



# Annual Report & Accounts

Year ended 31 December 2018

Your friend for life

# Cirencester Friendly Society Limited

## Founded 1890

Registered No.149F

## Registered Office:

5 Dyer Street, Cirencester, Gloucestershire, GL7 2PP Telephone: 01285 653073 or 652492 Fax: 01285 641246

Email: [info@cirencester-friendly.co.uk](mailto:info@cirencester-friendly.co.uk) Web: [www.cirencester-friendly.co.uk](http://www.cirencester-friendly.co.uk)

## Board of Management:

Chairman:	John F Quinn M. Litt. BA (Hons)
Chief Executive:	Paul R Hudson MBA FCIS MCSI
Deputy Chief Executive:	Peter L Brown FCA FCCA
Commercial Director:	David R Macgregor Cert PFS (appointed 03 July 2018)
Board Members:	Janice W Banks MBA
	Marian L Evans BSc (Hons), FInstLM. ACII. Chartered Insurance Broker
	Katharine S McIntyre BA (Hons), ACA
	Ian M Maude
	William J M Schouten MBA
	Mark C Sedgley ACII

## Arbitrators:

Phillip Harris LLB, FCIArb, Solicitor

Roger Warrington FRICS, FCIArb, Chartered Surveyor

Mark Thomas Dip Adj BSc MSc LLM FRICS FCIArb MAE, Chartered Surveyor

## Chief Executive:

Paul R Hudson MBA FCIS MCSI

## Company Secretary:

Andrew J Horsley FCIS Chartered MCSI

## Senior Independent Director (Board Member):

Ian M Maude

## External Auditors:

BDO LLP

## Internal Auditors:

Case Accounting Ltd

## Actuary:

Chief Actuary and With Profits Actuary

Christopher N Critchlow BSc, FIA, OAC plc

## Investment Managers:

LGT Vestra

## Bankers:

Lloyds Bank plc

# The Board of Management Profiles



**Non-Executive Director**  
**Janice W Banks**  
MBA

**Term of Office:** Janice joined the Board in January 2016

**Independent:** Yes

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



**Deputy Chief Executive**  
**Peter L Brown**  
FCA FCCA

**Term of Office:** Peter joined the Board in October 2004

**Independent:** No as an Executive

**Skills and Experience:** Formerly a Partner in both an Oxfordshire and a National Accountancy firm for 16 years to 2000 with considerable experience in auditing, including that 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.



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

**Term of Office:** Marian joined the Board in January 2016

**Independent:** Yes

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



**Chief Executive**  
**Paul R Hudson**  
MBA FCIS MCSI

**Term of Office:** Paul joined the Board in February 1997

**Independent:** No as an Executive

**Skills and Experience:** Over 40 years experience working in Financial Services all gained within the mutual sector. A Fellow of the Institute of Chartered Secretaries and Administrators since 1994, Master of Business Administration since 1997 and Member of the Chartered Institute of Securities and Investments since 2011. Prior to joining the Society, he held a number of senior and general management positions at a number of other Friendly Societies and Trade Bodies. Board member of the Trade Body, the Association of Financial Mutuals since March 2016 to present.



**Commercial Director**  
**David R Macgregor**  
CertPFS

**Term of Office:** David joined the Board in July 2018

**Independent:** No as an Executive

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



**Senior Independent Director**  
**Ian M Maude**

**Term of Office:** Ian joined the Board in May 2015

**Independent:** Yes

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

# The Board of Management Profiles



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

**Term of Office:** Kate joined the Board in August 2017

**Independent:** Yes

**Skills and Experience:** A Chartered Accountant by background, Kate is an experienced director who has worked in a wide variety of roles and organisations over the last 30 plus years, primarily in Financial Services.

Organisations where Kate has held senior roles include; Skipton Building Society, First Direct, AXA, Lloyds Banking Group and Engage Mutual.

Now retired from full-time work, Kate provides business advisory services and is a Trustee at both Tadcaster Community Swimming Pool and The Brathay Trust.



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

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

**Independent:** Yes

**Skills and Experience:** Retired from Lloyds Banking Group in December 2011 after a career of 36 years during which, he held managerial posts in Branch Management, Area Management and as a Senior Manager in Corporate and Commercial Banking.



**Non-Executive Director**  
**William J M Schouten**  
MBA

**Term of Office:** William joined the Board in November 2012

**Independent:** Yes

**Skills and Experience:** A senior Executive with more than 30 years' experience in the Financial Services industry. Held Executive Director positions with varying responsibilities in NFU Mutual 1998 to 2009 and in Royal Insurance 1993 to 1996 and in between worked for a short spell at IBM UK Ltd as an Executive Consultant. From 2010 to 2016 operated as an Independent Management Consultant and Executive Coach assisting mainly mutual organisations with planning and implementing change.



**Non-Executive Director**  
**Mark C Sedgley**  
ACII

**Term of Office:** Mark joined the Board in May 2015

**Independent:** Yes

**Skills and Experience:** Currently Chief Executive of Red Rose Friendly Society, Mark is a passionate proponent of mutual values, having worked in the sector for almost thirty years. Mark has also been Chief Executive at Druids Sheffield Friendly Society and has held senior roles at Engage Mutual and Police Mutual. He has wide experience of strategic, technical and operational roles and has also worked as a business adviser in the financial services sector.

*For membership of individual sub-committees please see page 12.*

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the **129th Annual General Meeting of Cirencester Friendly Society Limited** will be held in The Great Oak Hall at **Westonbirt Arboretum**, Tetbury, GL8 8QS on **Thursday 20 June 2019 at 6.30pm** for the purpose of transacting the following business:-

1. To confirm the Minutes of the Annual General Meeting held on 21 June 2018.
2. To receive the Chairman's Statement, Strategic Report, Report of the Board of Management, Financial Statements and the Auditor's Report for the year ended 31 December 2018.
3. To approve the Board of Management's Remuneration Report for the year ended 31 December 2018.\*
4. To elect D R Macgregor as a member of the Board.
5. To re-elect J W Banks as a member of the Board.
6. To re-elect M L Evans as a member of the Board.
7. To re-elect J F Quinn as a member of the Board.
8. To re-elect W J M Schouten as a member of the Board.
9. To consider and, if thought fit, to approve the adoption of the document tabled at the meeting as Schedule 6 to the Memorandum and Rules of the Society.
10. To re-appoint BDO LLP as Auditors for the year 2019.
11. To transact any other business not requiring notice of motion.

Members of the Society over the age of 18 may attend the Annual General Meeting and speak and vote on any item on the Agenda.

Members who wish to attend may be admitted on production of satisfactory evidence of their Membership and identity. Members who are eligible to vote, but who are unable to attend the Annual General Meeting, may appoint a proxy to attend and vote at the meeting and direct the proxy how to vote at the meeting. The Proxy Voting Form can be found accompanying the Member News & 2018 Financial Highlights sent to you in the post. To make voting easier, online voting is available alongside our traditional methods of voting by post or in person. Please see the Proxy Form for full details of the different ways you can vote.

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

By order of the Board



Andrew Horsley  
**Company Secretary**

5 Dyer Street, Cirencester,  
Gloucestershire GL7 2PP

11 April 2019

# A Message from the Chairman



Chairman  
John Quinn

I am very pleased to introduce the 129th Annual Report & Accounts for Cirencester Friendly Society Limited.

## Performance

2018 was another year of encouraging growth in Membership and a healthy financial surplus was returned. Premium income increased and, with appropriate cost control the Society continues to be in a very good position. As a result, once again, participating bonuses have been maintained or improved. We paid 95.2% of the claims that we received during 2018, demonstrating our commitment to be there for our Members when they need us most. Overall, our 2018 financial performance shows that nearly 50% of the premium income was returned to Members either through claims, bonuses and interest. That, I believe, demonstrates our strong belief that our Members should be, and are, at the heart of everything we do.

## Customer Service

We take pride in the high standards of service that, once again, we offered to Members and Advisers. This has been recognised again in 2018 by the industry through the achievement of several prestigious awards which are referred to in more detail in the Strategic Report. However, it would be remiss of me not to mention with considerable pride that, at the COVER Customer Care Awards, Jo Green was awarded Outstanding Customer Care and Victoria Clark was named 'Young Insurance Person of the Year'.

The Society has punched above its weight in other ways too. We successfully launched our enhanced contract, My Earnings Protected in 2018. This was welcomed by the industry and the Adviser community alike and is already delivering encouraging sales results. We are determined to carry on refreshing our contracts to ensure that they meet the needs of Members and prospective Members. It's most gratifying, therefore, that both of our contracts, Income Assured Enhanced and My Earnings Protected, have been awarded a five-star rating

by Defaqto, an independent organisation that considers all the relative features of financial products, scoring all the features and then ranking the products. The Defaqto ratings are highly important because Financial Advisers use them to assess the relative attractiveness of competing products. These Defaqto ratings are the result of a huge effort that has been made by many of our people to produce the sort of contracts that the industry really wants.

## Corporate Governance

As Chairman, I am elected to lead the Board and one of my main roles is to ensure that the Board is effective in setting and implementing the strategy and direction of the Society. I am privileged to serve the Members with an experienced and dedicated Board of Management, who share a commitment to working together in the best interests of our Members. I am glad to have this opportunity publicly to thank my fellow Directors for all their work on behalf of the Society. We again carried out an externally facilitated comprehensive review of the effectiveness and contribution of each member of the Board in 2018, demonstrating our strong commitment to corporate governance.

The first half of 2019 sees some significant changes in our Leadership Team. Peter Brown, our Deputy Chief Executive, is retiring after nearly 15 years of service to the Society. Peter has made a conspicuous contribution to our success. He has played a prominent role in our financial soundness and he has led the important work that prepared the Society for the new Solvency regimes introduced in recent years. Peter leaves with our sincere thanks and our best wishes for the future. We warmly welcome Shirley Fell, who joins us as Operations Director, and Andrew Morris, our new Finance Director.

## Society Offices

Last year I reported on the acquisition of premises at Lakeside Business Park in South Cerney, just outside Cirencester, an essential step for the future development of the Society. Some modification and refurbishment was needed to ensure that it would provide a good working environment and enable us to grow the business further in the coming years. This has been a major project in which we have been well supported by our professional advisers and contractors, whom we thank. A key role has been played by our staff, all of whom have embraced the project and provided many

suggestions that have enabled us to optimise the design of the working environment. It was they who chose the name: Mutuality House. We think this is a highly appropriate name, consistent with our values. Mutuality House should be ready for us to occupy around the middle of 2019 and we look forward to serving our Members and the Adviser community from the new offices for many years to come.

The move to new offices is a vital and exciting step in the continuing expansion of the Society. The Board has made this commitment as a demonstration of our great confidence in the long-term future of Cirencester Friendly.

## Professional Advisers

The Society continues to benefit from expert external professional advice in areas such as External Audit, Internal Audit, Actuarial Services and Investment advice. We regularly monitor the performance and service quality offered by all our external advisers to ensure they continue to offer best value and service to the Society. I am pleased to have this opportunity to thank our various advisers for their assistance during 2018.

## Thank you

The success of the Society in 2018 is a credit to the hard work and ongoing commitment from our fantastic staff and I thank them sincerely for their continued support and enthusiasm. In carrying out their work so effectively they benefit from the experienced and energetic leadership of our Chief Executive, Paul Hudson and his excellent Leadership Team. I am most grateful to all of them.

Finally, I am grateful to the Financial Advisers who continue to recommend the Society to their clients and of course, to you, our Members, who continue to place your trust and welfare with the Society. We have had another very good year in 2018 and while we are by no means complacent, we look forward confidently to what I hope you will agree is an exciting future for Cirencester Friendly.

John Quinn  
Chairman of the Board

11 April 2019

# Strategic Report

## Financial Results and Business Review

*Our Mission is "We Protect Lifestyles". To achieve this we have established three strategic objectives that enable us to deliver on our Mission.*

### 1. To be sustainable and profitable, building capital for a stronger future together

We are very pleased to again report an increase in Membership and a healthy trading surplus. We believe this creditable performance reflects the continued loyalty, relevance and popularity of our products and service. During the year the Society sold a total of 4,520 new contracts, an increase of 8.6% over 2017 whilst the Membership increased, for the fourth year running, by 2.5%.

### New Products

We are committed to the introduction of new products to support our Membership targets. In 2018, we launched My Earnings Protected, which achieved the highest available 5 star Defaqto rating in October 2018. The product enhancements will ensure we continue to grow and continue with our Vision to be the go-to provider when it comes to protecting the lifestyles of our Members and those who rely upon them.

### Solvency

At the end of the year, we had a level of solvency which substantially covered the minimum capital resource requirements prescribed by the Regulator. We prepared an Own Risk Solvency Assessment (ORSA) during 2018 which indicated that we had a comfortable margin of capital resources over the Solvency Capital Requirement, as required under the provisions of Solvency II.

### Controlling Costs

Maintaining an appropriate level of costs to our income whilst supporting our growth ambitions is important to us. In 2018 we continued to grow our Member base, and this was partly reflected in an increase of £1.7m in overall operating expenses compared with the previous year.

Overall operating expenses include acquisition costs and commissions paid and payable.

### Protecting Capital

We do not pursue a speculative or high risk strategy, preferring instead to follow a more cautious, long-term approach on the basis that we want to be able to support our Members in the years to come, as we have done in the past.

As a result of our approach, during very volatile markets, we would report the following:

- **Total Investment losses of £2.91m** (growth and income) a loss of 3.43% (2017: return of 6.30%)
- **Total bonus and surplus allocations of £1.38m** (including £0.91m transferred out of the Members' Mutual Fund). (2017: £4.0m transferred in to the Members' Mutual Fund)

- **There was a transfer of £6.6m to the Fund for Future Appropriations** for future development in 2018. (2017: £10.1m)

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

Our overall investment portfolio has decreased in 2018 by £3.1m to £82.9m as at 31 December 2018 (2017 £86.0m).

### Treating Customers Fairly

We are committed to the fair treatment of customers.

The number of complaints we receive each year is very small. That said, we are not complacent and when we do receive a complaint we aim to make it a positive learning experience.

Complaints are thoroughly and impartially investigated and we aim to resolve them at an early stage using our internal dispute resolution processes. On occasions this is not possible. It is unfortunate when this happens, but as a Member owned business, we believe Members expect us to apply a consistent approach in all our dealings with them.

### 2. To be great to do business with

#### Claims

We are committed to supporting Members financially when they need us most. In 2018, we paid over 95% of claims. Of those declined, 2.8% were due to no loss of income by the claimant during incapacity. We are proud of our strong record of results in relation to the payment of claims as we believe this clearly demonstrates the importance of income protection insurance in financial planning. Each year we produce a detailed and transparent analysis of our claims statistics enabling Members, Advisers and potential new Members to judge our performance on the facts. As one of the very first firms to publish these figures, we support the standardisation of comprehensive claim statistics across the industry, so that firms can also be judged on their claims payment record and meaningful comparisons drawn.

#### Bonuses to Members

One of our key features is the opportunity for Members to share in our success. This is done in a number of ways but the most obvious is in the form of bonuses added to profit participating Members' credit balances, held by us until the end of their contract, or also through the Members' Mutual Fund. As a Member owned organisation, we have adopted a cautious approach to business to safeguard Members' interests and this extends to the way we only award bonuses that can be supported by the surplus we create and sustain over time. This also extends to the way we finance our business initiatives. We aim not to put our financial welfare and that of Members at undue risk. Our investment policy and control of costs have again delivered steady and encouraging results.

As a consequence of this, we can report that bonus rates added to Members' Credits for 2018 have either been maintained or increased.

# Strategic Report

	2018	2017
Health & Wealth Dividend (maintained)	£1.56	£1.56
Income Assured Plus - Surplus Allocation (increased)	£10.20	£9.60
Income Assured Plus - Investment Only - Surplus Allocation (maintained)	£0.51	£0.51
Bonus Allocation/Interest* (maintained)	2.5%	2.5%

\* Interest Rate (which is set in advance) for retired Members is 2.5% (2017 - 2.5%). The interest added to retired Members' deposits should be declared by Members for tax purposes. (The Board has the right to revise the rate without notice).

## Award Winning Service

We aim to deliver high standards of service and believe that this is evidenced by the many prestigious industry awards we have received in recent years. In 2018 we were pleased to be winner of COVER Customer Care Awards, Outstanding Customer Care (Jo Green) and for the second year running, Young Insurance Person of the year (Victoria Clark).

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

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

## Cirencester Friendly 125 Foundation

The Cirencester Friendly 125 Foundation was launched in January 2016.

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

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

## 3. To be where people want to work and grow

### Developing Staff

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

During 2018, the Leadership and Management Teams completed a first line excellence cultural change programme with Origos Consultancy Limited. One of the outputs of the programme was a workshop for all members of staff to demonstrate real evidence of use of the Society values.

Focusing on the up-skilling of the Society's Management Team has enabled them to grow in confidence and develop as great leaders. Great leaders motivate, problem solve and engage with their staff, encouraging positive staff performance and investing in staff development.

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

### Information Technology

During the year, we continued our work to replace existing operating systems, aimed at delivering higher standards of service to Members and other stakeholders. Good progress is being made and we will continue to report on progress in the area of Information Technology systems in subsequent reports.

### Outlook for 2019

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

My personal thanks go to my colleagues for their continued support, hard work and enthusiasm during 2018.

On behalf of the Board



Paul Hudson  
Chief Executive

11 April 2019

# Report of the Board of Management

The Board of Directors have pleasure in presenting their Annual Report, together with the financial statements for the year ended 31 December 2018.

## Business Objectives and Activities

The Board is committed to the ongoing development of the Society, delivering good value protection products to an increasing audience, through a range of distribution channels.

## Business Review

Key business developments and the future outlook for the business are reviewed in the Strategic Report on pages 7 to 8. The Board of Directors are of the opinion that all activities performed during the year have been carried out within our respective powers.

## Principal Risks, Uncertainties and Viability Statement

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

- **Insurance risks:** being those risks arising from uncertainties in the level of claims arising, the length of those claims, management costs and the closure rate of the insurance contracts issued.

The Society has systems in place to monitor and control, including underwriting procedures in place for the assessment of risk and all claims are subjected to rigorous validation. The Board undertake to ensure that the Society retains sufficient assets to cover the liabilities in relation to its insurance risk.

- **Market risk:** being all risks relating to uncertainties in the value of investments and the returns achievable from them including interest rate, property price, currency and credit spread risk. This risk is mitigated as far as is practicable by the matching of asset types to relevant classes of liabilities by the quality of the investments held and the Society's policy to limit the exposure to any one counterparty and currency.
- **Counterparty risk:** being the risk of third parties not fulfilling their financial obligations to the Society. In order to mitigate this risk, the Society has set out within its investment policy statement both the quality of counterparties in which the Society may invest and the level at which investment may be made with those counterparties.
- **Operational risk:** being the risk of a breakdown of procedures or from an external event. The Society has defined procedures for the monitoring of operational risk and reporting to the Board. This risk is also mitigated by internal audit and compliance monitoring processes and procedures and via oversight by an Operational Risk Officer.

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

The Board has assessed the Society's viability over a three-year period to December 2020. This is based on our three-year rolling strategic plan. The three-year strategic plan was last approved by the Board in February 2018.

During 2018, the Directors carried out an ongoing assessment of the principal risks and uncertainties facing the Society. This assessment included consideration of the Group's resilience in severe but plausible scenarios, supported by the use of stress testing and sensitivity analysis around the central assumptions of the Society's plans. The scenarios considered included significant variations in the levels of new business, policy lapses and claims compared to those expected and changes to the underlying economic assumptions such as interest rates.

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

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

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

- the published year end position on statutory solvency
- available financial resources in liquid form
- the capital projections within our agreed business plans
- the results of our Own Risk and Solvency Assessment there are no material uncertainties that may cast significant doubt about our ability to continue as a viable going concern.

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

## Staff

The average number of staff (including Executive Directors but excluding Non-Executive Directors) employed by us totalled 63 (2017:60). The aggregate remuneration paid to Directors and staff employed during the year, amounted to £3.31m including pension and National Insurance contributions (2017 £3.0m).

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

# Report of the Board of Management

## Board of Directors

A list of Directors who held office during the year appears within the Information Section on page 2.

We maintain Directors' and Officers' liability insurance cover in respect of legal action against our Directors and Officers. The insurance cover was reviewed and renewed in 2018 at a cost of £7,230.

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

## Membership

The Membership of the Society stood as follows:

	2018	2017
Active Members	37,651	36,717
Retired Members	623	638
Total Membership	38,274	37,355

## Complaints Policy

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

## Supplier Payment Policy

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

## Pensions Arrangements

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

## Environmental, Social and Community Issues

We take our role as a socially responsible organisation very seriously, be that in the way we treat our employees or in the role we play helping and protecting the environment in which we work and live. Our community work has seen us support local charities, which has made a positive contribution to our working environment and the wider community. In 2018, we raised funds for a number of charities, including our charity of the year, Wiltshire Air Ambulance.

## Appointment of Auditors

During early 2019, our external auditors, Moore Stephens (London office) merged with BDO LLP. Despite the merger, our Lead Audit Partner will remain the same. In the light of our knowledge of the work done by Moore Stephens (now BDO LLP), the Board is satisfied that Moore Stephens (now BDO LLP) continue to offer best value and as a result, a resolution to appoint BDO LLP as Statutory Auditors will be proposed at the forthcoming Annual General Meeting. BDO LLP is entirely independent of the Society and no member of the Board has a business relationship with BDO LLP.

By Order of the Board



Andrew Horsley  
Company Secretary

11 April 2019

# Report of the Board of Management on the Annotated UK Corporate Governance Code for the year 2018

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

Our approach to corporate governance is based on the principles and provisions of the Annotated Corporate Governance Code for Mutual Insurers ("Code"). This Report sets out how the Board has operated in 2018 and applied the Code provisions using the Code section headings.

The Directors consider the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provides the information necessary for Members to access the Society's performance, business model and strategy.

The following are the areas where we did not comply with the Code in 2018 and the reasons for the non-compliance. We will keep our approach to compliance with the Code under review during 2019.

- **Annual Election of Directors** - The Code introduced a requirement that Directors of larger organisations be subject to annual election by Members. The Board considered this provision in respect of the 2018 Annual General Meeting and agreed that this should not be brought in at that time. The Board is concerned that in extreme circumstances the adoption of this provision could have implications for our financial stability which would not be in the best interests of Members. We have however, introduced a requirement that any Non-Executive Directors serving in excess of six years, be subject to annual election by Members. The Board will review the position again over the course of 2019 and conclude on whether to introduce annual election by Members for the Annual General Meeting business in 2020.
- **Diversity** - The Board gives consideration to all aspects of diversity, including gender, on the Board, although it has adopted the principle that all appointments should be made on merit. For this reason, the Board has not set any measurable objectives, although this will be kept under review.
- **Audit Committee Report** - An updated version of the Code introduced a requirement for the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable. It also called for a description of the work of the Audit & Risk Committee to include:
  - The significant issues considered in relation to the financial statements, and how they were addressed;
  - How the Audit Committee assessed the effectiveness of the external audit process; and
  - The approach to appointing the Auditor and how objectivity and independence are safeguarded relative to non-audit services

A description of the work of the Audit & Risk Committee is included in the Corporate Governance Report. However, we have not sought to comply fully at this time with all aspects of the Audit Committee reporting requirements, for example provision of a detailed explanation of the significant issues considered in

relation to the financial statements. The Audit & Risk Committee and Board will review the position again over the course of 2019 and conclude on whether to introduce additional disclosures in 2020.

In all other aspects, it is the Board's view that we have continued to comply with the Code.

## Section A - Leadership

### The Role of the Board

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

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

### Matters Reserved for the Board

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

### Board Committees

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

- **The Audit & Risk Committee** which met on four occasions during 2018 to consider matters of finance, risk and compliance;
- **The Nomination & Remuneration Committee** which met on four occasions during 2018 - to consider Board membership, staff pay and performance bonus arrangements;
- **The Investment Committee** which met twice during 2018 - to consider investment matters.

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

# Report of the Board of Management on the Annotated UK Corporate Governance Code for the year 2018

## Board Meetings

The Board held six meetings in 2018. The attendance record of each Director at these meetings and at relevant Board Committee Meetings are set out below.

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

Mr P L Brown attended all meetings of the Audit & Risk Committee in an advisory role.

## Non-Executive Directors

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

## The Roles of the Chairman and the Chief Executive

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

## Section B - Effectiveness

### Composition of the Board

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

### Appointments to the Board

The appointment of new Directors is initially considered by the Nomination & Remuneration Committee which is made up of John Quinn, Janice Banks and Paul Hudson, under the Chairmanship of Ian Maude. The Committee is responsible for considering matters relating to the composition of the Board, including nominating candidates for the position of Director, taking into account the balance of skills, knowledge and experience of Directors, and making recommendations to the Board as appropriate. The Board believes that there is ample provision for the refreshment of the Board and that the introduction of annual elections would not provide any material benefit to the Membership.

### Diversity

The Board gives consideration to all aspects of diversity, including gender, on the Board although it continues to adopt the principle that all appointments should be based on merit and the skills and experience that the individual can bring, and take into account the composition, skills and experience on the Board. As a result, the Board has not set an aspirational target for gender split. However, the percentage of females on our Board is 30%. As at the date of this report the equivalent percentage for all staff (excluding the NEDs) is 72%, and 78% of the Heads of Department are female.

### Performance Evaluation

The Board undertakes an annual evaluation of the performance and effectiveness of the Board together with an annual review of the performance of individual Directors. The evaluation was facilitated by HR Consultants Limited.

In 2018, internal performance evaluations of the Audit & Risk, Nomination & Remuneration and Investment Committees were carried out at the meeting by all relevant Committee Members. The results were discussed by the relevant Committees and any appropriate improvements were identified for action.

In 2018, Board Members were subject to an independent 360 degree review of their own performance and that of other Directors. Each Board Member, as part of their formal face-to-face appraisal interview, provided comments on their own effectiveness and that of their fellow Board Members. The results were evaluated and conclusions drawn with corrective action taken where necessary. Individual Board Members were also subject to formal face to face appraisal interviews with the

# Report of the Board of Management on the Annotated UK Corporate Governance Code for the year 2018

Chairman of the Board. The Senior Independent Director carried out a formal face to face appraisal interview of the Chairman of the Board.

## Induction and Development

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

## Section C - Accountability

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

## Audit & Risk Committee

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

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

During 2018 the Committee met four times in the execution of its responsibilities. During the meetings the Committee considered reports on:

- **The system of internal control** – the Committee receives reports from the Internal and External Auditors on control matters;
- **The integrity of financial statements** – a review of viability considers the impact on our capital, liquidity and profitability;
- **Compliance with laws and regulations, including adherence to money laundering regulations** – the Committee receives reports from the Head of Compliance and the Head of Non Prudential Risk on conduct matters, which express an opinion on the effectiveness of the systems of internal control;
- **The activities of Internal Audit and External Auditors** – the Committee receives reports from both the External Auditor and Internal Auditor and closely monitors all issues raised until they have been resolved satisfactorily by management;
- **The level of non-audit fees paid to the External Auditor** – In 2017 was zero. 2017 (£0).

The Committee considers that it has met its responsibilities and performed its duties with appropriate levels of care and expertise during 2018.

## Section D - Remuneration

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

## Section E - Relations with Members

### Member Engagement

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

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

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

# Report of the Board of Management on the Annotated UK Corporate Governance Code for the year 2018

## Constructive use of the Annual General Meeting

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

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

By Order of the Board

A handwritten signature in black ink, appearing to read 'A Horsley', written over a faint, light-colored circular stamp or watermark.

Andrew Horsley  
**Company Secretary**

11 April 2019

# Remuneration Report

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

## Policy on Remuneration for Executive Directors

The Remuneration Committee has established a Remuneration Policy for Executive Directors of the Board that has a clear focus on Member value. To this end, the remuneration packages of the Chief Executive, Deputy Chief Executive and Commercial Director who are Executive Directors of the Board, are linked to our success and personal performance of the individual.

Their remuneration package is based upon the following principles:

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

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

## Reward Components for Executive Director Remuneration

### Base Salary

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

### Performance Related Pay

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

- New Business Activity;

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

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

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

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

## Pension Arrangements

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

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

## Service Contracts

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

## Share Options

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

## Non-Executive Directors

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

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

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

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

# Remuneration Report

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

Details of the fees of our Directors are shown below.

Board Members' Emoluments						
	Basic Salaries	Performance Related Pay	Benefits and other Emoluments <sup>1</sup>	Defined Contributions Pension <sup>2</sup>	Total 2018	Total 2017
	£000's	£000's	£000's	£000's	£000's	£000's
J W Banks	23.2	-	-	-	23.2	22.0
P L Brown	136.8	49.3	1.7	13.7	201.5	200.3
M L Evans	23.2	-	-	-	23.2	22.0
P R Hudson	221.6	79.8	23.1	61.1	385.6	339.2
D R Macgregor (appointed 03/07/2018)	62.0	18.4	5.1	6.2	91.7	-
I M Maude	26.3	-	-	-	26.3	24.5
K S McIntyre	26.3	-	-	-	26.3	14.5
J F Quinn	36.3	-	-	-	36.3	34.1
M C Sedgley	23.2	-	-	-	23.2	22.0
W J M Schouten	23.2	-	-	-	23.2	22.0
P C Whitefield (resigned 26/05/2016)	-	-	-	-	-	9.5
<b>Total</b>	<b>602.1</b>	<b>147.5</b>	<b>29.9</b>	<b>81.0</b>	<b>860.5</b>	<b>710.1</b>

Notes:

- The amounts shown under the heading "Benefits and other Emoluments" represent the taxable benefit based on car provision/allowance for the Chief Executive, an additional amount due in respect of contractual defined benefit pension contributions, where direct payment into the pension were limited by legislation, and the value of the company car provided for the Deputy Chief Executive and the car allowance for the Commercial Director. The Chief Executive also had an entertainment allowance of £5,000 which was not used during 2018.
- The amounts represent the contributions made on behalf of the Executive Directors to the defined contribution pension scheme.

On behalf of the Board of Management



Ian Maude  
**Chairman of the Nomination & Remuneration Committee**

11 April 2019

# Statement of Directors' Responsibilities

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

The following statement, which should be read in conjunction with the Independent Auditors' Report on page 18 and 19, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts and Directors' Report.

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

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

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

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

## Directors' Responsibilities for Accounting Records and Internal Controls

The Directors are responsible for ensuring that the Society:

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

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

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

## Going Concern

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

The Directors concluded that in the light of:

- The published year end position on **statutory solvency**;
- **Available financial resources** in liquid form;
- The **capital projections** within our agreed business plans;
- The results of our **Own Risk and Solvency Assessment**.

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

# Independent Auditor's Report to the Members of Cirencester Friendly

## Opinion

We have audited the financial statements of Cirencester Friendly Society Limited (the "Society") and its subsidiary (together the "Group") for the year ended 31 December 2018 which comprise the consolidated income and expenditure account, the consolidated balance sheet, the Society income and expenditure account, the Society balance sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS103 *Insurance Contracts* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Group's and Society's financial statements:

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2018 and of the Group's and Society's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Friendly Societies Act 1992.

## Basis for opinion

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

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- The disclosures in the Annual Report set out on pages 9 that describes the principal risks and explains how they are being managed or mitigated;
- The Directors confirmation set out on page 9 in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- The Directors' statement set out on page 9 in the financial statements about whether the Directors considered it appropriate

to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Society's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; or

- whether the Directors' statement relating to going concern made in accordance with the UK Corporate Governance Code is materially inconsistent with our knowledge obtained in the audit; or
- The Directors' explanation set out on page 9 of the Annual Report as to how they have assessed the prospects of the Group, over what period that have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters (see table 1).

## Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We consider materiality to be the magnitude by which misstatements, including omissions, could change or influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements. Importantly, we also take into account the nature of identified misstatements and the particular circumstances of their occurrence when evaluating their effect on the financial statements as a whole, and so misstatements below these levels will not necessarily be evaluated as immaterial.

We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed. Based on our professional judgement, we determined materiality for the financial statements as a whole to be £1,250,000 (2017: £1,250,000). The same materiality has been applied to the Group and Society financial statements. The principal determinant in this assessment was the Society's technical provision, which we consider to be the most relevant benchmark, as it reflects a key measure of the performance of an insurance company and is used to assess the level of

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of technical provisions</p> <p>The Group financial statements include a technical provision asset of £53.08 million (2017 : £45.6 million), which represents the estimated costs of settling benefits and claims associated with income protection products. This is set out in further detail in note 18.</p> <p>The provision is calculated by an expert appointed by management utilising policy data and assumptions applied to the valuation calculations.</p> <p>We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Group's results and because of the assumptions underpinning the calculation, which can be highly subjective.</p>	<p>In assessing the valuation of the technical provision, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• We have utilised an independent actuary to report to us on the methodology and assumptions that underpin the calculation of the provision and the accuracy of the calculation itself.</li> <li>• We have obtained and reviewed the actuarial reports prepared by the Society's actuary and our reviewing actuary and ensured that all relevant judgements and estimates have been considered in forming our opinion.</li> <li>• We have reviewed and assessed changes to the assumptions used in the technical provisions to ensure these are reasonable and in line with acceptable parameters.</li> <li>• We have substantively tested data provided to managements actuary and also to our reviewing actuary to ensure that this is agreed to the underlying policy data.</li> <li>• We agreed a sample of data for new members to the policy admin system to ensure that this had been correctly entered.</li> </ul>

Table 1

free reserves and in determining solvency. Our materiality represents 2% (2017: 2%) of this number.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at £625,000 (2017: £625,000) for balance sheet and £150,000 for income and expenditure items which represents 50% (2017: 50%) of the above materiality levels and was based on our assessment of the overall control environment and the low level of misstatements in the past.

We agreed with the Audit Committee that we would report to them any misstatements in excess of £12,500 (2017: £12,500) that we identified through the course of our audit, together with any qualitative matters that warrant reporting.

## **An overview of the scope of our audit**

The audit of the Group financial statements includes the Society and its subsidiary company M.H. Property Management Limited. The subsidiary company is a single property owning company and has been audited for the purpose of consolidation into the Group. The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Society when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of external actuarial appointed experts.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements,

for example in respect of the valuation of technical provisions which are subject to management judgement and estimation.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, PRA and FCA rules, FRS 102 and FRS 103. We obtained our understanding through internal and external training, the use of an appropriately qualified and experienced audit team who specialise in the insurance sector.

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

We focused on laws and regulations that could give rise to a material misstatement in the Group and the Society financial statements. Our tests included, but were not limited to:

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

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements,

the less likely, as auditor of the financial statements, we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

## Other information

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

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 12** - the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 13 and 14** - the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** - the parts of the directors' statement relating to the Group and Society's compliance with the UK Corporate Governance Code containing provisions that would, for a company subject to the Listing Rules of the Financial Conduct Authority, be specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Opinions on other matters prescribed by the Friendly Societies Act 1992

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

## Matters on which we are required to report by exception

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

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

## Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on pages 39 to 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs(UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## Other matters which we are required to address

We were appointed by the Audit Committee on 9 September 2016. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years.

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

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

## Use of our report

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

**Thomas Reed**, Senior Statutory Auditor

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

# Statement of Comprehensive Income for the Year ended 31 December 2018

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.

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

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

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

## Technical Account - Long-Term Business

	Notes	2018 £	2017 £
Earned Premium Income	4	18,220,934	17,276,149
Investment Income	5	2,401,527	2,359,336
Unrealised gains on Property Investments	6	20,000	-
Net gains on Security Investments	6	-	3,067,529
Other income		173,557	129,170
<b>Total technical income</b>		<b>20,816,018</b>	<b>22,832,184</b>
Claims for Benefits	7	(5,088,477)	(4,391,122)
Bonuses and rebates	8	(1,382,223)	(6,049,740)
Net operating expenses	9	(9,928,267)	(8,185,241)
Investment expenses and charges		(219,372)	(115,557)
Net losses on investments	6	(5,190,308)	-
Allocated investment return transferred to the non-technical account		97,620	(117,975)
		(895,009)	3,972,549
Movements in the future value of long term insurance contracts	18	7,493,551	6,132,998
Transfer to the Fund for Future Appropriations	16	6,598,542	10,105,547
<b>Balance on the Technical Account: Long-Term Business</b>		<b>-</b>	<b>-</b>

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

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

# Statement of Financial Position at 31 December 2018

	Notes	Society		Group	
		2018 £	2017 £	2018 £	2017 £
<b>Assets</b>					
<b>Investments</b>					
Land and buildings	11	2,100,000	2,080,000	4,575,275	3,962,806
Other financial investments	11	82,896,177	86,000,427	82,896,177	86,000,427
		<u>84,996,177</u>	<u>88,080,427</u>	<u>87,471,452</u>	<u>89,963,233</u>
Investment in Group undertaking	12	1,200,230	1,200,230	-	-
<b>Debtors</b>					
Other debtors	13	145,748	145,748	145,748	145,748
Amounts due from Subsidiary Undertaking		1,275,045	682,576	-	-
		<u>1,420,793</u>	<u>828,324</u>	<u>145,748</u>	<u>145,748</u>
<b>Other assets</b>					
Tangible assets	14	131,150	174,684	131,150	174,684
Intangible assets	15	1,800,518	1,013,596	1,800,518	1,013,596
Cash at bank and in hand		1,299,963	989,306	1,299,963	989,306
		<u>3,231,631</u>	<u>2,177,586</u>	<u>3,231,631</u>	<u>2,177,586</u>
<b>Prepayments and accrued income</b>					
Accrued interest and rent		544,694	541,847	544,694	541,847
Other prepayments and accrued income		268,071	307,539	268,071	307,539
		<u>812,765</u>	<u>849,386</u>	<u>812,765</u>	<u>849,386</u>
<b>Future value of long term insurance contracts (Net of Risk Margin)</b>	18	53,080,248	45,586,697	53,080,248	45,586,697
<b>Total assets</b>		<u>144,741,844</u>	<u>138,722,650</u>	<u>144,741,844</u>	<u>138,722,650</u>
<b>Liabilities</b>					
<b>Funds for Future Appropriations</b>					
Surplus over Solvency Capital	16	48,565,263	44,062,961	48,565,263	44,062,961
Solvency Capital Requirement		56,114,828	54,018,588	56,114,828	54,018,588
		<u>104,680,091</u>	<u>98,081,549</u>	<u>104,680,091</u>	<u>98,081,549</u>
<b>125 Foundation</b>	23	2,585,426	2,161,360	2,585,426	2,161,360
<b>Members' Funds</b>	17	35,575,769	36,845,413	35,575,769	36,845,413
<b>Technical provisions</b>					
Claims outstanding		172,049	177,564	172,049	177,564
<b>Creditors</b>					
Arising out of direct insurance operations		509,495	462,082	509,495	462,082
Other creditors including tax and social security		405,189	541,114	405,189	541,114
		<u>914,684</u>	<u>1,003,196</u>	<u>914,684</u>	<u>1,003,196</u>
<b>Accruals and deferred income</b>					
		813,825	453,568	813,825	453,568
<b>Total liabilities</b>		<u>144,741,844</u>	<u>138,722,650</u>	<u>144,741,844</u>	<u>138,722,650</u>

These are the investments held by the Society.

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

The financial statements on pages 22 to 23 were approved by the Board of Directors on 11 April 2019 and signed on its behalf by:

  
Chairman

  
Chief Executive

# Notes to the Financial Statements 31 December 2018

## 1. Accounting policies

### General Information

The Society is a Friendly Society incorporated in the United Kingdom under the Friendly Societies Act. The address of the registered office is given on page 2. The nature of the Society's operations and its principal activities are set out in the Strategic Report on pages 8 and 9.

### Going Concern

The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 8 and 9. Note 2 and 3 also describes the financial position of the Society; its cash flows, liquidity position and borrowing facilities; the Society's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

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

### Significant accounting policies

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

#### 1.1 Basis of preparation

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

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

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

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies selected for use by the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.18. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates. After making enquiries, the directors have a reasonable expectation that the Society has adequate resources to

continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements.

#### 1.2 Basis of consolidation

The group financial statements consolidate the financial statements of the parent and its subsidiary drawn up to 31 December 2018. The subsidiary has not traded since acquisition in November 2017. On consolidation all intercompany balances and transactions are eliminated.

#### 1.3 Accounting for earned premiums

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

#### 1.4 Accounting for investment income

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

#### 1.5 Accounting for net gains/(losses) on investments

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

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

#### 1.6 Accounting for other income

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

#### 1.7 Accounting for claims and benefits

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

#### 1.8 Accounting for long term insurance liabilities

The long-term business provision is determined by the Board on the advice of the Chief Actuary as part of the annual actuarial valuation of the Society's long-term business. The provision is determined in accordance with the requirements of Solvency II equal to the value of the best estimate liabilities plus the risk margin. Future reversionary bonuses are allowed for within the valuation of these liabilities. These liabilities

are calculated using historic Society experience and include reserves for claims which have occurred but not reported, a reserve for unexpired risks and a reserve for claims already in payment.

## 1.9 Accounting for mutual bonuses and interest

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

## 1.10 Accounting for plant and equipment

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

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

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

Property is not depreciated as it is deemed to have an infinite useful life. Depreciation is charged on other assets so as to write off the cost or valuation of assets, over their estimated useful lives, less estimated residual value, using the straight-line method on the following bases:

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

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

## 1.11 Accounting for intangible assets

Intangible assets relate to the development of computer software for the management of all aspects of Members' contracts with the Society. The assets are amortised over their estimated useful life, of ten years, from the date of being finalised and being brought into service by the Society. Amortisation is included within administration expenses within the Statement of Comprehensive Income.

## 1.12 Accounting for property

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

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

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

## 1.13 Investment in Subsidiaries

Investment in subsidiaries are measured at cost less impairment.

## 1.14 Accounting for impairments of non-financial assets

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

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

# Notes to the Financial Statements 31 December 2018

## 1.15 Accounting for cash and cash equivalents

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

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at the reporting date.

## 1.16 Accounting for leases

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

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

## 1.17 Accounting for retirement benefits

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

## 1.18 Accounting for foreign currencies

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

## 1.19 Fund for Future Appropriations

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

## 1.20 Critical accounting judgements and estimates

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

## 1.21 Fair value of financial assets

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

valuation will also take into account the marketability of the assets being valued.

## 1.22 Long term business provision

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

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

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

## 1.23 Cash Flow Statement

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

## 1.24 Taxation

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

## 2. Capital management

### Policies and objectives

The Society's key capital management objectives are:

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

These objectives are reviewed at least annually, and benchmarks are

set by which to judge the adequacy of the Society's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Society.

The assessment depends on various actuarial and other assumptions about potential changes in market prices, future operating experience and the actions management would take in the event of particular adverse changes in market conditions.

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

EU directives.

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

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

## Capital Statement

### Group and Society

	2018	2017
	£	£
Funds for future appropriations	104,680,091	98,081,549
Members' Mutual Fund	10,223,337	12,024,605
Total capital resources before deductions	114,903,428	110,106,154
Regulatory solvency adjustments		
Other Assets	(1,800,518)	(1,013,596)
Capital available to meet regulatory capital requirements	113,102,910	109,092,558

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

### Group and Society

	2018	2017
	£'m	£'m
Available capital at the start of the year	97.07	87.48
Investment returns	(4.01)	4.50
Policy cashflows	(3.21)	1.62
New business	3.03	3.82
Model changes	(0.84)	(0.11)
Assumption changes	7.86	(0.48)
Unwind of Risk Margin	3.24	3.12
Change in Risk Margin	0.22	1.75
Change in IBNR and unmodelled	(0.17)	(0.09)
Change in Retired Members' deposits	(0.63)	(0.15)
Change in the Members' Mutual Fund	1.80	(3.27)
Change in Current liabilities	(0.69)	(0.61)
Change in admissible assets	(0.79)	(0.51)
<b>Available capital at the end of the year</b>	<b>102.88</b>	<b>97.07</b>

# Notes to the Financial Statements 31 December 2018

## Measurement and monitoring of capital

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

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

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

Available capital – Long-term insurance contracts.

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

## Sensitivity of long-term insurance contract liabilities

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

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

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

## 3. Risk management and control

### 3.1 Insurance Risk

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

The Society has underwriting procedures in place for the assessment of risk in relation to new long term contracts being issued and also in

respect of requests by existing Members to amend their contracts. All claims are subjected to rigorous validation, including the use of external agencies where appropriate, prior to payment. The Society does not currently use reinsurance to mitigate insurance risk.

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

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

### 3.2 Market Risk

Market risk arises from the possibility that the value or cash flows of the Society's assets and liabilities fluctuate as a result of movements in market prices. The most important components of market risk are set out below:

#### (i) Interest Rate Risk

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

#### (ii) Property price risk

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

#### (iii) Currency risk

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

	2018	2017
	£	£
US Dollars	9,372,557	9,184,670
Euro	948,910	1,992,758
Other currencies	1,710,164	2,021,678
	<u>12,031,631</u>	<u>13,199,106</u>

#### (iv) Credit spread risk

Results from the sensitivity of fixed interest investments to changes in the risk-free interest rates and the subsequent change

in value of the underlying investment. The risk is mitigated by the quality of the investments held and the Society's policy to limit the exposure to any one counterparty. A summary of the fixed interest holdings, including those held within collective investments, by credit rating is set out below.

	2018	2017
	£	£
AAA	0	3,781,533
AA	19,131,773	15,331,889
A	8,756,527	9,575,132
BBB	15,305,268	9,684,971
B	0	2,708,819
NR	1,401,687	2,318,743
	44,595,255	43,401,087

### 3.3 Counterparty Risk

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

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

### 3.4 Liquidity Risk

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

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

### 3.5 Operational Risk

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

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

### 3.6 Capital Resource Sensitivities

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

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

Variables	Potential Movement in Available Capital	
	£,000	
An increase in the inception rate of claims of 10%	(2,037)	Decrease
A decrease in the inception rate of claims of 10%	2,037	Increase
An increase in the recovery rate of claims of 10%	5,761	Increase
A decrease in the recovery rate of claims of 10%	(8,294)	Decrease
An increase in the rates of mortality of 10%	292	Increase
A decrease in the rate of mortality of 10%	(296)	Decrease
An increase in the discount rate of interest of 0.5%	(2,107)	Decrease
A decrease in the discount rate of interest of 0.5%	2,245	Increase
An increase in lapses of 10%	(9,500)	Decrease
A decrease in lapses of 10%	11,177	Increase
An increase in expenses of 10%	(4,534)	Decrease
A decrease in expenses of 10%	4,534	Increase
An increase in the value of investment assets of 10%	8,936	Increase
A decrease in the value of investment assets of 10%	(8,936)	Decrease

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

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

# Notes to the Financial Statements 31 December 2018

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

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

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

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

## 4. Earned Premium Income

### Group and Society

	2018	2017
	£	£
Gross premiums written in respect of income protection contracts	18,220,934	17,276,149

All contracts are written in the UK

## 5. Investment Income

### Group and Society

	2018	2017
	£	£
Rental income from investment properties	51,540	42,943
Income from investments:		
Interest income	1,178,974	1,011,529
Dividend income	1,171,013	1,304,864
	<u>2,401,527</u>	<u>2,359,336</u>

## 6. Net gains / (losses) on investments

### Group and Society

	2018	2017
	£	£
Investment properties – unrealised gain	20,000	-
Investments at fair value through income – unrealised gains and (losses)		
Debt securities	(1,247,389)	(91,627)
Equity securities	(3,538,077)	3,002,713
Investments at fair value through income – realised gains and (losses)		
Debt securities	(82,676)	(73,393)
Equity securities	(322,166)	229,836
<b>Net gain/(loss) on securities</b>	<u>(5,190,308)</u>	<u>3,067,529</u>

## 7. Claims Incurred

<b>Long-term insurance</b>
Benefits and claims paid
Change in the provision for claims
<b>Total Claims Incurred</b>

Group and Society	
2018	2017
£	£
5,093,992	4,430,604
(5,515)	(39,382)
<u>5,088,477</u>	<u>4,391,122</u>

## 8. Bonuses

The Board has declared bonuses as set out below:

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

Group and Society	
2018	2017
£	£
1,704,694	1,476,936
517,283	514,266
75,254	71,974
(915,008)	3,986,564
<u>1,382,223</u>	<u>6,049,740</u>

## 9. Operating Expenses

<b>Long-term insurance</b>
Acquisition costs
Commissions paid and payable
Administrative expenses
<b>Net operating expenses</b>

Group and Society	
2018	2017
£	£
1,801,650	1,505,518
3,694,539	2,798,021
4,432,078	3,881,702
<u>9,928,267</u>	<u>8,185,241</u>

Net operating expenses include the following:

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

Group and Society	
2018	2017
£	£
57,600	47,968
-	-
136,373	174,600
112,268	186,197
(2,818)	(18,064)
<u>34,533</u>	<u>27,511</u>

# Notes to the Financial Statements 31 December 2018

## 10. Employee benefits expense

	Group and Society	
	2018	2017
	£	£
Wages and salaries (excluding Non-Executive Directors)	2,850,373	2,590,924
Social security costs	238,167	236,304
Pension costs	221,128	199,614
<b>Employee benefits expense</b>	<b>3,309,668</b>	<b>3,026,842</b>

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

	Group and Society	
	2018	2017
Board and senior management	11	11
Acquisition and Member contact	30	22
Administration	29	34
	<b>70</b>	<b>67</b>

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

	Group and Society	
	2018	2017
	£	£
Salaries, bonuses and taxable benefits	899,655	765,802
Social security costs	124,152	105,680
Pension costs	47,653	41,301
<b>Key management remuneration</b>	<b>1,071,460</b>	<b>912,783</b>

Full details of Directors' emoluments are contained in the Directors Remuneration report on page 16.

## 11. Investments

### a) Land and buildings

	Freehold	Leasehold Occupied by Society	Freehold Occupied by Society	Total
	£	£	£	£
<b>At fair value</b>				
At 1 January 2018	690,000	140,000	1,250,000	2,080,000
Market value adjustment	(40,000)	60,000	-	20,000
At 31 December 2018	<u>650,000</u>	<u>200,000</u>	<u>1,250,000</u>	<u>2,100,000</u>
<b>At original cost</b>	<u>315,000</u>	<u>282,000</u>	<u>800,000</u>	<u>1,397,000</u>

Group	Leasehold Occupied by Society		Freehold Occupied by Society	Total
	Freehold			
	£	£	£	£
<b>At fair value</b>				
At 1 January 2018	2,572,806	140,000	1,250,000	3,962,806
Additions	592,469	-	-	592,469
Market value adjustment	(40,000)	60,000	-	20,000
At 31 December 2018	<u>3,125,275</u>	<u>200,000</u>	<u>1,250,000</u>	<u>4,575,275</u>
<b>At original cost</b>	<u>991,635</u>	<u>282,000</u>	<u>800,000</u>	<u>2,106,635</u>

The fair value of the Society's investment properties at 31 December 2018 has been arrived at on the basis of a valuation carried out at that date by VSL & Partners, independent valuers not connected with the Society. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. However the freehold property held within the subsidiary is currently held at cost on acquisition plus additional costs of development, the property will be formerly revalued on completion of development.

b) Other financial investments	Group and Society			
	2018	2017	2018	2017
	Valuation	Valuation	Cost	Cost
	£	£	£	£
<b>Financial assets – Fair value through income</b>				
Shares, other variable yield securities and units in unit trusts				
- UK listed	35,627,405	40,347,059	37,690,511	36,423,464
Debts and other fixed income securities				
- UK listed	45,003,267	41,285,850	42,174,943	41,237,839
- Deposits	2,265,505	4,367,518	2,265,804	4,367,518
	<u>82,896,177</u>	<u>86,000,427</u>	<u>82,131,258</u>	<u>82,028,821</u>

## Fair Value measurement

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

## 12. Investment in Subsidiary

	Company	
	2018	2017
	£	£
Cost of shares in group undertakings	<u>1,200,230</u>	<u>1,200,230</u>
The Society acquired 100% of the share capital of M. H. Property Management Limited during 2017, a company registered in England.		
Issued share capital of M. H. Property Management at 31 December 2018	<u>200</u>	
Loans to M. H. Property Management at 31 December 2018	<u>1,275,045</u>	
Retained surpluses within M. H. Property Management at 31 December 2018	<u>118,426</u>	
The group is of the opinion that the value of the company is in excess of cost.		

# Notes to the Financial Statements 31 December 2018

## 13. Debtors

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

## 14. Tangible Assets

	Group and Society			Total £
	Motor Vehicles £	Fixtures, Fittings and Furniture £	Computers and Office Machinery £	
<b>Cost or Valuation</b>				
At 1 January 2018	49,623	390,782	1,130,588	1,570,993
Additions	32,591	2,531	64,082	99,204
Disposals	(33,950)	-	-	(33,950)
<b>At 31 December 2018</b>	<b>48,264</b>	<b>393,313</b>	<b>1,194,670</b>	<b>1,636,247</b>
<b>Accumulated Depreciation</b>				
At 1 January 2018	28,130	347,324	1,020,855	1,393,309
Provided in the year	12,293	32,694	91,385	136,372
Disposals	(27,584)	-	-	(27,584)
<b>At 31 December 2018</b>	<b>12,839</b>	<b>380,018</b>	<b>1,112,240</b>	<b>1,505,097</b>
Net Book Value at 31 December 2018	35,425	13,295	82,430	131,150
Net Book Value at 31 December 2017	21,493	43,458	109,733	174,684

## 15. Intangible Assets

	Software	Assets under Construction	Total
	£	£	£
<b>Cost or Valuation</b>			
At 1 January 2018	1,436,742	76,010	1,512,752
Additions	10,830	888,360	899,190
Assets capitalised	539,368	(539,368)	-
<b>At 31 December 2018</b>	<b>1,986,940</b>	<b>425,002</b>	<b>2,411,942</b>
<b>Accumulated Depreciation</b>			
At 1 January 2018	499,156	-	499,156
Provided in the year	112,268	-	112,268
<b>At 31 December 2018</b>	<b>611,424</b>	<b>-</b>	<b>611,424</b>
<b>Net Book Value</b>			
Net Book Value at 31 December 2018	1,375,516	425,002	1,800,518
Net Book Value at 31 December 2017	937,586	76,010	1,013,596

## 16. Fund for Future Appropriations

### Group and Society

	2018	2017
	£	£
<b>Long-term business</b>		
At 1 January 2018	98,081,549	87,976,002
Transfer included within comprehensive income for the year	6,598,542	10,105,547
<b>Balance at 31 December 2018</b>	<b>104,680,091</b>	<b>98,081,549</b>

## Realised and realisable surpluses

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

### Group and Society

	2018	2017
	£	£
Realised surpluses	54,599,843	52,494,852
Unrealised surpluses	53,080,248	45,586,697
	<b>104,680,091</b>	<b>98,081,549</b>

## 17. Member's Funds

### Group and Society

	2018	2017
	£	£
<b>Contributing Members</b>		
<b>Bonuses and Rebates:</b>		
- Interest on Members' balances	517,283	514,266
- Apportionment	1,704,694	1,476,936
- Other Member Credits	4,155	-
	2,226,132	1,991,202
<b>Withdrawals During the Year:</b>		
- Deaths	(49,691)	(41,635)
- Retirements	(759,923)	(965,900)
- Withdrawals	(3,600)	(37,550)
- Resignations and lapses	(971,707)	(1,016,097)
- Other Member Debits	(65,200)	(61,096)
Net increase/(decrease) in Member Funds during the year:	376,011	(131,076)
Balance at 1 January	21,919,595	22,050,671
Balance at 31 December	<b>22,295,606</b>	<b>21,919,595</b>

# Notes to the Financial Statements 31 December 2018

<b>Non-contributing Members</b>	<b>2018</b>	<b>2017</b>
	£	£
<b>Transfers in and Interest:</b>		
- Interest on Members' balances	62,866	60,148
- Transfers from Members' accounts on retirement	257,518	407,733
	<u>320,384</u>	<u>467,881</u>
<b>Withdrawals during the year</b>	(164,771)	(210,217)
Net increase during the year	155,613	257,664
Balance at 1 January	2,901,213	2,643,549
Balance at 31 December	<u>3,056,826</u>	<u>2,901,213</u>
<b>Members' Mutual Fund</b>	<b>2018</b>	<b>2017</b>
	£	£
<b>Transfers in and Interest:</b>		
- Apportionment of surpluses / (losses)	(915,008)	3,986,564
<b>Withdrawals during the year</b>		
- Payments on cessation of contracts	(344,577)	(268,835)
- Transfer of adjustments on closures to the 125 Foundation	(541,683)	(449,816)
Net increase during the year	(1,801,268)	3,267,913
Balance at 1 January	12,024,605	8,756,692
Balance at 31 December	<u>10,223,337</u>	<u>12,024,605</u>
<b>Total Members' Funds</b>	<u>35,575,769</u>	<u>36,845,413</u>

The Members' Mutual fund represents an allocation of part of the Society's surpluses, when available, over and above specific rights conferred to Members by virtue of the contracts they hold for income protection. The amounts held within the fund are not guaranteed and may be transferred back to the general reserves should they be required to support the ongoing operations of the Society. The fund was established during December 2012. At the date of termination of a Member's contract with the Society the Member may participate in the fund in accordance with the rules of the Members' Mutual Fund.

## 18. Future value of long term insurance contracts

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

#### Group and Society

	<b>2018</b>	<b>2017</b>
	£	£
Balance at 1 January	45,586,697	39,453,699
Transfer included within comprehensive income for the year	7,493,551	6,132,998
<b>Balance at 31 December</b>	<u>53,080,248</u>	<u>45,586,697</u>

The valuations are expected to be released as follows:

	<b>1 year or less</b>	<b>2 - 5 years</b>	<b>6 - 15 years</b>	<b>Over 15 years</b>	<b>Total</b>
	£	£	£	£	£
Balance as at 31 December 2018	<u>(139,100)</u>	<u>671,887</u>	<u>12,769,334</u>	<u>39,778,127</u>	<u>53,080,248</u>

The long term provisions are shown at a value representing the value of future cashflows arising from the Society's insurance business less a Risk Margin. For Solvency II purposes the value of the long term provisions are taken as the net value of the future cashflows less balances due to Members, as detailed in note 17, and the Risk Margin as shown below.

**Group and Society**

	2018	2017
	£	£
Valuation of future cashflows arising from insurance contracts	78,773,728	68,387,343
Less: Risk Margin	(25,693,480)	(22,800,643)
Per Balance Sheet	53,080,248	45,586,700
Less: Members' funds	(35,575,769)	(36,854,413)
Net Solvency II valuation	<u>17,504,479</u>	<u>8,741,287</u>

**Group and Society**

**b) Long term insurance valuation assumptions**

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

	2018	2017
	£	£
	EIOPA risk free rates	EIOPA risk free rates
Interest rate		
Morbidity Incidence rate (shown as a percentage of CMIR 12 table)		
Health and Wealth contracts	35%	35%
Income Assured Plus and Enhanced contracts	17.5%	17.5%
My Earnings Insurance and Protected Contracts (level)	30%	30%
My Earnings Insurance and Protected Contracts (escalating)	35%	30%
Morbidity recovery rates (shown as a percentage of CMIR 12 table)		
Health and Wealth contracts		
month 1	65%	60%
month 2	125%	125%
month 3	150%	150%
months 4 - 6	175%	175%
months 7 - 12	200%	200%
thereafter	200%	200%
Income Assured Plus and Enhanced contracts		
month 1	50%	50%
month 2	110%	110%
month 3	170%	170%
months 4 - 6	190%	190%
months 7 - 12	250%	250%
thereafter	250%	250%
My Earnings Insurance and Protected contracts		
month 1	45%	45%
month 2	110%	110%
month 3	170%	170%
months 4 - 6	190%	190%
months 7 - 12	250%	250%
thereafter	250%	250%
Mortality Rates (shown as a percentage of CMIR 12 table)	50%	50%

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

## 19. With-Profits Actuary

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

Mr Critchlow has confirmed that neither he, nor any of his family, nor any of his partners were Members of the Society, nor have they any financial or pecuniary interest in the Society, with exception of fees paid to OAC for professional services, which amounted to £209,252 (including VAT) (2017: £ 218,297).

## 20. Related parties

There were no loans outstanding from Board members at the year-end (2017: nil)

During the year no services were provided to the Society by any Member of the Board (2017: nil).

## 21. Commitments

Capital commitments of the Society at the end of the year for which no provision has been made are as follows:

Contracted

Approved by the Board of Management but not contracted for

	2018	2017
	£	£
Contracted	2,352,020	1,180,000
Approved by the Board of Management but not contracted for	670,351	-

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

Operating leases which expire

Within one year

In the second to fifth years inclusive

Over five years

	2018	2017
	£	£
Within one year	7,022	24,739
In the second to fifth years inclusive	48,777	54,329
Over five years	-	-

## 22. Contingent Liabilities

The Society had no contingent liabilities at the year end.

## 23. 125 Foundation

The 125 Foundation provides financial support to individuals and causes to the benefit of Members and their communities.

The 125 Foundation comprises donations from Members together with monies transferred from the Members' Mutual Fund relating to adjustments on early closure of Members contracts with the Society and also an allocation of investment returns.



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