



117th ANNUAL REPORT & ACCOUNTS

YEAR ENDED 31 DECEMBER 2006



Cirencester friendly
The income protection people



Cirencester friendly
The income protection people

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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
Dr J E Miller TD BSc MBChB DA DRCOG DFFP DTMOH MRCCG
D J G Williams APFS FCol FCMI
J Bridge DipM FCIM MAE MICM MCI Arb FPC Cemap
P A Rouse FPC (Appointed 16 March 2006)

Arbitrators:

C Cleverley
C H Fowler
Mrs M Brown

Chief Executive and Secretary:

P R Hudson MBA FCIS ACol

Senior Independent Board Member:

J Bridge DipM FCIM MAE MICM MCI Arb FPC Cemap

External Auditors:

Moore Stephens

Internal Auditors:

Bentley Jennison

Actuaries:

Milliman

Investment Management:

Legal & General Investment Management Limited
F&C Fund Management Limited
HSBC Investment Funds (UK) Limited
NU Investment Funds Limited
Standard Life Savings Limited
Credit Suisse Asset Management Funds (UK) Limited
Aegon Asset Management UK PLC
Tilney Fund Management

Bankers:

Lloyds TSB Plc

Solicitors:

Sanders Brickwood
Kirbys
Rona Doyle & Co

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Tony J Knight ACIB
Chairman
Age 62.

Married with 2 children. 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, Nomination, Audit and Risk, TCF and Remuneration Committees. 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 Bankers. Enjoys rugby and country sports.



Martin T King BSc Hons, MRICS, MCI Arb, MCI OB
Vice-Chairman
Age 50.

Married with 1 child. Chartered Quantity Surveyor and Registered Adjudicator. Non-executive Member of the Board of Management since 2001, Vice-Chairman since 2004. Chairman of the Audit & Risk Committee since May 2004. Serving Member of the Nomination and Remuneration Committees. 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. Director of the Society's subsidiary company Cirencester Insurance Services Limited which is a dormant company.



David Williams ASFA, FCol, FCIM
Age 61.

Non-executive Member of the Board of Management since July 2004. Serving Member of the Audit & Risk and TCF Committees. 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.



Rupert H Sanders
Age 60.

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. 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. Director of the Society's subsidiary company Cirencester Insurance Services Limited which is a dormant company.



Paul R Hudson MBA, FCIS, ACol
Chief Executive and Secretary
Age 48.

Family man with 3 children. Chief Executive since February 1997. Executive Member of the Board of Management since 1997. Serving Member of the Audit & Risk, TCF, Nomination and Strategy Committees. Chief Executive of Nottingham Friendly Society Limited 1989-1997. Assistant Secretary Shepherds Friendly Society Limited 1987-1989. 1987-1974 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. Director of the Society's subsidiary company Cirencester Insurance Services Limited which is a dormant company. Member of the Executive Committee of the Association of Friendly Societies since October 2005.



Peter L Brown FCA, FCCA
Deputy Chief Executive
Age 55.

Married with 2 children. Appointed Deputy Chief Executive and an Executive Member of the Board of Management in October 2004. Serving Member of the Strategy and Audit and Risk Committees. 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 James E Miller TD, BSc, MBChB, DA, DRCOG,
DFFP, DTMOH, MRCCP
Age 48.

Married with 2 children. Qualified from St Andrews 1979 and Manchester Universities in 1982. Chief Medical Officer for the Society 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.



John Bridge DipM, FCIM, MAE, MICM, MCI Arb,
FPC, Cemap
Age 57.

Non-executive Member of the Board of Management since May 2005. Serving Member of the Strategy and Chairman of the Remuneration Committee. 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. Senior Independent Board Member since September 2005.



Philip A Rouse Cert PFS
Age 49.

Married with 3 children. Non-executive member of the Board of Management since March 2006. Serving Member of the Strategy Committee. 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

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Cirencester Friendly Society Limited will be held at the Stratton House Hotel, Gloucester Road, Cirencester, Gloucestershire, GL7 2LE on Thursday, 17 May 2007 at 7.30 pm for the purpose of transacting the following business:-

1. To confirm the Minutes of the Annual General Meeting held on 18 May 2006.
2. To receive the Chairman's Statement for the year ended 31 December 2006.
3. To receive the Report of the Board of Management and Financial Statements for 2006.
4. To elect the following members of the Board of Management:

Name	Age at AGM	Occupation	Member of the Board since
Mr A J Knight	62	Retired Banker	October 2000
Mr M T King	50	Chartered Surveyor	December 2000
Dr J E Miller	48	General Practitioner	March 1998
Mr R H Sanders	60	Solicitor	May 1987

5. To re-appoint Moore Stephens as Auditors.
6. To confirm an alteration of the Rules in accordance with the provisions of Rule 28(5).
7. To approve the Board of Management's remuneration report for the year ended 31 December 2006. *
8. 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 2007

5 Dyer Street
Cirencester
Gloucestershire
GL7 2PP

Chairman's Statement



I am again honoured and privileged to provide the introduction to the Annual Report and Accounts and I am sure you will share my considerable satisfaction that during 2006 the Society has continued the success it has made in recent years.

A number of very important things have happened over the last year and it would be remiss of me not to mention them.

Annotated Combined Code on Corporate Governance

The Annual Report and Accounts follow the same format established last year but you will notice that the section dealing with the important issue of corporate governance has evolved and now contains even more information on the way in which the Society is organised and operated. This year the provisions of the Combined Code on corporate governance annotated by the Association of Mutual Insurers and Association of Friendly Societies take full effect and the Society is obliged to report to members on a 'comply or explain' basis for the first time. The Board acknowledges that good corporate governance is fundamental to its responsibilities and obligations to members and other stakeholders alike. To this end the Society is happy to comply with the code having regard to the nature and scale of the Society's business activity. The code has seventeen core principles and to help members assess whether the Society meets good practice each are detailed along with the Society's response.

Financial Highlights

Last year I reported that 2005 had been something of a milestone in terms of the financial performance of the Society. I am particularly pleased to be able to set down a number of key figures which confirm that progress has continued in 2006.

KEY FIGURES

	2006	2005	Change
	£000's	£000's	%
Premium Income	8,016	7,412	8.1
Operating Surplus	4,559	4,124	10.5
Surplus prior to apportionments and provisions	5,877	5,260	11.7
Fund for Future Appropriations	12,399	9,765	27.0
	%	%	
Sickness Benefit as a % of Premiums	16.9	17.9	(1.0)
Growth in acquisition costs	9.3	(11.1)	20.4
Growth in administration costs	6.9	5.3	1.6
Operating surplus as % of total income	48.0	47.1	0.9
Valid Claims paid*	97.9	96.6**	1.3
Bonuses			
Health and Wealth - Dividend	£1.32	£1.20	10.0
Income Assured - Surplus Allocation	£9.60	£8.70	10.3
Income Assured Plus - Surplus Allocation	£7.20	-	-
Bonus Allocation/Interest	4.00%	3.75%	6.7

*Where an otherwise valid claim is made late and the member has returned to work and there are no mitigating circumstances or the member fails to provide satisfactory medical and/or financial evidence to support the claim it will not be paid. Not included in the above are claims received from ineligible claimants or where there is no loss of earnings or for excluded conditions and/or non-disclosed pre-existing medical conditions at application, which would have been excluded by the Society, which are not treated as valid claims.

**Restated.

Premium Income

Premium income is vital to any insurance organisation operating as a going concern. I am delighted to report that since the introduction of the Income Assured contract back in 1999 the premiums paid by members to secure benefits have increased nearly fourfold to over £8m this year. This key indicator serves to demonstrate the popularity and relevance of the unique type of earnings replacement insurance on offer through the Society. Whilst we anticipate continued premium income growth in the future it would be remiss of me not to mention that based on projected sales targets we fully expect the year on year growth to slow in the coming years because our new contract Income Assured Plus has been designed to offer lower cost cover.

Membership

Another key indicator of the relevance of what the Society has to offer is the number of members holding contracts with the Society. Following a long period of decline the Society reversed the trend from 1999 onwards and over the last 7 years we have seen a net increase of over 10,000 new premium paying members taking total membership to over 23,000 by the end of last year. We fully expect this trend to continue by aiming to offer contemporary and relevant products to existing and new members alike. Further details about our new brand image and latest product are contained in the report from the Board.

Sick Pay Claims

Last year I reminded members of the importance of providing adequate evidence of incapacity and earnings at an early stage in the claim to enable the Society to meet its contractual obligations to members with the minimum of delay and inconvenience. Over the last year this aspect has improved and I hope this will continue with the support of members. To enable us to deliver high standards of care and attention at an often stressful time members are again reminded that there are time limits within which claims must be made and that claims must be supported by suitable medical and financial evidence. I would strongly urge any member who believes they have a claim to contact the Society at the earliest opportunity and talk to one of our Claims Team who will be delighted to help.

I am pleased to say that in 2006 over 97% of valid sickness benefit claims were admitted, an increase of 1.3% over the previous year. We want to pay every genuine claim which is why I am keen to stress the need to make full and complete disclosures to the Society about any fact which could have a bearing on the claim. To ensure that the cover you are paying for is appropriate to your needs I would also like to remind members to regularly review their contract with the Society. It is, after all, in nobody's interest to decline claims because of a failure by the member to disclose that they have suffered with the condition previously and which would have been excluded from outset had it been disclosed to the Society, or that they have not suffered a loss of earnings because of continuing income from their employment.

Cost of Running the Society

The cost of running the Society has continued to rise and reflect 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 that 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 10.5% compared with the previous year.

Rewards to Members

We are a mutual institution. 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 that the financial stability and therefore the ability to grow is maintained.

In keeping with our desire to deliver all of the above I am pleased to be able to report that for the fourth year in succession bonuses paid to members in the form of both Bonus Allocation/Interest and Surplus Allocation/Dividend have been increased. Further, as part of the regulatory process in 2006 we undertook a very comprehensive stress testing exercise in the form of an internal capital assessment and we remain confident 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.

Investments

During 2006 the Society undertook a comprehensive review of investments which resulted in changes to the Society's mix of investments, nature of the investments held by the Society and also the organisations to which the Society entrusts members' funds. Overall 2006 proved to be a year of strong investment growth for the Society benefiting from increased exposure to the equity markets during the year. We will continue to keep a close watch on the Society's investment profile to make certain it matches our requirement to deliver a competitive total return for an acceptable level of risk to members over the medium to long term.

Conclusion

I closed my report last year by saying what a pleasure it had been to serve as Chairman of the Board of Management. Last year proved to be a very busy and successful one for the Society and I am delighted to have been able to play a part in the continued regeneration of the Society. I have little doubt that 2007 will be just as important and early indications suggest it will. With your continued support I fully expect that we can continue to capitalise upon the excellent progress made in recent years and continue to deliver relevant, simple and value for money earnings replacement insurance contracts using the 'Holloway principle'. All that remains for me to do is thank my colleagues for their support and the staff for their continued hard work and focus.



A J Knight
Chairman
10 April 2007



Report of the Board of Management

The Board of Management is pleased to submit its report together with the audited accounts for the year ended 31 December 2006.

Members of the Board of Management

The names of the Board of Management and the Chief Executive are shown on the inside front cover. All served throughout 2006 unless otherwise detailed.

Principal activity

The Society recognises that the uniqueness of the 'Holloway principle' is a strength in a market where so many earnings replacement insurance products are the same. As a result it remains a niche product type organisation specialising in earnings protection insurance using the 'Holloway principle' which protects against the loss of earnings arising from accident or illness and aims to provide an accumulated surplus element payable at retirement. The Society is committed to the innovation and development of contracts based on the 'Holloway principle' to make them relevant and to further enhance our position within the earnings replacement insurance market.

Financial Results and Business Review

Financial Performance

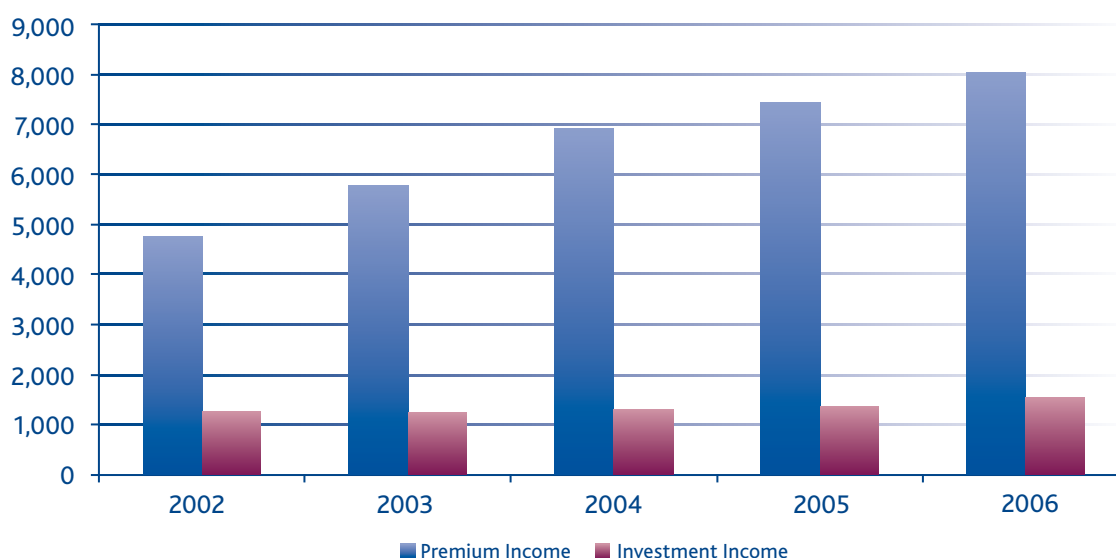
Net earned premiums have increased over the year by £0.60m to £8.01m as a result of the continuing growth in the number of Income Assured contracts, an increase of 8.1% over the previous year. Premiums from Health and Wealth contracts fell by 6.5% compared with 2005 and now account for 21% of total premium income.

At a total of £1.62m actual investment income is 10% above that of the previous year, and this is largely due to an increase in deposit interest rates and more assets being invested with an emphasis towards equity holdings in the year.

Investment income, including gains both realised and unrealised on investment assets increased by £0.38m to approximately £2.84m.

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

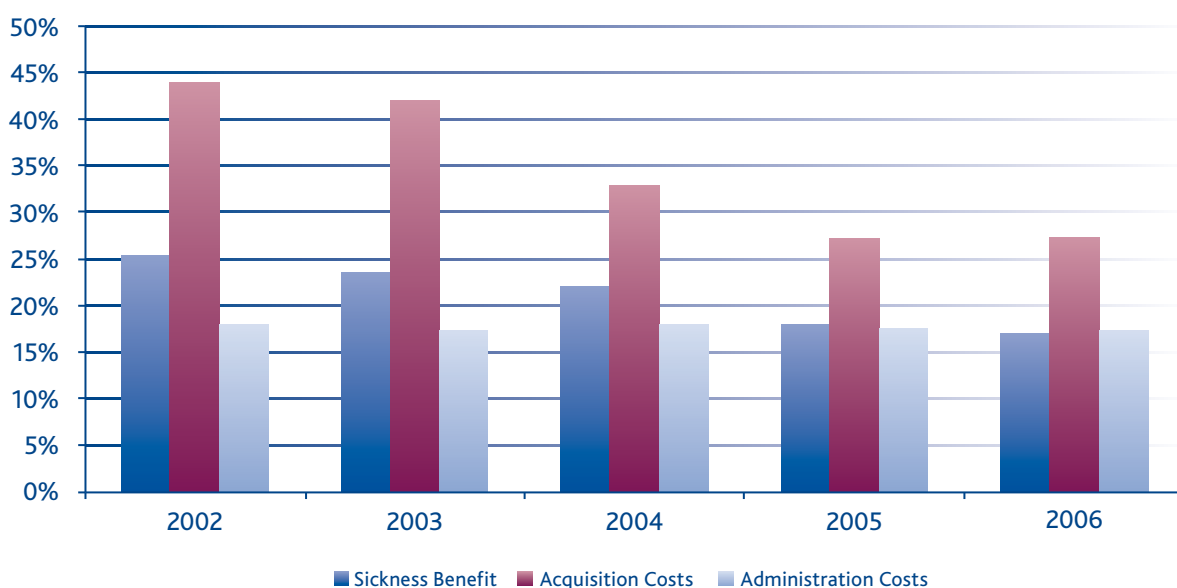
5 Year Summary of Income



Whilst overall claims payments increased by a modest £28,000 or 2.1% from 2005 to £1.35m when expressed as a percentage of premium income the ratio continued to fall and now equates to 16.9%. This represents an all-time low and continues a downward trend in the ratio over the last seven years largely as a result of the rise in total premium income rather than a fall in the amount of sick pay benefit paid to members.

Operating expenses increased by £0.28m during 2006. The cost of acquiring new business amounted to £2.20m, an increase of £189,000 over the previous year and was largely attributable to introductory commissions being paid to Independent Financial Advisers in respect of new contracts through the Income and Expenditure Account and the asset carried forward in the Balance Sheet for deferred acquisition costs. Administration expenses have also continued to rise, but again only marginally, this year, by a total of £88,000 or 6.9% over 2005 mainly as a result of increased staff salaries.

5 Year Summary of Expenses as a % of Premium Income



Whilst costs have marginally increased in absolute terms they have remained relatively constant at approximately 18% of total premium income over the last five years.

The increases in premium income and investment income, taken with the relatively consistent levels of sickness benefit and acquisition costs, means that the operating surplus for 2006 amounts to £4.56m an increase of £435,000 or 10.5% higher than the previous years total and this figure represents the highest level ever recorded by the Society. After adding the investment gains, £5.88m was available to distribute. £282,000 has been transferred to long term provision when the bonuses and profit allocations determined by the With Profit Actuary amounting to £2.96m are deducted a net £2.63m has been added to the Fund for Future Appropriations, which stood at £12.40m at 31 December 2006.

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 in ordinary UK listed shareholdings funded by transfer from term deposits. UK listed investments increased by a net £5.16m over the previous year end and contributed to an overall increase of £4.94m in the listed investment portfolio. When gains on the listed investments and properties are included the market value of the Society's investment portfolio has increased by £4.11m to £38.94m at 31 December 2006.

Cash at bank, together with other assets and prepayments, amount to £4.36m at the year-end, a slight decrease on the previous year. Included in the figure is £2.41m in deferred acquisition costs being initial commission paid to Independent Financial Advisers which has increased by £277,000 or 13% as a result of the pick-up in the rate of growth of new business following the introduction of Income Assured Plus offset by the modest fall 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 £4.02m to £43.31m. Of this amount £30.91m represents amounts due to members and creditors plus the various reserves established by the Actuarial Function Holder leaving £12.40m in the Fund for Future Appropriations.

Membership

The membership statement for the year (excluding retired deposit account members) is set out below:

Membership at 1 January 2006	22,756
Members joined during the year	2,666
Sub-Total	25,422
Less Maturities, Deaths, Surrenders and Lapses	(2,103)
Membership at 31 December 2006	23,319

A New Look

Whilst it may seem unnecessary to the uninitiated the image an organisation projects to the market can be the difference between success and failure. In the highly competitive and often confusing financial services market in which the Society operates standing out from the crowd and being remembered can be crucial not just in attracting new customers but also in reassuring existing ones that they have made the correct choice. It goes without saying that having a new and contemporary image will not be enough to deliver success which is the reason for the Society combining this with the introduction of a new and we believe exciting innovation to the 'Holloway' type earnings replacement insurance contract. The new brand image was launched on 1 September 2006 and has been well received by both customers and supporting Independent Financial Advisers. We hope you share our belief that the new identity for the Society reflects the strength and compassion of a long established and leading specialist Friendly Society whilst being reminiscent of its agricultural origins.

A New Product

To survive and prosper any firm must move with the times and the Society is no exception. The introduction of the Income Assured contract in 1999 gave the Society a much needed sales boost and has contributed to the resurgence of the Society with Income Assured contracts representing nearly 61% of the contributing membership at the end of 2006 and accounting for 79% or £6.33m of premium income for the year.

To grow the Society whilst continuing to meet the earnings replacement insurance needs of existing and new members alike Income Assured was replaced by Income Assured Plus on 1 October 2006. The new product retains all the benefits of its predecessor but offers greater flexibility and value for money. The Society is not authorised to give investment advice and so we recommend that members who want to take full advantage of the range of benefits available under Income Assured Plus consult with their Independent Financial Adviser at the earliest opportunity. For those members who do not have an Independent Financial Adviser contact the IFA Helpline free on 0800 0853250 who will be pleased to give you details of Independent Financial Advisers in your post code area.

In keeping with our firm commitment to the fair treatment of customers existing members who took out their Income Assured contract prior to the introduction of Income Assured Plus have been automatically switched to the new contract with effect from 1 January 2007 to enable eligible members to benefit from the without charge options available under the new contract.

Existing members holding Income Assured contracts have all been sent a copy of the new Schedule 2 rules relating to the Income Assured Plus contract which replace the old Schedule 2 rules for Income Assured. If any member who joined the Society prior to 1 October 2006 holding an Income Assured contract has not received a copy of the new Schedule please visit our website www.cirencester-friendly.co.uk or contact the Society and we will be pleased to send a copy.

The new Schedule 2 rules are intended to:

- **Simplify the provisions which apply to the contract;**
- **Clarify what is expected of members;**
- **Strengthen the rules and protect the interests of all members by establishing expectations and requirements;**
- **Introduce new changes to allow Income Assured Plus to be launched and to be immediately applicable to existing members holding Income Assured contracts.**

The replacement of the old Schedule 2 rules in their entirety was carried out under the provisions of General Rule 28(5) and the Board seeks your support of its actions by encouraging members to vote in favour of the proposition in person at the AGM or by completing the relevant part of the Proxy voting form and returning it to the Society at least 48 hours before the AGM. Full details of Schedule 2 can be found on our website or can be sent on request.

To reflect the fact that Income Assured Plus has been designed to offer lower cost cover than its predecessor Income Assured lower bonuses will apply for Income Assured Plus contracts. Over the next five years it is expected that all former Income Assured members will automatically move over to Income Assured Plus premium rates on reaching their five yearly premium rate review. In the meantime those paying premiums at the old rate will benefit from higher annual bonuses. The current rates of bonus are given within the report and if any member is unsure of their position they are urged to contact their Independent Financial Adviser or talk to the Society's Customer Services department on **0845 6038085**.

Award Winning Service

Whilst our principal activity is the provision of earnings replacement insurance to our members and building up a cash sum for use by them at retirement the Society remains a member based organisation and we recognise our success depends upon the continued support of members and the Independent 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 Independent 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 of which we are very proud. Maintaining our high standards of service will be a key objective in our plans for the future development of the Society.



Outlook for 2007

The Board is proud to be able to report considerable progress over the last decade through organic growth.

Demand in the UK for income protection contracts has continued to fall in recent years and with the decline in traditional with-profits business the larger insurers who are now looking to recover ground in the protection market. As a result the Society faces new challenges as a provider of relevant, simple and value for money earnings replacement insurance in the UK.

To achieve our mission we aim to continue to differentiate our products from the many other providers out there and to seek new ways in which to deliver growth and continued prosperity to the Society through a wide range of means. At the same time we must not overlook the needs and expectations of the existing customers and supporters who have contributed to our success by continuing to meet their expectations on service and personal attention.

We firmly believe earnings 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.

In 2007 we aim to capitalise on the early success of Income Assured Plus, build awareness of the Society as a realistic alternative to the many other providers of earnings replacement insurance in the market, and explore ways to improve our products and service to customers through partnerships and improved technology.

Over the last four years the Society has also built a strong and enviable financial base from which to deliver this strategy and at the same time maintain the capacity to further improve benefits to members. However the Board is mindful of the fact that as a mutual organisation we rely on the existing members who are present custodians of the Society to support our ambitious plans for the benefit of the generations of members to come. The careful stewardship of the Society will be maintained through the control of expenditure by ensuring that value for money is achieved, that the strategies adopted by the Board are realistic and can be supported without putting at risk the security and benefit of existing and future customers and supporters.

Solvency

At 31 December 2006 the Society had a level of solvency significantly in excess of the minimum capital resources requirements prescribed by the Financial Services Authority's 'Integrated Prudential Sourcebook'.

Fixed Assets

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

Political and Charitable Donations

The Society made no political or charitable donations during 2006 but to encourage members to vote on the resolutions before the 2007 AGM the Board has resolved to make a donation of 10p to a nominated charity for each valid Proxy voting form received.

Auditors

The Society's Auditors, Moore Stephens, are willing to continue in office and a resolution will be proposed at the Annual General Meeting on 17 May 2007 for their re-appointment.

Bonuses

Acting on the advice of the Society's With Profit Actuary 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** £1.32 (£1.20)
- **Income Assured Plus Surplus Allocation per unit (Table 1)** £9.60 (£8.70)
- **Income Assured Plus Surplus Allocation per unit (Table 2)** £7.20 (£nil)
- **Interest/Bonus Allocation rate for active members** 4.00% (3.75%)
- **2007 Interest rate (which is set in advance) for retired members is 4.00%. The rate may be reviewed at the half year (3.75%) This should be declared for tax purposes.**

The Board of Management is proud to record that the foregoing declaration of bonuses represents the fourth consecutive increase in rates and is testimony to the prudent management of the Society's business operations.

Rules and Statutory Powers

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

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

Details of the Board of Management appear on page 2. Tony Knight, Martin King and Dr James Miller all retire in accordance with the Society's rules and the Friendly Societies Act 1992 and, being eligible offer themselves for re-election. Rupert Sanders was re-elected to the Board at last years AGM and under the present rules of the Society is not due to retire until the 2009 AGM. As he has served on the Board for more than 9 years he has kindly agreed to allow his name to be put forward for re-election annually in support of the Annotated Combined Code Principle 3 which is referred to in more detail in the report on corporate governance.

Following a comprehensive re-examination of the skills and abilities of the current serving Board members we anticipate further additions to the Board in the coming year to ensure we can continue to deliver the Society's goals and objectives.

Complaints and Disputes

The Society is committed to the delivery of high standards of service to its members. However we recognise that complaints can arise. To deal with any complaints the Society has established systems to ensure that they 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. Whilst not complacent we believe the small number 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 the excellence and commitment of staff to the work they undertake.

Directors' and Officers' Liability Insurance

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

The greatest asset to any business is the people who collectively run it. As always the Board of Management is indebted to its staff for all their hard work and dedication during 2006. The pace of change and development of the Society and of the financial services industry continues to present further challenges to the Society but the Board 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 2007

Report of the Board of Management on Corporate Governance and Remuneration for the year ended 31 December 2006

Introduction

Cirencester Friendly Society is fully committed to high standards of corporate governance. In July 2005 The Annotated Combined Code on Corporate Governance for Mutual Insurers was published. The code contains seventeen main principles with which Mutual Insurers like Cirencester Friendly Society are bound to comply, or explain why they do not. This report explains how the Society has addressed the issue of corporate governance by reference to the main principles as they appear in the code. The Board believes that the Society complied with each code provision throughout the year unless otherwise stated.

The Board

Main Principle 1: Every company should be headed by an effective Board, which is collectively responsible for the success of the company.

Board Response: The role of the Board is set out within the rules of the Society and detailed terms of reference which include powers and matters of decision which the Board reserves to itself and those it delegates to others. The Board determines the strategic direction of the Society within available resources and ensures that it operates within its rules and relevant legislation and regulation. These include, maintaining proper accounting records and effective systems of control, inspection and report and corporate governance. As a part of the business control process the Board establishes values and standards by which the Society must act, sets aims and objectives, determines policies and targets for achieving those objectives, reviews progress against target and helps to decide what action is necessary in the light of progress. Individual members of the Board are drawn from a wide range of disciplines having regard to the nature and scale of the Society's business operations. The Chief Executive is responsible for the internal organisation, management and day to day control of the Society and for advising on and implementing the Board's strategic intentions.

The Board met on six occasions during 2006 with four quarterly meetings and two additional training/workshop meetings at which continuing professional development was undertaken.

The attendance at meetings during 2006 was as follows:-

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

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

During 2006 the non-executive members of the Board met on one occasion under the Chairmanship of the Senior Independent Board Member without the Chairman, Chief Executive and Deputy Chief Executive to review their performance.

The Board is supported in its work by 6 standing sub-committees:

- **Audit and Risk**
- **Treating Customers Fairly**
- **Nomination**
- **Remuneration**
- **Strategy**
- **Officers**

Service on the standing sub-committees is determined by the relevance of the skill and ability of individual Board members. Detailed terms of reference exist for each sub-committee. The work of the Audit and Risk Committee is dealt with under principles 10, 11 and 12. The Treating Customers Fairly Committee is referred to under principles 13 and 14. The Nomination Committee is addressed under principles 4 and 7 and the Remuneration Committee under principles 8 and 9. Set out under this section is a brief outline to the work carried out by the remaining two sub-committees Strategy and Officers.

The Strategy 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 two 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 2006 was as follows:-

Name	Called to	Attended
A J Knight*	2	2
R H Sanders	2	2
J Bridge	2	2
P R Hudson	2	2
P L Brown	2	2

*Chairman of the Committee by virtue of Office.

The Officers Committee is made up of the Chief Executive, Chairman and Vice Chairman together with other Board members as necessary for the purpose of making timely decisions of an executive nature between Board meetings. If a decision of significance is required a special meeting of the full Board will be convened or papers circulated for majority decision. The Committee met on one occasion during 2006.



The Chairman and Chief Executive

Main Principle 2: There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsible for the running of the company's business. No one individual should have unfettered powers of decision.

Board Response: The post of Chairman and Chief Executive are separate and distinct positions and are not held by the same person. Each has a specific role and responsibilities which are set out in job descriptions which have been agreed by the Board. The Chairman is primarily responsible for the effective running of the Board and for ensuring the full and constructive participation of all Board members. The Chief Executive is responsible for the executive management of the Society within specific guidelines established by the Board. It is practice and policy that no former Chief Executive will go on to serve as Chairman of the Society.

Board balance and independence

Main Principle 3: The Board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the Board's decision making.

Board Response: The Board currently consists 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. Under the Rules of the Society the maximum number of individuals that may serve on the Board is 12 and the minimum 6.

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.

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 not deemed 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.

Mr Bridge is 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.

Appointments to the Board

Main Principle 4: There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.

Board Response: 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 twice during 2006. 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.

Mr Philip Rouse joined the Board in March 2006 and has brought a depth of knowledge and experience in the sale of income protection from the perspective of an independent financial adviser the chosen channel of distribution for the Society's product.

Board members are required to confirm their ability to fulfil their role on the Board by virtue of a letter of appointment and are subject to both suitability enquiries and registration with the Financial Services Authority as an Approved person before being able to commence their role on the Board.

Information and professional development

Main Principle 5: The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

Board Response: The Chairman is responsible for ensuring the Board receives timely and accurate information with which to properly discharge its functions and responsibilities. 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. 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.

Performance evaluation

Main Principle 6: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Board Response: A comprehensive self-assessment of the effectiveness of the Board and principle Committees is undertaken annually. Each Board member is 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 are given careful consideration by the Nominations Committee prior to being presented to the Board as a group for further comment. The results of the evaluation are acted upon and improvements made as necessary.

Re-election

Main Principle 7: All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board.

Board Response: The rules of the Society require that following their first election all members of the Board are subject to re-election every three years. Members of the Board must retire at the first AGM following the attainment of their 70th birthday. In addition to the annual evaluation of performance once a member of the Board has served for 9 years their continued service is also subject to rigorous review by the Nomination Committee to determine whether continued service has merit and in cases where it is felt there is an explanation will be given to members justifying the reasons for continued service. It is now agreed practice that Board members who have served for more than 9 years on the Board will submit themselves to annual re-election.

The level and make-up of remuneration

Main Principle 8: Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive director's remuneration should be structured so as to link rewards to corporate and individual performance.

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

As the Board serves as an example for the rest of the Society the Remuneration Committee has established a remuneration policy for executive members of the Board that has a clear focus on member value. To this end the remuneration package of the Chief Executive and Deputy Chief Executive who are executive members of the Board is linked to the success of the Society and personal performance of the individual.

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 the relevant legal requirements and the provisions and recommendations of The Combined Code on Corporate Governance have been taken into account.

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**
- **Staff satisfaction/retention**
- **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 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	Annual Incentive Payments and Fees	Benefits and other emoluments	Defined Contributions Pension	Total 2006	Total 2005
	£000's	£000's	£000's	£000's	£000's	£000's
A J Knight	16.6	-	-	-	16.6	11.9
M T King	12.0	-	-	-	12.0	8.2
P R Hudson	90.0	15.8	13.8	26.0	145.6	115.6
P L Brown	65.0	11.5	7.5	6.5	90.5	71.1
R H Sanders	7.0	-	-	-	7.0	5.5
Dr J E Miller	6.5	-	-	-	6.5	4.6
D J G Williams	7.1	-	-	-	7.1	5.1
J Bridge	6.5	-	-	-	6.5	3.9
P A Rouse	6.9	-	-	-	6.9	-
Total	217.6	27.3	21.3	32.5	298.7	225.9

Notes:

- 1 Benefits and other emoluments represent the provision of company cars.
- 2 Salaries for all Society staff which included Board members and executives, were increased by 3.9% with effect from 1 January 2007 in-line with increases in the average earnings index

Procedure

Main Principle 9: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Board Response: A Remuneration Committee comprising the Chairman Mr A J Knight, Vice Chairman Mr M T King, and Senior Independent Board member Mr J Bridge who are all non executive members 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 on one occasion during 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.

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 view of the potential of an upward ratchet of remuneration levels with no corresponding improvement in performance, the Committee also intends to undertake a similar review during 2007 and has participated in a remuneration survey being conducted by another Friendly Society and will act upon its findings as appropriate.

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.

Financial Reporting

Main Principle 10: The Board should present a balanced and understandable assessment of the company's position and prospects.

Board Response: The responsibility of the Board in relation to the Society's position as a going concern and financial statements is set out in the Report of the Board of Management. Every effort is made by the Board to provide comprehensive and accurate information to members. The Board recognises that members lead busy lives and do not always have the time or inclination to read the Society's full Annual Report and Accounts and to help members in this respect a leaflet detailing the financial highlights for the relevant year is sent to all members annually.

Internal control

Main Principle 11: The Board should maintain a sound system of internal control to safeguard shareholder's investment in the company's assets.

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

The 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 committee who ensure the systems of control are updated and maintained to best effect.

Audit committee and auditors

Main Principle 12: The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Board Response: The Audit and Risk Committee is composed of four 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 terms of reference of the Audit and Risk Committee are available without charge to members on request.

The attendance at meetings during 2006 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	3	3
P R Hudson	3	3
D J G Williams	3	3
P L Brown	3	3

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

Dialogue with members

Main Principle 13: There should be dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Board Response: The Board is fully committed to the fair and reasonable treatment of all members who are both owners and customers of the Society. As a mutual institution the Society does not have investor shareholders. Communication with members is conducted and encouraged via letters, web-site, personal telephone contact, issue of annual renewal notices, annual bonus statements, occasional newsletters and the distribution of the Society's Annual Report and Accounts which is sent to every member annually along with a personal invitation to attend the AGM and a financial highlights leaflet. As part of the Society's desire to encourage and enhance dialogue with its members and to ensure that it treats them fairly a Treating Customers Fairly Committee was established during 2006. To underpin the importance the Society attaches to the work of the Committee it comprises the Chairman who is non-executive, the Chief Executive or his deputy who are executive and one other non-executive Board member. The Committee met once during the year and undertook a gap analysis and action plan which is being acted upon. During the year the Society also established a dedicated Customer Service department with responsibility to carry the work forward as regards communication with members. In addition the Senior Independent Board member Mr J Bridge is a point of contact for members.

Constructive use of the AGM

Main Principle 14: The Board should use the AGM to communicate with investors and to encourage their participation.

Board Response: Every member of the Society is sent a copy of the Society's Annual Report and Accounts each year accompanied by a financial highlights leaflet for those who do not have time to read the full report. An invitation to attend the AGM is included with the Annual Report and Accounts along with a Proxy voting form for members who are unable to attend the AGM in person. Voting by members under the age of 18 is not permitted under Friendly Society legislation. Members are encouraged to vote on all resolutions and as an incentive to complete and return Proxy voting forms at least 48 hours before the AGM in May 2007 a donation of 10p for each valid form returned to the Society will be made to a Charity nominated by the Board.

Institutional shareholders

Main Principles 15, 16 and 17: The code contains a further three main principles relating to the companies in which the Society invests money on behalf of its members. The code suggests that the Society enter into a dialogue to achieve a mutual understanding of each others objectives, evaluate their governance arrangements and exercise its voting rights as regards these institutions.

Board Response: The Board has a well established and documented investment strategy formulated in consultation with the Society's Actuarial Function Holder and With-Profit Actuary along with external input from a leading external actuarial firm. The strategy has been developed to maximise total investment return for a low to medium level of risk and on this basis does not hold direct investments. The Society does not actively take on market risk with a view to making a significant margin on its exposure. All market investments are taken after external professional advice taking into account the risk appetite of the Society. The Society has a well matched asset-liability position and invests in a range of carefully chosen institutions selected on the basis of past performance and security of investment. Whilst the Society makes every effort to assess the objectives and evaluate the governance arrangements of the institutions in which it invests funds it is not of sufficient size and importance to enter into a detailed exchange to both impart and achieve a comprehensive understanding of each others business. The funds in which the Society invests funds do not confer voting rights and privileges.

On behalf of the Board



P. R. Hudson
Chief Executive
10 April 2007

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

We have audited the financial statements of Cirencester Friendly Society Limited for the year ended 31 December 2006 which comprise the Income and Expenditure Account, Balance Sheet and the related Notes 1 - 23, 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 2006.

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:

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 12. 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:

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:

In our opinion the financial statements give a true and fair view of the state of the Society's affairs as at 31 December 2006 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 2007

Income and Expenditure Account for the Year ended 31 December 2006

	Notes	2006 £	2005 £
TECHNICAL ACCOUNT - LONG TERM BUSINESS			
Earned premiums	2	8,015,969	7,411,815
Investment income	3	2,837,348	2,463,106
Net other technical income less other technical charges		171,833	132,145
Technical Income		11,025,150	10,007,066
Claims incurred	4	(1,355,316)	(1,326,800)
Increase in long term business provision	14	(282,000)	(607,000)
Interest on retired members' deposits		(74,051)	(68,893)
Interest on members' capital account	15	(790,610)	(720,222)
Dividends on members' capital	15	(2,171,486)	(1,809,765)
Net operating expenses	5	(3,590,155)	(3,312,320)
Investment expenses and charges	7	(128,352)	(41,000)
		2,633,180	2,121,066
Transfer to fund for future appropriations	14	(2,633,180)	(2,121,066)
Balance on the technical account		-	-

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

The notes numbered 1 to 23 inclusive form part of these financial statements.

Balance Sheet

as at 31 December 2006

	Notes	2006		2005	
		£	£	£	£
ASSETS					
Investments					
Land and buildings	9	2,140,000		1,885,000	
Mortgage advances	10	28,899		36,258	
Investment in subsidiary	11	100		100	
Other financial investments	12	36,774,634		32,909,668	
			38,943,633		34,831,026
Debtors					
Other debtors		9,675		-	
			9,675		-
Other assets					
Tangible assets	13	156,217		109,778	
Assets under construction		36,718		-	
Cash at bank and in hand		1,139,955		1,587,682	
			1,332,890		1,697,460
Prepayments and accrued income					
Accrued interest and rent		605,510		621,451	
Other prepayments and accrued income		15,963		11,943	
Deferred acquisition costs		2,407,669		2,130,268	
			3,029,142		2,763,662
			43,315,340		39,292,148
LIABILITIES					
Reserves					
Provided for by the Rules					
Benevolent Fund	17		31,028		27,232
Fund for Future Appropriations					
General Reserve	14		12,399,139		9,765,959
Technical provisions					
Members' Capital Accounts	15	22,688,936		21,821,880	
Retired Members' Deposits	16	2,008,871		1,961,451	
Long Term Business Provision	14	5,616,000		5,334,000	
			30,313,807		29,117,331
Creditors					
Arising out of Direct Insurance Operations		278,973		173,194	
Other creditors including tax and social security		200,673		100,482	
			479,646		273,676
Accruals and Deferred Income			91,720		107,950
			43,315,340		39,292,148

These financial statements were approved by the Board of Management on 10 April 2007 and were signed on their behalf by :



Chairman



Vice Chairman



Chief Executive

Notes to the Accounts

31 December 2006

1 ACCOUNTING POLICIES

Accounting Convention

The financial statements have been prepared in accordance with The Friendly Societies Act 1992, The Friendly Societies (Accounts and Related Provisions) Regulations 1994, applicable accounting standards, and with the Association of British Insurers' Statement of Recommended Practice (SORP): 'Accounting for Insurance Business' issued in 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 2006

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 2006

2 PREMIUM INCOME

	2006	2005
	£	£
Gross Premiums received	<u>8,015,969</u>	<u>7,411,815</u>

3 INVESTMENT INCOME

	2006	2005
	£	£
Net income from land and buildings	54,158	59,016
Mortgage interest	2,117	3,370
Listed securities	529,247	392,798
Interest from monies on deposit	1,033,529	1,005,233
	<u>1,169,051</u>	<u>1,460,417</u>
Unrealised gains on investments	1,209,770	980,329
Gains on realisation of investments	8,527	22,360
	<u>2,837,348</u>	<u>2,463,106</u>

4 CLAIMS INCURRED

	2006	2005
	£	£
Gross Claims Payable	<u>1,355,316</u>	<u>1,326,800</u>

5 NET OPERATING EXPENSES

	2006	2005
	£	£
Acquisition costs	2,202,100	2,012,659
Administrative expenses	1,388,055	1,299,661
	<u>3,590,155</u>	<u>3,312,320</u>
Acquisition costs include:		
Amortised commissions	1,512,007	1,580,923
Depreciation	2,911	6,427
Administrative expenses include:		
Depreciation	75,559	58,836
Amounts payable, including expenses, by the Society to the Auditor in respect of:		
Statutory accounts (Inclusive of VAT)	25,344	16,556
Regulatory returns	-	-
Other services	-	-
Other professional services (Inclusive of VAT)	50,099	96,681
Actuarial fees (Inclusive of VAT)	70,500	94,000
Aggregate amount of Board members' emoluments	<u>298,704</u>	<u>225,904</u>

Notes to the Accounts (continued)

31 December 2006

Non-executive Board members are entitled to be paid a fee for services rendered to the Society together with reasonable out-of-pocket travel expenses. 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:

	2006	2005
	No.	No.
£0 - £5,000	-	2
£5,001 - £10,000	5	3
£10,001 - £15,000	1	1
£15,001 - £20,000	1	-
£70,001 - £75,000	-	1
£90,001 - £95,000	1	-
£115,001 - £120,000	-	1
£145,001 - £150,000	1	-

The emoluments of the Chairman amounted to £16,572 for the year (2005 - £11,880).

The emoluments of the highest paid member of the Board were £145,557 (2005 - £115,679).

6 EMPLOYEE INFORMATION

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

	2006	2005
	No.	No.
Administration	17	17
Acquisitions	7	6
	<u>24</u>	<u>23</u>

Staff costs for the above persons were:

	2006	2005
	£	£
Wages and salaries (including the Chief Executive and Deputy Chief Executive)	729,750	605,163
Social security costs	71,136	58,369
Other pension costs	83,238	103,919
	<u>884,124</u>	<u>767,451</u>

7 INVESTMENT EXPENSES AND CHARGES

	2006	2005
	£	£
Investment management expenses	56,766	41,000
Losses on realisation of investments	71,586	-
	<u>128,352</u>	<u>41,000</u>

Notes to the Accounts (continued)

31 December 2006

8 EXCEPTIONAL ITEMS

There were no exceptional transactions during the year (2005 - £nil)

9 LAND AND BUILDINGS

The Society's land and buildings were valued at £2,140,000 at 31 December 2006 (2005 - £1,885,000).

The Society occupies the freehold premises at 5 Dyer Street, Cirencester which is valued at £1,350,000 as at 31 December 2006 (2005 - £1,200,000).

10 MORTGAGE ADVANCES

	2006	2005
	£	£
Balance at 1 January	36,258	61,246
Less repayments	(7,359)	(24,988)
Balance at 31 December	28,899	36,258

11 INVESTMENT IN SUBSIDIARY UNDERTAKING

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

	2006	2005
	£	£
Cost of investment	100	100

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

Notes to the Accounts (continued)

31 December 2006

12 OTHER FINANCIAL INVESTMENTS

	2006	2005
	£	£
Listed investments	15,663,204	10,721,094
Monies held on term deposits	21,111,430	22,188,574
	<u>36,774,634</u>	<u>32,909,668</u>

Listed Investments

	MARKET VALUES			
	2006		2005	
	£	£	£	£
Valuation at 1 January		10,721,094		9,821,697
Additions at Cost		6,411,485		-
Less Disposals (Sale Proceeds)	(2,394,615)		-	
Net profit/(loss) on Disposals	(32,760)	(2,427,375)	-	-
Appreciation - Net				
General	955,650		896,571	
Benevolent				
Depreciation/Appreciation	2,350	958,000	2,826	899,397
Valuation at 31 December		<u>15,663,204</u>		<u>10,721,094</u>

Analysis as at 31 December 2006

	COST		MARKET VALUES	
	31.12.06	31.12.05	31.12.06	31.12.05
	£	£	£	£
Fixed Interest Redeemable				
Government Stocks	3,334,710	3,334,710	3,249,572	3,408,793
Other UK Fixed Interest Stocks	2,400,000	2,333,374	2,405,660	2,463,982
	<u>5,734,710</u>	<u>5,668,084</u>	<u>5,655,232</u>	<u>5,872,775</u>
Ordinary UK listed Shareholdings	7,746,303	3,746,303	10,007,972	4,848,319
	<u>13,481,013</u>	<u>9,414,387</u>	<u>15,663,204</u>	<u>10,721,094</u>

Notes to the Accounts (continued)

31 December 2006

13 TANGIBLE ASSETS

	Motor Vehicles	Office Equipment	Computer Equipment	Total
	£	£	£	£
Cost				
At 1 January 2006	37,661	120,011	241,647	399,319
Additions	37,181	12,617	80,807	130,605
Disposals	(8,360)	-	-	(8,360)
At 31 December 2006	<u>66,482</u>	<u>132,628</u>	<u>322,454</u>	<u>521,564</u>
Depreciation				
At 1 January 2006	14,299	92,196	183,046	289,541
Charge for the year	16,194	17,407	44,869	78,470
Disposals	(2,664)	-	-	(2,664)
At 31 December 2006	<u>27,829</u>	<u>109,603</u>	<u>227,915</u>	<u>365,347</u>
Book Value at 31 December 2006	<u>38,653</u>	<u>23,025</u>	<u>94,539</u>	<u>156,217</u>
Book Value at 31 December 2005	<u>23,362</u>	<u>27,815</u>	<u>58,601</u>	<u>109,778</u>

14 RESERVES AND TECHNICAL PROVISIONS

	Fund for future appropriations	Long term business provisions
	£	£
Balances at 1 January 2006	9,765,959	5,334,000
Change in long term business provision		282,000
Transfer from income and expenditure account	2,633,180	
Balances at 31 December 2006	<u>12,399,139</u>	<u>5,616,000</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 was carried out by Mr P Simpson of Milliman. The reserves and technical provisions in the financial statements reflect the results of the valuation.

Notes to the Accounts (continued)

31 December 2006

15 MEMBERS' CAPITAL ACCOUNTS

	2006		2005	
	£	£	£	£
Balance at 1 January		21,821,880		21,025,387
Less Withdrawals				
On cessation of Membership and by continuing Members	(1,922,288)		(1,601,550)	
Forfeitures thereon	(172,752)	(2,095,040)	(131,944)	(1,733,494)
Add				
Interest/Bonus Allocation Credited	790,610		720,222	
Dividend/Surplus Allocation Declared	2,171,486	2,962,096	1,809,765	2,529,987
Balance at 31 December		<u>22,688,936</u>		<u>21,821,880</u>

16 RETIRED MEMBERS' DEPOSITS

	2006		2005	
	£	£	£	£
Balance at 1 January		1,961,451		2,032,266
Less Withdrawals		(216,478)		(309,795)
Interest Credited	74,051		56,061	
Transfers from Members' Accounts	189,847	263,898	182,919	238,980
Balance at 31 December		<u>2,008,871</u>		<u>1,961,451</u>

Retired Members' deposits are repayable on demand.

17 BENEVOLENT FUND

	2006		2005	
	£	£	£	£
Investment Income				
Income from Stocks & Shares	1,094		920	
Unrealised Gains on Investments				
Appreciation on Stock	2,350		2,826	
Other Technical Income				
Donations from Members	352	3,796	1,562	5,308
Less				
Other Technical Charges				
Grants to Members	-	-	-	-
Decrease/Increase in Fund during year		3,796		5,308
Add: Balance 1 January		27,232		21,924
Balance at 31 December		<u>31,028</u>		<u>27,232</u>

Notes to the Accounts (continued)

31 December 2006

18 PENSIONS COSTS

Defined Benefit Pension Scheme

The Society operated a defined benefit scheme until its closure during 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 (2005 - £nil). A further payment was made during the year to secure the benefits of scheme members after the closure of the scheme of £nil (2005 - £23,793).

Defined Contribution Pension Scheme

Pension provision for all employees of the Society has been made by means of an appropriate Money Purchase Scheme. Contributions paid during the year amounted to £83,238 (2005 - £80,126). There were no amounts outstanding to the scheme at the year end. (2005 - £nil).

19 TRANSACTIONS WITH BOARD MEMBERS

There were no loans outstanding to Board members at 31 December 2006 by way of mortgages (2005 - £nil).

The sum of £6,514 (before VAT) was paid to a practice in which Dr J E Miller is a partner (2005 - £5,384). The sum of £13,500 (before VAT) was paid to a company which is owned by D J G Williams and of which he is a director (2005 - £5,448). The sum of £nil (before VAT) was paid to a company which is owned by M T King and of which he is a director (2005 - £635). The sum of £nil (before VAT) was paid to a practice in which R H Sanders is a partner (2005 - £745).

20 ACTUARIAL FUNCTION

Mr S H Bell, a partner of Milliman was Actuarial Function Holder and With Profit Actuary until 1 August 2006. Mr P Simpson, a Partner in Milliman was appointed on 1 August 2006 and holds the appointments of Actuarial Function Holder 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 Simpson 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 £60,000 (before VAT) in 2006 (2005 - £80,000).

Notes to the Accounts (continued)

31 December 2006

21 AVAILABLE CAPITAL

	2006	2005
	£	£
Funds for Future Appropriations	12,399,139	9,765,959
Adjustments Inadmissible Assets		
Tangible Fixed Assets	(40,112)	(49,000)
Deferred Acquisition Costs	(2,407,669)	(2,130,268)
Adjustments to members Balances		
Members Capital Account Discounting	306,000	280,000
Total available capital	10,257,358	7,866,691

The Society has a minimum Capital Resource Requirement of £2,199,117 (2005 - £1,869,000) the excess Available Capital Resource is therefore £8,057,901 (2005 - £ 5,998,000). A reconciliation of the movements in the Excess Available Capital Resources for the year is set out below:

	£,000
Available Capital as at 31 December 2005	5,998
New Business and Lapses	154
Methodology Changes	(22)
Basis Changes	-
Changes in members balances and retired members	(889)
Changes in Active Life Reserve	(154)
Changes in Disabled Life Reserve	(259)
Changes in Admissible Assets	3,754
Change in RTR and LTICR	(331)
Changes in other liabilities	(193)
	<u>8,058</u>

Capital Management

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

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

Capital management policies and objectives

The Society's objectives in managing its capital are:

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

Notes to the Accounts (continued)

31 December 2006

Restrictions on capital resources available

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

The Society's total available capital resources are £10.25m (2005 - £7.87m) all of which is held in general fund.

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

It remains the intention of management to ensure that there is adequate capital to exceed the Society's regulatory requirements. At 31 December the available capital was 535% of its capital requirements of £1.92m (2005 - 421%).

Capital resources sensitivities

The capital position is sensitive to changes in market conditions, due to both the change 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 most significant sensitivities arise from the following risks:

- Market risk in relation to the business, which would arise if there were adverse changes in the value of its market investments. A 30% decrease in the value of these investments held by the Society would reduce reserves by approximately £3.1m;
- Expense risk in relation to the costs of running the business and administering the contracts issued by the Society, which would arise if there was an increase in expense inflation and / or the cost structure of the Society. For each 1% rise in the Retail Prices Index and Average Earnings Index the future reserves would reduce by £48k;
- Persistency risk in relation to contracts issued by the Society, which would arise where there was a significant increase in the cancellation of contracts by members. For each 10% increase of the rate of cancellations the future reserves would reduce by £20k;
- Morbidity risk in relation to the claims experience of the Society would arise where there was a significant increase in the claims being submitted by the members. For each 10% increase in the rate of claims the future reserves of the Society would reduce by £770k per year.

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

Notes to the Accounts (continued)

31 December 2006

22 COMMITMENTS

	2006	2005
	£	£
Capital commitments of the Society at the end of the year for which no provision has been made are as follows:		
Contracted	162,640	-
Approved by the Board of Management but not contracted for	-	238,948
	<u>162,640</u>	<u>238,948</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>5,510</u>	<u>5,510</u>

23 CONTINGENT LIABILITIES

The Society had no contingent liabilities at the end of the year (2005 - £nil).

Notes



Cirencester friendly
The income protection people



Cirencester Friendly Society Limited

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