

CIRENCESTER FRIENDLY SOCIETY LIMITED  
116th ANNUAL REPORT AND ACCOUNTS  
YEAR ENDED 31 DECEMBER 2005



"Big enough to cope,  
small enough to care"

# Cirencester Friendly Society Limited

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**Founded 1890**

**Registered No. 149F**

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**Registered Office:**

5 Dyer Street, Cirencester, Glos. GL7 2PP  
Telephone: 01285 653073 or 652492  
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**Board of Management:**

Chairman: A J Knight ACIB  
Vice Chairman: M T King, BSc MRICS MCI Arb MCI OB  
Chief Executive: P R Hudson, MBA FCIS ACol  
Deputy Chief Executive: P L Brown FCA FCCA  
Board Members: R H Sanders  
A L Smith (Resigned 19 May 2005)  
Dr J E Miller TD BSc MBchB DA DRCOG DFFP MRCGP  
D J G Williams APFS FCol FCMI  
J Bridge DipM FCMI MAE MICM MCI Arb FPC Cemap  
(Appointed 19 May 2005)  
P A Rouse Cert PFS (Appointed 16 March 2006)

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Arbitrators: C Cleverley  
C H Fowler  
Mrs M Brown

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Chief Executive: P R Hudson MBA FCIS ACol

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External Auditors: Moore Stephens

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Internal Auditors: Pritchard Wood (until 31 December 2005)  
Bentley Jennison as from 1 Jan 2006

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Actuaries: Milliman

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Investment Advisers: Legal & General  
Henderson  
Tilney Fund Management

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Bankers: Lloyds TSB Plc

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Solicitors: Sanders Brickwood  
Kirbys  
Rona Doyle & Co

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## Board of Management

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A J Knight, ACIB, Chairman. Age 61. Chairman since May 2004. Vice-Chairman and Chairman of the Audit and Risk Committee 2002-2004. Non-executive Member of the Board of Management since 2000. Serving Member of the Strategy Committee since June 2005. Retired July 1999 from Lloyds TSB after 37 years. Career included spells in retail banking, internal audit, area management and as a Senior Manager in corporate banking. Associate Member of the Chartered Institute of Banking. Enjoys rugby and country sports.



M T King. BSc Hons MRICS MCI Arb MCI OB. Chartered Quantity Surveyor and Registered Adjudicator. Age 49. Non-Executive Member of the Board of Management since 2001, Vice-Chairman since 2004. Chairman of the Audit & Risk Committee since May 2004. Partner Henry W King & Partners 1984-1990. Partner Castons since 1990. Director CCAS Ltd since 1998. Director Castons Consulting Ltd since 2001. Member of Royal Institution of Chartered Surveyors since 1984. Member of Chartered Institute of Arbitrators since 1992.



David Williams. ASFA, FCol, FCMI. Age 60. Non-executive Member of the Board of Management since July 2004. Serving Member of the Audit & Risk Committee since February 2005. Managing Director of Haven Risk Management which provides compliance consultancy services to the Society. 1984-1996 various roles in advisory management capacities in financial services. 1996 to present Managing Director DWT Ltd which became Haven Risk Management on taking over another company in 2005. Associate of the Personal Finance Society, Fellow of the Compliance Institute, Fellow of the Chartered Institute of Management.



R H Sanders. Age 59. Non-executive Member of the Board of Management since May 1987 and Chairman of the Society from 1998-2004. Previous Member of the Audit & Risk Committee. Serving Member of the Strategy Committee since June 2006. Senior Partner of Sanders Brickwood Solicitors of Cirencester (previously with Harbottle & Lewis Solicitors in London until 1975) with many advisory appointments including at present Trustee of the Wyndham Lewis Trust and previously Secretary and Legal Adviser to a PLC in Cirencester.



P R Hudson, MBA, FCIS, ACol. Chief Executive and Secretary. Age 47. Chief Executive since February 1997. Executive Member of the Board of Management since 1997. Serving Member of the Audit & Risk Committee since 1997. Serving Member of the Strategy Committee June since 2005. Chief Executive of Nottingham Friendly Society Limited 1989-1997. Assistant Secretary Shepherds Friendly Society Limited 1987-1989. 1974-1987 various roles within Shepherds Friendly Society Limited. Fellow of the Institute of Chartered Secretaries and Administrators since 1994, Master of Business Administration since 1997 and Associate member of the Compliance Institute from 1998.



P L Brown FCA FCCA. Deputy Chief Executive. Age 54. Appointed as Deputy Chief Executive and an Executive Member of the Board of Management and Audit and Risk Committee in October 2004. Serving Member of the Strategy Committee since June 2005. Formerly a partner in an Oxfordshire Accountancy firm for 16 years to 2000 with considerable experience in the audit of Building and Friendly Societies, subsequently owner of an Oxfordshire based company providing accountancy and management services. Associated with the Society as the auditor from 1995 to 2000. Fellow of the Institute of Chartered Accountants (England and Wales) and Fellow of the Association of Chartered Certified Accountants.



Dr J E Miller TD, BSc, MBChB, DA, DRCOG, DFFP, DTMOH, MRCP. Age 47. Married with 2 children. Qualified from St Andrews 1979 and Manchester Universities in 1982. Chief Medical Officer since 1993. Non-executive Member of the Board of Management since March 1998. Serving Member of the Audit & Risk Committee. General Practitioner in Cirencester since 1993; GP Trainer; GP Appraiser and Quality and Outcomes Assessor in General Practice for Cotswold & Vale PCT. Hospital Practitioner in Gynaecology. Medical Officer in Territorial Army for 26 years.



J Bridge DipM, FCMI, MAE, MICM, MCI Arb, FPC, Cemap. Age 56. Non Executive Member of the Board of Management since May 2005. Serving Member of the Strategy Committee June since 2005. Senior Independent Board Member since May 2005. Partner Bridge and Company t/a Expert Mortgage Advice, Marketing and Compliance Consultancy and Mortgage Adviser Network since 1992. 1975-1991 Cheltenham & Gloucester Building Society, Branch Manager (1975-1982), Regional Manager (1982-1986) and General Manager (1986-1991). Fellow of the Chartered Institute of Marketing since 1990, Member of the Institute of Credit Management since 1990, Practising Member of the Academy of Experts since 1994, Law Society Checked Expert Witness since 1994.



P A Rouse, Cert PFS. Age 48. Married with 3 children. Non-executive member of the Board of Management since March 2006. Partner Focus Independent Financial Advisers since April 1992, 1990-1992 Senior Independent Financial Adviser with Tait Conisbee Life & Pensions, Oxford, 1987-1990 Regional Inspector with Scottish Amicable, 1976-1987 various positions within Midland Bank (now HSBC). Enjoys Formula 1 Motorsport, football and listening to music.

## Notice of Annual General Meeting

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NOTICE IS HEREBY GIVEN that the Annual General Meeting of Cirencester Friendly Society Limited will be held at the Offices of the Society, 5 Dyer Street, Cirencester, Gloucestershire on Thursday, 18 May 2006 at 7.30 pm for the purpose of transacting the following business:-

1. To confirm the Minutes of the Annual General Meeting held on 19 May 2005.
2. To receive the Chairman's Statement for the year ended 31 December 2005.
3. To receive the Report of the Board of Management and Financial Statements for 2005.
4. To elect members of the Board of Management

Name	Age at AGM	Occupation	Member of the Board since
Mr J Bridge	56	Partner Bridge and Company	May 2005
Mr P R Hudson	48	Chief Executive	February 1997
Mr P A Rouse	48	Partner Independent Financial Adviser	March 2006
Mr R H Sanders	59	Solicitor	May 1987

5. To re-appoint Moore Stephens as Auditors.
6. To approve the Board of Management's remuneration report for the year ended 31 December 2005. \*
7. To transact any other business not requiring notice of motion.

Members of the Society over the age of 18 may attend, speak and vote on any item of the Agenda. Members who wish to attend may be admitted on production of satisfactory evidence of their membership and identity. Members who are eligible to vote but who are unable to attend the AGM may appoint a proxy to attend and vote at the meeting and direct the proxy how to vote at the meeting. The Proxy Voting Form can be found with the papers accompanying this Annual Report and Accounts.

**\* The Board's remuneration report:** You are asked to approve the Board'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  
P R Hudson  
Chief Executive  
10 April 2006

5 Dyer Street  
Cirencester  
Gloucestershire  
GL7 2PP





## Chairman's Statement

I am delighted to be able to provide an introduction to the 2005 Annual Report and Accounts and I am confident you will agree with me that the Society has made strong financial progress during the year.

The first thing you may notice about this years Annual Report and Accounts is that the format has changed with the introduction of financial highlights which are aimed at helping you to identify key areas of activity more easily and also more information about the way in which the Society is organised and operated from a governance point of view.

I have pleasure in setting down the following key financial highlights:

Key Figures	2005	2004	Change
	£000's	£000's	%
Premium Income	7,412	6,892	7.5
Operating Surplus	4,124	3,166	30.3
Overall Surplus for year	5,260	4,855	8.3
Fund for Future Appropriations	9,765	7,645	27.7
	%	%	
Sickness Benefit as a % of Premiums	17.9	22.0	(4.1)
Growth in acquisition costs	(11.1)	(6.3)	(4.8)
Growth in administration costs	5.3	23.8	(18.5)
Operating surplus as % of total income	46.4	38.2	8.2
Claims paid	82.6	79.8	2.8
<b>Bonuses</b>			
Dividends - Health and Wealth	£1.20	£1.14	5.3
- Income Assured	£8.70	£8.40	3.6
Interest	3.75%	3.50%	7.1

The contribution the Income Assured contract has made to the prosperity of the Society is significant with considerable increases in premium income year on year since its introduction in 1999. However, the rate of growth in premium income has been slowing in recent years and it is clear that we need to refresh and improve the contract to ensure that its appeal to both existing and potential new customers is maintained.

The success of the Society in attracting new members is further underlined by the growth in operating surplus which has increased by well over 100% during the last 5 years and which, when taken with the recovery in the investment markets and other income, has resulted in significant increases in overall surpluses since 2001.

The real worth of having income protection insurance is at claim and so the payment of claims to members is fundamental to the success of the Society. To enable us to deliver high standards of care and attention at an often stressful time members are reminded that they need to provide adequate evidence of incapacity and earnings at an early stage in the claim to enable the Society to meet their contractual entitlement with the minimum of delay and inconvenience. I would also urge members to ensure that the

cover they are paying for remains appropriate to their needs. Income protection insurance is all about protecting income and whilst a prerequisite of a successful claim is being unable to work through illness or accident it is the income that is being insured so this also plays a vital role in a claim.

I am pleased to say that almost 83% of all sickness benefit claims were admitted during 2005 an increase of nearly 3% over the previous year. As you would expect we aim to pay every genuine claim which is why we are keen to remind members of their obligations to the Society and of the need to regularly review cover.

The cost of running the Society has risen in recent years and reflects higher levels of business activity. Whilst we would expect this to continue we are working hard to ensure that these do not become disproportionate with the income being generated through the introduction of new business and the Society remains a viable ongoing concern. This strategic focus is reflected in the fact that operating surplus as a percentage of total income increased by a further 8.4% compared with the previous year.

We are a mutual institution and our priority is to fulfil the expectations of our members by paying valid claims and to deliver long term rewards in the form of bonus distributions whilst at the same time ensuring the financial stability of the Society is maintained.

In keeping with our desire to deliver all of the above I am pleased to be able to report that for the third year in succession bonuses paid to members in the form of interest and dividends have been increased. Further, as part of the regulatory process in 2005 we undertook a very comprehensive stress testing exercise in the form of an internal capital assessment and we are satisfied that the Society is fully capable of meeting a wide range of risks which are inherent in the business that we transact and outside the control of the Society.

In conclusion it has been a pleasure to serve as Chairman of the Board of Management for the last twelve months and I look forward to the next year with a high degree of optimism for the continued success and prosperity of the Society and its members. All that remains for me to do is thank my colleagues for their support and the staff for their hard work and effort in building a lasting foundation for the Society on which to compete for the future.

 ACIB

Chairman

# Report of the Board of Management

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The Board of Management is pleased to submit its report together with the audited accounts for the year ended 31 December 2005.

## Members of the Board of Management

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The names of the Board of Management and the Chief Executive are shown on the inside front cover. All served throughout 2005 unless otherwise detailed.

## Principal Activity

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As a single product organisation specialising in income protection the principal activity of the Society continues to be the provision of income replacement insurance using the 'Holloway principle' which protects against the loss of income arising from accident or illness and provides an accumulated surplus element payable at retirement.

## Financial Results and Business Review

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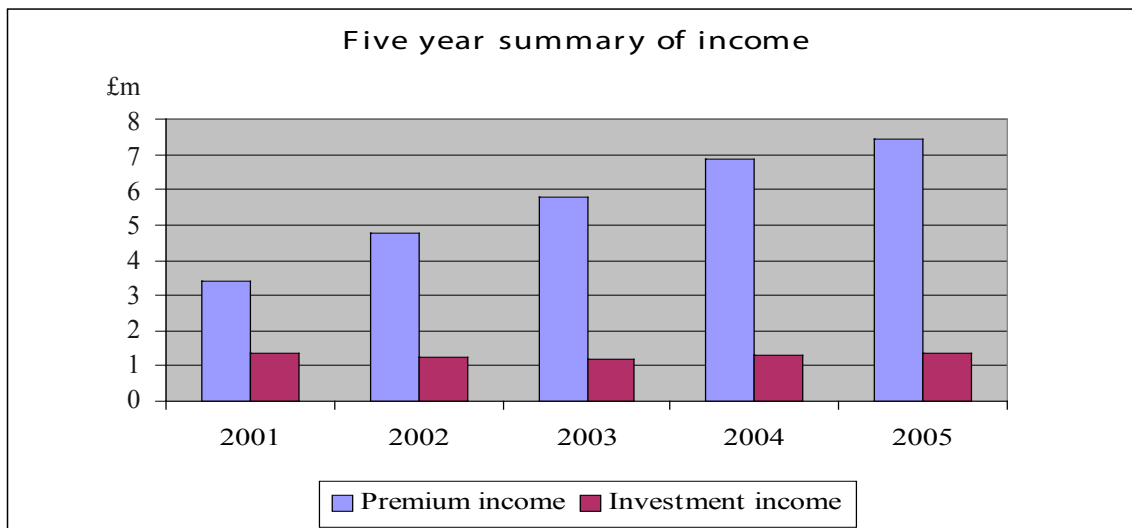
### Financial

Net earned premiums have increased over the year by £0.52m to £7.41m as a result of the continuing growth in the number of Income Assured contracts, an overall increase of 7.5% over the previous year. Premiums from Health and Wealth contracts fell by 6.2% compared with 2004 and now account for 25% of total premium income.

At a total of £1.46m, actual investment income is slightly above that of the previous year, and is largely due to an increase in deposit interest receivable following the investment of additional funds in the year which was partly offset by a reduction in investment property income.

Investment income, including gains both realised and unrealised on investment assets increased by £0.21m to £2.46m.

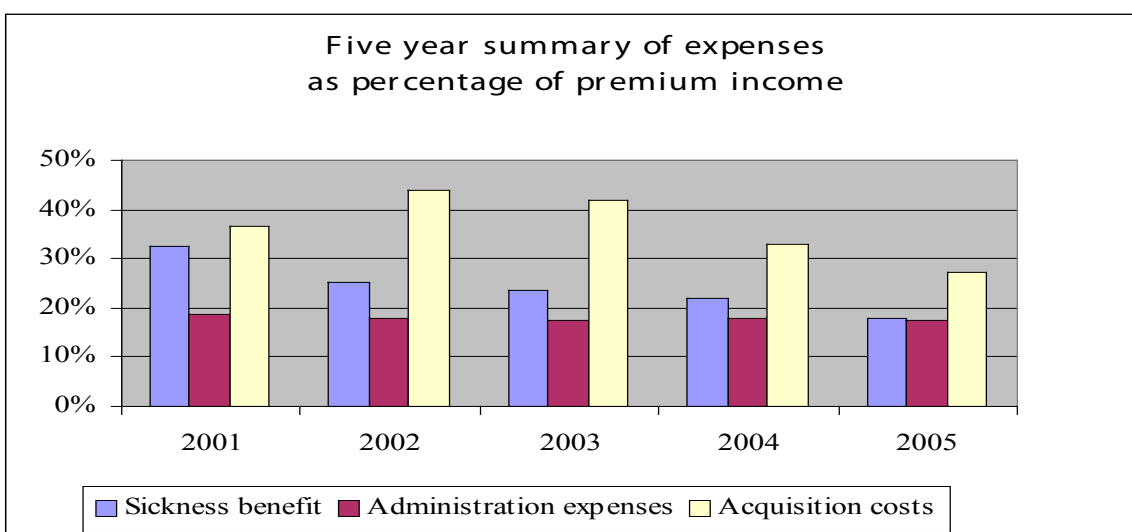
During the year there were no exceptional items reported within the Society's accounts.



Claims payments fell by £0.19m or 12.4% from 2004, to £1.33m which was less than was paid in the two previous years. The cost of claims as a percentage of premium income now equates to 17.9% which represents an all-time low and continues a downward trend in the ratio over the last six years.

Operating expenses fell by £0.18m during 2005. The cost of acquiring new business amounted to £2.01m, a decrease of £0.25m over the previous year, and was largely attributed to a gradual slowdown in sales of the Income Assured contract and resultant reduction in both the charge for introductory commissions being paid to Independent Financial Advisers in the Income and Expenditure Account, and the asset carried forward in the Balance Sheet for deferred acquisition costs. Administration expenses have continued to rise, but only marginally, this year, by a total of £0.07m or 5.3% over 2004 mainly as a result of increased staff salaries.

Whilst administrative expenses have marginally increased they have remained relatively constant at approximately 18% of total premium income over the last few years.



The increases in premium income and investment income, taken with the decreased levels of sickness benefit and acquisition costs, means that the operating surplus for 2005 amounts to £4.12m, an increase of £0.96m or 30% higher than the previous years total, and the highest level ever recorded by the Society. After adding the investment gains, there was £5.26m available to distribute. £0.61m has been transferred to long term provision and net adjustments of £0.13m; when the bonuses and profit allocations determined by the Board acting on the advice of the Actuarial Function and amounting to £2.53m are deducted, a net £2.12m has been added to the Fund for Future Appropriations, which stood at £9.77m at 31 December 2005.

In keeping with the Society's aim to maximise overall investment income for an acceptable level of risk whilst matching its liabilities, the only significant movement in the investments during the year was the increased amounts held on term deposit, which have increased by £2.7m over the previous year-end, and an increase of £0.9m in the listed investment portfolio. When gains on listed investments and properties are included the market value of the Society's investment portfolio has increased by £3.65m to £34.83m at 31 December 2005.

Cash at bank, other assets and prepayments amount to £4.46m at the year-end, a slight decrease on the previous year. Included in the figure is £2.13m in deferred acquisition costs, being initial commission paid to IFAs and carried forward to be charged as an expense in the future which have fallen by £0.27m or 11.3% as a result of the slow-down in the rate of growth of new business offset by increases in general bank balances.

The increase in investment values and the increase in current assets produce a net increase to the Society's total funds of £3.3m to £39.29m. Of this amount £29.1m represents amounts due to members and various reserves established by the Actuarial Function with £9.77m remaining in the Fund for Future Appropriations.

## Membership

Membership at 1 January 2005	22,545
Members joined during the year	<u>2,494</u>
	25,039
Less Maturities, Deaths, Surrenders and Lapses	<u>(2,283)</u>
Membership at 31 December 2005	<u>22,756</u>

The membership statement for the year (excluding retired deposit account members) is set out below:  
There were 875 retired deposit account members at 31 December 2005 (966 -2004)

## Award Winning Service

Whilst our principal activity is the provision of income replacement insurance to our members and building up a cash sum for use by them at retirement, the Society is a member based organisation and we recognise our success depends upon the continued support of members and the Financial Advisers who introduce their clients to the Society. The Society was founded in 1890 on the principle of mutual self help and a sense of caring for its members. In modern times that ethos continues in the form of our commitment to maintain high standards of service and dealings with our members and Financial Advisers and to treat

them fairly.

The Society is here to serve its members and those who do business with us. We take this responsibility very seriously and continually seek ways in which to work more effectively and efficiently in the interests of all our stakeholders.

In recognition of our efforts the Society has received a number of prestigious service awards in recent years which we are very proud of. Maintaining our high standards of service will be a key objective in our plans for the future development of the Society.



## The Future

Since the launch of the Income Assured contract in October 1999 the Society has enjoyed considerable success and the number of contracts put on the books since then and the financial strength of the Society now underlines the extent of the achievement.

However, in the face of an increasingly competitive market the demand for income protection contracts has fallen in recent years and the Society is facing a new challenge as we seek to become a leading value for money income protection provider in the UK.

We realise that the Society is not a large composite insurer but a highly responsive niche player, who can excel at being a single product provider rather than being the master of none.

To achieve our mission, we know we will need to deliver protection products which appeal to a wide target audience, but at the same time, not overlook the needs and expectations of the existing customers and supporters, who have contributed to our success by continuing to deliver high standards of personal care and attention to all those who come into business contact with the Society.

We firmly believe income protection is the most important part of a customer's financial portfolio because without some continuing income when illness or injury prevents customers from earning a living all else falls. To increase the appeal of our Income Assured contract, we aim to introduce new features to make the contract even more attractive and flexible in 2006.

Because we are so passionate about income protection and want to make it more accessible to consumers and Financial Advisers alike we also aim to overcome the complexity of understanding by making the product easier to understand and at the same time simpler to do business with the Society. In 2006 and beyond we will be improving the technology behind the Society and refreshing the Cirencester Friendly Society brand.

The Society has a strong financial base from which to deliver these changes but is mindful of the fact that as a mutual organisation expenditure needs to be carefully controlled to ensure that value for money is achieved for the security and benefit of existing and future customers and supporters.

## **Solvency**

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At 31 December 2005 the Society had a level of solvency significantly in excess of that required in accordance with Rules 4.2 and 4.10 of the Interim Prudential Sourcebook for Friendly Societies.

## **Fixed Assets**

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There were no significant changes in tangible assets during the year. Movements are set out in Note 13 of the financial statements.

## **Political and Charitable Donations**

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The Society made no political or charitable donations during 2005.

## **Auditors**

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The Society's Auditors, Moore Stephens, are willing to continue in office and a resolution will be proposed at the Annual General Meeting on 18 May 2006 for their re-appointment.

## Bonuses

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Acting on the advice of the Society's Actuarial Function the Board of Management approved the following bonus rates in keeping with the objective to deliver steady and consistent growth to members where possible. The figures in brackets are last year's declaration of bonuses.

- Health and Wealth dividend per share      £1.20      (£1.14)
- Income Assured dividend per unit      £8.70      (£8.40)
- 2005 Interest rate for active members      3.75%      (3.50%)
- 2006 Interest rate (*which is set in advance*) for retired members is 3.75%.  
(The rate may be reviewed at the half year.) (3.50%)

## Rules and Statutory Powers

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The Board of Management is not aware of any activities that have been carried on outside its powers during the financial year.

## Responsibilities of the Board of Management

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- make judgments and estimates that are reasonable and prudent;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and which enable it to ensure that the accounts comply with the Friendly Societies Act 1992.

It is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

## Management Changes

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Changes to the Board of Management are recorded in Corporate Governance.

## Complaints and Disputes

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Whilst the Society is committed to the maintenance of high standards of integrity and fairness in its dealings with members we recognise that complaints can arise. To this end the Society has established systems to ensure that any complaints received are handled with due care and sensitivity and are thoroughly and impartially investigated. Members retain the right to take their complaint to the Financial Ombudsman Service. The handful of cases that have been referred to the Ombudsman serves to underline the standard of systems of control, inspection and report in operation at the Society and to the excellence and commitment of staff to the work they undertake.

## Directors' and Officers' Liability Insurance

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

## Thanks and Appreciation

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As always the Board of Management is indebted to its staff for all their hard work and dedication during 2005. The continuously changing regulatory and business environment will undoubtedly present further challenges to the Society in the coming years but the Board of Management is confident in the knowledge that the continued success of the Society will be assured with the ongoing support and development of its staff.

On behalf of the Board



P.R. Hudson  
Chief Executive  
10 April 2006

# Corporate Governance and Remuneration Report

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## Introduction

Cirencester Friendly Society is committed to high standards of corporate governance. During 2005 the Society made significant progress towards compliance with The Combined Code on Corporate Governance before it becomes mandatory. The Code will apply to all Mutual Insurers from the end of 2006.

## The Board

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### Role and Membership

The Society's Board of Management is currently made up of the Chairman, who is non-executive, six other non-executive members and two executive members, being the Chief Executive and Deputy Chief Executive of the Society.

The Board of Management collectively determines the strategic direction of the Society, subject to available resources and ensures corporate governance.

Implementation of the strategy and the management of the day to day activities of the Society are delegated to the Chief Executive who works closely with the Deputy Chief Executive to discharge that responsibility.

### Composition of the Board

The size of the Board has currently been set at nine so as not to be too unwieldy. Subject to an annual skills mix audit, members of the Board with the requisite skills and ability to effectively manage the strategic aims and success of the Society are selected by introduction by existing members of the Board, introduction through business associations with the Society or by nomination through the membership of the Society. All Board members are subject to election under the rules of the Society by members at the Annual General Meeting of the Society. Any member of the Society who wishes to be considered for a place on the Board of Management is encouraged to contact the Society.

## Meetings

The Board met on six occasions during 2005 with four quarterly meetings and two additional training/workshop meetings at which continuing professional development was undertaken.

The attendance at meetings during 2005 was as follows:-

Name	Called to	Attended
A J Knight *	6	6
M T King	6	6
Dr J E Miller	6	6
R H Sanders	6	6
A L Smith	1	1
P R Hudson	6	6
P L Brown	6	6
D J G Williams	6	6
J Bridge	5	5

\*Chairman of the Board of Management from 20 May 2004.

## Independence

The Annotated Combined Code on Corporate Governance sets out certain requirements in determining whether a non-executive member of the Board is independent. These are as follows:

- The non-executive must not have been an employee of the Society within the last 5 years;
- The non-executive must not have had a material business relationship with the Society within the last 3 years either directly or indirectly;
- The non-executive must not receive any additional remuneration, or share options', profit related pay and such like, apart from normal Board fees and out of pocket expenses;
- The non-executive must not have served on the Board for more than 9 years.

In addition to this the Board needs to consider whether non-executives are independent in character and judgement and whether there are any other circumstances that might affect, or could affect, a non-executive Board member's view.

Having regard to all of the foregoing the Board is of the opinion that all non-executive members of the Board were independent throughout the year with the exception of Mr R H Sanders who was deemed not to be independent but only by virtue of his length of service on the Board which exceeds 9 years. The Board strongly believes that his knowledge of the Society and his continued and active contribution to the wellbeing of the Society warrants his ongoing service on the Board. In accordance with The Combined Code Mr R H Sanders will now be subject to annual election.

### Professional Advice

Board members have access to external independent professional advice at the Society's expense, if required, to assist them in the effective discharge of their duties.

The Board is supported in its work by a number of Committees, which report to the Board, which are detailed as below.

### Audit and Risk Committee

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The Audit and Risk Committee is composed of the Vice Chairman, who is non-executive, four other non-executive members of the Board and the two executive members of the Board. The Committee met on three occasions during the year. The principal function of the Committee is to ensure that the external audit is conducted in a thorough, objective and cost effective manner and that effective systems of internal control and risk management are in place. The Committee regularly meets with the external auditors and the outsourced internal audit function to review the audit work of the Society and provides a direct channel of communication between the Board and these functions. Both the external auditors and outsourced internal audit functions have the right of direct access to the Chairman of the Audit & Risk Committee and Chairman of the Board of Management who are both non-executive positions.

The attendance at meetings during 2005 was as follows:-

Name	Called to	Attended
M T King*	3	3
A J Knight	3	3
Dr J E Miller	3	2
R H Sanders	2	2
P R Hudson	3	2
D J G Williams	3	3
P L Brown	3	3

\*Chairman of the Audit and Risk Committee from 20 May 2004.

### Nominations Committee

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#### Role and Membership

A Nominations Committee consisting of the Chairman and Vice-Chairman, who are non-executive members of the Board and the Chief Executive, who is an executive member of the Board, meets when necessary to identify, assess and put forward suitable nominations to fill vacancies on the Board, as they arise, for consideration by the Board. The Committee met once during 2005. To ensure that the Board has the appropriate mix and level of skill required to be able to establish strategic intent and manage the affairs of the Society the Committee reviews the structure and composition of the Board annually.

## Board Evaluation

On appointment, all new members of the Board receive formal induction which is intended to provide them with a thorough understanding of the workings of the Society and the products that it sells. Access to the executives and departmental managers is encouraged to provide a greater insight into business processes and the key factors affecting the success of the Society.

Throughout their tenure in office Board members are continually updated on the Society's business and the competitive and regulatory environment in which it operates. As part of their continuing professional development Board members are required to attend two workshop/training meetings each year aimed at enhancing the overall collective competence of the Board and, where necessary, both external and internal courses aimed at assisting their self development in areas of individual weakness.

In 2005, a comprehensive self-assessment of the effectiveness of the Board and principal Committees was undertaken. Each Board member was invited to complete a questionnaire and provide comments on Board and Committee procedures and effectiveness along with an evaluation of their own contribution and the effectiveness of the Chairman. The results of the review were given careful consideration by the Nominations Committee prior to being presented to the Board as a group, for further comment.

A number of items where improvements could be made were identified and will form part of future performance proposals.

## Changes to the Board

At the conclusion of the AGM on 19 May 2005 Mr A L Smith resigned by prior agreement having given many years of loyal service to the Society. Mr J Bridge joined the Board on 19 May 2005 and has brought a depth of knowledge and experience in the Sales and Marketing of Financial Services.

Mr Bridge is also the Senior Independent Board member charged with the responsibility of listening to the views of members in order to develop a balanced understanding of their issues and concerns.

Any member wishing to contact Mr Bridge may do so, in the first instance, by writing to him at the Society's Registered Office.

## Remuneration Committee

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### Role and Membership

A Remuneration Committee comprising the Chairman and Vice Chairman who are non executive members of the Board and the Chief Executive who is an executive member of the Board meets as required but at least once each year to determine and agree with the Board the Society's policy on the remuneration of the Chairman, Executive and non-executive members of the Board and Society staff. The Committee met for the first time in January 2006.

To ensure that the levels of remuneration of staff, executives and Board members are sufficient to attract, retain and motivate individuals of the quality required to contribute to, and run, the Society successfully in a highly competitive employment market the Committee takes independent advice.

To avoid a conflict of interest, Committee members do not vote when their remuneration is being considered.

## Independent External Advice

During 2005, the Committee instructed IPS Financial Services Recruitment, one of the largest and longest established bespoke Financial Services recruitment agencies in the UK to produce a detailed and independent report on salary guidelines for positions within the Society along with a commentary on the market for 2005 and anticipated trends for 2006.

In addition, with caution, in view of the potential of an upward ratchet of remuneration levels with no corresponding improvement in performance, the Committee also placed reliance upon a comprehensive Remuneration and Financial Results Survey based on the findings at 13 Friendly Societies collated and produced by the Original Holloway Friendly Society Limited.

In conjunction with the IPS Report findings the Committee implemented revisions to the remunerative package for staff and members of the Board effective from 1 January 2006.

## Remuneration Policy for Executive Members of the Board

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The Committee recognises that the Society's remuneration policy for executive members of the Board needs to have a clear focus on member value and to this end the revisions made to the remuneration package of the Chief Executive and Deputy Chief Executive, who are executive members of the Board, are linked to the success of the Society and personal performance of the individual.

To achieve this, their remuneration package is based upon the following principles:

- Incentives which align the interests of the executives and members of the Society and reward the creation of long term value within a controlled framework of risk assessment and management;
- The creation of a strong link between the expected performance of executives and the rewards that come with their achievement. Performance related rewards form a material part of the total remunerative package and are competitive in the market in which the Society operates;
- Contractual terms which on termination and any subsequent payments made to executives are fair to the individual, and the Society, so that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- In determining such packages and arrangements due regard is given to any relevant legal requirements and the provisions and recommendations of The Combined Code on Corporate Governance.

The Remuneration Committee takes its responsibilities in a serious and prudent manner when applying the foregoing policy.

## Reward Components for Executive Remuneration

### Base Salary

Base salaries for executives are positioned in the top quartile for similar Friendly Societies in the relevant market. Salaries are reviewed annually around November and, if considered necessary, are adjusted from 1 January in the following year to recognise the individual's role, performance and experience as well as changes in the external executive pay market.

### Annual Incentive Payments

Annual incentives designed to motivate and reward executives for the achievement of strategic and financial goals of the Society are applied in equal proportion on the following measures of performance:

- Business Growth
- Expense Ratios
- Customer retention/satisfaction
- Specified key objectives/projects

The target bonus opportunity for the executives is 20% of salary from 1 January 2006. The Remuneration Committee retains absolute discretion in the final determination of awards taking account of the Society's achievements measured against predetermined key performance indicators.

### Pensions

The retirement benefits of executives forms an important part of their total remuneration package.

The Society has arranged a defined contribution Scheme for all staff in to which executives may make their own contributions in addition to the contributions made on their behalf by the Society up to the maximum permitted by law.

The contribution made by the Society on behalf of the Chief Executive is 25% of base salary plus benefits in kind but excluding annual incentive payments. The contribution made on behalf of the Deputy Chief Executive is 10% of base salary.

### Service Agreements

Executives 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.

## Chairman and Non-Executive Board Members

The remuneration of the Chairman and non-executive members of the Board is intended to reflect the time commitment and responsibilities of the role. The Board recognises the need to pay a level of remuneration and/or expenses to members of the Board, excluding executives who are not remunerated for their service on the Board, that are sufficient to attract, retain and motivate individuals of sufficient quality to run the affairs of the Society successfully having regard to the nature and scale of the Society's activities.

To this end, the Society has established a remuneration structure for the Chairman and non-executive members of the Board that includes a base fee paid in recognition of the responsibilities and expectations of the role and, in the case of the Chairman and Vice-Chairman only, an operational fee for their day to day involvement in the business affairs of the Society, plus for all non-executives, a meeting fee for attendance at meetings.

In addition, members of the Board are also paid an allowance for prior authorised business mileage based on Inland Revenue Fixed Profit Car Scheme rates for own car use subject to a maximum claim of 10,000 business miles in any single tax year. Alternatively members of the Board can reclaim authorised cost of travel if travelling by taxi or train.

Fees and allowances are paid half-yearly in June and December on claim by Board members. Normal deductions for personal taxation and National Insurance Contributions apply.

Fees and allowances are subject to applicable cost of living index rises annually on 1 January each year and to ensure fees and expenses remain appropriate and competitive they are subject to review by external consultants every 3 years. The next review will take place on 1 January 2009.

### Board Members' Emoluments

	Basic Salaries and Fees	Annual Incentive Payments	Benefits and other emoluments	Defined Contributions Pension	Total 2005	Total 2004
	£000's	£000's	£000's	£000's	£000's	£000's
P R Hudson	75.9	8.1	7.7	23.9	115.6	122.0
P L Brown	57.3	6.2	2.8	4.8	71.1	14.6
J E Miller	1.1	3.5	-	-	4.6	4.5
D B Taylor	-	-	-	-	-	1.3
R H Sanders	1.1	4.4	-	-	5.5	6.9
P J Gibbs	-	-	-	-	-	1.8
A J Knight	6.6	5.3	-	-	11.9	9.1
M T King	3.7	4.5	-	-	8.2	6.7
A L Smith	-	-	-	-	-	2.4
D J Williams	1.1	4.0	-	-	5.1	1.8
J Bridge	0.7	3.2	-	-	3.9	-
Total	<u>147.5</u>	<u>39.2</u>	<u>10.5</u>	<u>28.7</u>	<u>225.9</u>	<u>171.1</u>

Notes:

- i) Annual incentive payments for the Chairman and non-executive members of the Board are made up of meeting attendance fees.
- ii) Benefits and other emoluments represent the provision of company cars.
- iii) Salaries for all Society staff which included Board members and executives, were increased by 4% with effect from 1 January 2005 in-line with increases in the average earnings index.

# Strategy Committee

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The Committee was formed in 2005 and is made up of the Chairman, who is a non-executive member of the Board, the Chief Executive and Deputy Chief Executive who are executive members of the Board plus two other non-executive members of the Board. The Committee met on three occasions during the year. The main purpose of the Committee is to assist the Chief Executive in the establishment of an appropriate and effective business plan for the development of the Society and, if applicable, its subsidiaries.

The attendance at meetings during 2005 was as follows:-

Name	Called to	Attended
A J Knight*	3	3
R H Sanders	3	3
J Bridge	3	3
P R Hudson	3	3
P L Brown	3	3

\*Chairman of the Committee by virtue of Office.

# Internal Control

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

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

On behalf of the Board



P. R. Hudson  
Chief Executive  
10 April 2006

## Report of the Auditors to the members of Cirencester Friendly Society Limited

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We have audited the financial statements of Cirencester Friendly Society Limited for the year ended 31 December 2005 which comprise the Income and Expenditure Account, Balance Sheet and the related Notes 1 - 22, which have been prepared in accordance with the accounting policies set out therein. We are also required to report on the Report of the Board of Management for the year ended 31 December 2005.

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 auditors 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.

### **Respective responsibilities of the Board of Management and auditors:**

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The Board of Management's responsibilities for preparing the Annual Report and the financial statements in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out on the Statement of the Board of Management's responsibilities on page 11. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Auditing Standards (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it. We also report to you our opinion as to whether the Report of the Board of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it and as to whether the information given therein is consistent with the accounting records and the financial statements.

We also report to you if, in our opinion the Society has not kept proper accounting records, or if we have not received all the information, explanations and access to the documents that we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This information comprises only the Report of the Board of Management. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion:**

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We conducted our audit in accordance with International Auditing Standards (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Board of Management in the preparation of the financial statements and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion:**

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In our opinion the financial statements give a true and fair view of the state of the Society's affairs as at 31 December 2005 and of the income and expenditure of the Society for the year then ended and have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

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

## **Moore Stephens**

Chartered Accountants and  
Registered Auditors

Bath

10 April 2006

## Income and Expenditure Account for the Year ended 31 December 2005

	Notes	2005 £	2004 £
<b>Technical Account - Long Term Business</b>			
Earned premiums	2	7,411,815	6,891,549
Investment income	3	2,463,106	2,250,906
Other technical income		132,145	87,890
		10,007,066	9,230,345
<b>Technical Income</b>			
Claims incurred	4	(1,326,800)	(1,514,994)
Change in long term business provision	14	(607,000)	(1,278,000)
Interest on retired members' deposits		(68,893)	(59,641)
Interest on members' capital account	15	(720,222)	(659,887)
Dividends on members' capital	15	(1,809,765)	(1,525,878)
Net operating expenses	5	(3,312,320)	(3,497,754)
Investment expenses and charges	7	(41,000)	(246,835)
Exceptional items	8	-	943,573
		2,121,066	1,390,929
Net Surplus for the Year		2,121,066	1,390,929
Transfer to fund for future appropriations		(2,121,066)	(1,390,929)
Balance on the technical account		-	-

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

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

# Balance Sheet

## as at 31 December 2005

	Notes	2005		2004	
		£	£	£	£
<b>Assets</b>					
<b>Investments</b>					
Land and buildings	9	1,885,000		1,810,001	
Mortgage advances	10	36,258		61,246	
Investment in subsidiary	11	100		100	
Other financial investments	12	<u>32,909,668</u>		<u>29,312,103</u>	
			34,831,026		31,183,450
<b>Debtors</b>					
Other debtors			-		902,486
<b>Other assets</b>					
Tangible assets	13	109,778		164,605	
Cash at bank and in hand		<u>1,587,682</u>		<u>761,456</u>	
			1,697,460		926,061
<b>Prepayments and accrued income</b>					
Accrued interest and rent		621,451		574,563	
Other prepayments and accrued income		11,943		5,723	
Deferred acquisition costs		<u>2,130,268</u>		<u>2,402,337</u>	
			2,763,662		2,982,623
			<u>39,292,148</u>		<u>35,994,620</u>
<b>Liabilities</b>					
<b>Reserves</b>					
<b>Provided for by the Rules</b>					
Benevolent Fund	17		27,232		21,924
<b>Fund for Future Appropriations</b>					
General Reserve	14		9,765,959		7,644,893
<b>Technical provisions</b>					
Members' Capital Accounts	15	21,821,880		21,025,387	
Retired Members' Deposits	16	1,961,451		2,032,266	
Long Term Business Provision	14	<u>5,334,000</u>		<u>4,727,000</u>	
			29,117,331		27,784,653
<b>Creditors</b>					
Arising out of Direct Insurance Operations		173,194		297,290	
Other creditors including tax and social security		<u>100,482</u>		<u>110,531</u>	
			273,676		407,821
Accruals and Deferred Income			107,950		135,329
			<u>39,292,148</u>		<u>35,994,620</u>

These financial statements were approved by the Board of Management on 10 April 2006 and were signed on their behalf by :



Chairman



Vice Chairman



Chief Executive

# Notes to the Accounts

## 31 December 2005

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### 1 ACCOUNTING POLICIES

#### Accounting Convention

The financial statements have been prepared in accordance with The Friendly Societies Act 1992, The Friendly Societies (Accounts and Related Provisions) Regulations 1994, applicable accounting standard, and with the Association of British Insurers' Statement of Recommended Practice (SORP): 'Accounting for Insurance Business' issued in November 2003.

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

#### Basis of Accounting

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

#### Tangible Assets (excluding freehold properties)

Tangible Assets are stated at historical cost less accumulated depreciation.

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

Motor Vehicles - 3 years with a retained value of 25% at disposal

Office Equipment - 2 years / 4 years

Computer Equipment and software - 4 years

#### Investments

- i) Land and Buildings  
The freehold investment properties are shown at open market valuation. The Society is legally required to value properties on an annual basis.
- ii) Mortgage securities are included at redemption value.
- iii) Investments in Listed Investments are stated at the middle market price at the year end.

#### Premium Income

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

#### Investment Income

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

#### Realised and unrealised gains and losses

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

## Notes to the Accounts (continued)

### 31 December 2005

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#### Claims and Benefits

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

#### Investment Expenses and Charges

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

#### Leasing

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

#### Taxation

The Society is exempt from Corporation Tax.

#### Acquisition Costs

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

#### Pension Costs

Contributions payable under the Society's defined benefit final salary scheme, were charged to the income and expenditure account as they fell due in accordance with actuarial advice up to the date of closure of the scheme in June 2004. On the closure of the scheme an additional single payment was required to protect the benefits of employees transferring out of the scheme.

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

#### Fund for Future Appropriation

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

#### Long-term Business Provisions

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



## Notes to the Accounts (continued)

### 31 December 2005

#### 2 PREMIUM INCOME

	2005	2004
	£	£
Gross Contributions received	<u>7,411,815</u>	<u>6,891,549</u>

#### 3 INVESTMENT INCOME

	2005	2004
	£	£
Net income from land and buildings	59,016	97,706
Mortgage interest	3,370	5,638
Listed securities	392,798	358,551
Interest from monies on deposit	<u>1,005,233</u>	<u>937,354</u>
	1,460,417	1,399,249
Unrealised gains on investments	980,329	517,607
Gains on realisation of investments	<u>22,360</u>	<u>334,050</u>
	<u>2,463,106</u>	<u>2,250,906</u>

#### 4 CLAIMS INCURRED

	2005	2004
	£	£
Gross Claims Payable	<u>1,326,800</u>	<u>1,514,994</u>

#### 5 NET OPERATING EXPENSES

	2005	2004
	£	£
Acquisition costs	2,012,659	2,263,701
Administrative expenses	<u>1,299,661</u>	<u>1,234,053</u>
	<u>3,312,320</u>	<u>3,497,754</u>
Acquisition costs include:		
Amortised commissions	1,580,923	1,836,437
Depreciation	<u>6,427</u>	<u>15,774</u>
Administrative expenses include:		
Depreciation	58,836	59,788
Amounts payable, including expenses, by the Society to the Auditor in respect of		
Statutory accounts	16,556	15,109
Regulatory returns	-	-
Other services	-	-
Other professional services	96,681	67,425
Actuarial fees	94,000	122,830
Aggregate amount of Board members' emoluments	<u>225,904</u>	<u>171,072</u>

## Notes to the Accounts (continued)

### 31 December 2005

Board members are entitled to be paid a fee for services rendered to the Society together with reasonable out-of-pocket travel expenses. Fees are paid by reference to the number of Committees on which a member serves and the office held.

Board members' emoluments, excluding pension contributions, fell within the following ranges:

	2005 No.	2004 No.
£0 - £5,000	2	5
£5,001 - £10,000	3	3
£10,001 - £15,000	1	1
£70,001 - £75,000	1	-
£115,001 - £120,000	1	-
£120,001 - £125,000	-	1

The emoluments of the Chairman amounted to £11,880 for the year (2004 - £9,103).

The emoluments of the highest paid member of the Board were £115,679 (2004 - £122,058).

## 6 EMPLOYEE INFORMATION

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

	2005 No.	2004 No.
Administration	17	16
Acquisitions	6	5
	<u>23</u>	<u>21</u>

Staff costs for the above persons were:

	2005 £	2004 £
Wages and salaries (including the Chief Executive and Deputy Chief Executive)	605,163	461,584
Social security costs	58,369	47,716
Other pension costs (see note 8)		
Recurring	103,919	82,478
Exceptional	-	546,250
	<u>767,451</u>	<u>1,138,028</u>

## 7 INVESTMENT EXPENSES AND CHARGES

	2005 £	2004 £
Investment management expenses	41,000	52,511
Unrealised losses on investments	-	79,734
Losses on realisation of investments	-	114,590
	<u>41,000</u>	<u>246,835</u>

## Notes to the Accounts (continued)

### 31 December 2005

#### 8 EXCEPTIONAL ITEMS

	2005	2004
	£	£
Refund of re-insurance premiums	-	425,000
Restatement of deferred acquisition costs	-	1,064,823
Acquisition of deferred annuities on the closure of the Cirencester Friendly Society Pension and Life Assurance Scheme	-	(546,250)
	<u>-</u>	<u>943,573</u>

#### 9 LAND AND BUILDINGS

The Society's land and buildings were valued by Messrs Daltons (Chartered Surveyors) at £1,885,000 at 31 December 2005 (£1,810,001 - 2004).

The Society occupies the freehold premises at 5 Dyer Street, Cirencester which was valued at £1,200,000 as at 31 December 2005 (£1,125,000 - 2004).

#### 10 MORTGAGE ADVANCES

	2005	2004
	£	£
Balance at 1 January	61,246	78,124
Advances	-	-
Less repayments	(24,988)	(16,878)
<b>Balance at 31 December</b>	<u>36,258</u>	<u>61,246</u>

#### 11 INVESTMENT IN SUBSIDIARY UNDERTAKING

The Society has one wholly owned subsidiary undertaking, Cirencester Insurance Services Limited, registered in England.

	2005	2004
	£	£
Cost of investment	<u>100</u>	<u>100</u>

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

## Notes to the Accounts (continued)

### 31 December 2005

#### 12 OTHER FINANCIAL INVESTMENTS

	2005 £	2004 £
Listed investments	10,721,094	9,821,697
Monies held on term deposits	<u>22,188,574</u>	<u>19,490,406</u>
	<u>32,909,668</u>	<u>29,312,103</u>

#### Listed Investments

	MARKET VALUES			
	2005			2004
	£	£	£	£
Valuation at 1 January		9,821,697		9,608,317
Additions at cost		-		1,505,031
Less disposals (Sale Proceeds)	-		(1,514,960)	
Net profit/(loss) on disposals	<u>-</u>	<u>-</u>	<u>(64,031)</u>	<u>(1,578,991)</u>
Appreciation - Net General	896,571		287,340	
Benevolent Fund				
Depreciation/Appreciation	<u>2,826</u>	<u>899,397</u>	<u>-</u>	<u>287,340</u>
<b>Valuation at 31 December</b>		<u>10,721,094</u>		<u>9,821,697</u>

#### Analysis as at 31 December 2005

	COST		MARKET VALUES	
	31.12.05 £	31.12.04 £	31.12.05 £	31.12.04 £
Fixed Interest Redeemable				
Government Stocks	3,334,710	3,334,710	3,408,793	3,333,506
Other UK Fixed Interest Stocks	<u>2,333,374</u>	<u>2,333,374</u>	<u>2,463,982</u>	<u>2,395,755</u>
	5,668,084	5,668,084	5,872,775	5,729,261
Ordinary UK listed Shareholdings	<u>3,746,303</u>	<u>3,746,303</u>	<u>4,848,319</u>	<u>4,092,436</u>
	<u>9,414,387</u>	<u>9,414,387</u>	<u>10,721,094</u>	<u>9,821,697</u>

## Notes to the Accounts (continued)

### 31 December 2005

#### 13 TANGIBLE ASSETS

	Motor Vehicles	Office Equipment	Computer Equipment	Total
	£	£	£	£
<b>Cost</b>				
At 1 January 2005	53,160	114,541	233,775	401,476
Additions	-	5,470	7,872	13,342
Disposals	(15,499)	-	-	(15,499)
At 31 December 2005	<u>37,661</u>	<u>120,011</u>	<u>241,647</u>	<u>399,319</u>
<b>Depreciation</b>				
At 1 January 2005	16,508	70,308	150,055	236,871
Charge for the year	10,384	21,888	32,991	65,263
Disposals	(12,593)	-	-	(12,593)
At 31 December 2005	<u>14,299</u>	<u>92,196</u>	<u>183,046</u>	<u>289,541</u>
<b>Book Value at 31 December 2005</b>	<u>23,362</u>	<u>27,815</u>	<u>58,601</u>	<u>109,778</u>
<b>Book Value at 31 December 2004</b>	<u>36,652</u>	<u>44,233</u>	<u>83,720</u>	<u>164,605</u>

#### 14 RESERVES AND TECHNICAL PROVISIONS

	Fund for future appropriations £	Long term business provisions £
Balance at 1 January 2005	7,644,893	4,727,000
Change in long term business provision		607,000
Transfer from income and expenditure account	2,121,066	
Balance at 31 December 2005	<u>9,765,959</u>	<u>5,334,000</u>

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

## Notes to the Accounts (continued)

### 31 December 2005

#### 15 MEMBERS' CAPITAL ACCOUNTS

	2005		2004	
	£	£	£	£
Balance at 1 January		21,025,387		20,549,283
Less Withdrawals				
On cessation of Membership and by continuing Members	(1,601,550)		(1,617,593)	
Forfeitures thereon	<u>(131,944)</u>	(1,733,494)	<u>(92,068)</u>	(1,709,661)
Add				
Interest Credited	720,222		659,887	
Dividends Declared	<u>1,809,765</u>	2,529,987	<u>1,525,878</u>	2,185,765
<b>Balance at 31 December</b>		<u><u>21,821,880</u></u>		<u><u>21,025,387</u></u>

#### 16 RETIRED MEMBERS' DEPOSITS

	2005		2004	
	£	£	£	£
Balance at 1 January		2,032,266		2,145,792
Less Withdrawals		(309,795)		(297,247)
Interest Credited	56,061		48,846	
Transfers from Members' Accounts	<u>182,919</u>	238,980	<u>134,875</u>	183,721
<b>Balance at 31 December</b>		<u><u>1,961,451</u></u>		<u><u>2,032,266</u></u>

Retired Members' deposits are repayable on demand.

#### 17 BENEVOLENT FUND

	2005		2004	
	£	£	£	£
Investment Income				
Income from Stocks & Shares	920		750	
Unrealised Gains on Investments	2,826		-	
Other Technical Income				
Donations from Members	<u>1,562</u>	5,308	<u>1,454</u>	2,204
Less				
Other Technical Charges				
Grants to Members		-		(25)
Decrease/Increase in Fund during year		<u>5,308</u>		<u>2,179</u>
Add: Balance 1 January		<u>21,924</u>		<u>19,745</u>
<b>Balance at 31 December</b>		<u><u>27,232</u></u>		<u><u>21,924</u></u>

## Notes to the Accounts (continued)

### 31 December 2005

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#### 18 PENSIONS COSTS

##### Defined Benefit Pension Scheme

The Society operated a defined benefit scheme until its closure in June 2004, all scheme assets were held separately from those of the Society in independently administered funds.

The scheme was wound up during the preceding financial year due to a significant level of under funding, contributions up to the date of closure were made in accordance with the requirements of actuarial advice.

The contributions for the defined benefits scheme during the year was £nil (2004 - £7,881). A further payment was made during the year to secure the benefits of scheme members after the closure of the scheme of £23,793 (2004 - £546,250).

##### Defined Contribution Pension Scheme

Pension provision for all employees of the Society has been made by means of an appropriate Money Purchase Scheme. Contributions of £6,400 were outstanding at 31 December 2005 (2004 - £12,243)

#### 19 TRANSACTIONS WITH BOARD MEMBERS

There were no loans outstanding to Board members at 31 December 2005 by way of mortgages (2004 - £nil).

The sum of £ 5,384 (excluding VAT) was paid to a practice in which Dr J E Miller is a partner (2004 - £5,098). The sum of £5,448 (excluding VAT) was paid to a company in which Mr D J G Williams is a shareholder and of which he is a director (2004 - £6,195). The sum of £635 (excluding VAT) was paid to a practice in which Mr M T King is a partner (2004 - £nil). The sum of £ 745 (excluding VAT) was paid to a practice in which Mr R H Sanders is a partner (2004 - £nil).

All transactions stated above were in respect of professional services provided to the Society on normal commercial terms.

#### 20 ACTUARIAL FUNCTION

Mr S H Bell, a Partner in Milliman, holds the appointments of Actuarial Function and With Profits Actuary to the Society. The Society has requested him to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr Bell has confirmed that neither he nor his family, nor any of his partners were members of the Society, nor have they any financial or pecuniary interests in the Society, with the exception of fees paid to Milliman for professional services, which amounted to £80,000 (excluding VAT) in 2005 (2004 - £106,700).

## Notes to the Accounts (continued)

### 31 December 2005

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#### 21 COMMITMENTS

	2005 £	2004 £
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	<u>238,948</u>	<u>-</u>
	<u>238,948</u>	<u>-</u>
Annual commitments of the Society under other non-cancellable operating leases are as follows:		
	£	£
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	5,510	5,510
Over five years	<u>-</u>	<u>-</u>
	<u>5,510</u>	<u>5,510</u>

#### 22 CONTINGENT LIABILITIES

The Society had no contingent liabilities at the end of the year (2004 - £nil).

# Notes

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# Notes

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**Cirencester Friendly Society Limited**  
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Telephone: 01285 653073/652492 Fax: 01285 641246

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Authorised and regulated by the Financial Services Authority

