

 **Cirencester**  
Friendly



Protect the things you care about

# Annual Report & Accounts

Year ended 31 December 2015



# 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:	M T King BSc Hons DipAdj MRICS MCI Arb MCI OB MAICA
Vice Chairman:	J F Quinn M. Litt. BA (Hons)
Chief Executive:	P R Hudson MBA FCIS MCSI
Deputy Chief Executive:	P L Brown FCA FCCA
Director of Sales and Marketing:	J Bridge DipM FCIM MAE MICM MCI Arb FPC AdvCemap CLTM (Retired 31 March 2015)
Board Members:	A J Knight ACIB
	I M Maude
	P A Rouse MIFS DipFA
	W J M Schouten MBA
	M C Sedgley ACII
	P C Whitefield BSc FIA
	D J G Williams APFS FCMI (Retired 28 May 2015)

## Arbitrators:

Phillip Harris LLB, FCI Arb, Solicitor

Roger Warrington FRICS, FCI Arb, Chartered Surveyor

Mark Thomas Dip Adj BSc MSc LLM FRICS FCI Arb MAE, Chartered Surveyor (from 29 May 2014)

## Chief Executive

P R Hudson MBA FCIS MCSI

## Company Secretary:

A J Horsley FCIS MCSI

## Senior Independent Director (Board Member):

P A Rouse MIFS DipFA

## External Auditors:

Moore Stephens (Bath)

## Internal Auditors:

Case Accounting Ltd

## Actuaries:

Actuarial Function Holder and With Profits Actuary

C N Critchlow BSc, FIA, Oxford Actuarial Consulting

## Investment Managers:

Quilter Cheviot

Charles Stanley

## Bankers:

Lloyds Bank Plc

## Solicitors:

Kennedys, London

Sewell Mullings Logie, Cirencester

# The Board of Management Profiles



**Chairman:** Martin T King BSc Hons DipAdj MRICS MCI Arb MCIOB MAICA

**Term of Office:** Martin joined the Board in December 2000

**Independent:** Yes

**Skills and Experience:** A Chartered Quantity Surveyor and Registered Adjudicator. A Director of Castons King Ltd since 2007 and previously Partner or Director of Businesses within Castons Group. Member of Royal Institution of Chartered Surveyors since 1984. Member of Chartered Institute of Arbitrators since 1992. Member of the West Mercia and Warwickshire Police and Crime Commissioner Audit Committee since June 2013 and of Wychavon District Council from May 2015.



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

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

**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.



**Senior Independent Director:** Philip A Rouse MIFS DipFA

**Term of Office:** Phil joined the Board in March 2006

**Independent:** Yes

**Skills and Experience:** A Partner at Focus Independent Financial Advisers since April 1992. Between 1990 and 1992 he was also the Senior Independent Financial Adviser with Tait Conisbee Life & Pensions, Oxford. 1987 - 1990 Regional Inspector with Scottish Amicable, between 1976 - 1987 held various positions within Midland Bank (now HSBC).



**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:** 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 from 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.



**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:** Philip C Whitefield BSc FIA

**Term of Office:** Philip joined the Board in March 2011

**Independent:** Yes

**Skills and Experience:** An experienced Life Actuary who also owns a consultancy business specialising in Capital Management and Solvency II. Acts as Actuarial Function Holder for Monarch Assurance Limited. Previously acted as Reviewing Actuary for Mazars in respect of three Friendly Society Audit Clients. Formerly a Director and Chief Actuary from 2002 to 2007 of Lincoln Financial Group, where he had worked for 21 years. Currently serves Christ Church Cheltenham and Christ Church Playgroup as Honorary Treasurer.

# The Board of Management Profiles (continued)



**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 – 2009 and in Royal Insurance 1993 – 1996 and in between worked for a short spell at IBM UK Ltd as an Executive Consultant. Since January 2010 operating as an Independent Management Consultant and Executive Coach assisting mainly mutual organisations with planning and implementing change.



**Non-Executive Director:** Tony J Knight ACIB

**Term of Office:** Tony joined the Board in October 2000

**Independent:** Yes

**Skills and Experience:** Retired in July 1999 from Lloyds TSB after 37 years. Career included spells in Retail Banking, Internal Audit, Area Management and as a Senior Manager in Corporate Banking. Associate Member of the Chartered Institute of Bankers.



**Non-Executive 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 FD and CIO, as well as being a Director of Denplan.



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

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

**Independent:** Yes

**Skills and Experience:** Almost 30 years' financial services experience, mainly in the mutual sector. Having worked in both large and small organisations, Mark has a good understanding of many areas including underwriting, budgeting and cash flow management, business planning, strategic reviews, re-branding, due diligence, investments, product and process design and financial education presentations. He has held both technical expert positions and senior management roles including being Chief Executive of a Friendly Society.

## New Board Members:



**Non-Executive Director:** Marian L Evans BSc(Hons), ACII Chartered Insurance Broker

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

**Independent:** Yes

**Skills and Experience:** Director at Thomas Carroll Group, Marian currently heads up the Special Risks Division working with key clients throughout the UK. Qualified and practiced as both a Chartered Insurer and Chartered Insurance Broker, Marian worked at NFU Mutual from 2001 - 2014. An award winning Sales Associate and Consultant, Marian became one of the youngest women in NFU Mutual history to be appointed as Sales Manager and was responsible for 16 regional offices. Marian also owns a successful property business and volunteers for the 'Inspiring future leaders' initiative.



**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.

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



# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the **126th Annual General Meeting of Cirencester Friendly Society Limited** will be held at the **Kings Head Hotel**, 24 Market Place, Cirencester, GL7 2NR on **Thursday 26 May 2016 at 6.30pm** for the purpose of transacting the following business:-

1. To confirm the Minutes of the Annual General Meeting held on 28 May 2015.
2. To receive the Chairman's Statement, the Strategic Report, the Report of the Board of Management, Financial Statements and the Auditor's Report for the year ended 31 December 2015.
3. To approve the Board of Management's Remuneration Report for the year ended 31 December 2015.\*
4. To re-elect J F Quinn as a Member of the Board (See biography on page 3).
5. To re-elect W J M Schouten as a Member of the Board (See biography on page 4).
6. To elect J W Banks as a Member of the Board (See biography on page 4).
7. To elect M L Evans as a Member of the Board (See biography on page 4).
8. To consider and, if thought fit, to adopt the documents tabled at the meeting as the Memorandum and Rules of the Society, in substitution for the current Memorandum and Rules.
9. To re-appoint Moore Stephens (Bath) as Auditors for the year 2016.
10. 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 of the Agenda.

Members who wish to attend may be admitted on production of satisfactory evidence of their Membership and identity. Members who are eligible to vote but who are unable to attend the 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 Annual Report and Accounts Highlights Leaflet sent to you in the post. To make voting easier, online voting is available alongside our traditional methods of voting by post or in person. Please see the Proxy Form for full details of the different ways you can vote.

\*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

24 March 2016

# A Message from the Chairman



I am very pleased to introduce the 126th Annual Report & Accounts for Cirencester Friendly Society Limited.

I was very proud to have been elected Chairman of the Board at the 2014 Annual General Meeting, and as I have been a Member for over 50 years, I am grateful for this wonderful opportunity to serve the Society.

## Performance

I am delighted to report that the Society has continued to achieve its core mission in providing for its Members financially. 2015 was another year of encouraging growth in Membership and a healthy surplus was returned. Premium income increased and with strong investment income and controlled costs, the Society continues to be in a very good position. As a result, I am pleased to announce that once again, participating bonuses have been maintained or improved.

The challenges faced by the industry have not abated but despite this the Society continues to perform well. The successful launch in 2014 of the Society's first ever pure income protection contract, My Earnings Insurance, has been welcomed by the Industry and the Adviser community alike, winning the Moneyfacts Investment Life & Pensions Innovation Award. Although still early days, the new contract is delivering strong sales results.

The Society will continue to work with the Financial Adviser community in 2016 to deliver Membership growth.

## Customer Service

The Society takes pride in the high standards of service it offers to Members and Advisers and is pleased that this has continued to be recognised by the industry in the achievement of several prestigious awards. In 2015 we were pleased to be 'Highly Commended' in the Moneyfacts Investment, Life & Pensions Awards for Best Income Protection Provider and also 'Commended' in the Service Beyond the Call of Duty category.

We are fully committed to supporting our Members and I am pleased to be able to report that once again 94% of claims were paid in 2015.

During 2015, we have developed a number of additional benefits that can be added to new and existing contracts. These will be launched in 2016. Looking ahead, the Board will continue to develop products that meet the financial health needs of Members.

## Corporate Governance

As Chairman, I am elected to lead the Board and a principal role is to ensure that it 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 interest of our Members.

We again carried out 360 degree reviews of each member of the Board in 2015, demonstrating our commitment to corporate governance. As part of our Board succession strategy, we are delighted to welcome two new Non-Executive Directors, Janice Banks and Marian Evans. Janice

and Marian were appointed as Directors on 19 January 2016 and being eligible, offer themselves for election to the Board of Directors at the 2016 Annual General Meeting.

This year we say a fond farewell to Tony Knight (who was my predecessor as Chairman) and Philip Rouse (the Senior Independent Director). The Board is extremely grateful to Tony and Philip for their years of invaluable service and support, and they leave with our sincere thanks and appreciation. I will also be stepping down after the Annual General Meeting, having served a very enjoyable 15 years on the Board, during which time there has been significant change and growth in the Society.

## Thank you

The success of the Society in 2015 is a credit to the hard work and ongoing commitment from our wonderful staff and I thank them for their continued support and enthusiasm.

The Society has an exciting year ahead and the Board looks forward to our future with confidence. Once again, I am grateful to the Financial Advisers who continue to recommend the Society, to their clients and of course, you, our Members, who continue to place your trust and welfare with the Society.

May I close on a personal note, it has been a privilege and pleasure to have been a member of the Board for over 15 years. In that time, the Society has changed significantly and I wish to thank all those with whom I have worked over that period for the opportunity to have been part of the team that delivered that success.

As I leave, the Society faces an exciting future under a new Chairman who I know will lead the Board through opportunities, and I wish him, the Board, and the Society good fortune.

M T King  
**Chairman of the Board**

24 March 2016

# Strategic Report

## Financial Results and Business Review

Our mission is "To protect our Members financially." To achieve this we have established six supporting objectives that drive our operations.

### 1. Growing the customer base

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.

### 2. Giving customers products that meet their needs

#### Claims

We are committed to supporting Members financially when they need us most. For the 7th year running, we paid 94% of claims. 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 call for a 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 Members' credits, 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 2015 have either been maintained or increased.

	2015	2014
Health & Wealth Dividend	£1.56	£1.56
Income Assured Plus - Surplus Allocation	£7.74	£7.02
Income Assured Plus - Investment Only - Surplus Allocation	£0.51	£0.51
Bonus Allocation / Interest*	2.5%	2.5%

\*Interest Rate (which is set in advance) for retired Members is 2.5% (2014 - 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).

## New Products

We are committed to the introduction of new products to support our Membership targets. In 2014, a new individual income protection contract 'My Earnings Insurance' was successfully launched. My Earnings Insurance was our first pure income protection product signalling a new era for us. My Earnings Insurance has been positively received by the market, winning the Moneyfacts Investment Life & Pensions Innovation Award. The contract is delivering strong early sales results.

During 2015, we commenced development on a number of benefits that can be added to new and existing contracts. These will be launched later in the year. The product enhancements will ensure we continue to grow and look after the financial health needs of our Members and their dependents.

During the year, we also launched a new service for Members and their spouses, called Friendly Voice. Friendly Voice is a free service offering independent practical and emotional support.

### 3. Protecting Capital

We do not pursue a speculative or high risk strategy, preferring instead to follow a more cautious 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, we are pleased to report the following:

- **Total Investment returns of £1.54m** (growth and income) a return of 2.15%.
- **£1.1m transferred into long-term business provision** to provide for both current and future claims.
- **Total bonus and surplus allocations of £4.3m** (including £2.2m transferred to the Members' Mutual Fund).
- **The net transfer of £2.2m to the Fund for Future Appropriations** for future development.

The Members' Mutual Fund was established in 2012 to share even 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 increased in 2015 by £4.5m to £72.1m as at 31 December 2015 (2014 £67.6m).

At the end of 2015, our total funds had increased to £79.8m (2014 £74.5 m). Of this amount £46.9m represents amounts due to Members and creditors, plus the various reserves established by the Actuary.

#### 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 2015 which indicated that we had a comfortable margin of capital resources over the Solvency Capital Requirement as required under the provisions of Solvency II.

## Fixed Assets

There were no significant additions to our tangible assets in 2015.

## 4. Controlling costs

We believe that the control of costs is important to our wellbeing. Whilst in 2015 we continued to grow our Member base, overall operating expenses increased by only £0.3m compared with the previous year.

## 5. Delivering high standards of service

### 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 2015 we were pleased to be 'Highly Commended' in the Moneyfacts Investment, Life & Pensions Awards for Best Income Protection Provider and also 'Commended' in the Service Beyond the Call of Duty category 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.

### 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, particularly where we believe fraud has been attempted or perpetrated. We are committed to supporting our Members and the actions of the few can undermine genuine claimants when they need our help.

## 6. Developing Staff and Systems

### Information Technology

During the year, we made further changes to our technology systems, aimed at delivering higher standards of service to Members and other stakeholders. Good progress is being made and we will continue in this regard in future years, with plans to replace existing operating systems.

### Outlook for 2016

We are committed to increasing the range of products 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.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Paul Hudson'.

Paul Hudson  
Chief Executive

24 March 2016



# 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 2015.

## 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 and our approach to managing them are set out in note 3.

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.

## Staff

The average number of staff (including Executive Directors) employed by us totalled 53. The aggregate remuneration paid to Directors and staff employed during the year, amounted to £2.1m including pension and National Insurance contributions (2014 £1.9m).

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.

## Board of Directors

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

As part of our Board succession strategy we are delighted to welcome two new Non-Executive Directors, Janice Banks and Marian Evans. Janice and Marian were appointed as Directors on 19 January 2016 and being eligible, offer themselves for election to the Board of Directors at the 2016 Annual General Meeting.

John Quinn and William Schouten have each served the Society for three years, and in accordance with our rules and the Friendly Societies Act 1992 and, being eligible, offer themselves for re-election.

Following an assessment of the skills and mix of the Board, we are happy to support their nomination and, subject to the approval of the Members, look forward to continuing to work with them.

We are also saying a fond farewell to three long standing Members of the Board, Martin King, Tony Knight and Philip Rouse. The Board is extremely grateful to Martin, Tony and Philip for their years of invaluable service and support, and they all leave with our sincere thanks and appreciation.

Philip Rouse conducted business with us within the last two years. Details of the remuneration Philip received in this respect are provided in note 21 to the accounts. Having regards to the amounts involved and the individual circumstances of the Board Member concerned, the Board has concluded that they are not material.

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 2015.

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

Membership as at 31 December 2015 stood at 35,501 (2014: 34,722).

## 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 customer's satisfaction, the Member 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.

# Report of the Board of Management

## 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. In 2015 we continued with our efforts to increase recycling, reduce paper consumption and cut down energy use within the organisation. Our community work has seen us support local charities, which has made a positive contribution to our working environment and the wider community.

In 2015, we raised funds for a number of charities, including our charity of the year.

## Cirencester Friendly 125 Foundation

To mark our 125 year milestone and to celebrate our anniversary, the Cirencester Friendly 125 Foundation was established on 7 December 2015 and launched in January 2016.

The 125 Foundation will provide 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. This can be anything from money towards the cost of new household equipment or a short break to recuperate. Members can nominate themselves, or their Financial Adviser can do it for them. Financial Advisers can only nominate a Member. The Foundation will make 10 monthly awards of up to £500. Eligible awards will be drawn monthly, at random.
- **Half Yearly Community Awards** are for local projects and causes that Members value and support. For example this could be money towards refurbishing the local church hall, to helping set up a youth centre. The Foundation will award one sum of up to £25,000 twice a year.

## Appointment of Auditors

During 2015, the Audit & Risk Committee invited suitably qualified firms to express interest in performing our external audit. In the light of this exercise and our knowledge of the work done by Moore Stephens, the Board is satisfied that Moore Stephens continue to offer best value and as a result, a resolution to re-appoint Moore Stephens (Bath) as Statutory Auditors will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Andrew Horsley  
**Company Secretary**

24 March 2016

# Report of the Board of Management on the Annotated UK Corporate Governance Code for the year 2015

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 Code. This Report sets out how the Board has operated in 2015 and applied the Code provisions using the Code section headings. The following are the areas where we did not comply with the Code in 2015 and the reasons for the non-compliance. We will keep our approach to compliance with the Code under review during 2016.

- **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 2015 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. The Board will review the position again over the course of 2016 and conclude on whether to introduce annual election by Members for the Annual General Meeting business in 2017.
- **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 new 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 2016 and conclude on whether to introduce additional disclosures in 2017.

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 Executive 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 Executive 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 2015 - considering matters of finance, risk and compliance;
- **The Nomination & Remuneration Committee** which met on four occasions during 2015 - considering suitable candidates for membership of the Board and staff pay and performance bonus arrangements;
- **The Investment Committee** which met on two occasions during 2015 - 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 2015

## Board Meetings

The Board held six meetings in 2015. The attendance record of each Director at these meetings and at relevant Board Committee Meetings is set out below.

At each Board Meeting, the Board receives a comprehensive management information pack covering financial and non-financial information. In addition, the agenda includes the following:

- **Minutes of Board Committee Meetings** held since the previous Board Meeting and oral updates from the Chairmen of Board Committees on the main issues discussed and matters agreed. This ensures that all Board Members are aware of the key discussions and decisions made by the Committees.
- **A report highlighting the current trading and financial performance** and any other relevant matters considered by the Executive Team since the previous Board Meeting.
- **Items for decision** and key matters which need to be debated.

Name (Alphabetical)	Board	Audit and Risk	Nomination & Remuneration	Investment
J Bridge*	0 of 2	N/A	N/A	N/A
P L Brown	6 of 6	4 of 4	4 of 4 (as guest)	2 of 2
P R Hudson	6 of 6	N/A	4 of 4	2 of 2
M T King	6 of 6	N/A	4 of 4	N/A
A J Knight	6 of 6	N/A	N/A	2 of 2
I M Maude	4 of 4	3 of 3	N/A	N/A
J F Quinn	6 of 6	4 of 4	4 of 4	N/A
P A Rouse	6 of 6	N/A	4 of 4	N/A
M C Sedgley	4 of 4	N/A	N/A	1 of 1
W J M Schouten	5 of 6	N/A	4 of 4	N/A
P C Whitefield	5 of 6	4 of 4	N/A	2 of 2
D J G Williams	3 of 3	1 of 1	N/A	N/A

\* Following a short period of illness, John Bridge retired from his role as Director of Sales and Marketing with effect from 31 March 2015.

## Non-Executive Directors

In addition to playing their part on the Board as a whole, 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 Vice Chairman deputises for the Chairman when appropriate and provides support and guidance to him. 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 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. This is tested through the annual review process. 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. Following the appointment of two new Non-Executive Directors in January 2016 in accordance with our succession planning strategy, the total number of Directors on the Board is 12 consisting of two Executive Directors and ten Non-Executive Directors. This number will reduce to nine at the conclusion of the Annual General Meeting on 26 May 2016 when Martin King, the Chairman of the Board, Philip Rouse, the Senior Independent Director and Tony Knight, Non-Executive Director, retire.

### Appointments to the Board

The appointment of new Directors is initially considered by the Nomination & Remuneration Committee which is made up of Philip Rouse, Martin King, John Quinn, William Schouten and Paul Hudson. 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.

In 2014 the Board appointed First Flight Non-Executive Directors Limited, to assist in the search for candidates for four new Non-Executive Director appointments as part of the ongoing Non-Executive Director succession planning process. They have no other connection with us.

The Nomination & Remuneration Committee agreed that there should be a Separate Selection Panel made up of three Non-Executive Directors and the Chief Executive, including the Senior Independent Director, Philip Rouse, who led the process. A role specification was drawn up with a 'long list' of candidates considered by the Selection

Panel who then conducted interviews with a selected short list of candidates. The other Non-Executive Directors and the Deputy Chief Executive then met with the preferred candidates, with the Board making the final decision, resulting in the appointment, as Non-Executive Directors, of Ian Maude and Mark Sedgley in 2015 and Janice Banks and Marian Evans in 2016.

Janice and Marian are subject to election by Members at the Annual General Meeting to be held on 26 May 2016. They have both received approval from our Regulators, the FCA and the PRA, as Approved Persons to fulfil their controlled function as a Director.

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 at the conclusion of the 2016 Annual General Meeting following the retirements of Martin King, Tony Knight and Philip Rouse and taking into account the appointment of Janice Banks and Marian Evans in January 2016, will be 22%. As at the date of this report the equivalent percentage for all staff (excluding the NEDs) was 69%, and 83% of the Heads of Department were 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 2015, internal performance evaluations of the Audit & Risk, Nomination & Remuneration and Investment Committees were carried out through the means of a questionnaire completed by all relevant Committee Members. The results were reviewed by the relevant Committees and any appropriate improvements were identified for action.

In 2015, Board Members were subject to an independent 360 degree review of their own performance and that of other Directors. Each Board Member was invited to complete an on-line questionnaire and provide comments on their own effectiveness and that of their fellow Board Members. The results were evaluated and conclusions drawn with corrective action taken where necessary. Individual Board Members were also subject to formal appraisal interviews with the Chairman of the Board. The Senior Independent Director carried out a formal appraisal interview of the Chairman of the Board.

## **Non-Executive Directors**

One of the criteria which the Board takes into consideration when recruiting a Non-Executive Director is their ability to have sufficient time to take on the position. In addition, during the term of their directorship, any other positions that a Director takes up have to first be referred to the Board so that the time commitment and any potential conflict of interest can be considered. The Board has a conflict of interest policy which sets out procedures for regularly reviewing, through the Board, and if appropriate, dealing with any potential conflicts as they arise. This applies to Executive as well as Non-Executive Directors. The letters of appointment of Non-Executive Directors give an indication of the time commitment required. Copies of the letters of appointment of each of the Non-Executive Directors are available for inspection on request from the Company Secretary. The Board is satisfied that all of the Non-Executive Directors are independent.

## **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 internal presentations by senior managers and relevant external and internal courses. Individual training requirements for Non-Executive Directors are discussed as part of the performance evaluation process and a training record for each Non-Executive Director is maintained by the Company Secretary. Non-Executive Directors are encouraged to contact individual members of the Executive Team to discuss any queries that they may have and to undertake department visits on an ad hoc basis in order to deepen their understanding of the business. 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.



# Report of the Board of Management on the UK Corporate Governance Code and Remuneration for the year 2015

## Audit & Risk Committee

The Audit & Risk Committee consists of Peter Brown, Ian Maude and Philip Whitefield under the Chairmanship of John Quinn. 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 2015 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 regular 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 Operational Risk Officer 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 regular reports from both the External Auditor and Internal Auditor and closely monitors all issues raised until they have been resolved satisfactorily by management. Both Auditors have met privately with the Committee during the year;
- **the level of non-audit fees paid to the External Auditor** – the Society did not commission the External Auditor to carry out any non-audit activities over the course of 2015.

The Committee considers that it has met its responsibilities and performed its duties with appropriate levels of care and expertise during 2015.

## Section D - Remuneration

The Board has delegated to the 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 Directors' 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 via letter, web-site, personal telephone contact, issue of Annual Renewal Notices, Annual Bonus Statements, occasional newsletters and the distribution of our shortened version of the Annual Report and Accounts which is sent to every Member annually, along with a personal invitation to attend the Annual General Meeting.

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

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

### Constructive use of the Annual General Meeting:

At the Annual General Meeting, the Chairman of the Board and the Chief Executive make presentations on the previous year's performance and on our future plans. The Chairman of the Remuneration Committee also gives a presentation on the Directors' remuneration. 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 through the appointment of a proxy if the Member cannot attend and vote at the meeting. 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



Andrew Horsley  
Company Secretary

24 March 2016

# 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 and other Executives

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 and Deputy Chief Executive 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);
- **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 on termination rewards are fair to the individual and the organisation.

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 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 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 around November and are adjusted from 1 January to recognise the individual's role and performance, as are all staff salaries. These are set with reference to the Towers Watson National Income Survey (excluding London) and are between the median and 75th percentile.

### Performance Related Pay

We operate a discretionary performance related pay scheme for employees. The Committee meets annually to agree objectives and set incentive targets. The measures used to assess performance are taken from our management information. The framework comprises:

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

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

## 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 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 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 15 minutes before the Annual General Meeting and during the Annual General Meeting

Details of the fees of our Directors are shown below.

Board Members' Emoluments						
	Basic Salaries <sup>1</sup>	Performance Related Pay <sup>2</sup>	Benefits and other Emoluments <sup>3</sup>	Defined Contributions Pension <sup>4</sup>	Total 2015	Total 2014
	£000's	£000's	£000's	£000's	£000's	£000's
J Bridge <sup>5</sup>	40.7	11.4	24.6	4.5	81.2	116.6
P L Brown	118.1	21.3	6.7	11.8	157.9	140.9
P R Hudson	197.1	31.9	14.7	53.2	296.9	263.2
M T King	31.9	-	-	-	31.9	26.6
A J Knight	19.6	-	-	-	19.6	23.7
I M Maude	11.4	-	-	-	11.4	-
J F Quinn	21.6	-	-	-	21.6	19.9
P A Rouse	21.6	-	-	-	21.6	20.4
M C Sedgley	11.4	-	-	-	11.4	-
W J M Schouten	19.6	-	-	-	19.6	18.7
P C Whitefield	19.6	-	-	-	19.6	18.7
D J G Williams	8.2	-	-	-	8.2	18.7
<b>Total</b>	<b>520.8</b>	<b>64.6</b>	<b>46.0</b>	<b>69.5</b>	<b>700.9</b>	<b>667.4</b>

Notes:

- The salaries paid to all staff, including the Executives, are benchmarked against industry levels using Towers Watson Survey Data throughout the United Kingdom, excluding London. It is our aim to pay all staff at a rate between the median and upper quartile for similar roles in similar sized organisations. Salaries are reviewed annually against published statistics.
- Performance Related Pay represents targeted bonuses for the Executives.
- The amounts shown under the heading "Benefits and other Emoluments" represent the taxable benefit based on the value of company cars provided for the Chief Executive and the Deputy Chief Executive. The Chief Executive also had an entertainment allowance of £5,000 which was not used during 2015.
- The amounts represent the contributions made on behalf of the Executives to the defined contribution pension scheme.
- Following a short period of illness, John Bridge retired from his role as Director of Sales and Marketing with effect from 31 March 2015.
- Deductions for personal taxation and National Insurance Contributions apply, with the exception of Philip Rouse, who invoices us for his services.

On behalf of the Board of Management



P A Rouse  
**Chairman of the Nomination & Remuneration Committee**

24 March 2016

# 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

We have audited the financial statements of The Cirencester Friendly Society for the year ended 31 December 2015 which comprise the Society Income and Expenditure Account, the Society Balance sheet and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 and 103 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', having regard to the statutory requirement to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2015, and the effect of the movement in those provisions during the year on the fund for future appropriations, the balance on the general business technical account and on excess of income over expenditure before tax are disclosed in the notes to these financial statements.

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

## Respective responsibilities of the Board of Management and Auditor

As explained more fully in the Board of Management's Responsibilities Statement set out on page 5, the Board of Management is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

## Our assessment of risks of material misstatement

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

- the operation and effectiveness of the Society's Member's system during the year and specifically the operation of the system over premium income and claims paid to Members;
- the valuation and ownership of the Society's investments at the year end and the recording of transactions throughout the year;
- the Society's compliance with applicable regulations;
- the Society's calculation and recognition of deferred acquisition costs;
- the application of revenue recognition accounting; and
- the risk of fraud arising from management override of internal controls; and
- the risk that FRS102 and 103 accounting standard changes have not been properly or fully applied.

## Our application of materiality

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

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements. We determined materiality for the Society to be £300,000 for items impacting the Income and Expenditure account, which is approximately 2% of income. We determined materiality of £800,000 for items which require reclassification on the balance sheet, which is approximately 1% of gross assets.

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £1,000, as well as differences below that threshold that in our view warranted reporting on qualitative grounds.

## Scope of the audit of the financial statements

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

The way in which we formed our response to the risks identified above was as follows:

- In order to address risk around the operation of the Society's Member's system during the year we have tested the operation of the controls over Membership records, premium income and claims paid to Members.
- In order to address the risk around the valuation of the Society's investment we obtained from independent third parties confirmations of the prices for the purpose of subscription or redemption of interest in the underlying investments in investee funds as at 31 December 2015 and vouched these on a sample basis.
- In order to address risk around ownership of the Society's investments held at the period end, we confirmed the holdings



to independent third party confirmations provided by the Society's Custodian.

- In order to address the risk associated with the recording of investment transactions through the year ended 31 December 2015 we have tested a sample of transactions to independent documentation.
- In order to address the risk over the Society's compliance with its regulatory environment we updated our understanding of the regulatory requirements and reviewed the Society's correspondence with its regulators and statutory filings.
- As part of our testing of the deferred acquisition costs we have substantively tested this balance, we have performed analytical procedures and we have compared the movement in these costs to our expectations based on our knowledge of the Society's operations.
- In order to address the risk of revenue recognition we have considered the accounting policies applied by the Society and have performed cut off testing to ensure that income has been recognised in the correct period.
- We have performed analytical procedures and carried out journal entry testing in order to identify and test the risk of fraud arising from management override of controls.
- Finally we have reviewed the statutory accounts to ensure that the new disclosure requirements are met and that any changes needed in the accounting policies or the adoption of new policies are appropriate to the circumstances of the Society.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice of the state of the Society's affairs as at 31 December 2015 and of the income and expenditure of the Society for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

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

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

## Opinion on corporate governance Statement

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the ten provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.

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

We have nothing to report in respect of the following:

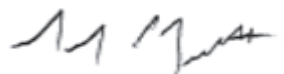
Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Board of Management that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Friendly Societies Act 1992, we are required to report to you if, in our opinion:

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



M P Burnett ACA  
**Senior Statutory Auditor**

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

29 March 2016

# Statement of Comprehensive Income for the Year ended 31 December 2015

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

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

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

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

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

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

This is the amount of surplus 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	2015 £	2014 £
Net Earned Premium Income	4	15,621,698	14,885,441
Investment Income	5	1,839,807	1,739,549
Unrealised gains on Property Investments	6	100,000	25,000
Net gains on Security Investments	6	-	508,712
Other income		121,593	86,287
<b>Total technical income</b>		<b>17,683,098</b>	<b>17,244,989</b>
Claims for Benefits	7	3,160,182	3,360,725
Change in Long-Term Business liabilities	18	1,109,000	1,741,000
Bonuses and rebates	8	4,325,710	4,173,098
Net operating expenses	9	6,492,000	6,204,879
Investment expenses and charges	10	99,417	7,873
Net losses on investments	6	296,696	-
Allocated investment return transferred to the non-technical account		19,145	23,391
Transfer to the Fund for Future Appropriations	16	2,180,948	1,734,023
		<b>17,683,098</b>	<b>17,244,989</b>
<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 as the Society is a mutual organisation.

# Statement of Financial Position at 31 December 2015

	Notes	2015		2014	
		£	£	£	£
<b>Assets</b>					
<b>Investments at fair value through comprehensive income</b>					
Land and buildings	12	1,995,000		1,895,000	
Investment in subsidiary undertakings		-		100	
Other financial investments	12	72,111,494	74,106,494	67,606,176	69,501,276
<b>Debtors</b>					
Other debtors	13		89,527		133,827
<b>Other assets</b>					
Tangible assets	14	685,201		373,400	
Uncapitalised computer development costs		120,480		425,765	
Cash at Bank and in hand		1,236,560	2,042,241	751,089	1,550,254
<b>Prepayments and accrued income</b>					
Accrued interest and rent		220,305		227,564	
Deferred acquisition costs	15	3,074,397		2,883,910	
Other prepayments and accrued income		225,408	3,520,110	156,651	3,268,125
<b>Total assets</b>			<b>79,758,372</b>		<b>74,453,482</b>
<b>Liabilities</b>					
<b>Fund for Future Appropriations</b>					
	16		26,063,835		23,882,887
<b>Benevolent Fund</b>					
			1,176,133		896,453
<b>Members' Funds</b>					
	17		30,901,333		28,770,992
<b>Technical provisions</b>					
Long-term business provision	18	20,214,000		19,105,000	
Claims outstanding		206,723		389,488	
			20,420,723		19,494,488
<b>Creditors</b>					
Arising out of Direct Insurance Operations		536,045		473,728	
Other creditors including tax and social security		345,753	881,798	210,063	683,791
<b>Accruals and Deferred Income</b>					
			314,550		724,871
<b>Total liabilities</b>			<b>79,758,372</b>		<b>74,453,482</b>

These are the investments held by the Society.

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

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

The financial statements on pages 20 to 21 were approved by the Board of Directors on 24 March 2016 and signed on its behalf by:



Chairman



Chief Executive

# Notes to the Financial Statements 31 December 2015

## 1. 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.

Before 2014 the financial statements were prepared in accordance with UK GAAP applicable prior to the adoption of FRS 102 and FRS 103, as issued by the Financial Reporting Council, and referred to below as 'previous UK GAAP'. No financial effects arose on the transition to FRS 102.

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

Certain comparative amounts have been reclassified to conform to current requirements.

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 Accounting for net earned premiums

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

### 1.3 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.

### 1.4 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.

### 1.5 Accounting for other income

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

### 1.6 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.

### 1.7 Accounting for long-term insurance liabilities

The long-term business provision is determined by the Board on the advice of the Actuarial Function Holder as part of the annual actuarial valuation of the Society's long-term business. The provision is initially determined in accordance with the requirements of the Prudential Sourcebook for Insurers. In accordance with normal insurance practice, certain reserves required for the statutory valuation returns are not required to be included in these accounts that are designed to present a true and fair view. This adjusted basis is referred to as the modified statutory solvency basis. This makes sufficient provision for future expenses of fulfilling the long-term contracts and includes a provision for existing reversionary bonuses and current reversionary bonuses declared as a result of the valuation. Future reversionary bonuses are implicitly provided for by use of valuation rates of interest below those expected. No provision is made for terminal bonuses, which can be varied at any time depending on investment conditions. 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.

### 1.8 Accounting for mutual bonuses and interest

Bonuses to policyholders in the form of interest and bonuses 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.

## 1.9 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 NOT RECOGNISED. 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 indefinite 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 and Software	10% to 25%
Motor Cars	25%

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

## 1.10 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.

## 1.11 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.

## 1.12 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 at the reporting date.

## 1.13 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.

## 1.14 Accounting for retirement benefits

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



# Notes to the Financial Statements 31 December 2015

## 1.15 Accounting for deferred acquisition costs

In respect of insurance contracts, acquisition costs comprise all direct and indirect costs incurred in writing new contracts. Deferred acquisition costs represent the unearned portion of indemnity commissions paid to advisors employed by the Members of the Society. Each item of commission is amortised over a thirty six month period from the date of payment, the amortised amount being charged to the Statement of Comprehensive Income. The deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the Statement of Comprehensive Income.

## 1.16 Accounting for foreign currencies

The Society does not hold any investment or liabilities denominated in foreign currencies.

## 1.17 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 Members 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.

## 1.18 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.

## 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.

## Long-term business provision

The valuation of participating contract liabilities is based on assumptions reflecting the best estimate at the time. The valuation of non-participating insurance contracts is based on prudent assumptions;

a separate calculation is also performed to assess the non-participating value of in-force business which is based on best estimate assumptions allowing for a margin of risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows.

The assumptions used for mortality, morbidity and longevity are based on standard industry tables, adjusted where appropriate to reflect the Society's own experience. In particular, for impaired annuities the mortality assumptions are based on standard annuitant mortality tables but with convergence factors to allow for the excess mortality to converge to normal mortality at advanced ages. The assumptions used for investment returns, expenses, lapse and surrender rates are based on current market yields, product characteristics, and relevant claims experience.

The assumptions used for discount rates are based on current market risk rates, adjusted for the Society's own risk exposure. 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.

## 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 Members 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 RCR and ICA to meet the PRA's total requirements and to maintain an appropriate additional margin over this to absorb changes in future capital requirements.

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

## Capital Statement

	2015	2014
	£	£
Fund for Future Appropriations	26,063,838	23,882,887
Members' Mutual Fund	6,808,394	5,028,045
Total capital resources before deductions	32,872,232	28,910,932
Regulatory solvency adjustments		
Deferred Acquisition Costs	(3,074,397)	(2,883,910)
Other Assets	(121,580)	(44,229)
Capital available to meet regulatory capital requirements	29,676,255	25,982,793

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

	2015	2014
	£,000	£,000
Available capital at the start of the year	23,124	19,570
Modelling changes	2	11
New business and lapses	(779)	(345)
Methodology changes	0	0
Basis changes	(48)	(445)
Change in sickness reserves	(295)	(960)
Changes to Member accounts	(350)	(365)
Changes in admissible assets	5,037	6,094
Changes in the RCR and LTICR	(103)	(98)
Changes in current liabilities	116	(338)
Changes in other liabilities	11	0
Available capital at the end of the year	26,715	23,124

## 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 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. The Society does not write with profits business to the extent which require the application of the PRA's "realistic balance sheet" regime.

# Notes to the Financial Statements 31 December 2015

## 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.

## 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 of Income Assured Plus contracts 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 Board has determined that, in order to minimise currency risk, the Society will only invest in assets denominated in Sterling.

### 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 of claims of 10%	(919)	Decrease
A decrease in the inception rate of claims of 10%	347	Increase
An increase in the recovery rate of claims of 10%	1,765	Increase
A decrease in the recovery rate of claims of 10%	(12,551)	Decrease
An increase in the rates of mortality of 10%	276	Increase
A decrease in the rate of mortality of 10%	(299)	Decrease
An increase in the discount rate of interest of 0.5%	777	Increase
A decrease in the discount rate of interest of 0.5%	(834)	Decrease
An increase in the value of investment assets of 10%	7,199	Increase
A decrease in the value of investment assets of 10%	(7,199)	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.

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 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.

# Notes to the Financial Statements 31 December 2015

## 4. Earned Premium Income

	2015	2014
	£	£
Gross premiums written in respect of income protection contracts	15,621,698	14,885,441

All contracts are written in the UK

## 5. Investment Income

	2015	2014
	£	£
Rental income from investment properties	64,412	51,561
Income from investments at fair value through income:		-
Interest income	659,692	672,018
Dividend income	1,115,703	1,015,970
	<u>1,839,807</u>	<u>1,739,549</u>

## 6. Net unrealised gain/(loss) on investments

	2015	2014
	£	£
Investment properties	100,000	25,000
Investments at fair value through income – unrealised gains and (losses)		
Debt securities	(564,825)	149,779
Equity securities	(2,774)	656,827
Investments at fair value through income – realised gains and (losses)		
Debt securities	(82,407)	
Equity securities	353,310	(297,894)
Net gain/(loss) on securities	<u>(296,696)</u>	<u>508,712</u>

## 7. Claims Incurred

	2015	2014
	£	£
<b>Long-term insurance</b>		
Benefits and claims paid	3,342,947	3,411,210
Change in the provision for claims	(182,765)	(50,485)
<b>Total Claims Incurred</b>	<u>3,160,182</u>	<u>3,360,725</u>



## 8. Bonuses and rebates

The Board declared a Member bonus of £1,580,837 (2014: £1,568,775) together with interest of 2.5% (2014: 2.5%) amounting to £504,314 (2014: £495,504) in respect of the year ended 31 December 2015. The Board also declared a transfer to the Members' Mutual Fund of £2,180,949 (2014: £2,051,881). Interest due to retired Members amounted to £59,610 (2014: £56,938).

## 9. Net Operating Expenses

### Long-term insurance

	2015 £	2014 £
Acquisition costs	1,237,388	1,514,864
Change in deferred acquisition costs	1,926,221	2,240,621
Administrative expenses	3,328,391	2,449,394
<b>Net operating expenses</b>	<b>6,492,000</b>	<b>6,204,879</b>

Net operating expenses include the following:

### Long-term insurance

	2015 £	2014 £
Fees payable to the Society's Auditor for the audit of the annual accounts		
- Audit	27,000	27,000
- In respect of the reviewing Actuary	-	-
- Other services	-	-
Depreciation on tangible fixed assets	341,274	127,003
Operating lease rental charges	5,820	7,076

## 10. Investment Expenses and Charges

	2015 £	2014 £
Investment management expenses	99,417	7,873

## 11. Employee benefits expense

	2015 £	2014 £
Wages and salaries (including Executive Directors)	1,746,772	1,576,979
Social security costs	160,565	144,486
Pension costs	183,781	153,123
<b>Employee benefits expense</b>	<b>2,091,118</b>	<b>1,874,588</b>

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

	2015 No.	2014 No.
Board and senior management	10	10
Acquisition and Member contact	9	8
Administration	34	31
	<b>53</b>	<b>49</b>

# Notes to the Financial Statements 31 December 2015

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

	2015	2014
	£	£
Wages and salaries	381,802	382,605
Social security costs	50,671	57,322
Pension costs	34,379	51,965
<b>Key management remuneration</b>	<b>466,852</b>	<b>491,902</b>

Full details of Directors' emoluments are contained in the Directors, Remuneration report on pages 15 and 16.

## 12. Investments

### a) Land and buildings

	Freehold	Leasehold Occupied by Society	Freehold Occupied by Society	Total
	£	£	£	£
<b>At fair value</b>				
At 1 January 2015	665,000	130,000	1,100,000	1,895,000
Market value adjustment	25,000	0	75,000	100,000
At 31 December 2015	<u>690,000</u>	<u>130,000</u>	<u>1,175,000</u>	<u>1,995,000</u>

The fair value of the Society's investment property at 31 December 2015 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.

### b) Other financial investments

	2015	2014
	£	£
<b>Financial assets – Fair value through income</b>		
Shares, other variable yield securities and units in unit trusts		
- UK listed	46,736,062	45,768,330
Debts and other fixed income securities		
- UK listed	18,406,907	20,413,144
- Deposits	6,968,525	1,424,702
	<u>72,111,494</u>	<u>67,606,176</u>

### 13. Debtors

The Society does not have any debtors arising from its insurance business.

### 14. Tangible Assets

	Motor Vehicles £	Fixtures, Fittings, Furniture £	Computers and Office Machinery £	Total £
<b>Cost or Valuation</b>				
At 1 January 2015	88,823	358,368	829,853	1,277,044
Additions	33,950	15,138	603,987	653,075
Disposals	0	0	0	0
<b>At 31 December 2015</b>	<b>122,773</b>	<b>373,506</b>	<b>1,433,840</b>	<b>1,930,119</b>
<b>Accumulated Depreciation</b>				
At 1 January 2015	22,390	239,678	641,576	903,644
Provided in the year	27,157	34,816	279,301	341,274
Disposals	0	0	0	0
<b>At 31 December 2015</b>	<b>49,547</b>	<b>274,494</b>	<b>920,877</b>	<b>1,244,918</b>
<b>Net Book Value at 31 December 2015</b>	<b>73,226</b>	<b>99,012</b>	<b>512,963</b>	<b>685,201</b>
<b>Net Book Value at 31 December 2014</b>	<b>66,433</b>	<b>118,690</b>	<b>188,277</b>	<b>373,400</b>

### 15. Deferred Acquisition Costs

	2015 £	2014 £
At 1 January	2,883,910	3,019,883
Acquisition costs deferred	2,116,708	2,104,648
Amortisation	(1,926,221)	(2,240,621)
	<b>3,074,397</b>	<b>2,883,910</b>

Deferred acquisition costs relate to income protection insurance contracts. Acquisition costs are deferred in respect of commissions paid only, they are amortised over a period of 36 months commencing at the inception of the related contract.

### 16. Fund for Future Appropriations

	2015 £	2014 £
<b>Long-term business</b>		
At 1 January	23,882,887	22,184,864
Transfer included within comprehensive income for the year	2,180,948	1,734,023
	<b>26,063,835</b>	<b>23,882,887</b>

# Notes to the Financial Statements 31 December 2015

## 17. Member's Funds

<b>Active Members</b>	<b>2015</b>	<b>2014</b>
	£	£
<b>Bonuses and Rebates:</b>		
- Interest on Members' balances	504,314	495,504
- Apportionment	1,580,837	1,568,775
- Other Member Credits	-	2,703
	<u>2,085,151</u>	<u>2,066,982</u>
<b>Withdrawals During the Year</b>		
- Deaths	(62,542)	(30,450)
- Retirements	(887,942)	(932,784)
- Withdrawals	(49,295)	(25,869)
- Resignations and lapses	(693,980)	(833,925)
- Other Member Debits	(117,908)	(88,191)
Net increase/(decrease) in Member Funds during the year:	273,484	155,763
Balance at 1 January 2015	21,437,576	21,281,813
Balance at 31 December 2015	<u>21,711,060</u>	<u>21,437,576</u>
<b>Retired Members</b>	<b>2015</b>	<b>2014</b>
	£	£
<b>Transfers in and Interest:</b>		
- Interest on Members' balances	49,082	47,334
- Transfers from Members' accounts on retirement	248,321	294,532
	<u>297,403</u>	<u>341,866</u>
Withdrawals during the year	(220,894)	(133,064)
Net increase during the year	76,509	208,802
Balance at 1 January 2015	2,305,371	2,096,559
Balance at 31 December 2015	<u>2,381,880</u>	<u>2,305,371</u>
<b>Members' Mutual Fund</b>	<b>2015</b>	<b>2014</b>
	£	£
Transfers in and Interest:		
- Apportionment of surplus	2,180,949	2,051,881
<b>Withdrawals during the year</b>		
- Payments on cessation of contracts	(138,862)	(89,721)
- Transfer of closure penalties to the Benevolent Fund	(261,739)	(220,839)
Net increase during the year	1,780,348	1,741,321
Balance at 1 January 2015	5,028,045	3,286,724
Balance at 31 December 2015	<u>6,808,393</u>	<u>5,028,045</u>
<b>Total Members' Funds</b>	<u>30,901,333</u>	<u>28,770,992</u>

The Member's 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 Member's Mutual Fund.

## 18. Long-term business provision

### a) Analysis of insurance contract liabilities

	2015	2014
	£	£
<b>Non-participating insurance contract liabilities:</b>		
Long-term insurance liabilities	20,214,000	19,105,000

### b) Movement in long-term insurance contract liabilities – non-participating

	2015	2014
	£	£
Balance at 1 January	19,105,000	17,364,000
Increase in reserves transferred from the statement of Comprehensive Income	1,109,000	1,741,000
Balance at 31 December	20,214,000	19,105,000

## 19. Long-term insurance liabilities valuation assumptions

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

	2015	2014
Interest rate	1.00%	1.00%
Morbidity Incidence rate (shown as a percentage of CMIR 12 table)		
Health and Wealth contracts	50%	50%
Income Assured Plus contracts	30%	30%
My Earnings Assured Contracts	45%	45%
Morbidity recovery rates (shown as a percentage of CMIR 12 table)		
Health and Wealth contracts		
month 1	65%	65%
month 2	100%	100%
month 3	110%	110%
months 4 – 6	130%	130%
months 7 – 12	140%	140%
thereafter	150%	150%
Income Assured Plus and My Earnings Insurance contracts		
month 1	45%	45%
month 2	65%	65%
month 3	90%	90%
months 4 – 6	115%	115%
months 7 – 12	140%	140%
thereafter	140%	140%
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.

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



# Notes to the Financial Statements 31 December 2015

## 20. With-Profits's Actuary

The Society has made a request to the With-Profits Actuary, Mr C N Critchlow 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 £131,438 (including VAT) (2014: £107,655)

## 21. Related parties

There were no loans outstanding from Board members at the year-end (2014: nil)

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

	2015	2014
	£	£
P A Rouse	21,464	1,050

## 22. 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

	2015	2014
	£	£
Contracted	2,000,000	1,000,000

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

	2015	2014
	£	£
Within one year	21,340	0
In the second to fifth years inclusive	34,250	7,022
Over five years	0	0
	55,590	7,022

## 23. Contingent Liabilities

The Society had no contingent liabilities at the year end.

## 24. Transition to FRS 102 and FRS 103

These financial statements for the year ended 31 December 2015 are the Society's first financial statements that comply with FRS 102 and FRS 103. The Society's date of transition to FRS 102 and FRS 103 is 1 January 2015. The Society's last financial statements prepared in accordance with previous UK GAAP were for the year ended 31 December 2014.

The transition to FRS 102 and FRS 103 has not resulted in any changes in the Society's accounting policies compared to those used when applying previous UK GAAP. The Balance Sheet as at 31 December 2014 has therefore not required to be restated.

## 125 Foundation

The 125 Foundation provides financial support to individuals and causes, to the benefit of you and your community. You can select from two types of awards: Individual Awards and Half-Yearly Community Awards.

Are you or do you know someone who is suffering hardship and could benefit from a helping hand? Each month, the Foundation will give 10 Individual Awards of up to £500 each, drawn at random, for help with things like household equipment, car repairs or even a short break to recuperate.

For local projects and causes that you value and support, the Foundation will award one sum of up to £25,000 twice a year in the Half-Yearly Community Awards. This could be to help refurbish the local church hall, or to help set up a youth centre.

For information on how to apply, and to find out more, visit our website <http://www.cirencester-friendly.co.uk/Members-zone>

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Cirencester Friendly Society Limited is Authorised and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under the registration number 109987.

