

120th Annual Report & Accounts

Year Ended 31 December 2009



Cirencester friendly
The income protection people

Founded 1890

Registered No. 149F

Registered Office:

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Board of Management:

Chairman: A J Knight ACIB
Vice Chairman: M T King BSc Hons MRICS MCI Arb MCI OB MAICA
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 DTM&H MRCP
D J G Williams APFS FCol FCIM
J Bridge DipM FCIM MAE MICM MCI Arb FPC Cemap
P A Rouse Cert PFS
M Harvey-Jones Chartered FCIPD
M Kirby LLB

Arbitrators:

C Cleverley
C H Fowler
Mrs M Brown

Chief Executive and Secretary:

P R Hudson MBA FCIS ACol

**Senior Independent Director
(Board Member):**

J Bridge DipM FCIM MAE MICM MCI Arb FPC Cemap

External Auditors:

Moore Stephens (Bath)

Internal Auditors:

Clement Keys

Actuaries:

Milliman UK

Investment Managers:

Quilter

Bankers:

Lloyds TSB Plc

Solicitors:

Sanders Brickwood
Kirbys



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Tony J Knight ACIB *Chairman* Age 65.



Married with 2 children. Chairman since May 2004. Chairman of the Audit and Risk Committee 2002-2004. Director of the Society's subsidiary company Friendly Computer Services Limited which is a dormant company. Non-executive Member of the Board of Management since 2000. Serving Member of the Strategy, Nomination,

Audit and Risk, TCF, and Remuneration Committees and IT Work Group. 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.

Paul R Hudson MBA FCIS ACol

Chief Executive and Secretary Age 51.



Family man with 3 children. Chief Executive since February 1997. Executive Member of the Board of Management since 1997. Serving Member of the Audit and Risk, TCF, Nomination, and Strategy Committees and IT Work Group. Chief Executive of Nottingham Friendly Society Limited 1989-1997. Assistant Secretary Shepherds

Friendly Society Limited 1987-1989. 1974-1987 various roles within Shepherds Friendly Society Limited. Fellow of the Institute of Chartered Secretaries and Administrators since 1994, Master of Business Administration since 1997 and Associate Member of the Compliance Institute from 1998. Director of the Society's subsidiary company Friendly Computer Services Limited which is a dormant company. Elected Vice President of the Association of Friendly Societies in 2008 and President in 2009. Board Member of the recently formed Association of Financial Mutuals representing the committee for Smaller Friendly Societies and Mutuals. Member of the AFS Board 2005-2009. Former Chairman of the Holloway Friendly Societies Group. Enjoys motorsport, reading and playing the acoustic guitar.

Rupert H Sanders Age 63.



Non-executive Member of the Board of Management since May 1987 and Chairman of the Society from 1998-2004. Previous Member of the Audit and Risk Committee. Serving Member of the Strategy Committee and IT Work Group. Senior Partner of Sanders Brickwood Solicitors of Cirencester. Board Member of Cotswold Water Park Society Limited

and Director of the Society's subsidiary company Friendly Computer Services Limited which is a dormant company.

Martin T King BSc Hons MRICS MCI Arb MCI OB MAICA
Vice-Chairman Age 53.



Married with 1 child. Chartered Quantity Surveyor and Registered Adjudicator. Non-Executive Member of the Board of Management since 2000, Vice-Chairman since 2004. Chairman of the Audit and Risk Committee since May 2004. Serving Member of the Nomination and Remuneration Committees and IT Work Group. Partner Henry W

King & Partners 1984-1990. Partner Castons 1990-2007. Director CCAS Ltd 1998-2007. Director Castons Consulting Ltd 2001-2007. Director Caston King since 2007. Member of Royal Institution of Chartered Surveyors since 1984. Member of Chartered Institute of Arbitrators since 1992. Member of Institute of Directors. Director of the Society's subsidiary company Friendly Computer Services Limited which is a dormant company. Member Wychavon District Council since 2007.

Peter L Brown FCA FCCA *Deputy Chief Executive* Age 58.



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 Committee, Audit and Risk Committee, Remuneration Committee and IT Work Group. 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.

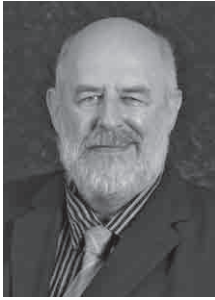
Dr James E Miller TD BSc MBChB DA DRCOG DFFP DTM&H MRCCGP Age 51.



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 TCF Committee. General Practitioner in Cirencester since 1993; GP Trainer; GP Appraiser in General Practice for

Gloucestershire PCT. Hospital Practitioner in Gynaecology and for Cirencester Hospital. Member of BASICS (immediate care scheme). Unit Medical Officer for 243 (Wessex) Field Hospital and Medical Officer in Territorial Army for 29 years.

John Bridge DipM FCIM MAE MICM MCI Arb FPC Cemap
Senior Independent Director Age 59.



Non Executive Member of the Board of Management since May 2005. Serving Member of the Strategy Committee, Chairman of the Remuneration Committee and serving member of the IT Work Group. 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 Director (Board Member) since September 2005.

David Williams APFS FCol FCIM Age 64.



Non-executive Member of the Board of Management since July 2004. Previous Member of the Audit and Risk Committee and Chairman of the TCF Committee. 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.

Michelle Harvey-Jones FCIPD Age 42.



Non-executive Member of the Board of Management since June 2007. Serving Member of the Remuneration Committee. An experienced HR generalist, and has spent over 15 years working in HR departments; she now specialises in change project management and runs her own consultancy business. She was the Head of Human Resources and

Corporate Services with responsibility for all aspects of HR, Marketing, Communications, Press, IT, Facilities and Secretariat at the Learning and Skills Council, previously she worked within the public and private sector and has experience of working with charities, manufacturing organisations, banks and the NHS. She is a Chartered Fellow of the Chartered Institute of Personnel and Development. She balances her career with family life and enjoys riding her motorbike and scuba diving in her spare time.

Margaret Kirby LLB Age 46.

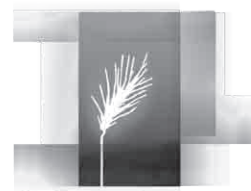


Non-executive Member of the Board of Management since June 2007, currently a serving Member of the Audit and Risk Committee and the TCF Committee. Principal in Kirbys Solicitors, from 1999 until present, a niche law firm acting for Friendly Societies, Banks, Building Societies, Insurers and Re-insurers in advising Clients in respect of disputed and contentious claims requiring legal and/or technical input. Prior to that, she was employed as a solicitor in a City law firm. Enjoys reading, walking, cooking, dining out and entertaining.

Philip A Rouse Cert PFS Age 52.



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



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NOTICE IS HEREBY GIVEN that the Annual General Meeting of Cirencester Friendly Society Limited will be held in the Kingfisher Suite of the Conference Centre at the Cotswold Water Park Four Pillars Hotel, Spine Road East, South Cerney, Cirencester, Gloucestershire, GL7 5FP on Thursday 13 May 2010 at 7.15pm for the purpose of transacting the following business:-

1. To confirm the Minutes of the Annual General Meeting held on 14 May 2009.
2. To receive the Chairman's Statement for the year ended 31 December 2009.
3. To receive the Report of the Board of Management and Financial Statements for 2009.
4. To elect Members of the Board of Management:

Name	Age at AGM	Occupation	Member of the Board since
Tony J Knight	65	Retired Banker	October 2000
Martin T King	53	Chartered Surveyor	December 2000
Rupert H Sanders	63	Solicitor	May 1987
Dr James E Miller	51	General Practitioner	March 1998

5. To re-appoint Moore Stephens (Bath) as Auditors.
6. To approve the Board of Management's remuneration report for the year ended 31 December 2009.*
7. To transact any other business not requiring notice of motion.

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

The Board of Management supports the re-election of the above individuals because they continue to bring the correct mix of business skills and experience to their respective roles. Their full biographies can be found on pages 3 and 4 of 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
19 March 2010

5 Dyer Street
Cirencester
Gloucestershire
GL7 2PP

We anticipated that 2009 would bring continued challenges. The troubled economy is well documented, but I would like to reassure you that your Society has continued to weather the difficult trading environment.

Once again, you will see from this our 120th Annual Report and Accounts that with carefully managed investments, a steady growth in premiums and a control of costs, we have been able to deliver a positive performance.

Financial Highlights

Despite the challenging economic conditions, I am pleased to report an increase in premium income. The area of investments was challenging, and for the first time we have included a report by our investment managers, Quilter, to explain in more detail why 2009 was full of challenges in this area. That said we saw a good level of income on investments, despite interest rates and bond yields suffering in financial markets. In comparison to last year we were able to offset a much smaller level of losses on realisation of investments.

The combined effects of the last two years market conditions and an increase in sickness claims has meant that it has been necessary to reduce bonus and surplus allocations to Members, although the continued inflow of premiums and stability of our investment policy has allowed us to transfer a surplus to the Fund for Future Appropriations. As you know we follow a risk-averse approach to Members money, and this continued prudence is important in order to maintain financial stability in future years.

Challenges in 2010 and beyond

The past 18 months have been a particularly difficult trading environment for many businesses in financial services. The banking sector continued to be precarious, and credibility in the UK financial sector was at an all time low. Whilst Cirencester friendly has generally weathered it well thus far, 2010 and the next few years will bring continued challenges. We all hope that the general election will be a positive milestone this year and that whichever party is elected, it will work to improve credibility in the financial services sector and address the significant difficulties facing the UK economy. Looking ahead, there are a number of key challenges for which we must prepare;

- **Solvency II:** Solvency II is the updated set of regulatory requirements for insurance firms that operate across the European Union, due to launch in late 2012 perhaps even early 2013. It will result in significant changes to back office systems and organisations have to be prepared for this. We have already made good progress and developed a risk based approach to managing your business.
- **Retail Distribution Review (RDR):** In 2006 the Financial Services Authority (FSA) launched the RDR which aims to improve the consumer experience of the financial services industry by simplifying the way products are sold in the Independent Financial Adviser (IFA) channel. A few years ago we opted not to give investment advice and to rely on IFAs to sell our products. The proposals may mean that Holloway type income protection, such as Income Assured Plus, can only be sold by IFAs who charge a fee and have to achieve more qualifications. Many IFAs are expected to leave the industry and so naturally we see this change as potentially detrimental

to the Holloway type product and our future success. We will be lobbying our Regulator in an attempt to achieve a fair result for the Society which operates in a low risk area of financial services.

- **The rise of mutuality:** 2009 was a difficult year for shareholder owned institutions, who received some negative press coverage. Mutuals such as Cirencester friendly represent a very positive and valid alternative financial service. At the end of 2009 two leading representative bodies in the mutual sector merged to form the Association of Financial Mutuals. Both the negative exposure of shareholder institutions and the increased awareness of mutual companies is a positive feature the Society intends to use throughout 2010.

Rest assured we believe we are well placed to face this challenging environment, with a good product, high standards of service and a low risk approach to investments. We continue to work with Independent Financial Advisers, promoting the need for Income Protection in the market, developing the product and giving them the tools to build sales thus ensuring we continue to grow market share.

Treating Customers Fairly (TCF)

Cirencester friendly is committed to the "Treating Customers Fairly" initiative launched by the FSA in 2006. In 2009, we paid out 94% of all claims submitted to the Society. This is one of the highest claims rates in the industry, and we are pleased that we are able to share this information with you our Members, being transparent with our information and demonstrating how we are able to support you when it is most needed. We are also commended by the Financial Ombudsman Service for this approach. This is a subject of continuing importance and we trust we have shown our commitment in 2009 and will continue into 2010 putting you, our Members, first.

Conclusion

It gives me confidence to know that the team we have at the Society have worked diligently over the past year to ensure the business withstands the difficult trading conditions. I express my sincere thanks for their support. Once again, the Independent Financial Advisers have continued to support us, and most of all, thank you to you, our Members, for remaining with the Society and putting your trust in our ability to look after you.

A J Knight

A J Knight
Chairman
19 March 2010



The Board is pleased to submit its report together with the audited accounts for the year ended 31 December 2009.

Members of the Board of Management

The names of Board Members which include the Chief Executive and his deputy are shown on the inside front cover. All served throughout 2009 unless otherwise stated.

Financial Results and Business Review

Our mission is "To efficiently grow market share through product innovation and development whilst staying true to our Holloway roots".

To achieve this, we have developed six supporting pillars and the following section underlines our efforts to support each of these objectives towards reaching our main goal.

1) Giving customers products that meet their needs

Principal Activity

2009 was a year where shareholder owned institutions suffered from negative press at the hands of the consumer papers. In an environment where consumers have started to mistrust these companies, there has been an opportunity for Friendly Societies and mutuals to stand out as ethical alternatives. We are proud of our Member owned mutual status which we believe better aligns the interests of the business and those who own it, you the Member.

Indeed in the difficult trading environment of 2009, the Society continued to grow the Membership with a 7.4% increase during the year. This is as a result of maintaining our focus on providing a simple and affordable niche product which has an option to accumulate a lump sum at death or the maturity of the contract. We aim to grow market share by making changes to our existing contracts whilst remaining committed to our Holloway roots which help to set us apart from many other income protection insurance providers in the market.

Product Development

Last year we talked about developing the product offered by the Society. Behind the scenes throughout the latter part of 2009 there has been much exploratory work on a new product and it is our wish to launch this as soon as we can subject to the practicalities of combining such an event with the many other challenges facing us. However we have not been resting on our laurels, there have been improvements in other areas of product delivery. A new method of underwriting was launched whereby applicants may be interviewed on the telephone for medical and missing information. There are numerous benefits, for the customer, the financial adviser and the Society. It can increase the speed at which we can put the contract on the books, plus improve the quality of the information on which to base the terms of admission which should help future claims, plus it allows supporting financial adviser to concentrate less on administration and more on the customer experience.

Bonuses to Members

A defining aspect to the 'Holloway principle' is the ability of Members to share in surpluses. Acting on the advice of the Society's Independent Actuarial Function Holder the Board approved the following bonus rates for 2009. The figures in brackets are last year's declaration of bonuses.

- Health and Wealth Surplus Allocation per share £0.90 (£1.02)
- Income Assured Surplus Allocation per unit £2.10 (£6.90)
- Income Assured Plus Surplus Allocation per unit £1.38 (£5.16)
- Income Assured Plus Surplus Allocation per unit (capital sum only) £0.51 (£0.51)
- 2009 Bonus Allocation rate for active Members 2.50% (2.75%)
- 2010 Interest rate (which is set in advance) for retired Members is 2.00% (2.50%). The interest added to retired Member deposits should be declared for tax purposes. (The Board has the right to revise the rate without notice).

As a mutual Society, we follow a cautious approach in order to safeguard our Members interests. This extends to the payment of bonuses, and with a backdrop of two years of financial market turmoil and an increase in claims, we recognise that bonus payments for 2009 represent a reduction on the previous year. We are, however, fully committed to the continued distribution of bonuses whilst ensuring that the Society remains a strong business going forward.

Political and Charitable Donations

We established the Charity Committee in 2008, with the aim of providing more philanthropic support for both Members and the wider community in which we work and live. This is a traditional feature of Friendly Societies and is something we are proud to be able to do, and which we believe sets us apart from other financial institutions.

Income is added to the fund in three ways: donations made by Members which are credited to the fund and also an annual, transfer of 0.05% of premiums earned, plus £1.00 for every Proxy voting form returned at the AGM is credited to the fund. In 2009, £5,685 was transferred from Premiums and £749 from Proxy Voting forms returned at the 2009 AGM.

In 2009, the Charity Committee agreed to the following donations from the Benevolent Fund; in support of an illness which is prevalent amongst our Members, we donated £2,500 to Maggie's Cancer Charity and £476 to Ovarian Cancer, in support of the community in which we live and work, we donated £700 to the Salvation Army and £420 for food parcels for the elderly at Christmas. Additionally, staff of Cirencester friendly raised £204 for Children in Need.

2) *Growing the customer base*

Membership

Membership started the year at 29,979, and ended the year at 32,209 (an increase of 7.4%).

There were 668 retired Members at 31 December 2009 (714 in 2008).

Outlook for 2010

We continued to steadily grow our Membership base throughout 2009. In a difficult market this positive outcome can be attributed to our current product which continued to win awards for being the Best Income Protection Product in the market, supported by our high levels of personal service. The investment of Member's funds was carefully managed as can be seen by the positive assessment of the actions we took by our investment company, Quilter on page 11. We must continue to be cautious about the outlook for 2010. The economic environment remains in a fragile state and we are not out of the woods. We will continue to operate as we did in 2009, by developing our new product, by careful management of Member's funds, by maintaining high service levels to our Members and by continuing in our firm commitment to Independent Financial Advisers that sell and advise on our contracts.

3) *Protecting capital*

Net earned premiums have increased over the year by £1.2m to £11.4m (an increase of 11.2%) as a result of the continuing growth in the Membership of the Society.

A prudent investment approach generated investment income of £1.6m. This represents a positive total return on investments over the year of 3%. A report by our Investment Managers Quilter on page 11 indicates the challenges we faced in the investment market in 2009 and how our investment performance exceeded the overall market performance.

The net return from investments (investment income less expenses and charges) in 2009 was £1.2m, an improvement against £0.7m in 2008.

Overall claims payments increased by £0.72m or 38% to £2.6m. Whilst this is an increase over the previous year, it indicates that we are committed to our fundamental aim of providing for Members when they need us most. In fact, we paid out 94% of claims in 2009. As a result of this, £2.2m was transferred to long term business provision to help cover future sick pay benefit liability, compared to £1.8m in 2008.

The total bonus and surplus allocation paid to Members amounts to £1.4m and reflects the cautious approach that we as a Society follow. Given two years of difficult economic conditions in the market, the allocation of reduced bonuses in 2009 underpins our overall approach to securing long term financial stability and ability to maintain future provision of benefits to our Members.

When all is taken into account, we were able to transfer £0.5m to the Fund for Future Appropriations, which currently stands at £12.9m at 31 December 2009.

In keeping with the Society's aim to maximise overall investment income for an acceptable level of risk (whilst matching its liabilities) and in the light of the crisis of the banking sector, we exited from short term certificates of deposit held in a number of banks and focused instead on Government Guaranteed Gilts and Sterling Corporate Bond Funds. The holdings in Government Stocks at the year-end had increased to £15.2m (2008 £14.6m). Despite the challenging environment, during the year the Society's overall investment portfolio has increased by £2.7m to £43.1m at 31 December 2009 (2008 £40.4m).

2009 has resulted in a net increase to the total funds of the Society of £1.8m to £49m. Of this amount £36.1m represents amounts due to Members and creditors plus the various reserves established by the appointed Actuary leaving £12.9m in the Fund for Future Appropriations.

Solvency

At 31 December 2009 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 12 of the financial statements.

Responsibilities of the Board

The Board 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 is required to:

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

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

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

Auditors

The Society's Auditors, Moore Stephens (Bath), are willing to continue in office and a resolution will be put at the Annual General Meeting on 13 May 2010 supporting their re-appointment.

Rules and Statutory Powers

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

Directors' and Officers' Liability Insurance

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

4) Controlling costs

The overall operating expenses increased by £0.5m during 2009 or 9.1% over the previous year. The cost of acquiring new business amounted to £3.6m, an increase slightly in excess of £0.2m over the previous year and was largely due to the way in which we account for introductory commissions paid to Independent Financial Advisers in respect of new contracts issued during the three years from 2007. Administration expenses increased by £0.3m or 12% compared with 2008, reflecting the planned addition of new staff and the further development and modernisation of document management systems and administration processes as an investment for the future to be able to handle anticipated higher levels of business in the future.

Whilst total management costs have increased in absolute terms over the year (from £5.5m to £5.9m), the management cost as a percentage of premium income, a widely adopted measure of efficiency, has dropped (54% to 53%).

5) Delivering high standards of service

Treating Customers Fairly

We have always aimed to deliver a high quality and consistent service to our customers. In 2006 The Financial Services Authority introduced an initiative that encouraged this attitude in many organisations - called TCF, Treating Customers Fairly. In summary, the outcomes the FSA were trying to achieve were fair and honest treatment of customers must become central to the organisation culture, the products and services it sold should be relevant and designed around the customer's needs, information was clear and customers were kept informed at all stages of the sale.

The Society considers TCF principles in all it does. One way in which TCF is delivered and seen to be delivered to Members is the way in which we handle and pay claims. In recent years we have been at the forefront of publishing claims data and regularly call upon others in our industry to do so. We appreciate there are many underlying factors to take into account and it is not simply a case of publishing a headline figure that can be misinterpreted. That said we firmly believe that provided firms are clear on how they arrive at the figures and work to tackle the reasons why claims are rejected this is a powerful message in support of TCF. In 2009 we were particularly pleased to be able to report that our claims payouts reached 94%. Whilst this impacts the surpluses available for distribution to Members and on the need to set-aside monies to reserve, we believe it demonstrates the product is fit for its purpose and is providing for Members when they need financial support the most. We publish the detail behind this number, and feel it is particularly helpful for delivering confidence in Members, potential Members and our supporting IFAs.

Award Winning Service

We have been recognised consistently in recent years through prestigious industry awards, supporting the belief that we are delivering a high standard of service and a product that sets us apart from others. Our commitment to high standards of service was once again recognised in 2009 by the prestigious Investment Life and Pensions Moneyfacts Awards, **Winning** the highly coveted 'Best Income Protection Provider' for the second year running and **Commended** for 'Service Beyond the Call of Duty'.

We believe that winning 'Best income Protection Provider' and backed up with 'Service beyond the call of Duty' is testament not only to our product, Income Assured Plus, but the customer service that goes with it.

Complaints and Disputes

It would be nice to be able to report to you that we have not received any complaints but they do happen and when they do we do our utmost to address them. Sometimes the outcome of an investigation into a complaint does not meet with a complainant's satisfaction. In such cases Members and supporters alike retain the right to take their complaint to the Financial Ombudsman Service. Whilst not complacent we believe the relatively small number of cases that have been referred to the Ombudsman and the fact that they have found our approach and handling of complaints to be in order serves to underline the high standard of systems of control, inspection and report in operation at the Society and the excellence and commitment of staff to the quality of their work.

6) Developing staff and systems

Information Technology

Last year, we made reference to a new IT system which could deliver an end-to-end contract administration functionality, improving the customer experience and making it easier for supporting IFAs to do business with us. I am pleased to report that during 2009 a comprehensive Business Analysis was undertaken, and with the assistance of a procurement expert we have now entered the tendering process for the project. We appreciate that this area is taking time but it is all too often an area where considerable sums of money can be expended with little real benefit. As it is your money we are looking to spend we feel sure you will appreciate our desire to get things right.

In addition to this, at the end of 2009 the Society began the implementation of a new Document Scanning system to ensure an electronic version of all Member's files exists, delivering a number of benefits; increased security of information, reducing time to retrieve files when interacting with IFAs and Members, freeing up valuable space in the office premises.

The Society further implemented a project to "tele-interview" potential applicants to the Society. This is a positive step forward in our Underwriting approach.

Management Changes

Details of the Board appear on pages 3 and 4. The following Board Members retire this year and in accordance with the Society's rules and the Friendly Societies Act 1992 are eligible to offer themselves for re-election; Tony Knight, Martin King, Rupert Sanders and Dr James Miller. The Board supports their re-election.

Thanks and Appreciation to Staff

The financial services industry has continued to be a tough environment throughout 2009. A prolonged period of economic uncertainty can really test an organisation and the people individually who work there. I am pleased to report that our employees have continued to work hard, support the Society and deliver positive results to Members and supporters. We are continually improving the performance management and development programme within the company to ensure we support the business objectives and the needs of the Members. The Board are both indebted to staff for their help and confident in the knowledge that continued success will be assured with their ongoing support and development.

On behalf of the Board



P.R. Hudson
Chief Executive
19 March 2010

Looking back over 2009, the overall positive returns delivered by equities in particular, disguise some dramatic fluctuations seen in a number of asset classes especially in the early part of the year.

We entered 2009 with some trepidation and particular concern over the solvency of the banking sector. Two thirds of the Society's portfolio was invested in short term Deposits with over 14 different banks that were due to mature during the year. In normal markets, these investments would be easily converted into cash and could have been sold at any time but during the first half of 2009 we had to wait for the deposits to mature.

Every bank came under close scrutiny and solvency issues came to the fore. Government bailouts ensued with Northern Rock being rescued, Bradford & Bingley and Abbey National falling to Santander. HBOS was absorbed by Lloyds TSB and RBS was in desperate need of support. All in all, the UK banking sector was in a precarious state. The FTSE Allshare Index retreated over 20%. Government and Central Bank intervention followed and further rescues and bailouts were agreed which eventually led to the gradual restoration of confidence in the banking sector.

During that time, we proactively managed the exit from the short term Deposits held by the Society. Deposit interest rates at the time were very low and the banking sector was still reeling from crisis to crisis. Therefore, we reinvested the proceeds in Government Guaranteed Gilts whilst focussing on the 10 year maturity area of the market. This emphasis on quality served us well especially during the first half of the year and this improvement in the Society's fortunes allowed us greater flexibility with investment policy where it was agreed to diversify into Sterling Corporate Bond Funds to compliment the Government backed investments already held. This particular type of investment and the timing of our move into this asset class enhanced returns throughout the remainder of the year.

As we drew closer to the end of 2009, the prospects of the Bank of England suspending its Quantitative Easing financial support program looked ever more likely which started to place downward pressure on Gilt prices. We restructured the make-up of the investment portfolio to take advantage of changes in the investment market by reducing the amount invested in the Government backed gilts and investing some of the funds into the equity market. The result being that the portfolio is currently over three quarters invested in Fixed Interest Securities and cash with the remainder in Equities.

This active management led to the portfolio producing a total return of 3% over the year compared to deposit rates of around 1% and a 1.2% fall in the FT Government All Stocks Gilt total return index.

The outlook for 2010 remains very challenging with the General Election representing a significant milestone. The hope is that the major political parties will reveal a credible fiscal strategy in the run up to the election that will address the growing deficit. This will help maintain credibility in the UK financial system which will be reflected in interest rates and bond yields. The other concern is that whatever party wins the election does so with a reasonable majority so that they can implement the policies that secured their success. The second half of 2010 should see the introduction of these long awaited austerity measures which will involve public expenditure cutbacks and increased taxation which in turn could restrain the UK Consumer. So, whilst the economy is looking much healthier than it did 12 months ago, the recovery is still very tentative. Active management is crucial in these difficult times and we remain committed to assisting the Board in meeting their investment objectives over the coming year.

Quilter
Jerome F Barry FCSI
Executive Director
19 March 2010

Introduction

Corporate governance deals with the relationships and responsibilities that exist between the Board, the management team, Members and other relevant stakeholders within a legal and regulatory framework. The Society is committed to high standards of corporate governance.

The Society complies with the full Annotated Combined Code on Corporate Governance for Mutual Insurers but for the sake of this report the main principles have been condensed for ease of consideration.

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 with due regard to available resources and ensures that it operates within its rules and relevant legislation and regulation. 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 four occasions during 2009.

The attendance at Board meetings during 2009 was as follows:

Name	Called to	Attended
A J Knight*	4	4
M T King	4	4
P R Hudson	4	3
P L Brown	4	4
R H Sanders	4	4
Dr J E Miller	4	4
D J G Williams	4	3
J Bridge	4	3
P A Rouse	4	4
M Harvey-Jones	4	4
M Kirby	4	4

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

During 2009 the non-executive Members of the Board met on one occasion under the Chairmanship of the Senior Independent Director (Board Member) without the Chairman, Chief Executive and Deputy Chief Executive, to review their performance which was deemed both adequate and effective.

The Board is supported in its work by 7 standing sub-committees. Service on the standing sub-committees is determined by the relevance of the knowledge and ability of individual Board Members. Detailed terms of reference exist for each sub-committee.

- Audit and Risk – referred to under principles 10, 11 and 12
- Treating Customers Fairly – referred to under principles 13 and 14
- Nomination – referred to under principles 4 and 7
- Remuneration – referred to under principles 8 and 9
- Strategy
- Officers (includes Investment)
- IT Work Group

What follows under this section is a brief outline to the work carried out by the remaining three sub-committees Strategy, Officers and IT Work Group.

The Strategy Committee assists the Chief Executive in the establishment of an appropriate and effective business plan for the development of the Society. It 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 at least two other non-executive Members of the Board. The Committee met twice during the year.

The attendance at Strategy Committee meetings during 2009 was as follows:

Name	Called to	Attended
A J Knight*	2	2
P R Hudson	2	2
P L Brown	2	2
R H Sanders	2	2
J Bridge	2	1
P A Rouse	2	1

*Chairman of the Committee by virtue of Office.

The Officers Committee is made up of the Chief Executive, Deputy 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 Officers Committee met on numerous occasions throughout 2009 as the Investment subcommittee, ensuring the Society's investment interests were being carefully managed.

The IT Work Group was set up in 2008 to oversee the significant project to deliver effective IT systems. The IT Work Group is made up of the Chief Executive, Deputy 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. The IT Work Group met 3 times during the year. The attendance at IT Work Group meetings during 2009 was as follows:

Name	Called to	Attended
A J Knight*	3	3
P R Hudson	3	3
P L Brown	3	3
R H Sanders	3	3
M T King	3	3
J Bridge	3	2

*Chairman of the Committee by virtue of Office.

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 in discussions and the decision making processes within the remit of the Board. 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, eight 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. Whilst

the proportion of non-executive Members considerably exceeds those in an executive capacity balance is compensated for by virtue of the periodic attendance of other senior management, as required, and the day to day working knowledge of the Society possessed by the two executive Members of the Board.

In December each year the Board conducts a skills mix audit to ensure that the individuals who make up the Board possess the requisite skills and ability to effectively manage the strategic aims and success of the Society. New Board Members are selected by introduction through existing Members of the Board, introduction by the management team from business associations with the Society or by nomination through the Membership of the Society. All candidates for the Board are subject to an interview and selection process and will require approval by the FSA before taking up their duties. Board Members are also 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 write to the Chief Executive with their CV.

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 Dr J E Miller and Mr R H Sanders who were not deemed independent but only by virtue of their length of service on the Board which exceeds 9 years. The Board strongly believes that their knowledge of the Society and continued and active contribution to the wellbeing of the Society warrants their ongoing service on the Board. As the individuals have served on the Board for more than 9 years they will be subject to annual re-election.

Mr. J Bridge is the Senior Independent Director (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 Nomination Committee consisting of the Senior Independent Director (Board Member), Chairman, Vice-Chairman, and the Chief Executive, meets when necessary to identify, assess and put forward suitable nominations to fill vacancies on the Board. The Committee reviews the structure and composition of the Board annually in the form of the skills mix audit and reconvene to discuss new appointments as the need arises. In 2009 there was no requirement for the Committee to meet.

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. Regular contact between the non-executive Members of the Board and executives and also departmental managers takes place to create strong links and a greater insight into business processes and the key factors affecting the success of the Society.

Throughout their tenure in office 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 they are required to attend two workshop/training meetings each year, in addition to managing their own continuing professional development by virtue of their full-time employment, and are also encouraged to attend both external and internal courses sponsored by the Society aimed at assisting their self development.

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 Nomination 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 that this is appropriate, an explanation will be given to Members justifying why. 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 annual process of matching the collective knowledge and skills of Board Members to the needs of the Society along with the self assessment of personal effectiveness referred to in the response to principles 3, 4 and 6 ensures that a planned and progressive refreshing of the Board takes place.

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 are linked to the success of the Society and personal performance of the individual.

Their remuneration package is based upon the following principles:

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

The attendance at Remuneration Committee meetings during 2009 was as follows:

Name	Called to	Attended
A J Knight*	2	2
P R Hudson	2	2
P L Brown	2	2
M T King	2	2
J Bridge	2	2
M Harvey-Jones	2	2

*Chairman of the Committee by virtue of Office.

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 using KPI's in respect of the following:

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

The maximum bonus opportunity for the executives is 20% of salary which has applied since 1 January 2009. 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 recognises that the Chief Executive gave up entitlement to a Final Salary Scheme which was an onerous burden upon the Society. The contribution made on behalf of the 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.

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. Alternatively Members of the Board can reclaim authorised cost of travel if travelling by taxi, train or by air.

Deductions for personal taxation and National Insurance Contributions apply with the exception of P A Rouse, M Kirby and M Harvey-Jones who invoice the Society for their services.

BOARD MEMBERS' GROSS EMOLUMENTS

	Basic Salaries ¹	Annual Incentive Payments and Fees ²	Benefits ³	Defined Contributions Pension ⁴	Total 2009	Total 2008
	£000's	£000's	£000's	£000's	£000's	£000's
A J Knight	10.6	10.5	-	-	21.1	19.2
M T King	6.7	8.8	-	-	15.5	12.6
P R Hudson	128.6	22.5	18.9	36.9	206.9	200.9
P L Brown	74.6	13.0	5.7	7.5	100.8	102.8
R H Sanders	2.8	6.7	-	-	9.5	7.4
Dr J E Miller	2.8	3.6	-	-	6.4	6.0
D J G Williams	2.8	5.6	-	-	8.4	9.5
J Bridge	2.8	6.6	-	-	9.4	6.3
P A Rouse	2.8	6.3	-	-	9.1	6.5
M Kirby	2.8	5.6	-	-	8.4	8.2
M Harvey-Jones	2.8	4.9	-	-	7.7	6.1
Total	240.1	94.1	24.6	44.4	403.2	385.5

Notes:

- Salaries for all Society staff including Board Members and executives, were increased by 2.9% with effect from 1 January 2009 in-line with increases in the average earnings index. An independent report on Board pay and conditions was produced by Mazars in 2009. Whilst the report findings supported an increase in salary, in light of the current economic conditions the Board declined to accept any increase. The executives have also declined a cost of living increase for 2010.
- Annual incentive payments represent targeted bonuses for the executives. Fees represent the amounts paid to Board Members (excluding the executives) for attendance at meetings.
- The amounts shown under the heading Benefits represent the taxable benefit based on the original value of the second hand company cars provided for the executives, not the actual price paid which was lower. The Chief Executive also had an entertainment allowance of £5,000 which was not used during 2009.
- The amounts represent the contributions made on behalf of the executives to the Society's defined contribution pension scheme.

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:

The Remuneration Committee is comprised of four non-executive Members of the Board who shall be the Senior Independent Director (Board Member), Chairman and Vice-Chairman of the Board and one other Board Member plus the two executive Members of the Board, who attend to advise the non-executives but who have no vote. The Committee is chaired by the SID by virtue of office. The Committee meets as required but at least once each year to determine and agree with the Board the Society's policy on the remuneration.

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 executive Committee Members do not vote and non-executive Committee Members rely on the findings of independent studies when their remuneration is being considered.

In view of the potential of an upward ratchet of remuneration levels with no corresponding improvement in performance, the Committee introduced a comprehensive performance management system which was followed throughout 2009.

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 and where necessary, other stakeholders. The Board recognises that Members lead busy lives and do not always have the time or inclination to read the Society's full Report and Accounts which is available to all Members online. To assist in this respect the Board seeks to engage Members' interest by sending all Members a shorter version of the Society's activities during the relevant year. A full copy of the Annual Report and Accounts is available online or by request to the Society.

Internal Control

Main Principle 11:

The Board should maintain a sound system of internal control to safeguard Member'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 these are regularly reviewed and reported upon by the Society's independent internal audit function on behalf of the Audit and Risk Committee who ensure the systems of control are updated and maintained to best effect.

Audit and Risk 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 with relevant financial and regulatory experience 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 and 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 Audit and Risk Committee meetings during 2009 was as follows:

Name	Called to	Attended
M T King*	3	3
A J Knight	3	3
P R Hudson	3	3
P L Brown	3	3
P A Rouse	2	2
M Kirby	2	1

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

Dialogue with Members

Main Principle 13:

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

Board Response:

The Board is fully committed to the fair and reasonable treatment of all Members who are both owners and customers of the Society. 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 shortened version of the Annual Report and Accounts which is sent to every Member annually along with a personal invitation to attend the AGM. The Committee for Treating Customers Fairly was established in 2006 to underpin the importance the Society attaches to this area. The Committee comprises the Chairman, who is non-executive, the Chief Executive or his deputy who are executive and three other non-executive Board Members. J E Miller and M Kirby joined the Committee in 2008. The Committee met twice during the year to progress a number of key TCF initiatives. The dedicated Customer Services department continued to provide high standards of customer care to Members, financial advisers and other stakeholders. In addition the Senior Independent Director Mr J Bridge continues as a point of contact for Members.

The attendance at TCF Committee meetings during 2009 was as follows:

Name	Called to	Attended
D Williams*	2	2
A J Knight	2	2
P R Hudson	2	1
M Kirby	2	2
J E Miller	2	2
P L Brown**	1	1

*Chairman of the TCF Committee from 25 August 2006

**Called in place of P R Hudson

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 shortened version of the Annual Report and Accounts each year. A full copy of the Annual Report and Accounts is available online or by request to the Society. An invitation to attend the AGM is included with the Annual Report and Accounts along with a Proxy Voting Form for Members who are unable to attend the AGM in person. Voting by Members under the age of 18 is not permitted under Friendly Society legislation. Members are encouraged to vote on all resolutions and as an incentive to complete and return Proxy Voting Forms at least 48 hours before the AGM in May 2010 the Board intends to continue its policy of making a donation to charitable causes for every valid voting form returned to the Society.

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. 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 other's 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
19 March 2010

We have audited the financial statements of Cirencester Friendly Society Limited for the year ended 31 December 2009 which comprise the Income and Expenditure Account, Balance Sheet and the related Notes, 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 2009.

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. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (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 Chairman's Statement, Report of the Board of Management and the Report on Corporate Governance and Remuneration. 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 Standards on Auditing (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 2009 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.



Mark Burnett
Senior Statutory Auditor

For and on behalf of
Moore Stephens
Chartered Accountants & Statutory Auditor (Bath)
24 March 2010

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Notes	2009 £	2008 £
TECHNICAL ACCOUNT - LONG TERM BUSINESS			
<i>These are the premiums paid by members to the Society during the year.</i>			
Earned premiums	2	11,371,553	10,217,625
<i>This is the investment income earned by the Society on the investments that it holds. The amount also includes increases in the value of investments held.</i>			
Investment income	3	1,578,368	3,192,010
Net other technical income less other technical charges		81,350	94,431
Technical Income		13,031,271	13,504,066
<i>This is the amount paid to members in respect of sick pay benefit claims during the year.</i>			
Claims incurred	4	(2,619,277)	(1,903,497)
<i>This is calculated by the Independent actuary and added to reserves to help cover future sick pay benefit liability.</i>			
Increase in long term business provision	13	(2,155,000)	(1,816,000)
Interest on retired members' deposits		(46,108)	(72,278)
<i>These amounts represent the bonuses added to members' credits during the year.</i>			
Bonus Allocations to members' capital accounts	14	(544,339)	(620,319)
Surplus Allocations to members' capital accounts	14	(789,881)	(1,676,719)
<i>This is what it has cost to run the Society during the year.</i>			
Net operating expenses	5	(5,996,375)	(5,494,899)
Investment expenses and charges	7	(384,140)	(2,488,426)
		496,151	(568,072)
<i>This is the amount of surplus (deficit) left over after all income and expenditure for the year has been taken into account. It is added to (taken from) the reserves held by the Society as required to help meet future running costs and debt liability.</i>			
Transfer (to)/from fund for future appropriations	13	(496,151)	568,072
Balance on the technical account		-	-

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

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

	Notes	2009		2008	
		£	£	£	£
ASSETS					
Investments					
Land and buildings	8	1,815,000		2,050,000	
Mortgage advances	9	-		3,650	
Investment in subsidiary	10	100		100	
Other financial investments	11	41,306,531		38,387,951	
			43,121,631		40,441,701
Debtors					
Other debtors			-		-
Other assets					
Tangible assets	12	155,965		164,648	
Cash at bank and in hand		1,076,127		1,267,231	
			1,232,092		1,431,879
Prepayments and accrued income					
Accrued interest and rent		344,331		1,150,895	
Other prepayments and accrued income		126,446		37,343	
Deferred acquisition costs		4,218,162		4,144,175	
			4,688,939		5,332,413
			<u>49,042,662</u>		<u>47,205,993</u>
LIABILITIES					
Reserves					
Provided for by the Rules					
Benevolent Fund	16		43,680		40,185
Fund for Future Appropriations					
General Reserve	13		12,885,542		12,389,391
Technical provisions					
Members' Capital Accounts	14	22,442,393		23,575,989	
Retired Members' Deposits	15	1,841,879		1,806,145	
Long Term Business Provisions	13	10,920,000		8,765,000	
			35,204,272		34,147,134
Creditors					
Arising out of Direct Insurance Operations		350,918		267,579	
Other creditors including tax and social security		337,545		158,044	
			688,463		425,623
Accruals and Deferred Income			220,705		203,660
			<u>49,042,662</u>		<u>47,205,993</u>

These are the investments held by the Society.

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

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

These financial statements were approved by the Board of Management on 19 March 2010 and were signed on their behalf by :



Chairman



Vice Chairman



Chief Executive

1. ACCOUNTING POLICIES

Accounting Convention

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

Claims and Benefits

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

Investment Expenses and Charges

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

Leasing

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

Taxation

The Society is exempt from Corporation Tax.

Acquisition Costs

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

Pension Costs

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

Fund for Future Appropriation

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

Long-term Business Provisions

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

2. PREMIUM INCOME

	2009	2008
	£	£
Gross Premiums received	<u>11,371,553</u>	<u>10,217,625</u>

3. INVESTMENT INCOME

	2009	2008
	£	£
Net income from land and buildings	51,553	60,139
Mortgage interest	197	606
Listed securities	1,023,536	433,776
Interest from monies on deposit	427,876	1,762,986
	<u>1,503,162</u>	<u>2,257,507</u>
Unrealised gains on investments	-	926,347
Gains on realisation of investments	75,206	8,156
	<u>1,578,368</u>	<u>3,192,010</u>

4. CLAIMS INCURRED

	2009	2008
	£	£
Gross Claims Payable	<u>2,619,277</u>	<u>1,903,497</u>

5. NET OPERATING EXPENSES

	2009	2008
	£	£
Acquisition costs	3,600,127	3,364,440
Administrative expenses	2,396,248	2,130,459
	<u>5,996,375</u>	<u>5,494,899</u>
Acquisition costs include:		
Amortised commissions	2,857,627	2,360,589
Depreciation	5,364	3,657
	<u>2,863,000</u>	<u>2,364,246</u>
Administrative expenses include:		
Depreciation	69,488	61,880
Amounts payable, including expenses, by the Society to the Auditor in respect of:		
Statutory accounts (Inclusive of VAT)	23,559	
Regulatory returns	-	30,849
Other services	-	
Other professional services (Inclusive of VAT)	172,746	154,119
Actuarial fees (Inclusive of VAT)	108,394	126,496
Aggregate amount of Board members' emoluments	408,410	385,367

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 Meetings attended and the office held.

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

	2009	2008
	No.	No.
£5,001 - £10,000	7	7
£10,001 - £15,000	-	1
£15,001 - £20,000	1	1
£20,001 - £25,000	1	-
£95,001 - £100,000	1	1
£165,001 - £170,000	-	1
£170,001 - £175,000	1	-

The emoluments of the Chairman amounted to £21,137 for the year (2008 - £19,200).

The emoluments of the highest paid member of the Board were £173,263 (2008 - £165,626).

6. EMPLOYEE INFORMATION

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

	2009	2008
	No.	No.
Administration	27	26
Acquisition	14	12
	<u>41</u>	<u>38</u>

Staff costs for the above persons were:

	2009	2008
	£	£
Wages and salaries (including the Chief Executive and Deputy Chief Executive)	1,211,705	1,071,706
Social security costs	113,552	115,232
Other pension costs	135,079	100,907
	<u>1,460,336</u>	<u>1,287,485</u>

7. INVESTMENT EXPENSES AND CHARGES

	2009	2008
	£	£
Investment management expenses	-	32,573
Unrealised losses on investments	368,090	-
Losses on realisation of investments	16,050	2,455,853
	<u>384,140</u>	<u>2,488,426</u>

8. LAND AND BUILDINGS

The Society's land and buildings were valued at £1,815,000 at 31 December 2009 (2008 £2,050,000). The Society occupies the freehold premises at 5 Dyer Street, Cirencester which is valued at £1,125,000 as at 31 December 2009 (2008 £1,250,000).

9. MORTGAGE ADVANCES

	2009	2008
	£	£
Balance at 1 January	3,650	9,721
Less repayments	(3,650)	(6,071)
Balance at 31 December	<u>-</u>	<u>3,650</u>

10. INVESTMENT IN SUBSIDIARY UNDERTAKING

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

	2009	2008
	£	£
Cost of investment	<u>100</u>	<u>100</u>

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

11. OTHER FINANCIAL INVESTMENTS

	2009	2008
	£	£
Listed investments	34,818,250	14,561,239
Monies held on term deposits	6,488,281	23,826,712
	<u>41,306,531</u>	<u>38,387,951</u>

Listed Investments

MARKET VALUES

	2009		2008	
	£	£	£	£
Valuation at 1 January		14,561,238		13,015,556
Additions at Cost		52,657,661		10,087,928
Less Disposals (Sale Proceeds)	(32,274,265)		(7,330,937)	
Net profit/(loss) on Disposals	6,151	(32,268,114)	(828,782)	(8,159,719)
General Fund				
(Depreciation)/Appreciation	(132,537)		(381,253)	
Benevolent Fund				
(Depreciation)/Appreciation	-	(132,537)	(1,273)	(382,526)
Valuation at 31 December		<u>34,818,250</u>		<u>14,561,239</u>

Analysis as at 31 December 2009

	COST		MARKET VALUES	
	31.12.09	31.12.08	31.12.09	31.12.08
	£	£	£	£
Fixed Interest Redeemable				
Government Stocks	13,885,538	13,403,198	15,164,230	14,561,239
Other Fixed Interest Stocks	7,511,610	-	7,183,019	-
	<u>21,397,148</u>	<u>13,403,198</u>	<u>22,347,249</u>	<u>14,561,239</u>
Unit Trusts and OEICs	12,053,233	-	12,470,999	-
	<u>33,450,381</u>	<u>13,403,198</u>	<u>34,818,248</u>	<u>14,561,239</u>

12. TANGIBLE ASSETS

	Motor Vehicles £	Office Equipment £	Computer Equipment £	Total £
Cost				
At 1 January 2009	70,300	188,959	386,465	645,724
Additions	20,000	17,499	28,670	66,169
Disposals	(29,300)	-	-	(29,300)
At 31 December 2009	<u>61,000</u>	<u>206,458</u>	<u>415,135</u>	<u>682,593</u>
Depreciation				
At 1 January 2009	32,718	139,176	309,182	481,076
Charge for the year	14,416	22,437	37,999	74,852
Disposals	(29,300)	-	-	(29,300)
At 31 December 2009	<u>17,834</u>	<u>161,613</u>	<u>347,181</u>	<u>526,628</u>
Book Value at 31 December 2009	<u>43,166</u>	<u>44,845</u>	<u>67,954</u>	<u>155,965</u>
Book Value at 31 December 2008	<u>37,582</u>	<u>49,783</u>	<u>77,283</u>	<u>164,648</u>

13. RESERVES AND TECHNICAL PROVISIONS

	Fund for future appropriations £	Long term business provisions £
Balances at 1 January 2009	12,389,391	8,765,000
Change in long term business provision	-	2,155,000
Transfer from income and expenditure account	496,151	-
Balances at 31 December 2009	<u>12,885,542</u>	<u>10,920,000</u>

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

14. MEMBERS' CAPITAL ACCOUNTS

	2009		2008	
	£	£	£	£
Balance at 1 January		23,575,989		23,451,268
Less Withdrawals				
On cessation of Membership and by continuing Members	(2,384,265)		(2,073,557)	
Forfeitures thereon	(83,551)	(2,467,816)	(98,760)	(2,172,317)
Add				
Bonus Allocations / Interest Credited	544,339		620,319	
Surplus Allocations / Dividends Declared	789,881	1,334,220	1,676,719	2,297,038
Balance at 31 December		<u>22,442,393</u>		<u>23,575,989</u>

15. RETIRED MEMBERS' DEPOSITS

	2009		2008	
	£	£	£	£
Balance at 1 January		1,806,145		1,898,556
Less Withdrawals		(151,114)		(218,377)
Interest Credited	39,124		59,732	
Transfers from Members' Accounts	147,724	186,848	66,234	125,966
Balance at 31 December		<u>1,841,879</u>		<u>1,806,145</u>

Retired Members' deposits are repayable on demand.

16. BENEVOLENT FUND

	2009	2008
	£	£
Investment Income		
Income from Stocks & Shares	1,254	1,870
Unrealised Gains on Investments		
Appreciation on Stock	-	844
Other Technical Income		
Donations from Members, Staff and allocated from the main fund	6,798	6,826
	<u>8,052</u>	<u>9,540</u>
Less		
Losses on disposal of investments	(257)	(2,117)
Other Technical Charges		
Charitable donations made	(4,300)	-
Decrease/Increase in Fund during year	3,495	7,423
Add: Balance 1 January	40,185	32,762
Balance at 31 December	<u>43,680</u>	<u>40,185</u>

17. PENSIONS COSTS

Defined Contribution Pension Scheme

Pension provision for all employees of the Society has been made by means of an appropriate Money Purchase Scheme. Contributions paid during the year amounted to £113,552 (2008 - £95,602). There were no amounts outstanding to the scheme at the year end (2008 - £nil).

18. TRANSACTIONS WITH BOARD MEMBERS

There were no loans outstanding to Board members at 31 December 2009 by way of mortgages (2008 - £nil).

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

	2009	2008
	£	£
Dr James E Miller	12,982	8,528
David Williams	8,011	15,749
Rupert Sanders	2,800	1,212
Philip Rouse	4,600	3,403
Michelle Harvey-Jones	12,220	6,817
Margaret Kirby	34,234	42,231

19. ACTUARIAL FUNCTION

Mr. Philip Simpson, a Partner in Milliman UK, holds the appointments of Actuarial Function and With Profits Actuary to the Society. The Society has requested him to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr. 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 UK for professional services, which amounted to £103,051 (before VAT) (2008 - £107,656).

20. CAPITAL STATEMENT

a) Available Capital

	2009	2008
	£	£
Fund for Future Appropriations	12,885,542	12,389,391
Adjustments Inadmissible Assets		
Tangible Fixed Assets	(106,054)	(80,839)
Deferred Acquisition Costs	(4,218,162)	(4,144,175)
Adjustments to members' Balances		
Members' Capital Account Discounting	315,446	329,479
Total available capital	<u>8,876,772</u>	<u>8,493,856</u>

The Society has a minimum Capital Resource Requirement of £2,795,375 (2008 £2,069,668). The excess Available Capital Resource is therefore £6,081,397 (2008 £6,424,188). A reconciliation of the movements in the Excess Available Capital Resources for the year is set out below:

	2009	2008
	£,000	£,000
Available Capital as at 31 December 2008	6,424	7,837
New Business and Lapses	494	355
Methodology Changes	37	199
Basis Changes	53	32
Changes in members' balances and retired members' balances	1,098	(28)
Changes in Active Life Reserve	(104)	(186)
Changes in Disabled Life Reserve	(2,636)	(2,215)
Changes in Admissible Assets	1,725	557
Change in RTR and LTICR	(726)	(161)
Changes in other liabilities	(283)	34
	<u>6,082</u>	<u>6,424</u>

b) Capital Resources Sensitivities

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

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

Variables	Potential £,000	
An increase in the inception of claims of 10%	(1,836)	Decrease
A decrease in the inception rate of claims of 10%	344	Increase
An increase in the recovery rate of claims of 10%	875	Increase
A decrease in the recovery rate of claims of 10%	(11,207)	Decrease
An increase in the rate of expenses of 10%	0	-
A decrease in the rate of expenses of 10%	0	-
An increase in the rate of mortality of 10%	154	Increase
A decrease in the rate of mortality of 10%	(185)	Decrease
An increase in the interest rate of 1%	644	Increase
A decrease in the interest rate of 1%	(913)	Decrease
An increase in the value of investment assets of 10%	3,482	Increase
A decrease in the value of investment assets of 10%	(3,482)	Decrease

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

c) Risk Management

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

Risk Management Framework

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

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

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

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

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

1. Insurance Risk

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

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

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

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

2. Market Risk

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

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

(i) Interest rate risk

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

(ii) Property price risk

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

3. Credit Risk

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

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

4. Liquidity risk

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

5. Operational risk

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

d) Capital Management

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

In reporting financial strength, capital and solvency is measured using the regulations prescribed by the 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.

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 £8.88m (2008 - £8.49m) all of which is held in the Fund for Future Appropriations.

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 318% of its capital requirements of £2,795,375 (2008 - 410%)

Basis for Setting Technical Provisions

- Interest Rate 3.5% pa (2008 - 2.5% pa)
- Morbidity Incidence Rate: Health and Wealth 54% of CMIR12 table and Income Assured Plus 35% of CMIR12.
- Morbidity Recovery Rates: Health and Wealth 70% of CMIR12 for the first 6 months, 100% for months 7 - 12 and 120% thereafter and Income Assured Plus 67% of CMIR12 for the first 6 months, 95% for months 7 - 12 and 114% thereafter.
- Mortality Rate 50% of CMIR12 (2008 - 50% of CMIR12).

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

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

21. COMMITMENTS

	2009 £	2008 £
Capital commitments of the Society at the end of the year for which no provision has been made are as follows:		
Contracted	-	-
Approved by the Board of Management but not contracted for	750,000	750,000
	<u>750,000</u>	<u>750,000</u>
Annual commitments of the Society under other non-cancellable operating leases are as follows:		
Operating leases which expire:	£	£
Within one year	-	3,665
In the second to fifth years inclusive	9,030	6,105
Over five years	-	-
	<u>9,030</u>	<u>9,770</u>

22. CONTINGENT LIABILITIES

The Society had no contingent liabilities at the end of the year (2008 - £nil).

Cirencester Friendly Society Limited,
5 Dyer Street, Cirencester, Glos. GL7 2PP

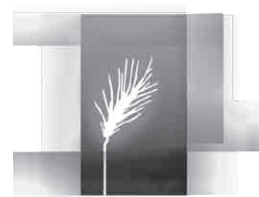
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