



Cirencester

Friendly

12th Annual Report & Accounts

Year ended 31 December 2013

Founded 1890

Registered No. 149F

Registered Office:

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Web: www.cirencester-friendly.co.uk

Board of Management:

Chairman: A J Knight ACIB
Vice Chairman: M T King BSc Hons DipAdj MRICS MCI Arb MCI OB MAICA
Chief Executive: P R Hudson MBA FCIS MCSI
Deputy Chief Executive: P L Brown FCA FCCA
Director of Sales & Marketing: J Bridge DipM FCIM MAE MICM MCI Arb FPC AdvCemap CLTM
Board Members: Dr J E Miller TD BSc MB ChB DA DR COG DFSRH DTM&H
MRCGP (Retired 18 May 2013)
D J G Williams APFS FCMI
P A Rouse MIFS DipFA
P C Whitefield BSc FIA
W J M Schouten MBA
J F Quinn M. Litt. BA (Hons)

Arbitrators:

Eric Mouzer (Retired 31 December 2013)
Phillip Harris LLB, FCI Arb, Solicitor
Roger Warrington FRICS, FCI Arb, Chartered Surveyor
New Arbitrator:
(from 29 May 2014) Mark Thomas Dip Adj BSc MSc LLM FRICS FCI Arb MAE,
Chartered Surveyor

Chief Executive and Company Secretary:

P R Hudson MBA FCIS MCSI

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

P A Rouse MIFS DipFA

External Auditors:

Moore Stephens (Bath)

Internal Auditors:

Case Accounting Ltd

Actuaries:

Actuarial Function Holder and
With Profit Actuary

C N Critchlow BSc, FIA Oxford Actuarial Consulting

Investment Managers:

Quilter Cheviot
Charles Stanley (Appointed December 2013)

Bankers:

Lloyds TSB Bank Plc

Solicitors:

Sewell Mullings Logie, Cirencester
Kennedys, London
Thrings, Bristol

12th Annual Report & Accounts

Year ended 31 December 2013

Board of Management	3
Notice of Annual General Meeting	5
Minutes of the 123rd Annual General Meeting	6
Chairman's Statement	8
Report of the Board of Management	9
Review of Investment Performance – Quilter Cheviot	12
Corporate Governance and Remuneration Report	13
Independent Auditors Report	21
Income and Expenditure Account	23
Balance Sheet	24
Notes to the Accounts	25

Board of Management



Tony J Knight ACIB

Chairman

Age 69.

Married with 2 children. Chairman since May 2004. Chairman of the Audit & 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 Nomination & Remuneration and the Investment Committees. Retired July 1999 from Lloyds TSB after 37 years. Career included spells in Retail Banking, Internal Audit, Area Management and as a Senior Manager in Corporate Banking. Associate Member of the Chartered Institute of Bankers. Enjoys rugby and country sports.



**Martin T King BSc Hons DipAdj
MRICS MCI Arb MCI OB MAICA**

Vice-Chairman

Age 57.

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 & Risk Committee from May 2004 to December 2013. Serving Member of the Nomination & Remuneration Committee. Partner Henry W King & Partners 1984-1990. Partner Castons 1990-2007. Director CCAS Ltd 1998- 2007. Director Castons Consulting Ltd 2001-2007. Director Castons King Ltd since 2007. Director of Wychavon Leisure Community Association 2007 to 2011. 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 2007 to 2011. Member of the West Mercia and Warwickshire Police and Crime Commissioner Audit Committee since June 2013.



Paul R Hudson MBA FCIS MCSI

Chief Executive and Secretary

Age 55.

Family man with 3 children. Chief Executive since February 1997. Executive Director of the Board since 1997. Serves on the Nomination & Remuneration and the Investment

Committees. Also having a guest/advisory role for the Audit & Risk Committee. 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 Member of the Chartered Institute of Securities and Investments from 2011. Director of the Society's subsidiary company Friendly Computer Services Limited which is a dormant company. Board Member of the Association of Friendly Societies (AFS) 2005-2009. Elected President of the Association in 2009. Following the merger of the AFS with the Association of Mutual Insurers in 2010 joined the Board of the Association of Financial Mutuals as a Director representing the Committee for Smaller Friendly Societies and Mutual's. Retired 2012. Former Chairman of the Holloway Friendly Societies Group. Enjoys motorsport, cycling, reading and playing the acoustic guitar.



Peter L Brown FCA FCCA

Deputy Chief Executive

Age 62.

Married with 2 adult children. Appointed Deputy Chief Executive and an Executive Member of the Board of Management in October

2004. Serving member of the Audit & Risk and the Investment Committees. Also having a Guest/Advisory Role for the Nomination & Remuneration Committee. 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.



**John Bridge DipM FCIM MAE MICM
MCI Arb FPC AdvCemap CLTM**

Director of Sales and Marketing
Age 64.

Married with 2 children and 2 grandchildren. Appointed Director of Sales and Marketing in October 2011. Non-Executive Member of

the Board of Management from May 2005 until October 2011. Senior Independent Director (Board Member) for the Society from September 2005 to October 2011. Became an Executive Member of the Board of Management in October 2011. Serving Member of the Audit & Risk Committee. Compliance and Expert Witness to the Financial Service Industry since 1992. 1975-1991 Cheltenham & Gloucester Building Society, Branch Manager (1975-1982), Regional Manager (1982-1986), 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. Member of the Chartered Institute of Arbitrators since 1998. Law Society checked Expert Witness since 1994.



Philip A Rouse MIFS DipFA
Senior Independent Director
Age 55.

Married with 3 children. Non-Executive Member of the Board of Management since March 2006. Chairman of the Nomination & Remuneration 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). Appointed Senior Independent Director for the Society in October 2011. Enjoys Formula 1 Motorsport, football and listening to music.



David J G Williams APFS FCM
Age 68.

Non-Executive Member of the Board of Management since August 2004. Serving Member of the Audit & Risk Committee. Managing Director of Haven Risk Management. 1984-1996 various roles in Advisory Management capacities in Financial Services. 1996

to present Managing Director DWT Ltd which became Haven Risk Management on taking over another company in 2005. Associate of the Personal Finance Society. Fellow of the Chartered Management Institute.



Philip C Whitefield BSc FIA
Age 54.

Family man, married with 4 grown up daughters. Non-Executive Member of the Board of Management since March 2011. Chairman of the Investment Committee. An experienced Life Actuary, who owns a consultancy business that specialises

in Capital Management and Solvency II. Acts as Actuarial Function Holder for Monarch Assurance Limited. Previously acted as Reviewing Actuary for Mazars in respect of 3 Friendly Society Audit Clients. Formerly a Director and Chief Actuary from 2002 to 2007 of Lincoln Financial Group, where he had worked for 21 years. Currently serves 3 local charities Tony's House, Christ Church Cheltenham and Christ Church Playgroup as Hon. Treasurer.



John F. Quinn M. Litt. BA (Hons)
Age 61.

A Non-Executive Member of the Board of Management since November 2012. Member of the Audit & Risk Committee. Married with 2 adult children, he has lived in Gloucestershire since 1986.

Retired from Lloyds Banking Group in December 2011 after a career of thirty-six years during which he held managerial posts in Branch Management, Area Management and as a Senior Manager in Corporate and Commercial Banking. He enjoys choral singing and watching rugby and has regularly contributed reviews of classical music recordings and concerts to a leading website since 2001.



William J M Schouten MBA
Age 61.

Married with 2 sons. MBA-qualified. Non-Executive Member of the Board of Management since November 2012. Member of the Nomination & Remuneration Committee. Successful Senior Executive with more than 30 years experience in the financial

services industry. Held Executive Director positions with varying responsibilities in NFU Mutual (1998 – 2009) and in Royal Insurance (1993 – 1996) and in between worked for a short spell at IBM UK Ltd as an Executive Consultant. Since January 2010 operating as an Independent Management Consultant and Executive Coach assisting mainly mutual organisations with planning and implementing change, whether this involves people, processes, IT systems or all of these.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Cirencester Friendly Society Limited will be held at the National Star College, Ullenwood, Cheltenham GL53 9QU on Thursday 29 May 2014 at 7.30pm for the purpose of transacting the following business:-

1. To confirm the Minutes of the Annual General Meeting held on 18 May 2013.
2. To receive the Chairman's Statement for the year ended 31 December 2013.
3. To receive the Report of the Board of Management and Financial Statements for 2013.
4. To elect Members of the Board of Management:

Name	Occupation	Status	Member of the Board since
P L Brown	Deputy Chief Executive	Executive	October 2004
P R Hudson	Chief Executive/Company Secretary	Executive	February 1997
M T King	Chartered Quantity Surveyor	Non-Executive	December 2000
A J Knight	Retired Banker	Non-Executive	October 2000
P C Whitefield	Actuary	Non-Executive	March 2011
D J G Williams	Managing Director	Non -Executive	August 2004

5. To appoint one new Arbitrator: Mark Thomas.
6. To approve the Board of Management's Remuneration Report for the year ended 31 December 2013.*
7. To reappoint Moore Stephens (Bath) as Auditors.
8. To confirm an alteration to the Rules in accordance with the provisions of Rule 28(5) being the introduction of a new Schedule 3 - Rules of My Earnings Insurance.
9. 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 Highlights Leaflet sent to you in the post. To make voting easier online voting is available alongside our traditional methods of voting by post or in person. Please see the Proxy Form for full details of the different ways you can vote.

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

By order of the Board of Management



P R Hudson
Chief Executive
27 March 2014

5 Dyer Street
Cirencester
Gloucestershire
GL7 2PP

Present:

Mr A J Knight (Chairman), Mr M T King (Vice Chairman), Dr J E Miller, Mr J F Quinn, Mr P A Rouse, Mr W J M Schouten, Mr P C Whitefield, Mr D J G Williams, Mr P R Hudson (Chief Executive), Mr J Bridge (Director of Sales and Marketing), Mr P L Brown (Deputy Chief Executive).

In total, there were 21 Members in attendance (including Members serving on the Board of Management) and 32 observers. The quorum was noted as 10 in accordance with the provisions of Rule 22(1) (b).

1. WELCOME

The Chairman opened the meeting and extended a warm welcome to those present.

2. APOLOGIES FOR ABSENCE

Apologies for absence had been received from: Mr Gilbert Burge, Lady Maitland, Theresa and Roger Reynolds and Mr Jonathan Winter. It was noted that some members of staff had been unable to attend.

3. NOTICE OF ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting was taken as read. The Chairman referred to the Proxy Voting Form, which had been distributed with the Annual Report. After each resolution had been put and voted upon by a show of hands, the results of the postal votes/electronic votes would be announced. Votes withheld did not count in law and would not be counted in the calculation of the proportion of votes for and against the resolutions.

4. MINUTES

Abridged minutes of the Annual General Meeting held on 19 May 2012 were submitted for approval. The Chairman signed the Minutes as a true and correct record on the proposition of Mr P L Brown, seconded by Mr P R Hudson and AGREED by all.

5. ANNUAL REPORT AND ACCOUNTS

Chairman's Statement

The Chairman presented his statement saying that the income protection insurance market had proved challenging and this was expected to continue in 2013 due to the economy and the squeeze on disposable income. Although there were opportunities for growth, other providers would be looking to increase market share which would result in increased competition. As a result of the Retail Distribution Review the Society had increased its exposure to qualified financial advisers to account for any loss of business from advisers affected by the regulatory change. The introduction of Solvency II had been delayed but the Society had a level of solvency significantly in excess of the prescribed minimum capital resource requirements. The Society had received a

number of awards in 2012 reflecting its commitment to high standards of service. Each member of the Board of Management had undergone a 360° review in keeping with good Corporate Governance.

The Chairman gave a warm welcome to the two new Non-Executive Directors, Mr J F Quinn and Mr W J M Schouten. The Chairman thanked Dr J E Miller, who was retiring from the Board of Management after 15 years, for the positive contribution he had made to the Society. The Chairman thanked all the staff for their hard work and commitment, and the financial advisers who continued to support the Society and recommend its income protection product.

The Chairman's Statement was proposed by Miss C A Fox, seconded by Dr J E Miller, and AGREED by all present.

The result of the vote for the Chairman's Statement was announced as follows: 1049 votes for, 13 against, 10 withheld.

Report of the Board of Management

Mr P R Hudson, Chief Executive, presented key items from the Report of the Board of Management. He highlighted the future development of a new product but noted that the Society did not have the extensive budgets of some of its competitors and was in effect, using Members' money. The Society had an enviable and proud record for paying out claims and was committed to transparent publication of the claims data. In 2012, 94% of all valid claims were paid which equated to £3.2million in sickness benefit for Members. The Society was in the process of upgrading its IT systems. Mr Hudson thanked the Members for their continued support.

Mr J Bridge, Director of Sales and Marketing presented a report on Sales and Marketing. The key messages were that it was important to give customers products that met their needs, Members and Financial Advisers were vital to the Society and the successful 3.2% growth in Membership in 2012 had been achieved in a difficult trading environment.

Financial Statements

Mr P L Brown, Deputy Chief Executive, presented the accounts for the year saying that the Society was very strong financially with more than five times the capital requirements as dictated by the regulator and would continue to carry out its primary purpose of providing benefits to Members in times of illness for many years to come. The total value of the Society's assets had increased by just under 9% to £62m. The Members Mutual Fund appeared on the balance sheet for the first time; this new fund would not become fully active until January 2014 but would be built up to allow all contributing Members of the Society to participate in the surpluses that they have helped to generate

Auditor's Report

The Auditor, Mr M P Burnett of Moore Stephens (Bath) presented the Audit Report for 2012. A thorough review of the financial statements of the Society had been carried out and the financial statements were considered to be a true and fair report.

Adoption of the Annual Report and Accounts

The adoption of the Annual Report and Accounts was proposed, seconded and AGREED. The result of the vote for the Report of the Board of Management was announced: 1048 votes for, 12 against, 12 withheld.

6. ELECTION OF MEMBERS OF THE BOARD OF MANAGEMENT

Mr P R Hudson, Mr M T King, Mr A J Knight (who declared an interest), Mr J F Quinn, Mr P A Rouse and Mr W J M Schouten were proposed for re-election by Mr P L Brown, seconded by Miss C R Hudson and AGREED by all en bloc. The Board supported the appointment and re-election of these individuals because they bring the correct mix of business skills and experience to their respective roles and to the Society.

The result of the vote for the election of Members of the Board of Management was announced:-

Name	For	Against	Withheld
Mr P R Hudson	1041	16	15
Mr M T King	1041	18	13
Mr A J Knight	1042	14	16
Mr J F Quinn	1042	16	14
Mr P A Rouse	1045	12	15
Mr W J M Schouten	1043	16	13

7. THE BOARD OF MANAGEMENT'S REMUNERATION REPORT (ADVISORY VOTE)

Mr P A Rouse, the Senior Independent Director and Chairman of the Remuneration Committee presented the Board of Management's Remuneration Report for the year ended 31 December 2012. He stated that it was very important to ensure that reward was aligned to success and that the pay and benefits of the Executives and Board reflected achievement. Staff and Executive salary levels had been externally validated and the Society continued to set salaries at the middle to third quartile to ensure consistency. The Society was fully committed to controlling costs, of which staff salaries and fees paid to Board Members form a part. The Board believed that the Society's pay and fee levels were appropriate and not excessive.

Mr P R Hudson concluded by presenting the remainder of Item 5 – Corporate Governance highlighted on pages 17-24 of the Reports and Accounts. He reported that the Society takes a very serious approach to Corporate Governance and fully complied with the full UK Corporate Governance Code for Mutual Insurers. No concerns had been expressed by the regulator or trade body.

The Remuneration Report (Advisory Vote) was proposed by Mr T D Hudson, seconded by Miss C A Fox and AGREED by all present.

The result of the vote was announced: 1025 votes for, 25 against, 21 withheld.

8. TO RE-APPOINT MOORE STEPHENS (BATH) AS AUDITORS

Mr M T King, Chairman of the Audit and Risk Committee, proposed that Moore Stephens (Bath) be re-appointed as External Auditor; the motion was seconded by Miss C A Fox and AGREED by all present.

The result of the vote was announced: 1043 votes for, 14 against, 15 withheld.

9. ANY OTHER BUSINESS

The Chairman invited questions deemed relevant to the business of the Society. The winner of the Prize Draw received his prize from the Chairman.

10. CLOSE

The Chairman thanked everyone for attending and there being no further business, the meeting closed at 11.55am.



Performance

I am very pleased to welcome you to the 124th Annual Report & Accounts of Cirencester Friendly Society

Limited. I am delighted to report a successful year for both the Society and its Members despite another challenging year in the Financial Services Industry.

In 2013 the Society continued to achieve its mission in providing for its Members financially when they need it most. It was a year of encouraging growth in Membership and a healthy surplus was returned. Premium income increased and with strong investment income and controlled costs, the Society finds itself in a very strong position.

This impressive performance allows me to announce that once again participating bonuses to Members have been maintained or improved.

Market conditions

The anticipated challenges faced by the Industry did not abate during 2013. Despite the difficult market conditions the Society continues to perform well. In 2013 The Financial Conduct Authority implemented its long awaited Retail Distribution Review (RDR). As a consequence there was a significant reduction in the number of qualified Financial Advisers on whom we rely to introduce their clients to us as Members. Despite this the Society gained the support of 1049 new Advisers.

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

Solvency II

Solvency II continues to be on the Society's agenda. I am pleased to be able to say that the Society has a level of solvency significantly in excess of the minimum capital resource requirements prescribed by the FCA's Integrated Prudential Sourcebook. The Society is confident and continues to work to ensure that we will be well placed to meet any new requirements with regards to Solvency II regulations.

Treating Customers Fairly

The Society takes pride in the high standards of service offered to Members and Financial Advisers. Our Excellent Customer Service Promise was launched in 2012 and the continued excellent service has been recognised not only by feedback from Members and Financial Advisers but also by the industry in several prestigious awards made to Cirencester Friendly during 2013.

I am also pleased to report that in 2013 we paid 94% of claims to our Members, continuing to be there when they need us most.

Corporate Governance

As Chairman I am elected to lead the Board and my primary role is to ensure that it is effective in setting and implementing the strategy and direction of the Society.

It is important that the Board continues to provide the right mix of suitably skilled individuals who can support the Society in a changing environment. As part of our ongoing refreshment of the Board, two new Board Members will be recruited in 2015 and a further two in 2016. An external agency will be used to help the Society gain access to a wider pool of Non-Executive Directors. This of course will be open to Members of the Society.

In 2013 we also carried out another 360 degree review of each member of the Board demonstrating our commitment to Corporate Governance.

A sincere thank you...

After 10 years of being your Chairman I have chosen to step down from this position. I will, with your support, continue to serve as a Member of the Board until I retire in 2016. It has been a great pleasure and I am very proud to have served the Society over the years and seen such growth. I wish the new Chairman all the best and I know in my heart that he has the Society's best interests as his priority.

Your Society is supported by an excellent Executive and Management team and as a result remains in a strong position. The success that was achieved in 2013 is a credit to the hard work and ongoing commitment of the staff and I thank them for their continued support and enthusiasm. The year ahead will bring lots of changes to the Society and I am sure all will react positively.

Once again I am grateful to the Financial Advisers who continue to recommend the Society to their clients and of course, you, our Members, who continue to place your trust and welfare with the Society.

Whilst the achievements of 2013 were pleasing, rest assured that neither the Board nor our staff are complacent. During 2014 we look to have an even better year and will continue to look for ways to sustain and build on the Society's success and I am confident that we have the right team to achieve this.

A J Knight ACIB

Chairman of the Board

27 March 2014

Report of the Board of Management

The Board is pleased to submit its report together with the audited accounts for the year ended 31 December 2013.

Members of the Board of Management

The names of the Board Members are shown on the inside front cover of this report. Dr J E Miller retired from the Board of Management in May 2013. All other Members of the Board served throughout 2013.

Mr A J Knight has served the Society as Chairman of the Board of Management since 2004. Mr A J Knight has decided to step down from this position this year. I am sure that the whole Membership will join with the Board in our heartfelt thanks for his sterling and invaluable work over the years.

Six Directors are required to be re-elected at this year's AGM. These are Mr P L Brown, Mr P R Hudson, Mr M T King, Mr A J Knight, Mr P C Whitefield and Mr D J G Williams. Details of all candidates are provided on pages 3 and 4 of this Annual Report and Accounts and on the Proxy Voting Form. The Board fully supports their re-election, please exercise your vote.

Financial Results and Business Review

The Society's Principal Activity is to provide income protection insurance.

Our mission is: "To protect our Members financially."

To achieve this the Board of Management has focused on six key objectives (See Below).

1. Growing the customer base

Number of New Members;

Objective	3,000
Result	2,973



Average Annual Premium Income per new Member;

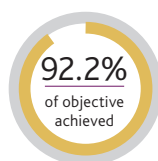
Objective	£400
Result	£402



2. Controlling costs

New Business Acquisition Costs;

Objective % of New API	200%
Result	217%



Establishment Expenses;

Objective % of total API	23%
Result	23%



3. Delivering high standards of service

Business introduced via Networks;

Objective	1,750
Result	2,136



Minimise cause for complaints;

Objective	0.05% of Membership
Result	0.03% of Membership



In 2013 Cirencester Friendly was awarded the following prestigious awards by Moneyfacts (Investment, Life and Pensions);



In 2012 the Society was awarded a 3 star Service award in the Financial Adviser Service Awards. In 2013 our service has improved to the extent that the Society received a 4 star Rating in the 2013 Awards.



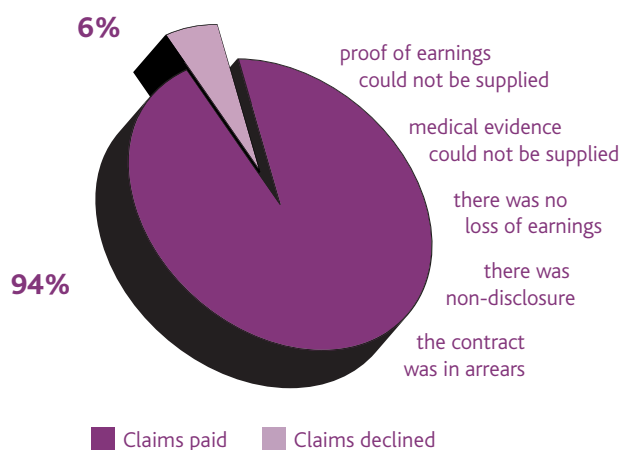
4. Developing skills, staff and systems

First phase of new IT project was to be delivered for testing on 31.12.2013. This was achieved.

A new website was targeted to be delivered on 01.10.2013. This target has been reset for 14.02.2014 for technical reasons.

5. Giving customer products that meet their needs

In 2013 the Society paid 94% of Claims. We support the clarification of Claims Statistics throughout the industry and call for standard calculations and published audit trails to support these figures. Our Members deserve the highest standards and transparency in all their dealings with the Society.



Bonuses to Members

Our investment policy of care and prudence has again delivered stable results with a total return on investments of 5.2%.

The Board has approved the following bonus rates to Members for 2013;

	2013	2012
Health & Wealth – Dividend	£1.56	£1.56
Income Assured Plus – Surplus Allocation	£6.72	£6.12
Income Assured Plus – Investment Only – Surplus Allocation	£0.51	£0.51
Bonus Allocation / Interest*	2.5%	2.5%

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

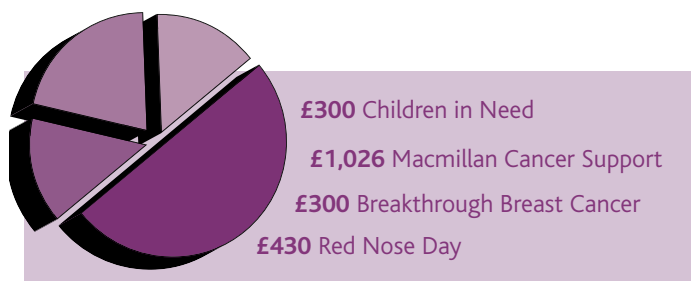
New Products

The Society is committed to the introduction of new products to support continued growth. In 2014 the Society will introduce a new individual income protection contract called 'My Earnings Insurance'.

The Board encourages Members to support this initiative which will be dealt with in accordance with the process of Rule 28 (5).

Benevolent Fund

In 2013 the Society donated a total of £2,056 to good causes as follows:



The Benevolent fund income during 2013 was made up of donations of 0.05% of premiums plus £1.00 for every Proxy voting form. Also £500,000 was transferred from the general reserve of the Society and £72,768 from the Members' Mutual Fund.

The monies held within the Benevolent Fund have been significantly increased during the year. It is the intention of the Board that these funds will be used for the benefit of the Membership beyond their contractual entitlement.

6. Protecting Capital

Premium income has increased by £0.44m to £14.24m (3.24%).

Investment income was £3.08m, a return of 5.2%

£0.71m was transferred into Long Term Business Provision to ensure provision for future claims.

Total bonus and surplus allocation paid to Members is £2.1m.

When all is taken into account, we were able to transfer £4.55m to the Fund for Future Appropriations, which, after a transfer of £1.9m to the Members' Mutual Fund and £0.5m to the Benevolent Fund, currently stands at £22.1m.

The Board established a Members' Mutual Fund in 2012. The aim of the fund is to share some of the success of the Society with all contributing Members, utilising surpluses earned by the current generation of Members. This fund has now become operative with allocations being made to existing Members.

The Society's overall investment portfolio has increased by £5.3m to £59.2m as at 31 December 2013 (2012 £53.9m). See Note 10 on page 30 for a summary of the movements on investments.

2013 has resulted in a net increase in the total funds of the Society from £62.7m to £68.5m. Of this amount £43.1m represents amounts due to Members and creditors plus the various reserves established by the appointed Actuary.

Solvency

At 31 December 2013 the Society had a level of solvency significantly in excess of the minimum capital resource requirements prescribed by the Regulator. The Society is also working hard to meet the more stringent revised requirements of Solvency II. We do not foresee any problems in meeting these requirements.

Fixed Assets

During the year the Society acquired a property in Watchfield for the purposes of setting up a Disaster Recovery Suite. The cost of this property was £297k. The Society also acquired additional computer equipment at the cost of £99k in respect of the Disaster Recovery Suite.

Responsibilities of the Board

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

- 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. A resolution will be tabled at the Annual General Meeting on 29 May 2014 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.

Treating Customers Fairly

As required by our Regulators we are committed to Treating Customers Fairly.

We are all aware of the growing number of complaints against many financial institutions that in some instances, have reached epidemic proportions. On occasion we receive complaints but we are pleased to report they are few and far between. That said, we are not complacent and when we do receive a complaint we seek to make a positive of it by learning from the event. We are committed to protecting the interests of all our Members and so complaints are thoroughly and impartially investigated. We seek to resolve complaints at an early stage but on rare occasions it can become unavoidable to escalate matters beyond the normal dispute resolution processes. It is unfortunate when this happens but as a Member owned business we believe it is our duty to look after the interests of the Membership as a whole and will do so without hesitation, particularly where we consider fraud has been perpetrated.

Outlook for 2014

Despite continuing difficulties with the economy we increased Membership in 2013 and delivered a healthy surplus.

We will remain cautious in 2014 and endeavour to maintain the competitiveness of our product, whilst at the same time continue to provide the highest standards of service to our Members and the Financial Advisers who recommend the Society to their clients.

Thanks and Appreciation to Staff

We are keen to maintain an environment in which employees can develop and grow with the Society and to this end invest in our staff. In return we enjoy their continued loyalty, professionalism and enthusiasm which is invaluable.

The Board of Management expresses its profound gratitude to all those employed by the Society for their continued efforts, without which the Society would not be where it is.

On behalf of the Board of Management



P.R. Hudson

Chief Executive

27 March 2014

Global GDP grew +2.4% in 2013, similar to the previous year. Although there was once again a large differential between emerging (+4.7%) and developed (+1.1%) economies, this disparity narrowed. Growth in the developed economies continued to be held back by government austerity measures but improved consumer and business confidence, coupled with ultra-low interest rates and large scale asset purchases by Central Banks supported the recovery. Inflation remained well below trend thanks to minimal wage growth, high unemployment and declining commodity prices. Corporate profit growth was very modest but the reduction in extreme macro risks boosted investor's sentiment and helped equities to one of their best annual gains with the US indices reaching new all-time highs towards the year end. This was a major turnaround from the beginning of the year where we saw significant political uncertainty as the US government budget negotiations approached a 'fiscal cliff' and 'debt ceiling'. In the event, automatic sequestration cuts – equivalent to 1.5% of GDP – resulted in a significant reduction in government over spend, bringing the deficit down to nearer 4% with the ceiling being temporarily raised. Improvements in the housing sector, consumer confidence and jobs helped the economy grow by +1.7% but the US Federal Reserve had to guide markets to expect a scaling back of the extraordinary stimulus and while short-term rates remained anchored close to zero, 10 year US and UK bond yields rose to end the year at 3%.

Angela Merkel's re-election with a reduced majority coalition government was well received by European equity markets and the Euro Zone finally emerged from recession in the second quarter albeit largely due to a reduction in austerity measures and continuing strong exports especially to China. Economic conditions have improved with Spain and Italy moving from deficit into surplus on their current accounts and Ireland finally being able to return to markets to raise some 50% of their government funding for this year.

However, one of the biggest turnaround stories was the UK, where in the last two quarters, GDP growth accelerated at +3% annualised. The reacceleration reflected a mix of aggressive monetary policy and credit stimulus, reduced head winds from household deleveraging and physical policy as well as pent up demand for cars and housing. The recovery in exports and investment remained modest but improved tax returns combined with ongoing austerity meant government spending came in below budget. CPI inflation of 2.1% reflected government regulated prices and wage inflation was below 1%. Quantitative Easing was quietly withdrawn and while the Bank of England provided 'forward guidance' that interest rates would remain low, bond investors started to discount higher rates raising the relative attractiveness of Sterling which hit a 2 year high against the Dollar of \$1.65 in December.

The Society's investments performed well in this environment having delivered a total return of some +6.3% which compared favourably against the relevant benchmark movements. The focus on the shorter dated end of the gilt market offered protection against the declining prices seen in conventional gilts during the period and our bias towards corporate bonds and index linked gilts also helped the overall. Our continued rotation into equities from the fixed interest asset class also proved well timed thus allowing us to benefit from the +20.8% total return seen from the FTSE All Share Index.

2014 starts with the prospect of a modest acceleration in global GDP, low inflation and low interest rates. Combined with reduced risks - as deleveraging and restructuring progress, equities are well placed to produce further gains and outperform bonds. In the short term, investors may have already anticipated the improving trends and end of year exuberance could be tempered by corporate guidance when year end results are published in the first quarter of this year but estimated profit growth of +11% for 2014 is not excessive for this stage in the cycle. If companies manage to meet or exceed these forecasts, markets could be re-rated further. We also hope to see a pickup in corporate activity as companies start to spend some of their burgeoning cash piles. While we aim to capture the improving economic prospects in the UK through our increased UK equity weighting, we also remain defensively positioned in the fixed interest markets in anticipation of further increase in gilt yields. Against this background, the portfolio remains well positioned to make further progress this year.

Jerome F Barry Chartered FCSI

Executive Director

Quilter Cheviot

March 2014

Introduction

Corporate Governance is about how the Board carries out its duties and responsibilities. The Society is committed to delivering high standards of Corporate Governance. The Society complies with the UK Corporate Governance Code annotated for Mutual Insurers.

The Society adheres to the policy of 'Comply or Explain'. After each main principle has been examined a view is given on compliance.

Section A - Leadership

The Role of the Board

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

Board Response:

The role of the Board is set out within the rules of the Society. The Board determines the strategic direction of the Society and ensures that it operates within its rules, legislation and regulation.

Individual Board Members are drawn from a wide range of disciplines. The Chief Executive is responsible for the internal organisation, management, day-to-day control of the Society and implementing the Board's agreed strategies.

The Board met on seven occasions during 2013. The attendance at meetings during 2013 was as follows:

Name	Called to	Attended
A J Knight*	7	7
J Bridge	7	7
P L Brown	7	7
P R Hudson	7	7
M T King	7	7
Dr J E Miller (retired May 2013)	3	2
J F Quinn	7	7
P A Rouse	7	7
W J M Schouten	7	7
P C Whitefield	7	7
D J G Williams	7	6

* Chairman of the Board of Management from 20 May 2004

NB. Dr James Miller did not attend the Board Meeting on 17 January 2013 as he had been deployed to Afghanistan, but he did attend the meetings on 21 March 2013 and 14 May 2013. He then stood down from the Board of Management at the AGM on 18 May 2013.

The Board of Management has four sub-committees being:

- **Audit and Risk** - Considering matters of finance, risk and compliance;
- **Nomination** - Considering suitable candidates for membership of the Board;
- **Remuneration** - Considering staff pay and performance bonus arrangements;
- **Officers** - Considering all matters considered urgent and requiring attention between meetings of the Board.

Compliance

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

The Chairman, Chief Executive and Division of Responsibilities

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

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

Board Response:

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

Compliance

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

Strategy

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

Board Response:

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

Compliance

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

Section B - Effectiveness

Board Balance and Independence

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

Board Response:

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

Between January and May 2013, the Board consisted of the Chairman, who is a Non-Executive Director, seven other Non-Executive Directors and three Executive Directors being the Chief Executive, Deputy Chief Executive and Director of Sales and Marketing.

From May 2013 to December 2013, the Board consisted of the Chairman, six Non-Executive Directors and 3 Executive Directors following the retirement of Dr J E Miller.

Under the Rules of the Society, the maximum number of individuals that may serve on the Board is 12 and the minimum six. The number of Non-Executive Directors exceeds the Executive Directors, this is compensated for by the periodic attendance of Senior Managers, as required, and the day-to-day working knowledge of the Executive Directors of the Board.

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

New Board Members are selected from applicants following advertising in the national quality press; nominations from Members are also considered. All candidates are subject to an interview and selection process and approval by the Financial Conduct Authority

before taking up their duties. Board Members are subject to election under the rules of the Society by Members at the Annual General Meeting.

Any Member who wishes to be considered for a place on the Board should write to the Chief Executive with their CV.

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

The Non-Executive must not have;

- been an employee of the company or group within the last five years;
- had within the last three years, a material business relationship with the company either directly, or as a Partner, Shareholder, Director or Senior Employee of a body that has such a relationship with the company;
- received or receive additional remuneration from the company apart from a Director's fee,
- participated in the company's share option or a performance-related pay scheme, or be a member of the company's pension scheme;
- close family ties with any of the company's Advisers, Directors or Senior Employees;
- hold cross-directorships or have significant links with other Directors through involvement in other companies or bodies;
- represent a significant Shareholder;
- served on the Board of Management for more than 9 years.

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

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

Material Business Interest

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

J Bridge

M T King

Dr J E Miller (applicable to 18 May 2013)

P A Rouse

D J G Williams

Additional Remuneration

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

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

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

Served more than nine years

The following Non-Executive Directors of the Board have served for more than nine years:

A J Knight

M T King

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

D J G Williams	2015
P A Rouse	2015
A J Knight	2016
M T King	2016
P C Whitefield	2020
W J M Schouten	2021
J F Quinn	2021

For future appointments, no Non-Executive Director shall normally serve a longer term than nine years.

A J Knight has also served longer than nine years but the length of service test of independence does not apply as he need only have been independent on first appointment as Chairman as he holds the position of Chairman of the Board.

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

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

Compliance

The Board is satisfied that having regard to the foregoing it satisfied the prevailing requirements of the UK Corporate Governance Code.

Appointments to the Board

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

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

Board Response:

A Nomination Committee consisting of the Chairman of the Board, Vice-Chairman of the Board, Senior Independent Director 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 reconvenes to discuss new appointments as the need arises.

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

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

Employees at the Society are predominantly female and we actively encourage staff development and advancement through various initiatives affording the same opportunity for male and female employees alike.

Compliance

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

Information & Professional Development

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

Board Response:

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

Regular contact between the Non-Executive Board Directors and Executive Directors 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.

Compliance

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

Performance Evaluation:

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

Board Response:

In 2013, Board Members were subject to an independent 360 degree review of their own performance and that of other Directors. Each Board Member was invited to complete an on-line questionnaire and provide comments on their own effectiveness and that of their fellow Board Members. The results were evaluated and conclusions drawn with corrective action taken where necessary. Individual Board Members were also subject to formal appraisal interviews with the Chairman of the Board.

The Senior Independent Director carried out a formal appraisal interview of the Chairman of the Board. This in-depth and comprehensive review will be carried out on a regular basis.

Compliance

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

Re-election

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

Board Response:

The rules of the Society require that following their first election all Board Members are subject to re-election every three years. In addition to the annual evaluation of performance, once a Board Member has served for nine years their continued service is also subject to rigorous review by the Nomination Committee to determine whether continued service has merit and in cases where it is felt there is, an explanation will be given to Members justifying why. It is now agreed practice that Board Members who have served for more than nine years on the Board will submit themselves to annual re-election.

The attendance at Nomination Committee meetings during 2013 was as follows:

Name	Called to	Attended
A J Knight*	1	1
P R Hudson	1	1
M T King	1	1
P A Rouse	1	1

* Chairman of the Nomination Committee from 27 September 2011

In the interest of regular refreshment and succession planning the Board has agreed retirement dates for all Non-Executive Directors as listed on page 15.

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

Compliance

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

Section C - Remuneration

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

Board Response:

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

As the Board serves as an example for the rest of the Society, the Remuneration Committee has established a remuneration policy for Executive Directors of the Board that has a clear focus on Member value. To this end, the remuneration package of the Chief Executive, Deputy Chief Executive and the Director of Sales and Marketing who are Executive Directors 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:

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

The attendance at Remuneration Committee meetings during 2013 was as follows:

Name	Called to	Attended
P A Rouse*	4	4
P R Hudson	4	4
A J Knight	4	4
W J M Schouten	4	4
D J G Williams	4	3
P L Brown (as guest)	4	4

* Chairman of the Committee from November 2011

Reward Components for Executive Remuneration

Base Salary

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

Annual Incentive Payments

Annual incentives using Key Performance Indicators (KPI's) in respect of the under mentioned:

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

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

Pensions

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

The contribution made by the Society on behalf of the Chief Executive is 27% of base salary but excluding annual incentive payments. The contribution recognises that the Chief Executive gave up entitlement to a Final Salary Scheme which was an onerous burden upon the Society. The contribution made on behalf of the Deputy Chief Executive and the Director of Sales and Marketing is 10% of base salary.

Service Agreements

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

Chairman of the Board of Management and Non-Executive Directors

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

To this end the Society established a remuneration structure for the Chairman of the Board and Non-

Executive Directors, that includes a base fee and, in the case of the Chairman of the Board and Vice-Chairman of the Board only, an operational fee plus a meeting fee for attendance at meetings.

In 2013 this was reviewed and amended. From the 1 January 2013, the Chairman of the Board and other Non-Executive Directors have been paid salaries commensurate with the market and the position they hold. The UK Corporate Governance Code at Question B3 requires the terms and conditions of the Chairman

of the Board and other Non-Executive Directors to be available for inspection by Members of the Society 15 minutes before the Annual General Meeting and during the Annual General Meeting. The Society complies with this requirement.

In addition Board Members are also paid an allowance for prior authorised business mileage based on Inland Revenue Fixed Profit Car Scheme rates for own car use. Alternatively Board Members can reclaim authorised cost of travel if travelling by taxi, train or by air.

BOARD MEMBERS' EMOLUMENTS						
	Basic Salaries ¹	Annual Incentive Payments ²	Benefits and other Emoluments ³	Defined Contributions Pension ⁴	Total 2013	Total 2012
	£000's	£000's	£000's	£000's	£000's	£000's
A J Knight	25.9	-	-	-	25.9	24.0
M T King	19.0	-	-	-	19.0	16.0
P R Hudson	170.4	25.7	14.1	44.1	254.3	196.2
P L Brown	102.1	15.4	8.1	10.2	135.8	116.9
J Bridge	84.5	13.7	6.5	8.4	113.1	93.9
Dr J E Miller	2.9	-	-	-	2.9	5.0
J F Quinn	11.8	-	-	-	11.8	1.2
P A Rouse	15.4	-	-	-	15.4	10.0
R H Sanders	-	-	-	-	-	3.1
W J M Schouten	11.8	-	-	-	11.8	1.2
P C Whitefield	11.8	-	-	-	11.8	9.0
D J G Williams	11.8	-	-	-	11.8	9.0
Total	467.4	54.8	28.7	62.7	613.6	485.5

Notes:

- 1 The salaries paid to all staff, including the Executives are benchmarked against industry levels using Towers Watson Survey Data throughout the United Kingdom, excluding London. It is the aim of the Society to pay all staff at a rate between the median and upper quartile for similar roles in similar sized organisations. Salaries are reviewed annually against published statistics.
- 2 Annual incentive payments represent targeted bonuses for the Executives.
- 3 The amounts shown under the heading Benefits represent the taxable benefit based on the value of company cars provided for the Chief Executive and the Deputy Chief Executive and a car allowance paid to the Director of Sales and Marketing. The Chief Executive also had an entertainment allowance of £5,000 which was not used during 2013.
- 4 The amounts represent the contributions made on behalf of the Executives to the Society's defined contribution pension scheme.
- 5 Deductions for personal taxation and National Insurance Contributions apply with the exception of P A Rouse, who invoices the Society for his services.

Compliance

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

Procedure

There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing

the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.

Board Response:

From January 2013 to December 2013, the Remuneration Committee comprised four Non-Executive Directors, the Senior Independent Director, Chairman of the Board and two other Board Members, plus the Chief Executive.

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. In 2013 the Society used the Towers Watson National Income Survey (excluding London) to determine appropriate remuneration at all levels.

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

In view of the potential of an upward ratchet of remuneration levels with no corresponding improvement in performance, the Committee introduced a comprehensive Performance Management System which was followed throughout 2013.

Compliance

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

Section D - Accountability

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

Board Response:

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

Compliance

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

Internal Control and Risk

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

Board Response:

The Board has collective responsibility for the Society's internal control and for reviewing its effectiveness. The Senior Management of the Society and the Board are responsible for the identification, assessment and

mitigation of external and internal risks which might prevent the Society from achieving its business objectives.

The Risk Officer has responsibility to monitor and recognise all matters of risk. The Risk Officer attends the Audit and Risk Committee and has the right of direct access to the Chairman of that forum. This position reports to the Deputy Chief Executive.

The risk review is conducted throughout the year as part of the Society's risk appetite and management framework and includes an assessment of strategic, 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.

Compliance

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

Audit and Risk Committee and Auditors

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

Board Response:

From January 2013 to December 2013 the Audit and Risk Committee comprised four Non-Executive Directors with relevant financial and regulatory experience and one Executive Director. The Committee occasionally invited the Chief Executive to advise on specific issues where he could add value.

The Committee met on four 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 who are both Non-Executive positions. The terms of reference of the Audit and Risk Committee are available without charge to Members on request.

The attendance at meetings during 2013 was as follows:-

Name	Called to	Attended
M T King*	4	4
P L Brown	4	4
A J Knight	4	3
J F Quinn	4	3
P C Whitefield	4	4
P R Hudson (as guest)	2	2

*Chairman of the Committee from May 2004

Compliance

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

Section E - Relations with Members

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

Board Response:

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

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

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

The Society launched its Excellent Customer Service Strategy in 2012 to enhance its already high standards of Service to Members and Financial Advisers.

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

Compliance

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

Constructive use of the Annual General Meeting:

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

Board Response:

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

Members are encouraged to vote on all resolutions. The Society now offers the option of online electronic casting of votes. Alternatively Members are able to complete and return Proxy Voting Forms. As an incentive to do so, if this is done at least 48 hours before the AGM in May 2013, the Board will make a donation to charitable causes for every valid vote made by post or online as it has done in previous years.

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

Compliance

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

On behalf of the Board of Management



P. R. Hudson

Chief Executive and Company Secretary
27 March 2014

We have audited the financial statements of The Cirencester Friendly Society Limited for the year ended 31 December 2013 which comprise the Income and Expenditure Account, Balance sheet and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2013, and the effect of the movement in those provisions during the year on the fund for future appropriations, the balance on the general business technical account and on excess of income over expenditure before tax are disclosed in note 12.

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

Respective responsibilities of the Committee of Management and auditor

As explained more fully in the Board of Management's Responsibilities Statement set out on page 11, the Board of Management is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Our assessment of risks of material misstatement

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

- the operation and effectiveness of the society's member's system during the year and specifically the operation of the system over premium income and claims paid to members;
- the valuation and ownership of the society's investments at the year end and the recording of transactions throughout the year;

- the society's compliance with applicable regulations;
- the society's calculation and recognition of deferred acquisition costs; and
- any adverse effects on solvency of significant new business in the year.

Revenue recognition and the risk of fraud arising from management override of internal controls have been addressed.

Our application of materiality

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

We also determine a lower level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the society to be £250,000, which is approximately 2% of premiums earned; for misstatements that only affect balance sheet classification a higher amount of £600,000 is used, which is approximately 1% of gross assets. We use these measures to ensure the level of uncorrected misstatements does not materially impact the society's solvency calculations.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement is that performance materiality should be 90% of materiality, namely £225,000 and £540,000. Our approach is designed to have a reasonable probability of ensuring that the total of uncorrected and undetected

audit differences do not exceed our materiality of £250,000 for the financial statements as a whole.

An overview of the scope of the audit of the financial statements

The way in which we responded to the risks identified above was as follows:

- In order to address risk around the operation of the society's member's system during the year we have tested the operating effectiveness of the controls over membership records, premium income and claims paid to members. The controls were tested on a sample basis, and the extent of testing varied depending on the frequency with which the control is operated.
- In order to address risk around ownership of the society's investments held at the year end, we confirmed the entirety of the holdings to independent third party confirmations provided by the society's custodians. These statements were compared to known movements in the investments holdings in the year through comparison to contract notes and testing of the management's monthly investment reconciliations.
- In order to address the risk around the valuation of the society's investment we obtained from independent third parties confirmations of the prices for the purpose of subscription or redemption of interest in the underlying investments in investee funds as at 31 December 2013.
- In order to address the risk of associated with the recording of investment transactions through the year ended 31 December 2013 we have tested a sample of transactions to independent documentation.
- In order to address the risk over the society's compliance with its regulatory environment we updated our understanding of the regulatory requirements and reviewed the Society's correspondence with its regulators, statutory filings and management's records of compliance with appropriate regulations.
- As part of our testing of the deferred acquisition costs we have substantively tested this balance, we have performed analytical procedures and we have compared the movement in these costs to our expectations based on our knowledge of the society's operations.
- We performed reviews of the financial statements to ensure that there were no adverse effects on solvency. We also placed reliance on the work of the Actuarial Function Holder and the reviewing actuary.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the society's affairs as at 31 December 2013 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.

Opinion on other matters prescribed by the Friendly Societies Act 1992

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

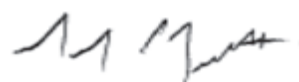
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Friendly Societies Act

1992 requires us to report to you if, in our opinion:

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

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the 8 provisions of the Annotated Combined Code specified by the Association of Financial Mutuals.



M P Burnett

Senior Statutory Auditor

For and on behalf of Moore Stephens
Chartered Accountants & Statutory Auditor
March 2014

Income and Expenditure Account for the Year ended 31 December 2013

	Notes	2013 £	2012 £
TECHNICAL ACCOUNT - LONG TERM BUSINESS			
Earned premiums	2	14,241,147	13,794,237
Investment income	3	3,081,972	2,529,777
Net other technical income less other technical charges		73,844	83,914
Technical Income		17,396,963	16,407,928
Claims incurred	4	(3,284,806)	(3,239,176)
Increase in long term business provision	12	(714,000)	(1,027,000)
Interest on retired Members' deposits		(52,308)	(48,354)
Bonus Allocations to Members' capital accounts	13	(493,785)	(498,657)
Surplus Allocations to Members' capital accounts	13	(1,603,159)	(1,601,929)
Net operating expenses	5	(6,654,722)	(5,886,297)
Investment expenses and charges	7	(42,120)	(15,693)
		4,552,063	4,090,822
Transfer (to)/from fund for future appropriations	12	(4,552,063)	(4,090,822)
Balance on the technical account		-	-

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

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

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

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

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

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

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

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

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

Balance Sheet
as at 31 December 2013

	Notes	2013		2012	
		£	£	£	£
ASSETS					
Investments					
Land and buildings	8	1,880,000		1,750,000	
Investment in subsidiary	9	100		100	
Other financial investments	10	59,160,312		53,867,983	
			61,040,412		55,618,083
Debtors					
Other debtors			58,313		57,983
Other assets					
Tangible assets	11	264,749		271,345	
Cash at Bank in hand		3,807,231		2,819,024	
			4,071,980		3,090,369
Prepayments and accrued income					
Accrued interest and rent		244,646		299,305	
Other prepayments and accrued income		99,973		164,755	
Deferred acquisition costs		3,019,883		3,507,381	
			3,364,502		3,971,441
			<u>68,535,207</u>		<u>62,737,876</u>
LIABILITIES					
Reserves					
Provided for by the Rules					
Benevolent Fund	16		659,613		74,653
Fund for Future Appropriations					
General Reserve	12		22,148,864		19,980,871
Members Mutual Fund	12+14		3,286,724		1,475,422
Technical provisions					
Members' Capital Accounts	13	21,281,813		21,372,318	
Retired Members' Deposits	15	2,096,559		1,910,294	
Long Term Business Provisions	12	17,364,000		16,650,000	
			40,742,372		39,932,612
Creditors					
Arising out of Direct Insurance Operations		860,419		767,725	
Other creditors including tax and social security		254,151		209,708	
			1,114,570		977,433
Accruals and Deferred Income			583,064		296,885
			<u>68,535,207</u>		<u>62,737,876</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 27 March 2014 and were signed on their behalf by :



Chairman



Chief Executive

1. ACCOUNTING POLICIES

Accounting Convention

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

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

Basis of Accounting

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

Tangible Assets (excluding freehold properties)

Tangible Assets are stated at historical cost less accumulated depreciation.

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

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

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

Premium Income

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

Investment Income

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

Realised and unrealised gains and losses

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

Claims and Benefits

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

Investment Expenses and Charges

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

Leasing

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

Taxation

The Society is exempt from Corporation Tax.

Acquisition Costs

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

Pension Costs

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

Fund for Future Appropriation

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

Long-term Business Provisions

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

Notes to the Accounts (Cont'd)
31 December 2013

2. PREMIUM INCOME

	2013	2012
	£	£
Gross Premiums received	<u>14,241,147</u>	<u>13,794,237</u>

3. INVESTMENT INCOME

	2013	2012
	£	£
Net income from land and buildings	50,694	52,392
Listed securities	1,439,796	1,324,236
Interest from monies on deposit	73,549	198,758
	<u>1,564,039</u>	<u>1,575,386</u>
Unrealised gains on investments	1,966,154	947,893
Losses on realisation of investments	(448,221)	6,498
	<u>3,081,972</u>	<u>2,529,777</u>

4. CLAIMS INCURRED

	2013	2012
	£	£
Gross Claims Payable	<u>3,284,806</u>	<u>3,239,176</u>

5. NET OPERATING EXPENSES

	2013	2012
	£	£
Acquisition costs	3,724,724	3,254,352
Administrative expenses	2,929,998	2,631,945
	<u>6,654,722</u>	<u>5,886,297</u>
Acquisition costs include:		
Amortised commissions	2,243,517	2,353,937
Depreciation	22,773	19,883
Administrative expenses include:		
Depreciation	91,665	70,920
Amounts payable, including expenses, by the Society to the Auditor in respect of:		
Statutory accounts (Inclusive of VAT)	30,000	27,000
Regulatory returns	-	-
Other services (Inclusive of VAT)	37,474	-
Other professional services (Inclusive of VAT)	952,210	249,402
Actuarial fees (Inclusive of VAT)	111,358	230,440
Aggregate amount of Board members' emoluments	<u>613,539</u>	<u>485,642</u>

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

	2013	2012
	No.	No.
£1 - £5,000	1	4
£5,001 - £10,000	-	3
£10,001 - £15,000	4	-
£15,001 - £20,000	2	1
£20,001 - £25,000	-	1
£25,001 - £30,000	1	-
£85,001 - £90,000	-	1
£105,001 - £110,000	1	1
£130,001 - £135,000	1	-
£160,001 - £165,000	-	1
£215,001 - £220,000	1	-

The emoluments of the Chairman amounted to £25,872 for the year (2012 - £24,045).

The emoluments of the highest paid member of the Board were £218,623 (2012 - £160,700).

6. EMPLOYEE INFORMATION

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

	2013	2012
	No.	No.
Administration	27	28
Acquisition	14	15
	<u>41</u>	<u>43</u>

Staff costs for the above persons were:

	2013	2012
	£	£
Wages and salaries (including the Chief Executive, Deputy Chief Executive and the Director of Sales and Marketing)	1,499,697	1,353,144
Social security costs	142,387	132,388
Other pension costs	159,991	145,840
	<u>1,802,075</u>	<u>1,631,372</u>

7. INVESTMENT EXPENSES AND CHARGES

	2013	2012
	£	£
Investment management expenses	<u>42,120</u>	<u>15,693</u>

Notes to the Accounts (Cont'd)

31 December 2013

8. LAND AND BUILDINGS

The Society's land and buildings were valued at £1,880,000 31 December 2013 (2012 £1,750,000). The Society occupies the freehold premises at 5 Dyer Street, Cirencester which is valued at £1,100,000 as at 31 December 2013 (2012 £1,100,000). The Society also holds the leasehold at Unit 7 Shrivenham 100 Business Park, Watchfield which is valued at 130,000, this property was acquired during the year.

9. INVESTMENT IN SUBSIDIARY UNDERTAKING

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

	2013	2012
	£	£
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.

10. OTHER FINANCIAL INVESTMENTS

	2013	2012
	£	£
Listed investments	53,252,744	45,668,683
Monies held on term deposits	5,907,568	8,199,300
	<u>59,160,312</u>	<u>53,867,983</u>

Listed Investments

MARKET VALUES

	2013		2012	
	£	£	£	£
Valuation at 1 January		45,668,683		36,815,780
Additions at Cost		9,037,671		9,308,602
Less Disposals (Sale Proceeds)	(3,141,291)		(1,400,000)	
Net profit/(loss) on Disposals	(448,281)	(3,589,572)	(13,580)	(1,413,580)
General Fund				
(Depreciation)/Appreciation	2,133,587		956,615	
Benevolent Fund				
(Depreciation)/Appreciation	2,375	2,135,962	1,266	957,881
Valuation at 31 December		<u>53,252,744</u>		<u>45,668,683</u>

COST

MARKET VALUES

	2013	2012	2013	2012
	£	£	£	£
Fixed Interest Redeemable				
Government Stocks	10,738,511	10,738,521	12,158,181	12,688,593
Other Fixed Interest Stocks	15,511,232	17,015,945	16,063,513	18,160,853
	<u>26,249,743</u>	<u>27,754,466</u>	<u>28,221,694</u>	<u>30,849,446</u>
Direct Equity holdings	3,317,718	2,327,181	2,697,930	3,020,525
Unit Trusts and OEICs	17,681,682	11,613,207	22,333,120	11,798,712
	<u>47,249,143</u>	<u>41,694,854</u>	<u>53,252,744</u>	<u>45,668,683</u>

11. TANGIBLE ASSETS

	Motor Vehicles	Office Equipment	Computer Equipment	Total
	£	£	£	£
Cost				
At 1 January 2013	70,116	241,383	653,106	964,605
Additions	-	8,513	99,287	107,800
Disposals	-	(1,014)	-	(1,014)
At 31 December 2013	<u>70,116</u>	<u>248,882</u>	<u>752,393</u>	<u>1,071,391</u>
Depreciation				
At 1 January 2013	14,194	215,688	463,378	693,260
Charge for the year	17,529	13,500	83,409	114,438
Disposals	-	(1,056)	-	(1,056)
At 31 December 2013	<u>31,723</u>	<u>228,132</u>	<u>546,787</u>	<u>806,642</u>
Book Value at 31 December 2013	<u>38,393</u>	<u>20,750</u>	<u>205,606</u>	<u>264,749</u>
Book Value at 31 December 2012	<u>55,922</u>	<u>25,695</u>	<u>189,728</u>	<u>271,345</u>

12. RESERVES AND TECHNICAL PROVISIONS

	Fund for future appropriations	Long term business provisions	Members' Mutual Fund
	£	£	£
Balances at 1 January 2013	19,980,871	16,650,000	1,475,422
Change in long term business provision		714,000	
Transfer from income and expenditure account	4,552,063		
Transfer to Members Mutual Fund	(1,884,070)		1,884,070
Transfer to Benevolent Fund	(500,000)		(72,768)
Balances at 31 December 2013	<u>22,148,864</u>	<u>17,364,000</u>	<u>3,286,724</u>

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

13. MEMBERS' CAPITAL ACCOUNTS

	2013		2012	
	£	£	£	£
Balance at 1 January		21,372,318		21,521,457
Less Withdrawals				
On cessation of Membership and by continuing Members	(2,112,381)		(2,174,448)	
Forfeitures thereon	(75,068)	(2,187,449)	(83,950)	(2,258,398)
Add				
Bonus Allocation/ Interest Credited	493,785		498,657	
Surplus Allocations / Dividends Declared	1,603,159		1,601,929	
Commission Sacrifices	-	2,096,944	8,673	2,109,259
Balance at 31 December		<u>21,281,813</u>		<u>21,372,318</u>

14. MEMBERS' MUTUAL FUND

A Members' Mutual Fund, representing an allocation of part of the Society's surpluses, when available, over and above specific rights conferred to Members by virtue of the contracts they hold for Income Protection, was established at 31 December 2012. At the date of termination of a Member's contract with the Society the Member may participate in the fund in accordance with the rules of the Members' Mutual Fund. The fund became fully operational from 1 January 2014.

15. RETIRED MEMBERS' DEPOSITS

	2013		2012	
	£	£	£	£
Balance at 1 January		1,910,294		1,844,045
Less Withdrawals		(141,778)		(193,967)
Interest Credited	42,503		39,033	
Transfers from Members' Accounts	285,540	328,043	221,183	260,216
Balance at 31 December		<u>2,096,559</u>		<u>1,910,294</u>

Retired Members' deposits are repayable on demand.

Notes to the Accounts (Cont'd)

31 December 2013

16. BENEVOLENT FUND

	2013	2012
	£	£
Investment Income		
Income from Stocks & Shares	2,091	2,005
Unrealised Gains on Investments		
Appreciation on Stock	2,375	1,266
Other Technical Income		
Transfer from General Reserves and the Members' Mutual Fund	572,768	
Donations from Members, Staff and allocated from the main fund	9,688	9,293
Less	586,922	12,564
Losses on disposal of investments	-	-
Other Technical Charges		
Charitable donations made	(1,962)	(2,546)
Decrease/Increase in Fund during year	584,960	10,018
Balance 1 January	74,653	64,635
Balance at 31 December	659,613	74,653

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 £159,991 (2012 - £145,840). There were no amounts outstanding to the scheme at the year end (2012 - £nil).

18. TRANSACTIONS WITH BOARD MEMBERS

There were no loans outstanding from Board Members at 31 December 2013 (2012 - 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:

	2013	2012
	£	£
M T King	-	2,600
Dr J E Miller	1,016	4,674
P A Rouse	2,350	600
D J G Williams	3,194	-

19. ACTUARIAL FUNCTION

Mr C Critchlow, a partner in OAC, holds the appointment of the 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 Critchlow has confirmed that neither he nor his family, nor any of his partners were Members of the Society, nor have they any financial or pecuniary interests in the Society, with the expectation of fees paid to OAC for professional services, which amounted to £91,931 (before VAT) (2012 - £107,398).

20. CAPITAL STATEMENT

a) Available Capital

	2013	2012
	£	£
Fund for Future Appropriations	22,148,864	19,980,871
Members Mutual Fund	3,286,724	1,475,422
Adjustments Inadmissible Assets		
Deferred Acquisition Costs	(3,019,883)	(3,507,381)
Other Assets	(84,055)	-
Total available capital	<u>22,331,650</u>	<u>17,948,912</u>

The Society has a minimum Capital Resource Requirement of £2,761,564 (2012 £3,177,338). The excess Available Capital Resource is therefore £19,570,985 (2012 £14,771,574). A reconciliation of the movements in the Excess Available Capital Resources for the year is set out below:

	2013	2012
	£,000	£,000
Available Capital as at 31 December 2012	14,772	11,245
New Business and Lapses	124	2,572
Methodology Changes	-	106
Basis Changes	(11)	72
Changes in Members' balances and retired Members' balances	(96)	83
Changes in Sickness Reserve	(785)	(3,744)
Changes in Admissible Assets	6,201	5,081
Change in RTR and LTICR	416	(543)
Changes in other liabilities	(1,051)	(100)
	<u>19,570</u>	<u>14,772</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 Movement in Available Capital £,000	
An increase in the inception of claims of 10%	(755)	Decrease
A decrease in the inception rate of claims of 10%	120	Increase
An increase in the recovery rate of claims of 10%	1,122	Increase
A decrease in the recovery rate of claims of 10%	(10,647)	Decrease
An increase in the rate of expenses of 10%	-	-
A decrease in the rate of expenses of 10%	-	-
An increase in the rate of mortality of 10%	236	Increase
A decrease in the rate of mortality of 10%	(262)	Decrease
An increase in the interest rate of 1%	1,213	Increase
A decrease in the interest rate of 1%	(1,378)	Decrease
An increase in the value of investment assets of 10%	5,325	Increase
A decrease in the value of investment assets of 10%	(5,325)	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.

Notes to the Accounts (Cont'd)

31 December 2013

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 Conduct Authority (FCA). 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 Prudential Regulation Authority's (PRA) 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 £22.33m (2012 - £17.95m) all of which is held in a general fund.

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

It remains the intention of management to ensure that there is adequate capital to exceed the Society's regulatory requirements. At 31 December the available capital was 808% of its capital requirements of £2,761,496 (2012 - 564%)

Basis for Setting Technical Provisions

- Interest Rate 1.50% pa (2012 - 1.0% pa)
- Morbidity Incidence Rate: Health and Wealth 50% of CMIR12 table and Income Assured Plus 30% of CMIR12.
- Morbidity Recovery Rates: Health and Wealth 65% of CMIR12 for month 1, 100% for month 2 and 110% for month 3, 130% for months 4-6, 140% for months 7-12 and 150% thereafter and Income Assured Plus 45% of CMIR12 for the first month, 65% for month 2, 90% for month 3, 115% for months 4-6, 140% for months 7-12 and 140% thereafter.
- Mortality Rate 50% of CMIR12 (2012 - 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

	2013	2012
	£	£
Capital commitments of the Society at the end of the year for which no provision has been made are as follows:		
Contracted	-	259,860
Approved by the Board of Management but not contracted for	765,000	183,600
	<u>765,000</u>	<u>443,460</u>
Annual commitments of the Society under other non-cancellable operating leases are as follows:		
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	7,022	7,022
Over five years	-	-
	<u>7,022</u>	<u>7,022</u>

22. CONTINGENT LIABILITIES

The Society had no contingent liabilities at the end of the year (2012 - £nil).

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Cirencester Friendly Society Limited is Authorised by the Prudential Regulation Authority and regulated
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