



Annual Report & Financial Statements 2010

KINGSTON UNITY FRIENDLY SOCIETY

KINGSTON UNITY FRIENDLY SOCIETY

ANNUAL REPORT & FINANCIAL STATEMENTS 2010

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KINGSTON UNITY FRIENDLY SOCIETY

Established in the City of Kingston Upon Hull in 1840
Registered under the Friendly Societies Act 1974
Registration Number 775F

OFFICERS AND PROFESSIONAL ADVISERS

Registered Office	9 Navigation Court Calder Park Wakefield West Yorkshire WF2 7BJ Tel: 01924 240164 Fax: 01924 242992 Email: enquiries@kingstonunity.co.uk Web: www.kingstonunity.co.uk	
Trustees	Clifford Gordon Banks Michael Peter Hewan Derek Thomas	
Chairman	Paul Clarke	R
Deputy Chairman	Peter Graham Dawson	R, T
Senior Independent Director	Brian George Kinsey	A
Directors	David Hawkes Mrs Jennifer Thomas Neil Stuart Morrison Peter Edward John Darragh Timothy Watson	A, T A T A, R
Sub-Committees	A = Risk and Audit chaired by Brian George Kinsey R = Remuneration and Nomination chaired by Peter Graham Dawson T = Treating Customers Fairly chaired by David Hawkes	
Chief Executive & Secretary	Richard Andrew John Townsley BA Cert PFS	
Compliance Officer	Miss Sarah Bostwick Cert PFS	
Statutory Auditor	Brown Butler Chartered Accountants Apsley House 78 Wellington Street Leeds LS1 2JT	
Actuarial Function Holder and With Profits Actuary	Stephen W Dixon FIA Steve Dixon Associates West Hill House 32 West Hill Epsom Surrey KT19 8JD	
Solicitors	Newstead & Walker Mercury House Mercury Row Otley LS21 3HQ	Addleshaw Goddard LLP Sovereign House PO Box 8 Sovereign Street Leeds LS1 1HQ

KINGSTON UNITY FRIENDLY SOCIETY

Established in the City of Kingston Upon Hull in 1840
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OFFICERS AND PROFESSIONAL ADVISERS

Bankers	National Westminster Bank plc 8 Park Row Leeds LS1 5HD
Chartered Surveyors	Ryden Park House Park Square West Leeds LS1 2PW
Investment Advisers	Cazenove Capital Management Limited 12 Moorgate London EC2R 6DA
Internal Auditor	Mazars LLP Chartered Accountants The Lexicon 10-12 Mount Street Manchester M2 5NT
Compliance	D Williams ASFA FCoI Haven Risk Management PO Box 19 Chipping Campden GL55 6YX

The society is:

A registered unincorporated directive friendly society.

Authorised and regulated by the Financial Services Authority FRN 110056.

A member of:

The Financial Services Compensation Scheme.

The Association of Financial Mutuals.

MUTUO – Mutuo brings together the different wings of the mutual sector to promote a common message of success and to encourage mutual approaches to business and public policy.

KINGSTON UNITY FRIENDLY SOCIETY

STATEMENT OF INFORMATION ON THE ACTUARIAL FUNCTION HOLDER AND
WITH PROFITS ACTUARY

The Actuarial Function Holder and With Profits Actuary of the society is Mr Stephen W Dixon FIA, trading as Steve Dixon Associates.

The society has made a request to the Actuary to furnish it with the particulars specified in Section 77 of the Friendly Societies Act 1992 and the particulars furnished pursuant to that request are identified below:-

Mr Dixon confirmed that neither he nor his family, nor any of the employees of Steve Dixon Associates were members of the society, nor have they any financial or pecuniary interest in the society, with the exception of fees paid to, or incurred with, Steve Dixon Associates for professional services, which amounted to £67,440 (including VAT) in 2010.

ACTUARIAL FUNCTION HOLDER AND WITH PROFITS ACTUARY'S CERTIFICATE

In my opinion:

- the computation of the long term business provision has been prepared on the basis of recognised actuarial methods and with due regard to the actuarial principles laid down in Life Assurance Directive 2002/83/EC; and
- the long term business provision is sufficient to enable the society to meet any liabilities arising out of insurance contracts as far as can reasonably be foreseen.

The above statements were approved by Stephen W Dixon FIA
Steve Dixon Associates
Actuaries and Consultants

25 February 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE KINGSTON UNITY FRIENDLY SOCIETY

We have audited the financial statements of Kingston Unity Friendly Society for the year ended 31 December 2010 which comprise the Income and Expenditure Accounts, the Balance Sheet and the related notes. 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).

The maintenance and integrity of the society's website is the responsibility of the Committee of Management, the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

This report is made solely to the society's members, as a body, in accordance with Section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Committee of Management and Auditors

As explained more fully in the Committee of Management's Responsibilities Statement set out in the Committee of Management's Annual Report, the Committee of Management is responsible for the preparation of the annual report and the 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 Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Committee of Management; and the overall presentation of the financial statements.

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 2010 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 Committee of Management's Annual Report 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.

Continued on page 6

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE KINGSTON UNITY FRIENDLY SOCIETY

Continued from page 5

Matters on which we are required to report by exception

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

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

In accordance with our instructions from the society we review whether the Corporate Governance Statement reflects the society's compliance with the 9 provisions of the Annotated Combined Code specified by the Association of Financial Mutuals.

Mark Dearnley (Senior Statutory Auditor)
For and on behalf of Brown Butler
Chartered Accountants and Statutory Auditor

14 March 2011

Apsley House
78 Wellington Street
Leeds
LS1 2JT

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

CHAIRMAN'S REPORT

In my last report, you may recall some of the extensive challenges that I mentioned we were due to face in 2010. I am pleased to say that our plans to respond to these are now advanced and we are well placed to continue our drive to survive and excel as a society.

The society's investment portfolio has performed well during the continued turbulent times, with further significant growth. Our traditional business area continues to be impacted but there have been positive signs of growth of premium income into our investment products with other areas of new business development helping us to achieve this. The strategy for growth must continue with new products and distribution channels complementing and maximising our current sales capabilities.

Whilst we have been unable to make any reserve allocation to Branches this year we were able to significantly increase the rate of interest paid to Branches on the Central Investment Fund to generate income for them. We have also been able to maintain very competitive bonus levels on our schemes and Branch members will benefit from a distribution following the valuation at the end of 2010.

2011 will continue to present significant challenges for the Industry and our society and the list below will give a flavour of what we can look forward to:

- The Solvency II Directive comes into place at the end of 2012 and will have greater solvency requirements and allowances for all aspects of business risk.
- Continued focus from regulators regarding the writing of material levels of new 'With Profits' business and the associated need for us to significantly improve our premium income in line with Business Plan targets.
- Cessation of new contributions for the Child Trust Fund and replacement business procurement.
- Heightened challenges facing Branches re increasing governance, succession planning, membership growth and viability.
- Implementation of the current draft Retail Distribution Review which could have a severe impact upon sales channels and our ability to sell.
- Ever increasing governance requirements.

I am pleased to report that once again, our property portfolio has experienced no tenancy voids and our new property advisors, Ryden continue to work very closely with our valued tenants to understand their business and avoid any shocks.

During the year, we have also reviewed our internal auditors and now welcome Mazars LLP to our team. I am sure that they will very quickly be able to demonstrate added value and improvement to our systems, procedures and governance.

We also welcomed to the Board during 2010 both Peter Darragh and Timothy Watson – we wish them both well in their appointments.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

CHAIRMAN'S REPORT

Looking forward, 2011 will be another difficult year as recession and austerity measures continue. However, we have solid foundations and an excellent and tenacious team in our Chief Executive, Board, professional advisors and Head Office staff. Coupled with the continued support and enthusiasm of our members, we can continue to prosper and offer excellent service, securing the future for the Kingston Unity.

Thank you to each and every member.

Regards.

Paul Clarke

Chairman

10 March 2011



COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

CHIEF EXECUTIVE'S REPORT

Membership

There has been further significant membership growth during 2010 but in common with recent years this is mainly due to our involvement with the Child Trust Fund. As you may be aware the Government has now withdrawn the scheme and although it is due to be replaced with a Junior ISA, it is unlikely that this will generate the same volume as we have seen with the Child Trust Fund. This could create an impact for the society in the longer term particularly because, as reported last year, we have been seeing a gradual decline in our traditional membership. We have already started taking steps to address this and achieve growth in our With Profit fund by appealing to a wider audience through different distribution channels in order to generate new membership and an increase in premium income. Unfortunately this will not happen instantly, particularly with economic conditions remaining tough, but we are showing early signs of increasing activity. Whilst we are looking to open new markets for our products it is important to remember that our current members can help us to grow by making friends and relatives aware of the society. Kingston Unity has a long and proud history of providing excellent service and benefits to its members and we will continue to build on that tradition.

Mutuality

Kingston Unity like other Friendly Societies was founded to bring together a collection of individuals who would provide financial help and support to each other in times of distress. Whilst the nature of society in general, as well as the type of products that we offer, has changed there is still the same commitment to the basic principle of combining for mutual benefit. We do not have shareholders therefore any surplus funds available after meeting the present and future operational needs of the society are used for the benefit of members. In facilitating this I would like to thank our staff, Branch Secretaries and Agents for their continuing efforts and contribution.

The future

The economic difficulties which began in 2009 are still having an impact on countries all over the world and the UK general public is facing a further period of austerity as a result of Government action to reduce the level of national debt. There has been an improvement in equity markets during the year but property is still not showing any real sign of recovery at the moment. However, after any period of recession there is a recovery and the society has maintained a strong financial position through prudent management during the difficulties. We have also used the period to consider how the society can continue to serve its present and future members and as a result have embarked on a strategy of growth and new business development. This will be achieved whilst protecting the interests of current members but is likely to involve changes to our historic methods of operation. It is evident from the chart showing asset split that the proportion of Branch funds to the whole has declined significantly in recent years and in actual terms the value held has decreased marginally. Change may not always be welcome but the success of any organisation is linked to its ability to react and adapt to different circumstances. We are already starting to see positive signs of growth in premium income to our Endowment and Life Fund with an increase of almost 7.5% from 2009 and we are looking for this to be enhanced in 2011. As we go forward it is important that we also continue to review our governance procedures to ensure that our practices remain consistent with those required in a modern mutual organisation.

During 2010 the society became 'Directive', requiring us now to comply with the European Insurance Directives, and as a result of this change in status you will see that the Accounts for 2009 have been restated to give comparison to those for 2010 which are presented in a revised format to comply with requirements. The change also means that reporting to our regulator, the Financial Services Authority is much more extensive and both these measures involve additional cost for the society. We are continuing to make progress with the implementation of the Solvency II Directive due at the end of 2012 and the requirements of the Retail Distribution Review, the latter potentially having a profound effect on the availability of financial advice to the general public.

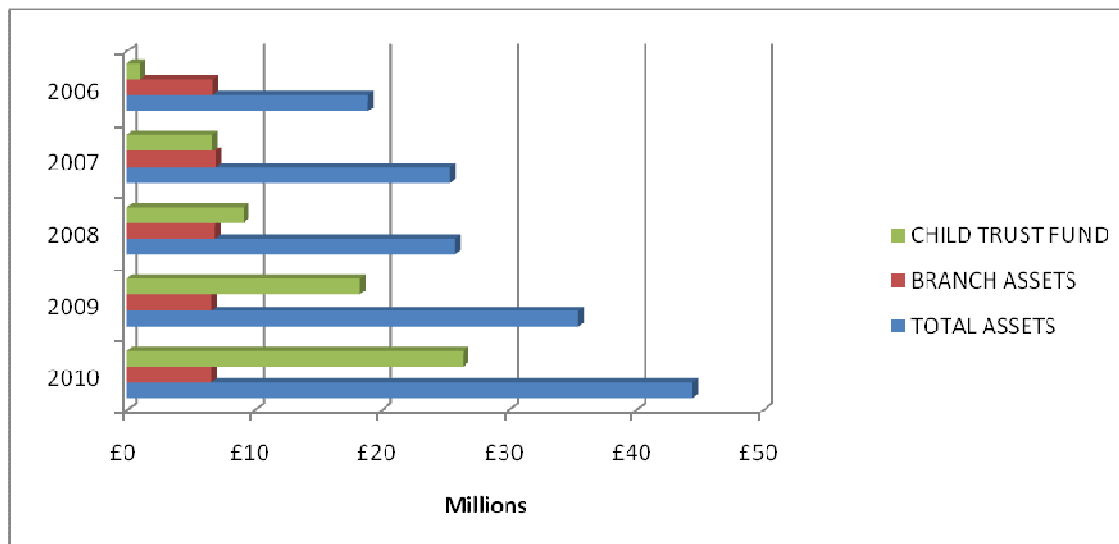
2011 will continue to present some difficult challenges both internally and externally but as a result of various issues being addressed in 2010 we are well placed to meet these and I look forward to a year of positive progress.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

CHIEF EXECUTIVE'S REPORT

Total, Branch & Child Trust Fund assets since 2006



Key figures at a glance

	2010	2009	2008
Assets £000s	44,500	35,577	25,802
Insurance and Endowment Premium Income £000s	519	420	419
Child Trust Fund Contributions £000s	5,744	5,560	5,304
ISA income £000s	130	227	276
Members (excluding CTF)	4,668	4,710	4,777
Branch CIF balances £000s	6,636	6,649	6,905
Management Expenses £000s	626	579	611

Andrew Townsley

Chief Executive

10 March 2011

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

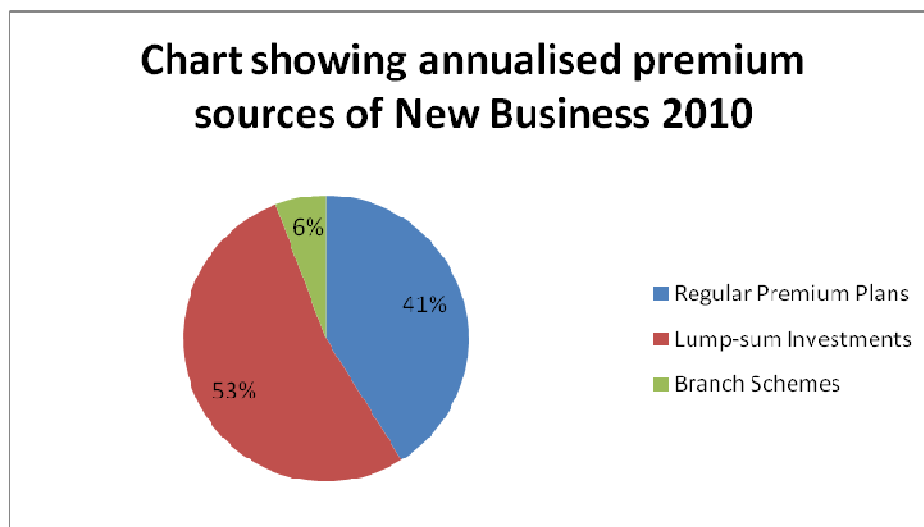
For the year ended 31 December 2010

DIRECTORS' REPORT

The directors are pleased to present their 170th annual report and financial statements for the year ended 31 December 2010.

1. Business review and future developments

During 2010, as stated in the last Directors' Report, we embarked on a strategy to attract new business from sources other than our traditional Branch structure, primarily at this stage via Independent Financial Advisers (IFAs) or direct to the society. Whilst making new connections in the IFA market has taken time, particularly due to the economy and the fact that we are a new entrant into an already crowded market, we are now starting to attract business and we will continue to try and build ongoing relationships. Equally the new website, for which we have received many favourable comments for its content and ease of use, only became active in the second half of the year but has been the source of further new business. Premium income into our Endowment and Life Fund (excluding that from With Profit ISA's and Child Trust Fund) increased by 23.7% from 2009 following the introduction of the Investment Bond and Regular Saving Plan. During the year, the percentage of new premium income to this fund came 47% from direct sources, 42% from IFAs and 11% from our Branches. Our strategy to focus on the investment business at this stage to assist our requirement to grow is further reinforced by the following chart that shows the source of Annualised Premium Equivalent (APE) by product class for new business in 2010.



However, in the future we envisage that there is still a role within our product mix for Branch type schemes and we intend to review our present range in 2011 with a view to updating them to be more relevant to current market conditions.

As mentioned earlier in the report the society now falls within the remit of the European Insurance Directives and this will result in increased costs particularly in respect of Audit and Actuarial fees. Compliance with changing regulation places a considerable strain on the resources of a society of our size and in addition it has had a significant impact on the operation of our Branches. In view of this the society's Board and Branch Committees are collectively having discussions about how we can successfully overcome the issues that our Branches face. In 2010, Hand and Heart transferred their engagements to Lord Nelson.

The Risk and Audit Sub-Committee is taking a more active role in monitoring our preparations for the implementation of Solvency II in 2012 in addition to ongoing reviews of the society's Risk Register. We have also appointed Mazars as our Internal Auditors with effect from 1 January 2011, to help us continue to improve our systems and procedures and approach to Governance.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

DIRECTORS' REPORT

The impact of the Retail Distribution Review (RDR), again scheduled for implementation in 2012 is still unclear. The main elements of this will be to require advisers to be completely independent and charge fees for their advice instead of receiving commission, or only offer limited advice. Qualification levels are also to be enhanced which some speculators have argued may result in a reduction in the number of advisers in the overall marketplace. It is however certain that the society will have to amend or change some of its operating procedures to meet the criteria being imposed.

It is our overall aim for the society to develop and maintain a close relationship with its Members, providing products and services that will meet their current and future needs and demonstrate the benefits of mutuality. Treating Customers Fairly (TCF) is at the heart of our business and the Board and staff are all committed to meeting that objective.

2. Chief Executive

The positions of Chief Executive, Secretary and Money Laundering Reporting Officer were held by Andrew Townsley.

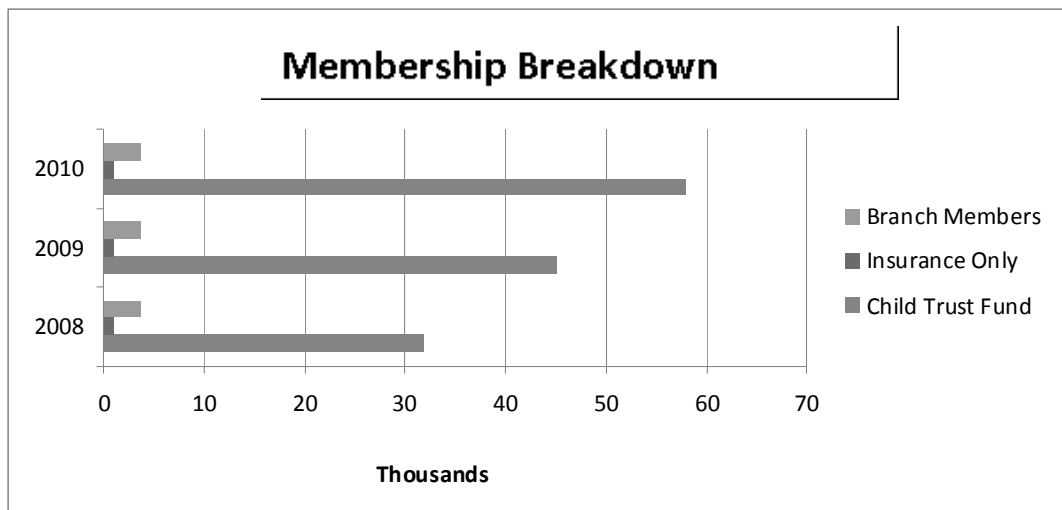
3. The Society's objectives and review of 2010

The Kingston Unity Friendly Society is a registered friendly society with fourteen branches. (Since the year end City of Ripon has transferred its engagements to Heart of Oak). The society is classified as a directive registered friendly society under the EEC Third Life Directive and these financial statements have been prepared to comply with the relevant accounting regulations.

The principal activity of the society is the transaction of long-term life, annuity and permanent health insurance business in the UK. In accordance with the Financial Services & Markets Act 2000, the Committee confirm that all activities carried on by the society during the year are believed to have been carried on within its powers.

The branches of the society continue to offer health and life assurance benefits from their own funds. Whilst branches are independent in respect of certain aspects of their business, the society Board carries full responsibility for their compliance and wellbeing.

The following tables summarise activity within the society and Branches as at 31 December 2010 with comparisons for 2009 and 2008.



COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

DIRECTORS' REPORT

Membership	2010	2009	% Change
Branch Members	3,637	3,684	-1.28
Insurance only	1,031	1,026	+0.49
Child Trust Fund	57,975	45,019	+28.78
	<u> </u>	<u> </u>	<u> </u>
Total	<u>62,643</u>	<u>49,729</u>	<u>+25.97</u>

Membership change during the year	2010	2009	% Change
New Branch members	43	39	+10.26
Branch members leaving	68	70	-2.86
	<u> </u>	<u> </u>	<u> </u>
Change in Branch members	<u>-25</u>	<u>-31</u>	<u>-19.35</u>
	<u> </u>	<u> </u>	<u> </u>
New Insurance members	75	49	+53.06
Insurance members leaving	77	86	-10.47
	<u> </u>	<u> </u>	<u> </u>
Change in Insurance members	<u>-2</u>	<u>-37</u>	<u>-94.59</u>

Overall there has been a net loss in insurance members as there were 75 new Insurance Only members joining the society and 77 leaving the society during 2010. However, the number of Insurance Only members has increased overall due to 7 existing members who previously held Branch and Insurance membership and who have become Insurance Only members by default, having left branch schemes during 2010. These are not included in the new Insurance Only members figures.

Tax Exempt savings policies	2,723	2,826	-3.64
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Premium Income	2010	2009	% Change
	£	£	
Branches	287,496	306,587	-6.23
Insurance and Endowment	734,046	713,118	+2.93
Unit linked ISA	20,925	52,334	-60.02
Child Trust Fund - stakeholder	5,606,065	5,441,732	+3.02
Assets	<u>44,499,680</u>	<u>35,576,725</u>	<u>+25.08</u>

On 31 December, funds invested by Branches in the Central Investment Fund had fallen by £13,391 from £6,649,278 to £6,635,887.

There was a slight improvement in the property market in the early part of the year but overall there was no substantive change. The annual review of the property portfolio reflects this with some small increases being offset by similar decreases. We have worked with our managing agents Ryden to retain tenants and at the year end there were no voids, a successful outcome in present market conditions but the scope for short term rental growth is severely restricted. Overall there was a reduction in the like for like value of the property portfolio by £185,000 to £8,420,000 representing just over 2%. We also purchased a new building at Calder Park, Wakefield in order to relocate our Head Office and after taking into account the associated costs of removal, fitting out and purchase taxes there was an increase in value in excess of 6%. The previous offices at 25a Park Square remain in our portfolio and were successfully let.

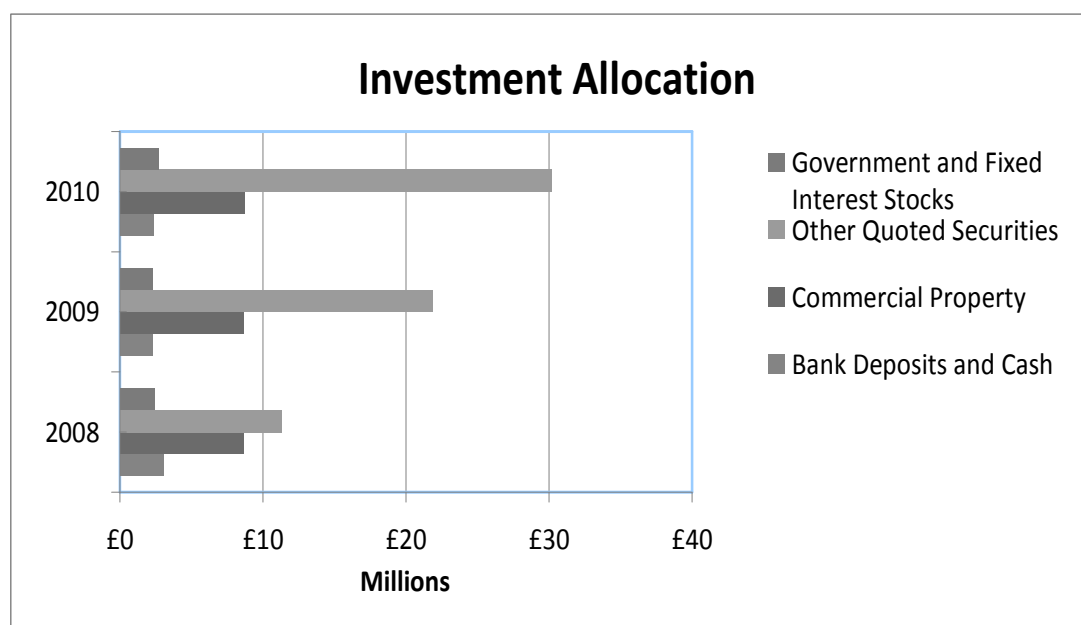
COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

DIRECTORS' REPORT

Equity markets have improved substantially during 2010 and we have taken advantage of this by making regular purchases through our Investment Manager, Cazenove.

The comparative market values of our holdings are summarised as follows:



31 December	2010 £	2009 £	2008 £
British Government and Fixed Interest Stocks	2,687,896	2,281,902	2,406,768
Other Quoted Securities	30,187,877	21,857,599	11,277,902
Commercial Property	8,730,000	8,605,000	8,635,000
Bank Deposits and Cash	2,319,388	2,308,969	3,046,801
	<u>43,925,161</u>	<u>35,053,470</u>	<u>25,366,471</u>

Total investment income rose during the year from £1,639,851 to £1,775,816 due to the improvement in equity markets and income from property.

Tax-exempt contribution income of the society amounted to £576,830 compared to £664,882 in the previous year. Premium income to the two new taxable products was £118,689. Maturity claims on the insurance and endowment fund amounted to £571,208, a decrease from the figure of £789,543 in 2009. The Insurance and Endowment 'with-profits' Fund at the end of the year stood at £5,544,725 compared to £5,163,728 (restated) in 2009 and £5,056,029 (restated) in 2008, after allowing for the addition of interest and transfers.

Administration expenses including acquisition costs rose by just over 8% during the year, primarily due to the increased Actuarial and Audit fees resulting from preparatory work on the requirements of Solvency II and the transition from Non Directive to Directive status. The Committee remain conscious of the need to control management expenses and review financial information including comparison with budgets on a monthly basis.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

DIRECTORS' REPORT

Friendly Society legislation requires the Committee of Management to prepare financial statements which give a true and fair view of the state of affairs of the society as at the end of the financial year and of the income and expenditure for the year then ended. Your Committee is confident that they have fully complied with this requirement.

4. Margin of solvency

At 31 December 2010, the society had the required margin of solvency as prescribed in regulations made under section 48(2) of the Friendly Societies Act 1992.

5. Political and charitable donations

The society has not made any donations for political or charitable purposes.

6. Complaints procedures

Complaints will be dealt with in accordance with the procedures detailed in society rules 49 and 50, copies of which may be obtained on application to the society or to any Branch. Where a dispute or complaint not relating to matters regulated by the Financial Services Authority is not resolved within the society the complainant has the right under society rule 49 to put the matter in the hands of the society's arbitrators.

Where a complaint falls within matters regulated by the Financial Services Authority or any other organisation appointed to regulate the activities of the society under the Financial Services & Markets Act 2000, and the complaint has not been resolved under the procedures laid down in society rule 50, the complainant may refer the matter to the Financial Services Ombudsman.

7. Officers' indemnity insurance

This insurance indemnifies them against any liability in respect of losses, costs, charges, damages and expenses which might arise from, or in the course of, their duties but not against any such liability as, by virtue of any rule of law, would attach to them in respect of any negligence, default, breach of duty or breach of trust at which they may be guilty in relation to the society. They shall, however, be indemnified against any liability incurred by them in defending any proceedings whatsoever, whether civil or criminal, arising out of their duties in relation to the society in which judgement is given in their favour or in which they are acquitted.

8. Other matters

The Committee of Management is not aware of any other matters material to an appreciation by its members of the state of affairs of the society in 2010.

9. Corporate governance & Directors' responsibilities

Friendly Society legislation requires the Committee of Management to prepare financial statements which give a true and fair view of the state of affairs of the society as at the end of the financial year and of the income and expenditure for the year then ended. Your Committee is confident that they have fully complied with this requirement.

The Board is responsible for providing leadership and setting the strategic direction within a framework of effective and risk-based controls. The society complies fully with the guidance issued by the Financial Services Authority (FSA). During the year the Board submitted its Corporate Governance Questionnaire and consider that, in their view, the spirit of the code has been adopted in all Board activities.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

DIRECTORS' REPORT

This has included:

- Reviewing Board skills for present and future needs, and both individual and combined assessments.
- Ensuring a governance structure is in place that is appropriate to the society's size and scope of business.
- Assessing the effectiveness of communication with and the involvement of members.

All Directors are approved persons and are required to meet the 'fit and proper' criteria laid down by the FSA and to comply with the FSA's principles for approved persons and its code of practice. Nominations for membership of the Board are considered firstly by the Remuneration and Nomination Sub-Committee and subsequently by the full Board.

All Directors are annually appraised individually, and the performance of the Chairman is reviewed by the Board led by the Senior Independent Director.

In addition, the Board undertakes an annual evaluation of the performance of the Board as a whole.

The names of the Directors at the date of signing these financial statements are listed on page 2.

The following members of the society served on the Board during 2010:

Allan Beckett
Paul Clarke
Peter Darragh
Peter Dawson
David Hawkes
Neil Morrison
Brian Kinsey
Jennifer Thomas
Andrew Townsley
Timothy Watson

In making this report to you and presenting the financial statements for the year the Committee of Management of the society is obliged to draw to your notice its responsibilities in respect of the financial statements and associated statements.

The Committee of Management is responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Legislation requires the Committee of Management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the society and of the income and expenditure for that period. In preparing these financial statements the Committee is required to:

- (a) Select suitable accounting policies and then apply them consistently.
- (b) Make judgements and estimates that are reasonable and prudent.
- (c) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- (d) Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the society will continue in business.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

DIRECTORS' REPORT

The Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the society, and enable it to ensure that the financial statements comply with the Financial Services & Markets Act 2000, Friendly Societies Act 1992 and the regulations made under it. The Committee is also responsible for safeguarding the assets of the society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. During the year a risk review has taken place which resulted in the society and all its Branches updating their Risk Registers.

Board Committees

The Board has established committees to consider certain specialist areas in more detail than would be possible at Board meetings. Each committee operates within defined terms of reference. Minutes of meetings are formally recorded and reported to the Board by each committee chairman.

The Remuneration and Nomination Sub-Committee is chaired by Peter Dawson and meets at least twice per year to:

- Review the size, structure and composition of the Board and make recommendations as appropriate.
- Carry out succession planning for the Board and Senior Management.
- Identify prospective candidates for election to the Board.
- Make annual recommendations to the Board relating to Board Fees and staff salaries.

Brian Kinsey chairs the Risk and Audit Sub-Committee. This Committee receives reports from both internal and external auditors, and meets quarterly to consider relevant issues including Solvency II, the society's Risk Register and agreeing a programme with the Internal Auditors. The internal audit function reviews internal controls and risk in all key activities and acts as a service to the business of the society by assisting with the continuous improvement of controls and procedures. Actions are agreed in response to its recommendations and these are followed up to ensure that satisfactory control is maintained.

The Treating Customers Fairly (TCF) Sub-Committee, chaired by David Hawkes, considers issues relating to meeting the outcomes in the Financial Services Authority TCF guidelines and has responsibility for ensuring that all our dealings with customers are carried out in accordance with these guidelines in a fair and appropriate manner.

Other Board Sub-Committees are set up on an ad hoc basis to meet particular needs. For example, in recognition of the requirement to increase the volume of new business being generated, a Business Development Committee, chaired by Neil Morrison, has been established.

Statement of compliance with the combined code

The Board considers that throughout the year the society has complied with the relevant provisions of the Annotated Combined Code for Mutual Insurers issued jointly by the Association of Mutual Insurers and the Association of Friendly Societies with the following exception:

Due to our size the position of Secretary is held by the Chief Executive and the Code suggests that they should be separate. However, the Board considers that it receives the appropriate level of support at this stage and that it would not be a beneficial use of members' funds to split the roles.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

DIRECTORS' REPORT

Below are the details of the Directors' attendance record at Board meetings and relevant Board Sub-Committee meetings during 2010:

Attendance	Board	Sub-Committees	Other
Paul Clarke	12/12	6/6	6
Peter Dawson	11/12	11/11	8
Allan Beckett	3/5	2/2	
Peter Darragh	12/12	5/5	4
David Hawkes	11/12	5/5	5
Brian Kinsey	11/12	5/5	6
Neil Morrison	11/12	5/5	5
Jennifer Thomas	12/12	3/3	6
Andrew Townsley	12/12		
Timothy Watson	4/4		

The Board is committed to maintaining good communications with Members and is keen to develop its understanding of members' views. We look to provide sufficient information to enable the performance of the society and its products to be easily understood.

Other directorships and business interests

Paul Clarke	Director:	Thomas Vale Construction Limited
Andrew Townsley	Director:	Association of Financial Mutuals
	Director:	Carr House Court Management Company Limited
	Arbitrator:	Grand United Order of Oddfellows

We wish to record our appreciation to management, staff and our professional advisors for their loyalty, effort and enthusiasm and to all our Members for your continued support and appreciation.

Paul Clarke*Chairman**10 March 2011***Andrew Townsley***Chief Executive*

KINGSTON UNITY FRIENDLY SOCIETY

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

REMUNERATION REPORT

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 31 December 2010. An advisory vote to approve the report will be put to the 2011 Annual General Meeting.

Statement of the Society's Policy on Directors' Remuneration

The Board consists of eight non-executive directors', and one executive director. New directors are appointed with the expectation that they will serve for a period of three years. Thereafter directors' appointments are reviewed formally every three years and approved by the delegates at the AGM. None of the non-executive directors has a contract of service and may resign by notice in writing at any time. Non-executive directors are remunerated in the form of fees payable in arrears. There are no long term incentive schemes or pension arrangements and the fees are not specifically related to the directors' performance, either individually or collectively.

The society's policy is that fees payable to the directors should reflect the time spent by the Board on the society's affairs and responsibilities borne by the directors, and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman and Chairmen of Sub-Committees to be paid higher fees than the other directors in recognition of the more onerous role.

Review of fees

The Board has agreed that fees for 2011 should be increased by 2.5%. Directors fees for 2011 are as follows; attendance at Board meetings – the Chairman £216.50 per meeting; other directors £163.00, and for Sub-Committee meetings; the Chairman £108.50; other directors and co-opted members £81.50. The directors consider that the rates should reflect the ongoing responsibilities of, and the time commitment required to ensure that the society meets all its regulatory and contractual obligations. In addition to meeting fees, an additional sum of £1,035.25 per annum is paid to each Board member (£1,552.88 Chairman) to cover the time and expense of carrying out their duties and responsibilities in a professional manner. Apart from the above, travelling and subsistence fees are paid when appropriate.

Fees, Salaries and other benefits in 2010 amounted to:

	<u>Fees</u>	<u>Salary</u>	<u>Taxable Benefits</u>	<u>Commission</u>	<u>Pension</u>	<u>2010</u>	<u>2009</u>
	£	£	£	£	£	£	£
Paul Clarke	5,510					5,510	3,479
Peter Dawson	4,792					4,792	3,931
Allan Beckett	1,284					1,284	4,037
Peter Darragh	3,819					3,819	0
David Hawkes	4,282			1,153		5,435	5,724
Brian Kinsey	4,201			11		4,212	5,240
Neil Morrison	4,021					4,021	3,198
Jennifer Thomas	3,938			5,591		9,529	12,455
Andrew Townsley		90,382			10,145	100,527	80,223
Timothy Watson	729					729	0
Roger Frier						0	51,108
David Wilkinson						0	2,403
	<u>32,576</u>	<u>90,382</u>	<u>-</u>	<u>6,755</u>	<u>10,145</u>	<u>139,858</u>	<u>171,798</u>

The above totals do not include general expenses, such as travel and parking.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2010

REMUNERATION REPORT

Directors' and Officers' liability insurance cover amounting to £2m is held by the society in respect of the directors and staff.

Non-Executive Directors

In the opinion of the Board, each non-executive director, including the Chairman, is independent in character and judgement. It also believes that the composition and balance of skills of Board members is appropriate for the society's size and business requirements but reviews this in the light of changing and future requirements.

Chairman and Chief Executive

The roles of the Chairman and Chief Executive are held by different people and are distinct in their purpose and have individual job descriptions. The Chairman is responsible for leadership of the Board and ensuring that the Board acts effectively. The Chief Executive, who is also a member of the Board, has the overall responsibility for managing the society and for implementing the strategies and policies agreed by the Board. The Chief Executive has a rolling contract of service effective from 9 March 2009 requiring him to give six months notice of termination. The society's notice period is six months.

Senior Independent Director

Brian Kinsey acts as the society's Senior Independent Director. He is available to Members if they have concerns about the society's business and having made contact with the Chairman, Chief Executive or Compliance Officer such concern has not been resolved. Correspondence should be sent to him at the society's Head Office marked 'Personal SID'. Where there is a complaint about a specific product or customer service standards, it should initially be referred to the Compliance Officer where it will be dealt with in accordance with the society's complaints procedure.

On behalf of the board of management

Paul Clarke
Chairman

Andrew Townsley
Chief Executive

10 March 2011

KINGSTON UNITY FRIENDLY SOCIETY

INCOME AND EXPENDITURE ACCOUNT

TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2010

	Note	2010 £	2009 As restated £
INCOME			
Earned premiums	3	6,431,277	6,279,931
Investment income	4	1,571,576	1,408,615
Unrealised gains on investments	5	2,908,450	3,820,323
Other income	6	39,911	7,740
TOTAL INCOME		<u>10,951,214</u>	<u>11,516,609</u>
EXPENDITURE			
Claims incurred	7	778,090	933,587
Change in long term business provision		2,772,847	3,245,143
Net operating expenses			
Acquisition costs	8	76,630	75,551
Administration	9	397,091	292,446
		<u>473,721</u>	<u>367,997</u>
Investment expenses and charges			
Investment management expenses	10	61,653	35,667
Losses on realisation of investments	11	131,970	32,436
		<u>193,623</u>	<u>68,103</u>
Unrealised losses on investments	12	295,709	189,011
		<u>4,513,990</u>	<u>4,803,841</u>
Tax attributable to the long term business	15	3,240	16,760
TOTAL EXPENDITURE		<u>4,517,230</u>	<u>4,820,601</u>
EXCESS OF INCOME OVER EXPENDITURE FOR THE FINANCIAL YEAR		<u>6,433,984</u>	<u>6,696,008</u>

The Technical account reflects the income and expenditure in respect of the society's investment products held by the society's members.

All income and expenditure arises from continuing operations within the United Kingdom.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Income and Expenditure Account.

The notes on pages 24 to 46 form part of these financial statements.

KINGSTON UNITY FRIENDLY SOCIETY

INCOME AND EXPENDITURE ACCOUNT

NON-TECHNICAL ACCOUNT

For the year ended 31 December 2010

	Note	2010 £	2009 As restated £
INCOME			
Investment income	4	204,240	231,236
Unrealised gains on investments	5	49,459	97,974
Other income	6	27,699	26,891
TOTAL INCOME		<u>281,398</u>	<u>356,101</u>
EXPENDITURE			
Claims incurred	7	16,442	14,384
Administration	9	152,502	211,051
Investment expenses and charges			
Investment management expenses	10	20,551	23,777
Losses on realisation of investments	11	23,289	7,608
		<u>43,840</u>	<u>31,385</u>
		212,784	256,820
Unrealised losses on investments	12	52,184	44,337
EXPENDITURE BEFORE INTEREST AND ALLOCATION TO INVESTING BRANCHES		264,968	301,157
Divided among the member branches	13	293,431	151,416
TOTAL EXPENDITURE		<u>558,399</u>	<u>452,573</u>
EXCESS OF EXPENDITURE OVER INCOME FOR THE FINANCIAL YEAR		<u>(277,001)</u>	<u>(96,472)</u>

The Non-technical account reflects the income and expenditure in respect of the society's branch structure.

All income and expenditure arises from continuing operations within the United Kingdom.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Income and Expenditure Account.

The notes on pages 24 to 46 form part of these financial statements.

KINGSTON UNITY FRIENDLY SOCIETY

BALANCE SHEET

As at 31 December 2010

	Note	2010 £	2009 As restated £
ASSETS			
INVESTMENTS			
Land and buildings	18	8,730,000	8,605,000
Other financial investments			
Shares and other variable yield securities	19	3,843,507	3,906,747
Debt securities and other fixed income securities	20	2,687,896	2,281,902
Loans secured by mortgages	21	442,461	284,648
		<u>15,703,864</u>	<u>15,078,297</u>
Assets held to cover linked liabilities	22	26,344,370	17,950,852
DEBTORS			
Other debtors	23	9,080	33,225
OTHER ASSETS			
Tangible assets	24	34,372	13,207
Cash at banks, brokers and in hand	25	2,319,388	2,308,969
		<u>2,353,760</u>	<u>2,322,176</u>
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		66,879	147,479
Other prepayments and accrued income		21,727	44,696
		<u>88,606</u>	<u>192,175</u>
		<u>44,499,680</u>	<u>35,576,725</u>
LIABILITIES			
RESERVES			
Reserves provided for by the rules and tables	26	717,738	495,214
Fund for future appropriations	27	3,571,619	3,857,150
		<u>4,289,357</u>	<u>4,352,364</u>
TECHNICAL PROVISIONS			
Long term business provision	30	6,987,318	6,387,999
Technical provisions for linked liabilities	31	26,344,370	17,950,852
		<u>33,331,688</u>	<u>24,338,851</u>
CREDITORS			
Other creditors – including taxation, social security and investing branches	35	6,666,862	6,679,803
ACCRUALS AND DEFERRED INCOME	37	211,773	205,707
		<u>44,499,680</u>	<u>35,576,725</u>

These financial statements were approved and authorised for issue by the Committee of Management on 10 March 2011.

.....
Paul Clarke (Chairman)

.....
Richard Andrew John Townsley (Chief Executive & Secretary)

The notes on pages 24 to 46 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments, in accordance with The Friendly Societies Act 1992, The Friendly Societies (Accounts and Related Provisions) Regulations 1994, The Association of British Insurers Statement of Recommended Practice on Accounting for Insurance Business December 2005 (as amended December 2006) and with applicable accounting standards.

The Committee of Management considers that the society has adequate resources to continue in business for the foreseeable future and for this reason it has continued to adopt the going concern basis in preparing the financial statements.

(b) Earned premiums

Premiums and contributions are accounted for on a cash basis. The difference between this and the accruals basis is considered to be immaterial.

(c) Claims incurred

Claims incurred comprise claims paid in the year, together with changes in provisions for outstanding claims at the year end. Claims are accounted for when they are notified and approved by the society.

(d) Acquisition costs

Acquisition costs comprise the amount of direct and indirect costs arising from the obtaining and processing of new business. Considered in the light of available future margins against which to offset acquisition costs that might be deferred to future periods, the amount that might be deferred is not material. All acquisition costs have been recognised in the period in which they have been incurred.

(e) Investment income

Investment income includes dividends, interest, rents and realised gains on investments, accounted for on an accruals basis. Dividends are shown net of their irrecoverable associated tax credit.

(f) Realised gains and losses on investments

Realised gains and losses on investments are calculated as the difference between net sale proceeds and the original cost in the case of investments purchased during the year and otherwise as the difference between net sale proceeds and the previous valuation.

(g) Unrealised gains and losses on investments

Unrealised gains and losses are calculated as the net difference between the valuation of investments at the balance sheet date and their original purchase price, or if they have been previously revalued, their valuation at the last balance sheet date.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. Accounting policies (continued)

(h) Pension contributions

The society has a defined contribution pension scheme. The pension costs charged to the income and expenditure account are the premiums payable in respect of the accounting period.

(i) Investments – land and buildings

The investment properties are valued at open market value. Independent professionally qualified valuers carry out valuations every year.

It is the society's practice to maintain these assets in a continual state of repair and to extend and make improvement thereto from time to time, accordingly, no depreciation or amortisation is provided in respect of the investment properties.

Depreciation and amortisation are only two of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

The directors consider that this accounting policy results in the financial statements giving a true and fair view.

(j) Investments – shares and other variable yield securities, debt securities and other fixed income securities and assets held to cover linked liabilities.

At the year end date the quoted investments are valued at fair value using closing bid values. The value of fixed interest securities excludes accrued interest.

(k) Investments – loans secured by mortgages

Mortgages are stated at capital advanced less amounts repaid and provision for any potential losses.

(l) Depreciation of tangible assets

Depreciation of tangible fixed assets other than freehold and long leasehold investment properties are provided on cost over their estimated useful lives. The annual rates and methods of depreciation are as follows:-

Fixtures, fittings and equipment	15%	reducing balance basis
Computer equipment	33 $\frac{1}{3}$ %	straight line basis
Motor vehicle	25%	reducing balance basis

No depreciation is provided in respect of the freehold and long leasehold investment properties in accordance with the society's policy.

A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

(m) Fund for future appropriations

The fund for future appropriations represents funds, which have yet to be allocated to participating members. Any surplus or deficit on the technical and non-technical accounts are transferred to or from the fund on an annual basis.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. Accounting policies (continued)

(n) Long term business provision

The long term business provision is determined by the society's Actuarial Function Holder following the annual investigation of the long-term business and is calculated initially on a statutory solvency basis. The calculation uses the net premium method, modified by a Zillmer and by a minimum provision for expenses, and as such includes explicit provision for vested bonuses, including those vesting for the current valuation. Implicit provision is made for future reversionary bonuses and future terminal bonuses by a reduction in the valuation rate of interest.

The valuation is then adjusted to remove certain contingency reserves required by the Friendly Society Regulations.

The principal assumptions used in the valuation are:

Mortality	106% AMC00 and 106% AFC00
Morbidity	60% of the Manchester Unity AHJ (1893 – 97)
Investment returns	3.00% for tax exempt policies, 2.40% for taxable with profit policies, 3.50% for tax exempt non profit policies

(o) Taxation

As a registered friendly society, only part of the society's long term business is subject to corporation tax.

Taxation is provided for in accordance with current legislation.

(p) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but have not yet reversed by the balance sheet date and are subject to corporation tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(q) Cash flow statement

The society has taken advantage of the exemption under Financial Reporting Standard 1 (Revised 1996) not to prepare a cash flow statement.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. Prior year adjustments

The prior year adjustments have arisen as a result of the change from a 'Non-Directive' to a 'Directive' society. Accounting policies regarding asset valuations mean that the recognition of unrealised gains and losses are now shown in the income and expenditure accounts. Therefore the balances on the revaluation reserves on notes 32, 33 and 34 have been reallocated to the appropriate fund.

In addition to this, certain assets previously disclosed under Shares and other variable yield securities have been reclassified under Assets held to cover linked liabilities.

3. Earned premiums

	2010	2009
	£	As restated £
Central health benefit contributions	3,465	2,894
Long term savings contributions	66,776	69,853
Insurance and endowment premiums	734,046	713,118
Child Trust Fund – stakeholder	5,606,065	5,441,732
Unit linked ISA	20,925	52,334
	<u>6,431,277</u>	<u>6,279,931</u>

4. Investment income

	2010		2009	
	Technical account £	Non-technical account £	As restated Technical account £	As restated Non-technical account £
Income from listed investments	798,121	67,748	626,271	47,723
Income from land and buildings	593,153	104,674	518,718	121,675
Gains on the realisation of investments	152,291	26,875	227,956	53,471
Bank interest receivable	15,624	2,757	26,492	6,214
Mortgage interest receivable	12,387	2,186	9,178	2,153
	<u>1,571,576</u>	<u>204,240</u>	<u>1,408,615</u>	<u>231,236</u>

With the exception of the income from listed investments, the investment income is allocated based on the opening ratio between the technical and non-technical reserves.

Income from listed investments has elements directly attributable to the technical account, with the balance being allocated as described above.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

5. Unrealised gains on investments

	2010		2009 As restated	
	Technical Account £	Non-technical account £	Technical account £	Non-technical Account £
Shares and other variable yield securities	222,760	39,311	303,416	97,974
Assets held to cover linked liabilities	2,628,187	-	3,516,907	-
Debt securities and other fixed income securities	57,503	10,148	-	-
	<u>2,908,450</u>	<u>49,459</u>	<u>3,820,323</u>	<u>97,974</u>

6. Other income

	2010		2009 As restated	
	Technical Account £	Non-technical Account £	Technical account £	Non-technical Account £
Management and other levies	<u>39,911</u>	<u>27,699</u>	<u>7,740</u>	<u>26,891</u>

7. Claims incurred

	2010		2009 As restated	
	Technical Account £	Non-technical account £	Technical account £	Non-technical Account £
Funeral re-insurance fund	-	16,442	-	14,384
Central health fund	2,957	-	100	-
Long term savings fund	53,059	-	55,214	-
Insurance and endowment fund	613,233	-	825,820	-
Child Trust Fund – stakeholder:				
claims	68,476	-	50,061	-
transfers	2,803	-	2,392	-
Unit linked ISA fund	37,562	-	-	-
	<u>778,090</u>	<u>16,442</u>	<u>933,587</u>	<u>14,384</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

8.	Acquisition costs		2010	2009
			£	As restated £
	Salaries and national insurance		24,246	21,679
	Pension costs		1,902	3,886
	Commissions		25,387	24,716
	Printing and stationery		1,306	2,998
	Office repairs		153	1,907
	Maintenance contracts		8,982	2,561
	Computer software		3,131	8,031
	Actuarial fees and valuation provisions		6,744	4,401
	Compliance training		4,779	5,372
			<u>76,630</u>	<u>75,551</u>
			<u><u>76,630</u></u>	<u><u>75,551</u></u>
9.	Administration		2010	2009
			£	As restated £
	Salaries and national insurance		218,212	195,115
	Staff recruitment		3,898	2,965
	Pension costs		17,114	34,977
	Board meeting costs			
	Attendance fees	36,224	31,569	
	Mileage allowance and travel	11,188	10,999	
	Hotel expenses	5,235	5,442	
	Other expenses	537	1,172	
		<u>53,184</u>	<u>49,182</u>	
	Association of Friendly Societies costs		3,541	5,148
	Rent, rates, light, heat and insurance		17,934	19,073
	Printing and stationery		25,552	26,979
	Postages		18,593	17,134
	Telephone		5,282	3,020
	Office cleaning		5,204	4,857
	Depreciation of tangible assets		16,895	13,141
	Auditors' remuneration - external	44,194	38,815	
	- internal	2,669	8,100	
		<u>46,863</u>	<u>46,915</u>	
	Actuarial fees and valuation provisions		60,696	39,604
	PR and marketing		-	16,215
	Property valuation fees		10,335	9,621
	Legal fees		4,994	403
	FSA fees and expenses		4,976	1,762
	Compliance training		4,776	5,372
	Officers' indemnity insurance		2,323	2,363
	Staff travel and motor expenses		2,149	3,144
	Propaganda and conference fund expenses		20,138	16,082
	Branch insurance membership grant		1,494	1,524
	Safe custody and bank charges		8,544	5,679
	Sundries		3,300	1,798
	Recoverable VAT		(6,404)	(18,576)
			<u>549,593</u>	<u>503,497</u>
			<u><u>549,593</u></u>	<u><u>503,497</u></u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

9. Administration - continued

With the exception of the propaganda and conference fund expenses which are charged directly to that fund, in itself a part of the Management Fund, the administration expenses are allocated 75% (2009: 60%) to the technical account and 25% (2009: 40%) to the non-technical account. These can be summarised below:-

	2010		2009 As restated	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Propaganda and conference expenses	-	20,138	-	16,082
Administration	397,091	132,364	292,446	194,969
	<u>397,091</u>	<u>152,502</u>	<u>292,446</u>	<u>211,051</u>

10. Investment management expenses

	2010		2009 As restated	
	Technical account £	Non-technical Account £	Technical account £	Non-technical account £
Commissions and legal fees	30,650	10,216	32,914	21,943
Property insurance	7,727	2,576	138	92
Rates and water	1,601	534	603	402
Heat and light	5,082	1,694	56	37
Unlet property service charges	4,894	1,631	1,162	774
Repairs and renewals	10,374	3,458	172	115
Cleaning	1,325	442	622	414
	<u>61,653</u>	<u>20,551</u>	<u>35,667</u>	<u>23,777</u>

The investment management expenses are allocated 75% (2009: 60%) to the technical account and 25% (2009: 40%) to the non-technical account.

11. Losses on realisation of investments

	2010		2009 As restated	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Shares and other variable yield securities	116,946	20,637	32,436	7,608
Debt securities and other fixed income securities	15,024	2,652	-	-
	<u>131,970</u>	<u>23,289</u>	<u>32,436</u>	<u>7,608</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

12. Unrealised losses on investments

	2010		2009 As restated	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Land and buildings	233,651	41,233	24,300	5,700
Shares and other variable yield securities	62,058	10,951	63,570	14,912
Debt securities and other fixed income securities	-	-	101,141	23,725
	<u>295,709</u>	<u>52,184</u>	<u>189,011</u>	<u>44,337</u>

13. Divided among the member branches

	2010 £	2009 £
Interest on investing branch deposits at 4.50% (2009: 2.25%)	<u>293,431</u>	<u>151,416</u>

14. Excess of income over expenditure

The excess of income over expenditure is after charging:-

	2010 £	2009 £
Depreciation of owned assets	16,895	13,141
External auditor's remuneration – audit services	29,223	22,325
– for other services	14,971	16,490
Internal auditor's remuneration	2,669	8,100
Actuary's remuneration	67,440	44,005
Commissions	<u>25,387</u>	<u>24,716</u>

KINGSTON UNITY FRIENDLY SOCIETY

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For the year ended 31 December 2010

15. Taxation

The society is subject to corporation tax in respect of non tax-exempt products.

The rate of corporation tax is the small profits rate of United Kingdom corporation tax applicable for the year.

	2010 £	2009 £
Corporation tax		
Current year	20,000	16,760
Adjustments for prior year	(16,760)	-
Current tax charge	<u>3,240</u>	<u>16,760</u>
Small profits rate	<u>21.00%</u>	<u>21.00%</u>

16. Staff costs

	2010 £	2009 £
Wages and salaries	219,265	195,571
Social security costs	23,193	21,223
Pension costs	19,016	38,863
	<u>261,474</u>	<u>255,657</u>

Average number of employees

Chief executive	1	1
Administration	5	4
	<u>6</u>	<u>5</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

17. Committee members' emoluments	2010	2009
	£	£
Remuneration	90,382	107,958
Pension contributions	10,145	22,020
Attendance fees	32,576	30,810
Other emoluments	11,099	16,902
	<u>144,202</u>	<u>177,690</u>

Other emoluments relate to services provided as agents of the society.

Emoluments include all payments and benefits received by members of the committee in the service of the society. No member of the committee waived any rights to emoluments during the year.

Committee members have interests in contracts with the society with regards to mortgages, long term savings accounts, insurance and endowment policies, ISA's and commissions on insurance and endowment policies.

The emoluments of the committee of management were as follows:-

	2010	2009
	£	£
Chairman – Brian George Kinsey, retired 17 October 2009	-	4,270
Chairman – Paul Clarke, appointed 17 October 2009	6,033	1,026
	<u>6,033</u>	<u>5,296</u>
Highest paid committee member	<u>100,527</u>	<u>80,223</u>
Other committee members	No.	No.
Nil - £5,000	6	4
£5,001 - £10,000	3	3
£10,001 - £15,000	-	1
	<u>9</u>	<u>8</u>

KINGSTON UNITY FRIENDLY SOCIETY

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For the year ended 31 December 2010

18. Land and buildings

	Freehold land and buildings £	Long leasehold land and buildings £	2010 £	2009 £
Valuation				
At 1 January 2010	8,605,000	-	8,605,000	8,635,000
Addition	-	399,884	399,884	-
Deficit on revaluation	(185,000)	(89,884)	(274,884)	(30,000)
At 31 December 2010	<u>8,420,000</u>	<u>310,000</u>	<u>8,730,000</u>	<u>8,605,000</u>

The society's properties were professionally valued on 31 December 2010 by Ryden, Chartered Surveyors, Leeds on the basis of open market value.

At the start of the year, the society partially occupied one of its freehold buildings for the purposes of its own activities. The building is included in the above figures at £500,000. During the year the society moved from these offices and now occupies, for the purposes of its own activities, the long leasehold building acquired during the year. This building is included in the above figure at £310,000.

The historical costs of the revalued properties are as follows:

	2010 £	2009 £
Freehold land and buildings	5,307,722	5,307,722
Long leasehold land and buildings	399,884	-
	<u>5,707,606</u>	<u>5,307,722</u>

19. Shares and other variable yield securities

The portfolio comprised of shares all of which were listed on a UK recognised stock exchange.

	2010 £	2009 As restated £
Valuation at 1 January 2010 as previously reported	21,857,599	11,277,902
Prior year adjustment (note 2)	(17,950,852)	(8,876,561)
Valuation at 1 January 2010 as restated	<u>3,906,747</u>	<u>2,401,341</u>
Additions	1,803,034	2,766,283
Disposals	(2,096,919)	(1,825,168)
Surplus on revaluation	230,645	564,291
Valuation at 31 December 2010	<u>3,843,507</u>	<u>3,906,747</u>

The historical cost of the shares and other variable yield securities is £3,438,872 (2009: £3,457,539).

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

20. Debt securities and other fixed income securities

The portfolio comprised of British government securities which were listed on a UK recognised stock exchange.

	2010 £	2009 £
Valuation at 1 January 2010	2,281,902	2,406,768
Additions	706,019	-
Disposals	(350,000)	-
Surplus/(deficit) on revaluation	49,975	(124,866)
	<u>2,687,896</u>	<u>2,281,902</u>
Valuation at 31 December 2010	<u>2,687,896</u>	<u>2,281,902</u>

The historical cost of the debt securities and other fixed income securities is £2,602,973 (2009: £2,262,832).

21. Loans secured by mortgages

	2010 £	2009 £
At 1 January 2010	284,648	292,610
Advances	175,000	-
Repayments	(31,760)	(19,293)
Charged interest	14,573	11,331
	<u>442,461</u>	<u>284,648</u>
At 31 December 2010	<u>442,461</u>	<u>284,648</u>

22. Assets held to cover linked liabilities

The portfolio comprised of units held in Legal & General's UK Indexed Trust fund which is listed on a UK recognised stock exchange.

	2010 £	2009 As restated £
Valuation at 1 January 2010 as previously reported	-	-
Prior year adjustment (note 2)	17,950,852	8,876,561
	<u>17,950,852</u>	<u>8,876,561</u>
Valuation at 1 January 2010 as restated	17,950,852	8,876,561
Additions	5,765,331	5,557,384
Surplus on revaluation	2,628,187	3,516,907
	<u>26,344,370</u>	<u>17,950,852</u>
Valuation at 31 December 2010	<u>26,344,370</u>	<u>17,950,852</u>

The historical cost of the units is £23,254,346 (2009: £17,489,448).

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

23. Debtors				
			2010	2009
			£	£
Tax refunds due			6,732	2,964
H M Revenue & Customs (tax relief on interest)			2,348	30,261
			<u>9,080</u>	<u>33,225</u>
24. Tangible assets				
	Fixtures, fittings and equipment	Computer equipment	Motor vehicle	Total
	£	£	£	£
Cost				
At 1 January 2010	15,648	67,494	-	83,142
Additions	19,424	9,221	9,415	38,060
Disposals	(10,222)	(13,424)	-	(23,646)
At 31 December 2010	<u>24,850</u>	<u>63,291</u>	<u>9,415</u>	<u>97,556</u>
Depreciation				
At 1 January 2010	11,637	58,298	-	69,935
Charge	4,795	9,746	2,354	16,895
Eliminated on disposal	(10,222)	(13,424)	-	(23,646)
At 31 December 2010	<u>6,210</u>	<u>54,620</u>	<u>2,354</u>	<u>63,184</u>
Net book value				
At 1 January 2010	<u>4,011</u>	<u>9,196</u>	<u>-</u>	<u>13,207</u>
At 31 December 2010	<u>18,640</u>	<u>8,671</u>	<u>7,061</u>	<u>34,372</u>
25. Cash at banks, brokers and in hand				
			2010	2009
			£	£
Deposit accounts			1,003,627	1,350,055
Current account			822,078	405,274
Cash held by brokers			493,587	553,404
Cash			96	236
			<u>2,319,388</u>	<u>2,308,969</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

26. Reserves provided for by the rules and tables

	Funeral re-insurance fund £	Management fund £	Guarantee fund £	2010 £	2009 £
At 1 January 2010 as previously reported	-	369,663	50,000	419,663	225,696
Prior year adjustment (note 2)	-	75,551	-	75,551	-
At 1 January 2010 as restated	-	445,214	50,000	495,214	225,696
Allocation of income and expenditure					
Technical account	-	(358,926)	-	(358,926)	(299,936)
Non-technical account	(380)	(140,865)	-	(141,245)	(198,544)
Transfers from insurance and endowment fund and unit linked funds	-	292,489	-	292,489	167,633
Accumulated income fund transfers					
Interest and dividends	-	206	-	206	365
Administration	-	430,000	-	430,000	600,000
At 31 December 2010	(380)	668,118	50,000	717,738	495,214

The propaganda and conference fund, part of the management fund, meets all the expenses attributable to propaganda activities carried out by the society, together with the cost of the annual conference. The fund is maintained by levies on branches and insurance and endowment funds, allocation of interest and surplus from the sale of investments, and from transfers from the management fund as necessary.

The guarantee fund guarantees the performance of certain officers and employees of the society and branches. It is maintained by a premium on invested funds.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

27.	Fund for future appropriations	2010 £	2009 As restated £
	Accumulated income fund (note 28)	8,645	131,345
	Reserve fund (note 29)	3,562,974	3,725,805
		<u>3,571,619</u>	<u>3,857,150</u>
28.	Accumulated income fund	2010 £	2009 As restated £
	At 1 January 2010 as previously reported	31,549	28,040
	Prior year adjustment (note 2)	99,796	11,446
		<u>131,345</u>	<u>39,486</u>
	At 1 January 2010 as restated	131,345	39,486
	Allocation of income and expenditure – Technical account	783,076	917,690
	– Non-technical account	(133,031)	48,435
	Allocation to other funds		
	Interest and dividends	(342,745)	(274,266)
		<u>438,645</u>	<u>731,345</u>
	Transfer to management fund (note 26)	(430,000)	(600,000)
	At 31 December 2010	<u>8,645</u>	<u>131,345</u>
29.	Reserve fund	2010 £	2009 As restated £
	At 1 January 2010 as previously reported	(425,607)	3,124,897
	Prior year adjustment (note 2)	4,151,412	161,102
		<u>3,725,805</u>	<u>3,285,999</u>
	At 1 January 2010 as restated	3,725,805	3,285,999
	Allocation of income and expenditure		
	Technical account	(160,106)	386,169
	Non-technical account	(2,725)	53,637
	At 31 December 2010	<u>3,562,974</u>	<u>3,725,805</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

30. Technical provisions – long term business provision

The actuarial valuation at 31 December 2010 highlighted the following technical liabilities:-

	Central health fund £	Long term savings fund £	Insurance and endowment fund £	Total 2010 £	Total 2009 As restated £
At 1 January 2010 as previously reported	15,879	1,224,035	5,371,259	6,611,173	6,574,284
Prior year adjustment (note 2)	(15,643)	-	(207,531)	(223,174)	(155,490)
At 1 January 2010 as restated	236	1,224,035	5,163,728	6,387,999	6,418,794
Allocation of income and expenditure					
Technical account	508	13,717	42,689	56,914	(172,350)
Management fund transfers	-	-	(14,381)	(14,381)	-
Accumulated income fund transfers					
Interest and dividends	9	66,665	275,865	342,539	273,901
Change in long term business provision	(739)	138,162	76,824	214,247	(132,346)
At 31 December 2010	14	1,442,579	5,544,725	6,987,318	6,387,999

The whole of the society's assets and liabilities are subject to an annual actuarial valuation in accordance with the Friendly Societies (Insurance Business) Regulations 1994 and Section 46 of the Friendly Societies Act 1992. The valuation is carried out by Steve Dixon Associates, the society's actuarial function holder. The reserves and technical provisions in the financial statements reflect the results of the valuation.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

31. Technical provisions – linked liabilities

The actuarial valuation at 31 December 2010 highlighted the following technical liabilities:-

	Child trust fund stakeholder fund £	Unit linked ISA fund £	Total 2010 £	Total 2009 As restated £
At 1 January 2010 as previously reported	17,754,153	73,324	17,827,477	8,759,268
Prior year adjustment (note 2)	123,098	277	123,375	117,293
At 1 January 2010 as restated	<u>17,877,251</u>	<u>73,601</u>	<u>17,950,852</u>	<u>8,876,561</u>
Allocation of income and expenditure				
Technical account	6,127,223	(14,197)	6,113,026	5,864,435
Management fund transfers	(277,157)	(951)	(278,108)	(167,633)
Change in long term business provision	2,563,165	(4,565)	2,558,600	3,377,489
At 31 December 2010	<u><u>26,290,482</u></u>	<u><u>53,888</u></u>	<u><u>26,344,370</u></u>	<u><u>17,950,852</u></u>

The whole of the society's assets and liabilities are subject to an annual actuarial valuation in accordance with the Friendly Societies (Insurance Business) Regulations 1994 and Section 46 of the Friendly Societies Act 1992. The valuation is carried out by Steve Dixon Associates, the society's actuarial function holder. The reserves and technical provisions in the financial statements reflect the results of the valuation.

32. Investment property revaluation reserve

	2010 £	2009 As restated £
At 1 January 2010 as previously reported	3,297,278	3,327,278
Prior year adjustment (note 2)	(3,297,278)	(3,327,278)
At 1 January 2010 as restated	<u>-</u>	<u>-</u>
At 31 December 2010	<u><u>-</u></u>	<u><u>-</u></u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

33. British government securities revaluation reserve	2010	2009
	£	As restated £
At 1 January 2010 as previously reported	19,070	143,936
Prior year adjustment (note 2)	(19,070)	(143,936)
	<u>-</u>	<u>-</u>
At 1 January 2010 as restated	-	-
	<u>-</u>	<u>-</u>
At 31 December 2010	<u>-</u>	<u>-</u>
34. Other investments revaluation reserve	2010	2009
	£	As restated £
At 1 January 2010 as previously reported	910,612	(3,336,863)
Prior year adjustment (note 2)	(910,612)	3,336,863
	<u>-</u>	<u>-</u>
At 1 January 2010 as restated	-	-
	<u>-</u>	<u>-</u>
At 31 December 2010	<u>-</u>	<u>-</u>
35. Other creditors - including taxation, social security and investing branches	2010	2009
	£	As restated £
Corporation tax	20,000	16,760
VAT	10,975	13,765
Balances due to investing branches (note 36)	6,635,887	6,649,278
	<u>6,666,862</u>	<u>6,679,803</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

36. Balances due to investing branches at 31 December 2010

Branch number	Branch name	£	Total branch benefit membership
23	Inkerman	343,834	176
25	Lily of the Valley	1,351,425	555
29	Admiral Nelson	443,464	221
30	Hearts of Oak	881,693	450
35	Philanthropic	506,095	326
53	Rosebud	424,170	275
71	Young Man's Friend	225,040	131
86	City of Ripon	86,684	49
95	Royal Albert	526,254	239
206	Loyal Alexandra	145,979	161
215	Loyal Windmill	267,696	120
233	All Saints	938,308	629
243	St George's	250,227	109
272	Lord Nelson	245,018	196
		<u>6,635,887</u>	<u>3,637</u>

On 1 July 2010 Hand and Heart merged with Lord Nelson.

37. Accruals and deferred income

	2010 £	2009 £
Actuarial fees	8,379	3,068
Commission payable to agents	5,492	3,988
Auditor's remuneration	29,223	22,325
Property valuation	9,845	9,621
Cazenove safe custody	690	650
Sundry accruals	16,640	36,222
Deferred income	141,504	129,833
	<u>211,773</u>	<u>205,707</u>

38. Leasing commitments

At 31 December 2010 the society had operating lease commitments for the following year as set out below:-

	2010 £	Other 2009 £
Operating leases which expire:-		
Within one year	7,032	-
From one to five years	-	7,512
	<u>7,032</u>	<u>7,512</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

39. Related party transactions and controlling party

During the year the society has conducted business with committee members as disclosed in note 17.

During the year S Bostwick had a repayment mortgage with the society. The society charged S Bostwick interest of £2,501 (2009: £2,845) during the year.

At the balance sheet date £69,464 (2009: £71,463) was owed to the society in respect of the mortgage.

During the year R A J Townsley was advanced £175,000 as a repayment mortgage with the society. The society charged R A J Townsley interest of £4,611. At the balance sheet date £161,611 was owed to the society in respect of the mortgage.

During the year the society advanced personal motoring and healthcare costs to R A J Townsley totalling £10,012 (2009: £8,249). During the year he repaid to the society £13,570 (2009: £6,494). At the balance sheet date £1,239 (2009: £4,797) was owed to the society in respect of these costs. The balance owed is being repaid during the year to 31 December 2011.

No controlling party can be identified.

40. Liabilities analysed in accordance with FRS 27

- (a) Financial Reporting Standard 27 – Life Assurance (FRS 27) is applicable to these financial statements. The Capital Statement was introduced as a consequence of FRS 27 and is shown below in note 40(b).

FRS 27 requires the Fund for Future Appropriations to be shown separately on the face of the balance sheet.

The Fund for Future Appropriations represents those amounts which have yet to be allocated to members.

An annual actuarial valuation of the long term business of the society is carried out by the Actuarial Function Holder.

The technical provisions in the capital statement reflect the provision required by the valuation. Any surplus or deficit arising on the technical provisions is to be transferred to or from the Fund for Future Appropriations on an annual basis.

Following advice from the Actuarial Function Holder, surpluses on the Fund for Future Appropriations are allocated by the Board to members by way of bonuses. Any unallocated surplus is carried forward.

- (b) Capital statement

The society is a branch based mutual organisation with no shareholders. As such all of its capital belongs to its members.

Each branch of the society produces its own separately audited financial statements, however, the society, as one body, has to satisfy the solvency requirements of the FSA therefore the capital statement reflects the solvency position of the society and its branches.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

40. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

The capital statement set out below is the society's position once all the branch assets and liabilities have been aggregated with its own.

	2010		2009
	£		As restated £
Assets			
Freehold land and buildings	8,730,000		8,605,000
Mortgages on land and buildings	442,461		284,648
British government securities	2,687,896		2,281,902
Other investments – non-linked	3,843,507		3,906,747
Other investments – for linked benefits	26,344,370		17,950,852
	<u>42,048,234</u>		<u>33,029,149</u>
Debtors		9,083	33,313
Tangible assets	34,565		13,708
Deposits, cash at bank, brokers and in hand	2,346,604		2,337,930
Other prepayments and accrued income	88,606		192,175
	<u>2,469,775</u>		<u>2,543,813</u>
Total assets	<u><u>44,527,092</u></u>		<u><u>35,606,275</u></u>
Liabilities			
Technical provisions			
Branch insurances	6,028,269		5,636,298
Central insurances (non-linked)	7,001,204		6,390,746
Central linked insurances	26,340,316		17,948,105
	<u>39,369,789</u>		<u>29,975,149</u>
Non-technical liabilities			
Branch funds for management, distress and marketing	134,360		125,079
Central funds of management, distress and marketing	495,214		419,663
Creditors	32,775		33,191
Accruals and deferred income	211,773		205,707
	<u>874,122</u>		<u>783,640</u>
Consolidated fund for future appropriations		4,283,181	4,847,486
Total liabilities	<u><u>44,527,092</u></u>		<u><u>35,606,275</u></u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

40. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

	2010	2009
	£	As restated £
Fund for future appropriations	4,283,181	4,847,486
Less: Inadmissible assets	324,410	392,103
Expense reserve required	266,000	377,000
Resilience reserve requirement	-	817,218
	<u>590,410</u>	<u>1,586,321</u>
Assets available for required minimum margin	<u>3,692,771</u>	<u>3,261,165</u>
Required minimum margin	<u>2,533,698</u>	<u>728,389</u>
Assets in excess of required minimum margin	<u>1,159,073</u>	<u>2,532,776</u>

The movement in the available capital resources are analysed as follows:

	2010	2009
	£	£
Starting available capital resource	3,261,000	1,756,000
Change in mortality/morbidity valuation basis	195,000	-
Resilience reserve	817,000	-
Expense overrun reserve reduction	111,000	-
Branch surplus distribution	(758,000)	-
Cost of bonus	(126,000)	-
Investment surplus	94,000	-
Expense loading	(9,000)	-
Economic factors	108,000	1,505,000
Available capital resources at end of year	<u>3,693,000</u>	<u>3,261,000</u>
% assets	<u>146%</u>	<u>448%</u>

The assets available for the required minimum margin are 146% of the required minimum margin.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

40. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

Risks

Approximately half of the assets (excluding the linked assets) of the fund are held in commercial property. These are sensitive to movements in the property market in general and in the property market in the geographical area invested (the North East) and in the sectors invested (small retail and small office). The property investments generate rental income which is subject to risks of voids caused by counterparty risks with the tenant and the ability to lease the property.

The second largest holding, approximately 19%, is in UK bonds or bond related investment companies for which changing market conditions can affect values and future returns. The next largest holding of approximately 16% is in equities which are sensitive to market movements in general. Most of the remaining assets are invested in deposits which are sensitive to changes in the Bank of England base interest rate and are subject to counterparty risk and risk of fluctuation in future investment returns.

The valuation interest rate is determined by the overall return achieved on the assets held by the fund. For the fixed interest stocks the yield would normally be reduced by an appropriate factor based on the perceived risk of each individual bond. As all current direct bonds held are all issued by the UK government, no reduction has been allowed for. There are two bond investment company assets held by the society. For one of these bonds the holdings within the fund have been analysed by credit rating and the overall yield on the bonds have been reduced by the weighted average of an appropriate risk reduction based on the proportions of each holding to the total holding. The other bond has zero yield.

For the property rental income the yield is reduced by a risk factor of 2%. The yield on equities is reduced by 0.5%. There is no reduction for risk on the deposit yields. The overall yield figure is then reduced by 0.7% for management expenses and then adjusted downwards by multiplying by 97.5% to allow for more general risk.

In order to ascertain the exposure to market risk, the Actuarial Function Holder carried out a Resilience Test as per INSPRU 3.1.9 to 3.1.26. This involved carrying out 2 tests; a fall in property values of 20% combined with an equity fall of 10% together with a 10% fall in earnings combined with either a rise in bond yields of 0.79% or a fall in bond yields of 0.79%. It was the first scenario that produced the greater change, and this was modelled in the valuation by changing the valuation interest rate to the new overall rate of return after allowing for the change in the investment yields. The resilience reserve was £1,600,000.

The expense margins on the policies were 7% of all regular premiums received together with a per policy allowance of £19.97 p.a. (plus future increases) and 0.7% p.a. of non-linked funds under management plus £2.29 (plus future increases) per annum per CTF policy and 1.3% of CTF funds. The non-linked fund related expense is allowed for as an additional margin between the valuation rate of interest and the anticipated rate of future investment return. For the valuation, a net premium reserve is used and a test was then carried out to ensure the 60% restriction provided sufficient margin compared to the office premium.

The total expenses incurred by the fund were then analysed to get those that would occur if running it as a closed fund, and the remainder. There is no expense over-run calculated for next year and so there is no expense over-run reserve for running the society as a closed fund. A reserve of £261,000 for the next 12 months of new business expenses not matched by margins has been calculated. A further £500,000 closedown reserve has been set aside in respect of the discrete nature of the run off expenses compared to the run off in the policy base expected. The net funds in the Central management, distress and marketing funds were offset against the total to arrive at a net additional reserve of £266,000.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

40. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

A mortality and morbidity investigation was carried out during 2010. The mortality investigation used data from the preceding 5 financial years whilst for the morbidity investigation data was available from the previous 4 years. The morbidity table used were the Manchester Unity AHJ tables. The mortality tables used were the AMC00 ultimate / AFC00 ultimate for insurance policies. By comparing the actual number of recorded deaths with the expected number of deaths based on these tables, the conclusion was that this is likely to allow for an adequate margin over actual experience.

Other than regular and terminal bonuses on With Profits policies, there are no options or guarantees which apply to policies.

The PPFM was first issued in August 2010. No changes have been carried out on the PPFM prior to 31 December 2010.