes adjustments to asset valuations for regulatory purposes.

A reconciliation of the movements in the Excess Available Capital over Resource Requirement is set out below:

	Group and Society	
	2019 £'m	2018 £'m
Available capital at the start of the year	102.9	97.1
Investment returns	8.8	(4.0)
Policy cashflows	(5.2)	(3.2)
New business	3.6	3.0
Model changes	(0.3)	(0.8)
Assumption changes	(1.2)	7.9
Unwind of Risk Margin	3.0	3.2
Change in Risk Margin	0.9	0.2
Change in IBNR and unmodelled	(0.2)	(0.2)
Change in Retired Members' deposits	(0.4)	(0.6)
Change in the Members' Mutual Fund	(0.7)	1.8
Change in Current liabilities	(1.2)	(0.7)
Change in admissible assets	(2.3)	(0.8)
Available capital at the end of the year	107.7	102.9

Measurement and monitoring of capital

The capital position of the Society is monitored on a regular basis and reviewed formally by the Board of Management at their scheduled meetings. These objectives are reviewed and benchmarks are set by which to judge the adequacy of the Society's capital and ensure that sufficient capital is available.

The Society's capital requirements are forecast annually and compared against the available capital as part of the regular Own Risk and Solvency Assessment (ORSA) procedures.

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

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

Sensitivity of long-term insurance contract liabilities

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

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

Demographic assumptions – Changes in the mortality, morbidity, expense or persistency experienced by the business may result in the need to change the assumptions used to value the liabilities. This may increase or reduce the value placed on the liabilities. The sensitivity of the liabilities to changes in the assumptions varies according to the type of business.

3. Risk management and control

3.1 Insurance Risk

Insurance risk is the combination of risks that the Society is exposed to, by the issuance of long term insurance contracts, arising from the uncertainties of morbidity, both inception and recovery rates, mortality, the level of expenses and the rate of closure of contracts. The Society has systems in place to monitor and control, as far as is practicable, the risks as stated above.

The Society has underwriting procedures in place for the assessment of risk in relation to new long term contracts being issued and also in respect of requests by existing Members to amend their contracts. All claims are subjected to rigorous validation, including the use of external agencies where appropriate, prior to payment. The Society does not

currently use reinsurance to mitigate insurance risk.

The insurance contracts issued by the Society are all initiated within the United Kingdom, though they may be retained by holders who move to reside within Europe, in order that it does not incur additional risks in geographical areas in which it has no knowledge.

The Board undertake to ensure that the Society retains sufficient assets to cover the liabilities in relation to its insurance risk. The decisions taken in respect of this undertaking include the allocation of investments between different asset classes, the level of distributions made to Members and the control of expenses.

3.2 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 set out below:

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value or cash flows arising from financial instruments will vary as market rates of interest change. Changes within market rates of interest will also affect the value of the Society's reserves against long term insurance liabilities due to a commensurate rate of change in the discount rates used in the calculation of those liabilities. This risk is mitigated as far as is practicable by the matching of asset types to relevant classes of liabilities.

(ii) Property price risk

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

(iii) Currency risk

Currency risk is the risk that the relative value of Sterling compared to other currencies changes affecting the fair value of assets denominated in those other currencies. The schedule below sets out the value of investments held by the Society, either directly or held within collective investments, in currencies other than sterling.

	2019 £'000	2018 £'000
US Dollars	7,081	9,373
Euro	437	949
Other currencies	1,230	1,710
	8,748	12,032

(iv) Credit spread risk

Results from the sensitivity of fixed interest investments to changes in the risk-free interest rates and the subsequent change in value of the underlying investment. The risk is mitigated by the quality of the investments held and the Society's policy to limit the exposure to any one counterparty. A summary of the fixed interest holdings, excluding those insured

by UK and EU governments, and including those held within collective investments, by credit rating is set out below.

	2019 £'000	2018* £'000
AAA	3,466	2,991
AA	3,547	3,216
A	8,912	8,756
BBB	16,637	15,305
B	0	0
NR	1,416	1,402
	33,978	31,670

* previously reported figures excluded covered bonds and included UK and EU government bonds.

3.3 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 transaction or to an aggregation of transactions with a single counterparty.

The Society has, in order to mitigate this risk, set out within its investment policy statement both the quality of counterparties in which the Society may invest and the level at which investment may be made with those counterparties.

3.4 Liquidity Risk

Liquidity risk is the risk that the Society does not have adequate funds to settle its liabilities as they fall due.

The Society has, in order to mitigate this risk, set out within its investment policy statement that the Society will at all times hold assets in readily realisable form where they are held to cover the liabilities of the Society.

3.5 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.

The Society has defined procedures for the monitoring of operational risk and reporting to the Board.

3.6 Capital Resource Sensitivities

The capital position of the Society is sensitive to changes in market conditions, due both to 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 movements in assumptions:

Variables	Potential Movement in Available Capital	
	£'000	
An increase in the inception rate of claims of 10%	(2,746)	Decrease
A decrease in the inception rate of claims of 10%	2,746	Increase
An increase in the recovery rate of claims of 10%	7,507	Increase
A decrease in the recovery rate of claims of 10%	(10,823)	Decrease
An increase in the rates of mortality of 10%	365	Increase
A decrease in the rate of mortality of 10%	(371)	Decrease
An increase in the discount rate of interest of 0.5%	(3,006)	Decrease
A decrease in the discount rate of interest of 0.5%	3,237	Increase
An increase in lapses of 10%	(11,290)	Decrease
A decrease in lapses of 10%	13,375	Increase
An increase in expenses of 10%	(6,347)	Decrease
A decrease in expenses of 10%	6,347	Increase
An increase in the value of investment assets of 10%	8,859	Increase
A decrease in the value of investment assets of 10%	(8,859)	Decrease

The timing and ultimate 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 actions 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 were resolved.

Notes to the Financial Statements

31 December 2019

The term 'inception rate' refers to the proportion of the Society's Members claiming on the funds of the Society in respect of sickness benefit, an increase in the inception rate would result in a greater level of claims being paid within a year and would also require the Society to increase the level of reserves held to pay future benefits. A reduction in the rate would have the converse effect.

The term 'recovery rate' refers to the rate at which Members in claim recover from their incapacity and are able to resume their occupation so ending their claim for benefits. An increase in the rate of recovery would reduce the level of payments being made to Members within a year and would also reduce the level of reserves required to be held to pay future benefits. A decrease in the recovery rate would have the converse effect.

The term 'mortality rate' relates to the number of Members dying during the term of their contract with the Society. An increase in the mortality rate would, in respect of Members claiming during the period immediately preceding death, reduce the level of benefits being paid by the Society and also reduce the level of reserves required to pay future benefits. A decrease in the mortality rate would have the converse effect.

The term 'discount rate' refers to the rates used to bring potential future claims liabilities back to present day values, an amendment to this rate will affect the current reserving requirements of the Society to ensure adequate reserves are held to defray the cost of those potential future claims.

Unless otherwise stated, the above movements in available capital only relate to the effect on liabilities.

4. Earned Premium Income

Gross premiums written in respect of income protection contracts

All contracts are written in the UK.

Group and Society

2019	2018
£'000	£'000
19,885	18,221

5. Investment Income

Rental income from investment properties

Income from investments:

Interest income

Dividend income

Group and Society

2019	2018
£'000	£'000
52	52
1,128	1,179
1,060	1,171
2,240	2,402

6. Net gains / (losses) on investments

Investment properties – unrealised gain

Investments at fair value through income – unrealised gains and (losses)

Debt securities

Equity securities

Investments at fair value through income – realised gains and (losses)

Debt securities

Equity securities

Net gain/(loss) on securities

Group and Society

2019	2018
£'000	£'000
-	20
618	(1,247)
5,513	(3,538)
25	(83)
712	(322)
6,868	(5,190)

7. Claims Incurred

Long-term insurance

Benefits and claims paid	
Change in the provision for claims	
Total Claims Incurred	

Group and Society

2019	2018
£'000	£'000
5,665	5,094
195	(6)
<u>5,860</u>	<u>5,088</u>

8. Bonuses

The Board has declared bonuses as set out below:

Members' Bonus	
Members' Interest	
Retired Members' Interest	
Transfer to Members' Mutual Fund	

Group and Society

2019	2018
£'000	£'000
1,502	1,705
517	517
84	75
1,515	(915)
<u>3,618</u>	<u>1,382</u>

9. Net Operating Expenses

Long-term insurance

Acquisition costs	
Commissions paid and payable	
Administrative expenses	
Net operating expenses	

Group and Society

2019	2018
£'000	£'000
2,122	1,802
6,989	3,694
7,684	4,335
<u>16,795</u>	<u>9,831</u>

Net operating expenses include the following:

Long-term insurance

Fees payable to the Society's auditor for the audit of the annual accounts	
- Audit	
- Other services	
Depreciation on tangible fixed assets	
Amortisation of intangible assets	
Adjustment on disposal of tangible fixed assets (surplus)	
Operating lease rental charges	

Group

Society

2019	2018	2019	2018
£'000	£'000	£'000	£'000
66	58	66	58
-	-	-	-
210	136	161	136
640	112	640	112
36	(3)	36	(3)
19	35	19	35

Notes to the Financial Statements

31 December 2019

10. Employee benefits expense

	Group and Society	
	2019	2018
	£'000	£'000
Wages and salaries (excluding Non-Executive Directors)	3,751	2,851
Social security costs	350	238
Pension costs	347	221
Employee benefits expense	4,448	3,310

The number of employees during the year, including Executive Directors, calculated on a monthly average basis was as follows:

	Group and Society	
	2019	2018
Board and senior management	11	11
Acquisition and Member contact	28	30
Administration	40	29
	79	70

The aggregate remuneration of key management personnel, being the Executive Directors and members of the Management Team, was as follows:

	Group and Society	
	2019	2018
	£'000	£'000
Salaries, bonuses and taxable benefits	1,189	899
Social security costs	171	124
Pension costs	58	48
Key management remuneration	1,418	1,071

During the year the Society recruited a new Finance Director and Operations Director to replace the retiring Deputy Chief Executive, as well as increasing staff within IT and Change to facilitate significant strategic projects over the next few years.

Full details of directors' emoluments are contained in the Directors Remuneration report on pages 16 and 17.

11. Investments

a) Land and Buildings

	Society	Group
	Land & Buildings	Land & Buildings
	£'000	£'000
At fair value		
At 1 January 2019	2,100	4,575
Disposals	(1,250)	(1,250)
Transferred to Tangible Assets	(200)	(2,675)
At 31 December 2019	650	650
At original cost	315	315

The investment property that remains with the Society is currently being marketed for sale at the previous valuation price, deemed a fair market value by the agents. The former head office in Dyer Street was sold in November for its valuation, once costs were deducted. Mutuality House and the leasehold property held for business continuity purposes have been transferred to Tangible Assets as they are held at cost.

b) Other financial investments	Group and Society			
	2019	2018	2019	2018
	Valuation	Valuation	Cost	Cost
	£'000	£'000	£'000	£'000
Financial assets – Fair value through income				
Shares, other variable yield securities and units in unit trusts				
- UK listed	34,090	35,627	31,590	37,690
Debts and other fixed income securities				
- UK listed	48,193	45,003	48,106	42,175
- Deposits	3,757	2,266	3,757	2,266
	<u>86,040</u>	<u>82,896</u>	<u>83,453</u>	<u>82,131</u>

Fair Value measurement

Fair value is the amount for which an asset could be exchanged between willing parties in an arm's length transaction. Fair values are generally determined at prices quoted in an active market (level 1). Where such information is not available it may be possible to apply calculation techniques making use of market observable data for all significant inputs (level 2). Where inputs are not based on observable market data, fair value are classified as level 3. All of the Society's key financial assets are determined using level 1 with the exception of Property which is determined using level 3.

12. Investment in Subsidiary

	Company	
	2019	2018
	£'000	£'000
Cost of shares in group undertakings	<u>1,200</u>	<u>1,200</u>
The Society acquired 100% of the share capital of M. H. Property Management Limited during 2017, a company registered in England.		
The only activity of the company is to hold the freehold of Mutuality House.		
Issued share capital of M. H. Property Management at 31 December 2019	<u>0.2</u>	<u>0.2</u>
Loans to M. H. Property Management at 31 December 2019	<u>3,038</u>	<u>1,275</u>
Retained surpluses within M. H. Property Management at 31 December 2019	<u>109</u>	<u>118</u>
The group is of the opinion that the value of the company is in excess of cost.		
The Society intends to transfer Mutuality House from M.H. Property Management to itself, at cost, and close down the subsidiary during 2020.		

13. Debtors

Debtors relate to income tax deducted at source recoverable on fixed interest investment income, the Society does not have any debtors arising from its insurance business.

Notes to the Financial Statements

31 December 2019

14. Tangible Assets

Society

	Land & Buildings £'000	Plant & Machinery £'000	Motor Vehicles £'000	Fixtures, Fittings and Furniture £'000	Computers and Office Equipment £'000	Total £'000
Cost or Valuation						
At 1 January 2019	-	-	48	393	1,195	1,636
Transferred from Investments	200	-	-	-	-	200
Additions		90	-	254	500	844
Disposals			(48)	(276)	(988)	(1,312)
At 31 December 2019	200	90	-	371	707	1,368
Accumulated Depreciation						
At 1 January 2019	-	-	13	380	1,112	1,505
Provided in the year	4	2	5	39	117	167
Disposals	-	-	(18)	(272)	(986)	(1,276)
At 31 December 2019	4	2	-	147	243	396
Net Book Value						
Net Book Value at 31 December 2019	196	88	-	224	464	972
Net Book Value at 31 December 2018	-	-	35	13	82	131

Group

	Land & Buildings £'000	Plant & Machinery £'000	Motor Vehicles £'000	Fixtures, Fittings and Furniture £'000	Computers and Office Equipment £'000	Total £'000
Cost or Valuation						
At 1 January 2019	-	-	48	393	1,195	1,636
Transferred from Investments	2,675	-	-	-	-	2,675
Additions	1,806	90	-	254	500	2,650
Disposals	-	-	(48)	(276)	(988)	(1,312)
At 31 December 2019	4,481	90	-	371	707	5,649
Accumulated Depreciation						
At 1 January 2019	-	-	13	380	1,112	1,505
Provided in the year	47	2	5	39	117	210
Disposals	-	-	(18)	(272)	(986)	(1,276)
At 31 December 2019	47	2	-	147	243	439
Net Book Value						
Net Book Value at 31 December 2019	4,434	88	-	224	464	5,210
Net Book Value at 31 December 2018	-	-	35	13	82	131

Land and buildings occupied by the Society are valued at cost, incorporating the new head office at Mutuality House and the leasehold property used for business continuity purposes. The buildings are now depreciated over 50 years. Mutuality House has previously been recorded as freehold property under development. On moving to the newly completed office, a significant number of fully written down assets were disposed of.

15. Intangible Assets

	Group and Society		
	Software £'000	Assets under Construction £'000	Total £'000
Cost or Valuation			
At 1 January 2019	1,987	425	2,412
Additions	5	1,030	1,035
Assets capitalised	941	(941)	-
At 31 December 2019	<u>2,933</u>	<u>514</u>	<u>3,447</u>
Accumulated Depreciation			
At 1 January 2019	611	-	611
Provided in the year	640	-	640
At 31 December 2019	<u>1,251</u>	<u>-</u>	<u>1,251</u>
Net Book Value			
Net Book Value at 31 December 2019	<u>1,682</u>	<u>514</u>	<u>2,196</u>
Net Book Value at 31 December 2018	<u>1,376</u>	<u>425</u>	<u>1,801</u>

16. Fund for Future Appropriations

	Group and Society	
	2019 £'000	2018 £'000
Long-term business		
At 1 January 2019	104,680	98,082
Transfer included within comprehensive income for the year	7,169	6,598
Balance at 31 December 2019	<u>111,849</u>	<u>104,680</u>

Realised and unrealised surpluses

Within the Balance Sheet the Best Estimate Reserves include an amount in respect of future profits of the Society, it is considered that these amounts are not immediately available for appropriation. The division of the Fund for future appropriation between funds immediately available and available on realisation are set out below:

	Group and Society	
	2019 £'000	2018 £'000
Realised surpluses	54,213	51,600
Unrealised surpluses	57,636	53,080
	<u>111,849</u>	<u>104,680</u>

17. 125 Foundation

	Group and Society	
	2019 £'000	2018 £'000
Balance at 31 December 2019	<u>3,060</u>	<u>2,585</u>

The Cirencester Friendly 125 Foundation was set up in 2016 to provide financial support to individuals and causes, for the benefit of Members and their communities. It is funded by early redemption charges where Members chose to exit contracts prematurely.

Notes to the Financial Statements

31 December 2019

18. Member's Funds

	Group and Society	
	2019	2018
	£'000	£'000
Contributing Members		
Bonuses and Rebates:		
- Interest on Members' balances	517	517
- Apportionment	1,502	1,705
- Other Member Credits	-	4
	2,019	2,226
Withdrawals During the Year:		
- Deaths	(37)	(50)
- Retirements	(1,110)	(760)
- Withdrawals	-	(3)
- Resignations and lapses	(1,013)	(972)
- Other Member Debits	(66)	(65)
Net increase/(decrease) in Member Funds during the year:	(207)	376
Balance at 1 January	22,296	21,920
Balance at 31 December	22,089	22,296
Non-contributing Members		
Transfers in and Interest:		
- Interest on Members' balances	68	63
- Transfers from Members' accounts on retirement	421	258
	489	321
Withdrawals during the year	(184)	(165)
Net increase during the year	305	156
Balance at 1 January	3,057	2,901
Balance at 31 December	3,362	3,057
Members' Mutual Fund		
Transfers in:		
- Apportionment of surpluses / (losses)	1,515	(915)
Withdrawals during the year		
- Payments on cessation of contracts	(367)	(344)
- Transfer of adjustments on closures to the 125 Foundation	(487)	(542)
Net increase during the year	661	(1,801)
Balance at 1 January	10,223	12,024
Balance at 31 December	10,884	10,223
Total Members' Funds	36,335	35,576

The 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 amounts held within the fund are not guaranteed and may be transferred back to the general reserves should they be required to support the ongoing operations of the Society. The fund was established during December 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.

19. Future value of long term insurance contracts

a) Movement in long-term insurance contracts valuation – non-participating

	Group and Society	
	2019	2018
	£'000	£'000
Balance at 1 January	53,080	45,587
Transfer included within comprehensive income for the year	4,556	7,493
Balance at 31 December	57,636	53,080

The valuations are expected to be released as follows:

	1 year or less	2 - 5 years	6 - 15 years	Over 15 years	Total
	£'000	£'000	£'000	£'000	£'000
Balance as at 31 December 2018	(139)	(672)	12,769	39,778	57,080
Balance as at 31 December 2019	(78)	(141)	11,816	46,039	57,636

The long term provisions are shown at a value representing the value of future cashflows arising from the Society's insurance business less a Risk Margin. For Solvency II purposes the value of the long term provisions are taken as the net value of the future cashflows less balances due to Members, as detailed in note 18, and the Risk Margin as shown below.

	Group and Society	
	2019	2018
	£'000	£'000
Valuation of future cashflows arising from insurance contracts	88,572	78,774
Less: Risk Margin	(30,936)	(25,694)
Per Balance Sheet	57,636	53,080
Less: Members' funds	(36,335)	(35,576)
Net Solvency II valuation	21,301	17,504

Notes to the Financial Statements

31 December 2019

b) Long term insurance valuation assumptions

The assumptions for the calculation of the long term business provisions are set out below:

Interest rate

Morbidity Incidence rate (shown as a percentage of CMIR 12 table)

Health and Wealth contracts

Income Assured Plus and Enhanced contracts

My Earnings Insurance and Protected Contracts (level)

My Earnings Insurance and Protected Contracts (escalating)

Morbidity recovery rates (shown as a percentage of CMIR 12 table)

Health and Wealth contracts

month 1

month 2

month 3

months 4 - 6

months 7 - 12

thereafter

Income Assured Plus and Enhanced contracts

month 1

month 2

month 3

months 4 - 6

months 7 - 12

thereafter

My Earnings Insurance and Protected contracts

month 1

month 2

month 3

months 4 - 6

months 7 - 12

thereafter

Group and Society

	2019	2018
	EIOPA risk free rates	EIOPA risk free rates
	35%	35%
	17.5%	17.5%
	30%	30%
	35%	35%
	65%	65%
	125%	125%
	150%	150%
	175%	175%
	200%	200%
	200%	200%
	50%	50%
	110%	110%
	170%	170%
	190%	190%
	250%	250%
	250%	250%
	45%	45%
	110%	110%
	170%	170%
	190%	190%
	250%	250%
	250%	250%

	2019	2018
Health and Wealth contracts		
All years	3.50%	3.50%
Income Assured Plus and Enhanced contracts		
Year 1	6%	6%
Year 2	6%	6%
Year 3	8%	8%
Year 4	9%	9%
Year 5	10%	10%
Year 6+	10%	11%
My Earnings Insurance contracts (level)		
Year 1	10%	10%
Year 2	10%	10%
Year 3	8%	8%
Year 4	9%	9%
Year 5	10%	10%
Year 6+	10%	11%
My Earnings Insurance contracts (escalating)		
Year 1	15%	15%
Year 2	15%	15%
Year 3	15%	15%
Year 4	12%	12%
Year 5	10%	10%
Year 6+	10%	11%
My Earnings Protected contracts (level)		
Year 1	12%	10%
Year 2	12%	10%
Year 3	10%	8%
Year 4	11%	9%
Year 5	12%	10%
Year 6+	12%	11%
My Earnings Protected contracts (escalating)		
Year 1	17%	15%
Year 2	17%	15%
Year 3	17%	15%
Year 4	14%	12%
Year 5	12%	10%
Year 6+	12%	11%
Mortality Rates (shown as a percentage of CMIR 12 table)	50%	50%

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

Notes to the Financial Statements

31 December 2019

20. With-Profits Actuary

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

Mrs Spinks has confirmed that neither she, nor any of her family, were members of the Society, nor have they any financial or pecuniary interest in the Society, with exception of fees paid to OAC for professional services, which amounted to £226,348 (including VAT) (2018: £ 209,252).

21. Related parties

There were no loans outstanding from Board members at the year-end (2018: nil)

During the year no services were provided to the Society by any Member of the Board (2018: nil).

22. 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

2019	2018
£'000	£
489	2,352
2,371	670

Commitments of the Society under non-cancellable operating leases are as follows:

Operating leases which expire

Within one year

In the second to fifth years inclusive

Over five years

2019	2018
£'000	£
34	7
46	49
-	-
80	56

23. Contingent Liabilities

The Society had no contingent liabilities at the year end.

24. Post Balance Sheet Event

The Coronavirus crisis has placed unprecedented strain on all our activity during early 2020 and this looks set to continue for a significant period of time. The Chief Actuary has helped the Directors conduct a going concern review, taking the lowest day of the markets in 2020 (March 23rd) prior to signing the accounts and applying this stress to the year-end position. In addition, this reduced asset position was subjected to the stressed scenarios previously applied to 2019 results. Under all of these conditions the solvency and liquidity of the Society remain strong and within Board risk tolerances.

The potential impact of the crisis on claims is also being closely monitored, though it is too early to determine the degree of impact at the time of signing. The Society's operating systems and processes, including remote working arrangements, are robust and continue to support the business. In order to protect the Society and our current Membership, we have temporarily suspended issuing new short deferred income protection contracts and are keeping close contact with all our key stakeholders.

No adjustments have been made to the accounts to reflect this post balance sheet event.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the **130th Annual General Meeting of Cirencester Friendly Society Limited** will be held at **Mutuality House**, The Mallards, South Cerney, Cirencester, Gloucestershire, GL7 5TQ on **Thursday 18 June 2020 at 5.30pm** for the purpose of transacting the following business:-

1. To confirm the Minutes of the 129th Annual General Meeting held on 20 June 2019.
2. To receive the Chairman's Statement, Strategic Report, Report of the Board of Management, Financial Statements and the Auditor's Report for the year ended 31 December 2019.
3. To approve the Board of Management's Remuneration Report for the year ended 31 December 2019.*
4. To elect S E Fell as a member of the Board.
5. To elect A J Morris as a member of the Board.
6. To re-elect J F Quinn as a member of the Board.
7. To re-elect W J M Schouten as a member of the Board.
8. To re-appoint BDO LLP as Auditors for the year 2020.
9. 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 on 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 Annual General Meeting, 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 Member News & 2019 Financial Highlights 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.

* 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



Andrew Horsley
Company Secretary

Mutuality House, The Mallards, South Cerney,
Cirencester, Gloucestershire, GL7 5TQ

06 April 2020



Founded 1890

Registered No.149F

Registered Office:

Mutuality House, The Mallards, South Cerney, Cirencester, Gloucestershire, GL7 5TQ Telephone: 01285 653073 or 652492 Fax: 01285 641246
Email: info@cirencester-friendly.co.uk Web: www.cirencester-friendly.co.uk

Board of Management:

Chairman:	John F Quinn M. Litt. BA (Hons)
Chief Executive:	Paul R Hudson MBA FCIS MCSI
Finance Director:	Andrew J Morris MBA FCA MCSI (appointed 2 April 2019)
Commercial Director:	David R Macgregor Cert PFS
Operations Director:	Shirley E Fell (appointed 1 April 2019)
Board Members:	Janice W Banks MBA Marian L Evans BSc (Hons), FInstLM. ACII. Chartered Insurance Broker Katharine S McIntyre BA (Hons), ACA Ian M Maude William J M Schouten MBA Mark C Sedgley ACII

Arbitrators:

Phillip Harris LLB, FCIArb, Solicitor
Roger Warrington FRICS, FCIArb, Chartered Surveyor
Mark Thomas Dip Adj BSc MSc LLM FRICS FCIArb MAE, Chartered Surveyor

Chief Executive:

Paul R Hudson MBA FCIS MCSI

Company Secretary:

Andrew J Horsley FCIS Chartered MCSI

Senior Independent Director (Board Member):

William J M Schouten MBA

External Auditors:

BDO LLP

Internal Auditors:

Case Accounting Ltd

Actuary:

Chief Actuary and With Profits Actuary
Cara Spinks, OAC plc

Investment Managers:

LGT Vestra

Bankers:

Lloyds Bank plc



Cirencester Friendly
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