Annual Report and Financial Statements 2015

KINGSTON UNITY FRIENDLY SOCIETY

Brown Butler
Chartered Accountants
Leeds

KINGSTON UNITY FRIENDLY SOCIETY

ANNUAL REPORT AND FINANCIAL STATEMENTS 2015

CONTENTS

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	
Chairman	Robert Charles Edwards	
Senior Independent Director	Peter Darragh	A, R, I, N
Directors	Robert Charles Edwards	Ex officio member of all sub-committees
	Timothy John Watson	N, WP
	Kate Natalie Wright	
	Graeme Charters	A, R, I, RM
	Bernard Nelson	I, RM, WP
	Bernard White	A, RM, WP

Sub-Committees

A	=	Audit chaired by Bernard White
R	=	Remuneration chaired by Graeme Charters
I	=	Investment chaired by Bernard Nelson
N	=	Nomination chaired by Peter Darragh
RM	=	Risk management chaired by Graeme Charters
WP	=	With profits chaired by Bernard Nelson

Chief Executive, Director and Secretary	Richard Andrew John Townsley BA
Compliance Officer	Sarah Bostwick
Statutory Auditor	Brown Butler Chartered Accountants Leigh House 28-32 St Paul's Street Leeds LS1 2JT
Actuarial Function Holder and With Profits Actuary	Stephen W Dixon FIA Steve Dixon Associates LLP Oaks House 12-22 West Street Epsom Surrey KT18 7RG
Solicitors	Newstead & Walker Mercury House Mercury Row Otley LS21 3HQ

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OFFICERS AND PROFESSIONAL ADVISERS

Bankers	National Westminster Bank plc 8 Park Row Leeds LS1 5HD
	Lloyds Bank plc PO Box 96 6-7 Park Row Leeds LS1 1NX
Investment Advisers – Property	Ryden LLP 3rd Floor Carlton Tower 34 St Paul's Street Leeds LS1 2QB
Chartered Surveyors & Valuers	Jones Lang LaSalle Limited City Point 29 King Street Leeds LS1 2HL
Investment Advisers – Shares and securities	Vestra Wealth LLP 14 Cornhill London EC3V 3NR
Internal Auditor	KPMG LLP 1 Sovereign Square Sovereign Street Leeds LS1 4DW
Compliance	David Williams ASFA FCoI Haven Risk Management PO Box 19 Chipping Campden GL55 6YX

During the year under review the Society was a registered unincorporated directive Friendly Society. On 1 January 2016 the Society incorporated under the Friendly Societies Act 1992.

The Society is:

Authorised by the Prudential Regulation Authority and Regulated by the Financial Conduct Authority and Prudential Regulation Authority FRN 110056.

A member of:

The Financial Services Compensation Scheme.
The Association of Financial Mutuals.

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, of Steve Dixon Associates LLP.

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 members or employees of Steve Dixon Associates LLP 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 LLP for professional services, which amounted to £182,377 (including VAT) in 2015.

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 LLP
Actuaries and Consultants

20 February 2016

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

We have audited the financial statements of Kingston Unity Friendly Society for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income-Technical Account – long term business, the Statement of Comprehensive Income-Non-technical Account, the Statement of Financial Position 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) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

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 Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out in the Directors' annual report, the Directors are responsible for preparing financial statements and for being satisfied that they 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 Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view 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 United Kingdom Generally Accepted Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

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

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Auditor commentary

a) An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Society's business and it is risk based. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls and the management of specific risks.

b) 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 the financial statements and our audit. 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 judgement of a reasonably knowledgeable person relying on the financial statements would be changed or influenced. We also determine a lower level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £1,000,000 which is 1% of the Society's net assets. We set the performance materiality level at £500,000 but, due to the significance of the Society's net assets compared to the amounts of revenue shown in the income and expenditure accounts, we set a lower performance materiality level for income and expenditure of £125,000.

We agreed the threshold at which we communicate misstatements to the Audit Committee to be £10,000. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting.

c) Areas of particular audit focus

We consider the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of audit focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out in the Directors' annual report.

i) Actuarial information

We appointed a reviewing actuary who identified and challenged those assumptions made by the Society's actuarial function holder that, in his view, had the greatest impact on the actuarially based information contained in the financial statements.

ii) Property valuations

Property valuations are subject to a high degree of judgement as they are calculated from a number of different assumptions specific to each individual property. As well as carrying out test checks on the properties in the valuation report to the Society's property records, we also carried out tests on some of the assumptions used in the valuation report to other information available to us.

iii) Risk of management override of internal controls

We assessed the overall control environment of the Society, including arrangements for staff to "whistle blow" inappropriate actions, we reviewed the reports issued by the internal auditor and we met with the Audit Committee. We also examined significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors and we also tested journal entries to determine the reason for the adjustments.

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

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Opinion on other matters prescribed by the Friendly Societies Act 1992

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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 Society 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 Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters are 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.

Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Society

We have nothing material to add or to draw attention to in relation to:

- the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity,
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated,
- the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements, and
- the Directors' explanation in the annual report as to how they have assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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In accordance with our instructions from the Society, we review whether the Corporate Governance Statement reflects the Society’s compliance with those 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.

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

Leigh House
28-32 St Paul’s Street
Leeds
LS1 2JT

10 March 2016

STRATEGIC REPORT
For the year ended 31 December 2015

CHAIRMAN'S REPORT

Chairman's Introduction

Welcome to the 2015 Annual Report and Financial Statements of Kingston Unity Friendly Society. The Society is now over 175 years old, and so I feel privileged addressing our members with my first Chairman's statement

It is appropriate that I start by reflecting on 2015, on which the Annual Report is based.

Although the Directors' Report contains a more granular breakdown of the Society's performance in 2015, the headline figures from my perspective include:-

- Further growth in membership based on our With Profit (WP) products – now nearly 6,000 members excluding the 95,000 Child Trust Fund (CTF) customers
- Further growth in funds – Assets under management exceeded £105m, with over £59.3m in the WP fund, making it larger than our CTF fund
- Operating profitability – in 2015 our management income from the WP and CTF funds exceeded our operating expenses including acquisition costs – this has been a key goal in recent years

However, underlying the performance figures, what stands out for me is the amount of change we have had to accommodate:

1 Solvency II – much delayed but now the cornerstone of our regulatory framework from 1.1.16, has introduced an increased level of regulatory and actuarial overhead, and costs, as well as compelling us to centralise our Branch activities. We "became an Incorporated Society" from 1.1.16, as explained more fully in the Directors' statements, to make the Branch transition as smooth as possible

2 We have reviewed our Distribution Strategy, and produced challenging growth plans as we need to grow to survive. Our stated aim is to build a £100m WP fund to cover all WP Acquisition and increasing Operating costs from 2020 (to replace the CTF income which will gradually be eroded from then as the first beneficiaries reach 18). This should provide sufficient scale for the business to operate cost effectively for the long-term interests of all members. This requires on average growth of circa £10m pa and our stated distributions objectives are to:

   - Ensure overall Acquisition activity is profitable in the long term – to increase the estate of our WP members and strengthen our financial position
   - Enhance our IFA services to sustain business levels
   - Capitalise on our member engagement heritage, traditionally through Branches, to create another volume sales channel. Although Branches have ceased to exist as they were, it is our intention through our community programme to retain the spirit and success of the traditional Branch network

3 We changed Investment Advisors to Vestra Wealth LLP in April – our selection was based on trying to best ensure we can support our growth aspirations, and our members' bonus expectations, recognising the real challenge in balancing this desire to generate good returns whilst always ensuring our liabilities can be met.

   Our stated aims are to:-

   - To provide you with real returns on your policies consistently i.e. to pay annual bonuses that exceed inflation and possible interest on cash-based deposits
   - To provide competitive bonuses to attract new members and funds to build scale and annual income
   - To ensure our future liabilities to you can be met e.g. that future surrender values, with guaranteed reversionary bonuses, are payable as your policies mature

STRATEGIC REPORT
For the year ended 31 December 2015

CHAIRMAN'S REPORT

4 Changes to the Board:-

I, along with Graeme Charters, joined the Board in 2015, and it was an honour to take over the Chairman role from Peter Darragh in July last year and I must again thank him for his expert, professional and dedicated stewardship of the Society for several years. We are very pleased that Peter's skills and knowledge are not lost to the Board as he remains an active Non-executive director (NED).

Graeme has now taken over as Chair of the Risk Management Sub-Committee – we separated our Risk and Audit Committees in 2015 as well. His actuarial knowledge and experience is vital to us in the new Solvency II world, and his involvement in ensuring our preparedness has been invaluable.

During the year Ian Prescott and Tracy Parker stood down as NED's due to other work commitments, coupled unfortunately with health issues for Tracy as well. We are grateful for their hard work and commitment during their time on the Board, and are confident that they will continue to take a keen interest in the future direction of the Society, as well as having their own successful careers, and we wish them both well.

However, we were delighted that in the last quarter of 2015 we provisionally appointed (through co-option) Bernard Nelson and Bernard White to the Board. Their Regulatory approvals have now been received.

- Bernard Nelson is another qualified actuary, but more importantly for us he brings vital Investment experience and expertise, and has taken over the Chair of the Investment Sub-Committee, and our newly formed WP Sub-Committee (another change!). Bernard has worked a great deal with pension funds and so is used to the dynamic tension of trying to generate the best possible returns in the long term whilst constrained to some extent by the future liabilities
- Bernard White has worked for many years at a much larger Friendly Society, and is a qualified Accountant, and so has taken over the Chair of the Audit Sub-Committee, but brings a wide range of expertise and skills. They have both already made very significant contributions to the effective running of the Society, and we are grateful for their involvement

Lastly on 2015 I must comment on the extremely difficult investment conditions that Financial Services organisations like us have had to face – a year in which we have seen approximately a 20% differential between the FTSE100 high and low of the year, and a fall over the year of circa 5%. We have buffered ourselves well, we believe, by our continued diversification in commercial property, and greater diversification since April in overseas stocks, as well as reducing our exposure to the worst performing energy, mining and commodity stocks. This has enabled us to achieve an overall positive return on our investments, albeit a modest one of circa 3.5%. This has allowed the continued payment of bonuses which outperform the interest achievable on most savings accounts.

Nonetheless our overall returns are still below where we would like them to be which has restricted our bonus declaration for the year – however, for context, inflation has been running at virtually zero all year, and cash investments have continued to yield pretty unattractive returns.

Now looking forward to 2016 I am confident that "the only constant will be change" – I make no apology for such "consultancy speak" as I do genuinely feel that this is a truism for a business like ours to both survive and thrive, and we do face considerable challenges:

- Financial Services is a hugely competitive environment – so we need to find our niche/differentiator, and capitalise on what a small mutual can offer
- We want to build our free assets over time to enable us to invest for the future, and support the changes we need to make
- There is an ever increasing regulatory burden and associated costs
- Our growth is dependent on being able to provide consistent, competitive bonus rates in challenging investment markets

On the last challenge specifically, investment markets are predicted to continue to be volatile, which makes consistency difficult to achieve.

With forecasts of slowly rising interest rates, in the UK as well as USA, but still with relatively low underlying rates and inflation, our Investment advisors predicts the following average returns per annum over the next 7 years (with inflation averaging 2-2.5% pa)

- Fixed Income (FI)	2%
- Equities	7%
- Property, including rental income	6%

We aim to generate investment returns of on average 5.5 - 6% pa to cover policy charges and pay meaningful bonuses i.e. 2% over inflation. Our advisors suggest this will not be easy, bearing in mind, we need to hold a high percentage of Fixed Interest stocks to ensure we meet our future bonus liabilities, although it is not impossible!

In the predicted environment, the generation of future significant annual returns and bonuses will prove very difficult.

Our advisors are also predicting perhaps even lower growth for equities and property in 2016 – so another challenging year, which appears to be the case based on our early experience to date.

With Solvency II coming into force on 1 January 2016 we have anticipated significant increases in expenses to meet the new reporting requirements. This underscores our belief that the cornerstone of our strategy must remain steady growth to defray operating costs widely and fairly, whilst doing all we can reasonably do to keep a tight control on expenses.

As outlined, we also need to invest in 2016 in distribution and technology to support our growth strategy, and so we are likely to experience a short term reversal next year, a step back to an operating deficit before we move into surplus again from 2017 if our plans materialise as we anticipate. Your Society is forward thinking, and we have developed a detailed 5-year plan, which we will monitor carefully and amend as required. The planned technology changes are long overdue for a Society of our size now – we aim to replace our underlying administration system, which we have had for over 15 years and is now outdated, and the new system will enable us in the future to enhance member services, and remove some risks associated with older technology, as well as supporting our enhanced means of distribution.

'Good governance' is foremost in our minds, and that of our Regulator. Industry best practice in this regard represents another challenge with our limited resources – people and finances, and this is evident in the constitution of our Board: we have 1 Executive director, our Chief Executive (CEO), Andrew Townsley, to 7 NEDs. This puts a very heavy burden not only on the CEO who has to cover all the major functions – finance, operations, sales marketing etc, but also requires all of the NEDs to be heavily involved – more so than I know from my experience with a much larger mutual. Between monthly Board meetings, there is a considerable amount of important business that needs NED attention, requiring ad hoc meetings and teleconference calls on a regular basis. There are also more frequent sub-committee meetings, as is required. I do therefore want to express my appreciation for all the hard work and excellent commitment to members' interests that Andrew and the NEDs put in on your behalf.

You will notice this of course in the way our fees have increased in 2015, by over 20%. This is entirely due to the increased business demands and number of meetings. You can, I believe, rest assured on 2 counts; firstly we are still abiding by the Remuneration policies agreed at previous AGM's and Conferences, and secondly, we benchmark this against similar organisations, and I feel we are modestly remunerated for our time and expertise. I personally am convinced that your CEO and NEDs provide great value for money, but we are committed to presenting our new Remuneration Policy for your approval at the April 2016 AGM, so that you too can be confident that our remuneration is fair and not excessive.

STRATEGIC REPORT
For the year ended 31 December 2015

CHAIRMAN'S REPORT

In summary, balancing the financial strength of today's Society, investing for the future, and maximising bonuses each year is an incredibly difficult balance to strike. Very volatile investment markets, complex and constantly changing regulatory requirements, and the challenges of our limited resources (our Head Office – HO - staff numbers and Board size remain largely unchanged) make these decisions all the more difficult and, from time to time, will be unpopular with some members. However, I do firmly believe that the Board continues to provide effective strategic and oversight of the affairs of the Society, and we all always have members' long-term interests at the heart of all the decisions we take.

In spite of the future challenges we face, I am confident that we can continue to be successful, but I am well aware that this requires the continued support and hard work of our former Branch Secretaries and Committees, our dedicated HO staff, our agents/introducers, IFA's and most importantly, you, our members. Thank you all for your loyal support to date.

Rob Edwards
Chairman

8 March 2016

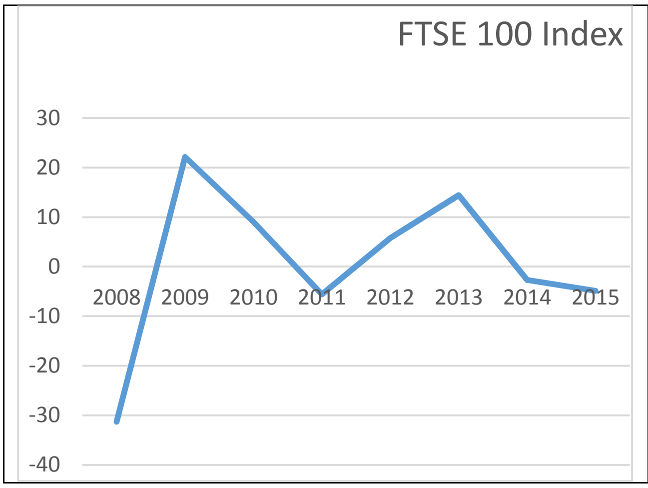
Membership

Our members join the Society for a range of different reasons, some for return on investments, some for sickness and accident benefits, but mainly all for their belief in the principle of mutual organisations. Wherever possible we try to meet all of these differing requirements through the policies and services we provide and we will continue to try and enhance these in the future where there is demand and it can be achieved cost effectively.

During 2015, membership continued to grow and we now have almost 6,000 individual members along with over 95,000 Child Trust Fund members. It is a key aspect for the Society's future that we are able to effectively communicate the benefits of being part of Kingston Unity to a new and wider audience whilst retaining the ongoing support of our existing members. We have plans to develop our Community links in the coming months and hope that as many people as possible will participate and engage with us in the Society's future.

Financial markets have once again been very volatile during the year, the FTSE peaking at a high of 7103 in April but falling to below 5800 in October following the problems being encountered in Greece and then concerns about future growth in China. Whilst there has been a period of relative stability at the end of the year, the FTSE has ended the year below the level it started. As you will see in more detail later in the report we have adopted a cautious approach by taking on more fixed interest assets within our asset portfolio to give greater security for members' funds but this limits the potential for growth that equities provide.

Given this challenging economic climate we are having to carefully consider the bonus rates that we are able to declare for the year in order to protect our solvency and maintain security for our members. However, we are still providing real returns when compared to inflation and retain a competitive position within our market place. The chart below plots the solid performance of our ISA since the financial crisis of 2008 against the volatile FTSE 100:



STRATEGIC REPORT
For the year ended 31 December 2015

CHIEF EXECUTIVE'S REPORT

New Business

Following an extremely successful year in 2014, we took a deliberate decision to reduce our new business target for 2015 in order to balance our growth over the two year period. In doing this we have continued to build our traditional With Profits business, maintained growth in our asset base and contained operating expenses at a level below our original budget. This policy will help us to ensure that in the coming years we will be able to maintain security and protection for members' funds.

During 2015 our assets exceeded £100 million for the first time, a significant milestone for the Society, and despite the fluctuations in asset values we have maintained that position at the year end with assets now standing at £105,212,542.

Our connections in the Independent Financial Adviser (IFA) market have continued to support us and I would like to thank all of them for their recommendations during the year. We are also including within our future plans, enhancements to the service levels that we are able to provide IFA's which will help cement our position in this market. We are committed to building long term relationships with our partners as we go forward by providing excellent service with a trusted proposition that can be confidently recommended to clients.

We also recognise that for our continued prosperity we need to improve awareness of the Society particularly within our traditional heartland and during the year we continued to hone our direct marketing activities, with a local focus and PR to raise awareness of our brand in Yorkshire. The knowledge that we have gained from this will allow us to refine activity for 2016 with the objective of continuing to enhance our community profile to grow this sector of our market over the next 5 years.

Existing members still remain as one of our best adverts and Kingston Unity has a long and proud history of providing excellent service and benefits to our members so sharing the news of those benefits with friends and family is a tradition that we want to continue.

The future

2016 will see some considerable changes for the Society both in terms of how we are structured and also adapting to the new regulatory regime under Solvency II.

On 1 January 2016, following approval by delegates at a Special General Meeting in August, the Society incorporated, becoming a body corporate and had the word Limited added to our name. This does not alter the fact that the Society is owned by its members and still retains its status as a mutual organisation, but represents a more modern structure given the Society's size and operating requirements. The change will mean that the Society no longer requires Trustees to own assets on behalf of members as these will in future be owned by the Society itself. At this point it is appropriate to thank the current Trustees and all those previous Trustees for their willingness to take on the role and more importantly the contribution they have made to the Society's governance and maintaining the security of assets.

The move to Solvency II required us to look at the operation of individual Branch insurance funds and it was identified that it would not be financially viable for our Branches to continue operating their own funds under the new regulations. The move to incorporation was the simplest and most effective method of transferring each individual Branch fund into the Society and this will also happen on the date of incorporation. Again, this will not affect the operation of any Branch schemes that are held by members and we will try to make the change as seamless as possible.

STRATEGIC REPORT
For the year ended 31 December 2015

CHIEF EXECUTIVE'S REPORT

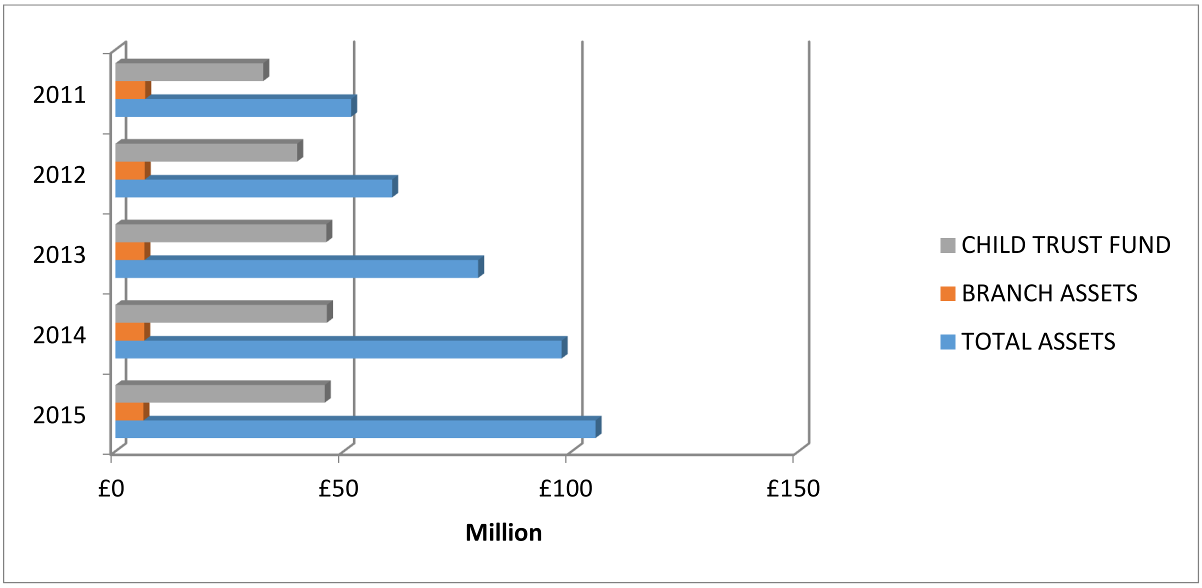
Solvency II also became effective on 1 January 2016 and this represents a European Directive aimed at harmonising the regulation of Insurers across the EU, bringing in new solvency requirements along with raising Governance standards across organisations. The Directive consists of three pillars, Pillar 1 being the method of calculation of assets and liabilities, Pillar 2 relating to systems of Governance and control and Pillar 3 covers reporting. This is a major development for all Insurers and we have already spent considerable time and effort on meeting our regulatory obligations and will continue to do so as the new operating regime unfolds.

We have enjoyed considerable success in many areas over recent years and have good reason to be excited about our prospects for the future. A great deal of effort has gone into developing a broader operating base and whilst significant advances have been made we are continuing to spread out further to secure our future. We have spent several months at the end of this year considering where our future business will come from and what changes will be required to deliver it. The results are outlined in more detail under the Business Model section in the Directors' report but it was very apparent that we must continue to adapt if we are to be successful in the next few years.

Whilst growth is one of our key aims we are also conscious that we need to maintain a strong and financially sound organisation to provide our members with security when they save and invest with us or where they have a contract for the provision of benefits and this is taken into account when making investment decisions.

The following charts highlight some of the key figures with comparisons for previous years.

Child Trust Fund, Branch and Total assets since 2011



STRATEGIC REPORT
For the year ended 31 December 2015

CHIEF EXECUTIVE'S REPORT

Key figures at a glance

	2015	**2014**	**2013**
Assets £000's	105,213	97,795	79,492
Premium Income £000's	9,373	17,748	10,688
Members (excluding CTF)	5,804	5,657	5,056
Branch CIF balances £000's	6,160	6,297	6,346
Operating Expenses £000's	774	648	526

Andrew Townsley

Chief Executive
8 March 2016

STRATEGIC REPORT
For the year ended 31 December 2015

DIRECTORS' REPORT

The Directors are pleased to present their 175th annual report and financial statements for the year ended 31 December 2015.

1. BUSINESS MODEL

During the year, Kingston Unity Friendly Society was a registered Friendly Society and classified as an unincorporated directive Friendly Society.

In preparing this report we thought it would be useful to remind members of the issues that have shaped the decisions we have taken and our strategy for the future.

Background

During the last four years we have successfully grown our membership numbers and new business premium income by focussing on a small number of products and promoting them through IFA's/Introducers and our Branch network. We also commented last year that we wanted to start to build awareness of the Society, specifically within Yorkshire, in order to try and generate direct business from a wider public audience but this programme is very much in its infancy.

We have spent some time during 2015 analysing where our current business comes from and assessing whether these sources will sustain our growth in the coming years and if so what do we need to do to ensure that we remain competitive in our chosen markets. There were a number of questions being raised in connection with some of our existing business channels and more widely:-

- Our Branches for many years were our main source of new members, but in 2016 following the advent of Solvency II and incorporation the established network will no longer be there.
- The requirements of the Retail Distribution Review which came into force in 2013 has made it increasingly difficult for Introducers to operate in a compliant manner and whilst we still want to receive new business from them how sustainable will it be in years to come?
- What do we need to develop more substantial volumes of business in the advised marketplace from IFA's?
- How do we interact with the general public to make the Society a provider of choice for the products we offer?
- What volumes of business are required to justify any initial costs to access our chosen distribution outlets and are these achievable?
- Does our current product range meet the requirements of potential markets?
- Do our IT systems enable us to provide the information that is required by todays customers in a format that they would like to receive it?

In carrying out this review we have also given consideration to the risks involved in achieving our chosen strategy and what we would do if we are not successful in achieving our aims. We remain of the view that developing a strategy to grow the Society organically is in the best long term interest of members and that others such as mergers and acquisitions, and more drastically, closing to new business, pursuing a transfer of engagements or winding up are options. These should only be seriously considered if our strategy proves unsuccessful.

STRATEGIC REPORT
For the year ended 31 December 2015

DIRECTORS' REPORT

2015 Performance
Having substantially exceeded our new business target in 2014, the Board took the decision to lower expectations for 2015 to ensure that our longer term business projections were maintained at a sustainable level. As a result the new business for 2015 has reduced but we have continued to grow the With Profits fund and increase our member numbers.

In terms of performance against our business plan 2015 we are satisfied that the key objectives have been achieved.

Business Plan
The major part of our business plan to achieve this growth strategy remains unchanged and it is to offer simple savings and investment products with strong but stable returns which outperform cash deposit returns over the long term, utilising the following distribution channels:

(i) **IFAs and 'professional' introducers** – these remain central to our future plans and we are in the process of developing more effective ways of delivering our products to this sector. We are keen to encourage more advisers to consider the merits of our plans and will be working with them to present further options for the benefit of their clients.

(ii) **'Non-professional' introducers** – Regulation relating to the position of 'non-professional' introducers has meant that it has become more difficult for them to introduce to the Society in a compliant manner. We are retaining a presence in this market but anticipate that over time it will form a reducing proportion of our new business activity.

(iii) **Direct sales –** There is a limited level of awareness of the Society amongst the general public and we want to change that over time, particularly in the Yorkshire region. We are establishing a programme of local events for 2016 with the objective of increasing awareness of, and participation with, the Society and its traditions. We are at the same time working to build partnerships with other groups or organisations to create positive benefits for all concerned.
Historically all product sales were made by Society agents who had a strong local connection with the members they were involved with and generally operated as part of the Branch structure. Unfortunately regulation makes this type of relationship very difficult to operate now and long standing connections are being affected. In addition Branches as we have known them through the years have ceased following incorporation but we will be setting up new activities for members to try and retain involvement at a local level. We want to encourage any members who have an interest in being involved in this 'Community' development to get in touch with us.

Products
Our focus as a Society is to provide our members with consistent returns and low exposure to risk, particularly with regard to capital, and our product range reflects this ethos. We have not introduced any new products this year, but do have ideas for new product development in the medium term.

In time we may consider offering 'white labelled' protection products from other providers, or develop sufficient scale to be able to reconsider this position, but at this time we feel that our efforts need to be concentrated on supporting that which is popular with members and within our core offering.

Geographical Target Market
Whilst the initial focus of our direct marketing activity is still Yorkshire we intend to extend this when the operating climate exists for us to do it successfully. We also continue to encourage business from other parts of the country, particularly IFA connections.

Target Demographics
The under 40's age range is our main market for regular savings plans whilst the over 40's is the main lump-sum investment target market. We are also committed to continuing to offer products with relatively small minimum premiums to encourage those of more modest means to save and make financial provision for themselves and their families, as well as writing business of a more substantial nature.

Operational Strategy
We have spent a substantial part of the year reviewing our future distribution strategy, examining where our potential markets will be in the future and what we may need to provide in order to access these. It is apparent from these discussions that investment in our IT to enhance our business processing systems and digital communications will be required in the coming months and we are currently carrying out due diligence work on a potential solution provider. This is likely to be a major project for us during 2016, in addition to implementing our new distribution plans.

Mergers and Acquisition Growth
Kingston Unity's Board also believes that the regulatory environment and the machinations of the marketplace will necessitate some consolidation in the long term. It also recognises the likelihood of new and disruptive entrants to the savings and investment market leveraging technology which smaller organisations will struggle to compete with in the absence of significant scale. Whilst the Board has no desire for Kingston Unity to become a 'large player' in the savings and investment market, it feels that non-organic growth could help us maintain a position from which we can continue to successfully meet the ever-changing needs of current and future members and so we remain open to such opportunities if they arise.

Branches
Branches have been at the heart of the Society's operations throughout our history, but as we identified and reported in last year's report and financial statements, the changing requirements under Solvency II which took effect on the 1 January 2016 would make it difficult for them to continue. At a Special General meeting held in August, Delegates voted by a substantial majority that the Society should incorporate with effect from 1 January 2016 and Branches as we have known them will cease to operate from that date. All Branch Insurance business will be transferred centrally at that time so our members will continue to retain the benefits they hold with their existing policies, but all future communication will be with our Head Office and not through Branch Secretaries.

We recognise the important role that Branches have played within their local community in the past, with many long standing friendships having been created as a result. Whilst the financial aspects of the Society have had to change to meet current regulatory requirements we have a strong desire to retain the community aspect of our heritage and will be organising events and contact forums for members and non-members during 2016. We hope that as many people as possible will take part in these activities, which will normally be arranged within local areas, and that involvement will help us to broaden the programme.

Investment Committee

In last year's report we advised that a review of our Investment advisors was underway but a final decision had not been made; the outcome was that Vestra Wealth LLP were appointed to manage our investments (other than property).

The sub-committee has had a very busy year following the volatility in financial markets. As previously stated the FTSE 100 started the year at just under 6600, rose at one point to a record high at over 7100 and then fell during the year to below 5800 ending the year almost 5% down from the opening position. During that time our objective has been to balance the security of members funds whilst maintaining an element of investment return.

The Committee has the following terms of reference:-
It is authorised by the Board, in conjunction with the Actuarial Function Holder, to recommend to the Board the investment strategy, including asset allocation, for the Society and the Committee will make asset allocation decisions in line with agreed policy and strategy. The policy and strategy are to be reviewed and approved by the Board on an annual basis.

The Committee will, within the Society's agreed risk appetite:-

- approve the investment management agreements and the appointment of external investment managers.
- ensure compliance with all applicable legislation.

The Committee will review and monitor:-

- the matching of assets and liabilities;
- the fund performance of all asset classes plus the total portfolio against performance measurement targets (benchmarks) understanding the impacts of external factors;
- the performance and fees of all external investment managers;
- the investment strategy, including asset allocation and risk management policy;
- Conflicts of Interest Guidelines and any insider trading events; and
- risk limits and the risk appetite

In the performance of its duties the Committee can obtain external professional advice where necessary.

Principal Risks and How We Manage Them
The Society's mutual structure means that ultimately the risks are borne by the Society's members and particularly the With Profit policyholders which represents the vast majority of our membership. There is a range of risks, especially financial ones that could affect the fund for future appropriations and as a result the level of bonus and benefits that can be paid from it. The Society Board has overall responsibility for managing these risks in order to:-

- Protect the solvency of the Society from adverse movements in asset values and protect where possible from more extreme movements.
- Once this has been achieved to maximise the investment return available and increase the returns that can be passed on to members.
- Maintain adequate liquidity in the fund of assets to ensure payment of liabilities can be met.

Each year the Board carries out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity.

The main types of risk to which the Society is exposed and how they are managed are as follows, as shown in note 4 to the financial statements:-

Market Risk
This arises from the level of volatility in market prices of Financial Instruments such as equity prices, property prices, interest rates and exchange rates. In assessing market risk we consider the impact of a change in the relevant variable on both assets and liabilities. Breaking this down further:-

Interest rate risk considers the impact of interest rates rising or falling as we use fixed interest securities to help us match our assets and liabilities in terms of return and maturity. As With Profits policies have some discretionary benefits management actions can help to mitigate this type of risk for example through bonus declarations.

Equity risk considers the impact of a sharp fall in equity values which would reduce the value of the fund and as a result policies via their asset shares.

Property risk relates to a sharp fall in the market value of property. The Society has historically had a substantial part of its assets invested in commercial property and a large decrease in value, particularly when this type of asset is relatively illiquid, could have exposed the fund and therefore asset shares. Whilst the Society's investment strategy still includes commercial property for its yield and potential capital return, the proportion of this within the overall with profit fund has been reduced during 2015 and now stands at 24.55% of the total.

Credit risk applies primarily in the Society's case to non-government bonds which are used to achieve a higher return than gilts but as a consequence have a greater potential of default. The Society does not invest in the lower categories of bonds which have the highest returns but also the greatest risk, and concentrates on those with investment grade status.

Solvency risk
The Society is required to maintain a level of capital to enable it to meet its liabilities as they fall due, and primarily that is the value of policy funds plus any guaranteed bonus that has been allocated. In addition to that basic level of capital, we are also required to retain a further amount to enable us to withstand significant falls in the value of the Society's assets at a particular time. If we breach our minimum solvency levels, our Regulator has the powers to ask us for a plan to rectify the position and ultimately require the Society to cease trading and transfer engagements.

The level of Solvency we have also dictates where we can invest funds. Generally in order to protect capital, investment would be made in fixed interest assets but these tend to give lower returns due to the reduced level of risk. On the other hand equities and property can provide higher returns but have a much greater level of volatility in value and in falling markets that could have an impact on our solvency position.

We balance this risk by having a diversified portfolio of assets with further diversification within each asset class, designed to reduce our risk exposure to protect our solvency position but equally we need to generate an investment return to provide bonus and benefits for members.

2. CHIEF EXECUTIVE

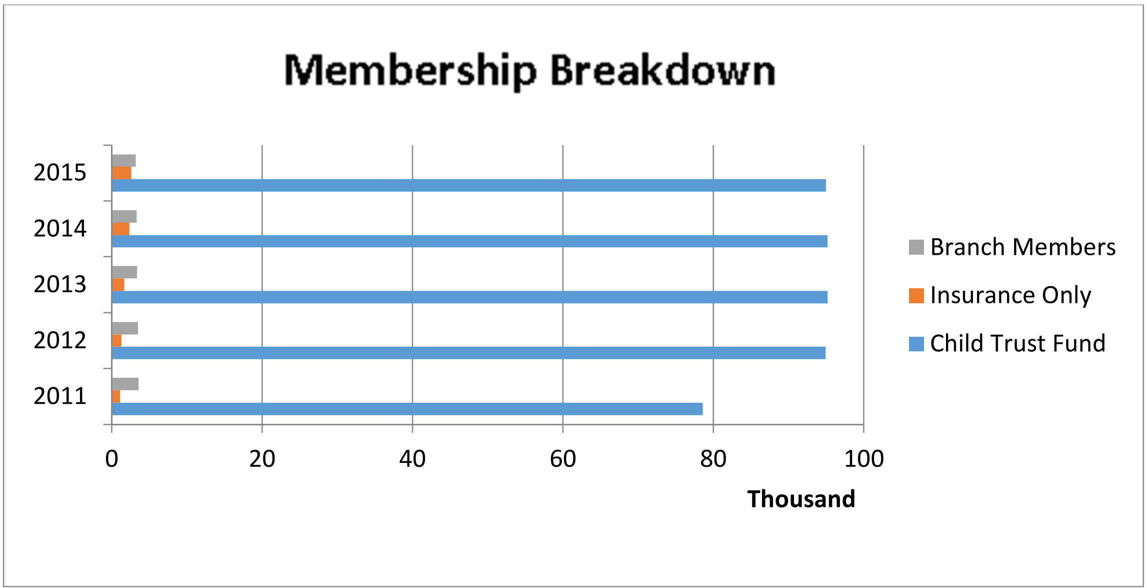
The positions of Chief Executive, Secretary and Money Laundering Reporting Officer were held by Andrew Townsley.

STRATEGIC REPORT
For the year ended 31 December 2015

DIRECTORS' REPORT

3. REVIEW OF 2015 BUSINESS

The following tables summarise activity within the Society and Branches as at 31 December 2015 with comparisons for earlier years.



Membership

	2015	2014	2013	% Change from 2014 to 2015
Branch Members	3,190	3,300	3,379	**-3.33**
Insurance Only	2,614	2,357	1,677	**10.90**
Child Trust Fund	94,953	95,169	95,202	**-0.23**
Total	100,757	100,826	100,258	**-0.07**

Membership change during 2015

	2015	2014	% Change
New Branch members	3	19	-84.21
Branch member change	99	98	1.02
Branch member change	(96)	(79)	21.52
New Insurance members	344	749	-54.07
Insurance members left	101	69	46.38
Insurance member change	243	680	-64.26

Premium Income

	2015 £	2014 £	% Change
Branches	185,363	254,215	-26.80
Insurance and Endowment	9,325,769	17,696,579	-47.30
Total Assets	105,212,542	97,795,456	7.58

As can be seen, the Society has continued to see net growth of membership (excluding CTF) maintaining the improving position established in 2013.

STRATEGIC REPORT
For the year ended 31 December 2015

DIRECTORS' REPORT

Investment Report

Commercial Property
The Society's commercial property portfolio has performed well during the year with no voids at the year end and an element of capital appreciation during the period.

At the end of 2014 we had one empty property in Salford but were successful in securing a new lease with William Hill early in 2015. We have subsequently taken the decision to sell the property and have agreed terms with a buyer and completion is due at the end of February 2016. We also lost two tenants from our former Head Office site in Park Square, Leeds but again new tenants have taken occupation.

The commercial property market in general is more buoyant with a good level of activity taking place. This has resulted in prices for good propositions increasing as competition grows amongst buyers, and a resulting downward pressure on investment yields. There are however, early signs that rents are starting to creep up which further enhances the investment potential in this asset class and we will be looking for further opportunities in 2016.

Our three largest direct property holdings by value are now:

Property	**Value £m**
6-12 Parkway Business Park, Normanby Road, Scunthorpe	1.380
31-35 Westgate, Guisborough	1.375
78 Low Petergate and 82 Goodramgate, York	1.040

Over the course of the year we also invested in commercial property funds to diversify our property holdings outside the North and the smaller unit-size of our existing investments, and to attain more liquid commercial property interests. These have yielded very positive returns over the period.

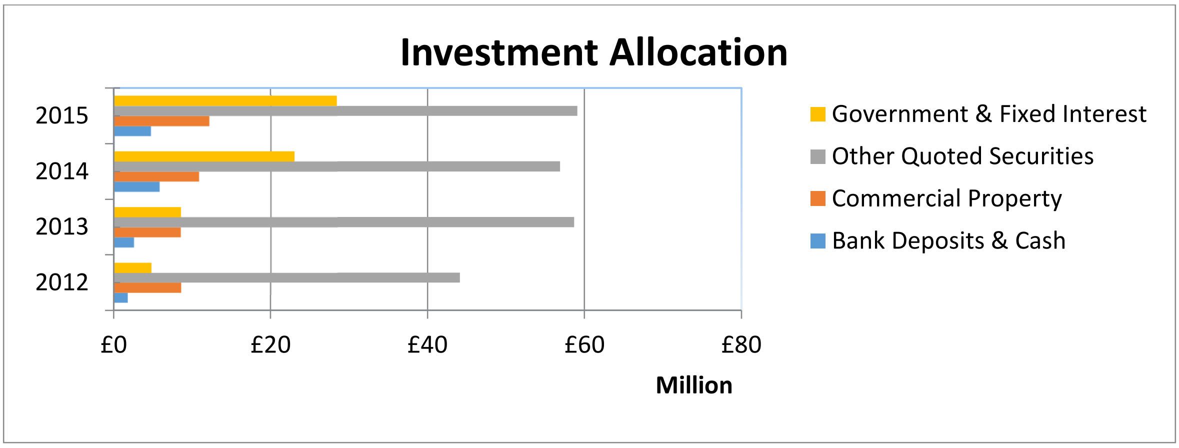
Equity and Fixed Interest
As previously noted there has been a high level of volatility in the FTSE 100, particularly during the second half of the year when confidence has fallen as a result of the Greek debt crisis, a downturn in the Chinese economy which affected commodity prices, the general fall in oil prices and latterly speculation around when interest rates will rise in the US. The fact that most of these events did not originate in the UK demonstrates the global nature and interaction of economies and we can no longer make investment decisions in isolation.

Whilst interest rates in the US were raised by 0.25% in December, the first rise in many years, it is still uncertain when a similar position will be adopted in the UK. In the meantime inflation remains below 2%, gilt yields are not forecast to rise significantly over the next 10 years and investment returns will not be easy to achieve. Our aim is to generate a return of 2% over inflation to allow us provide meaningful bonus to members and this objective will continue subject to meeting our solvency requirements.

STRATEGIC REPORT
For the year ended 31 December 2015

DIRECTORS' REPORT

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



31 December	2015 £	2014 £	2013 £
British Government & Fixed Interest Stocks	28,388,909	23,014,503	8,558,778
Other Quoted Securities	59,098,800	56,899,629	58,689,637
Commercial Property*	12,140,000	10,615,000	8,535,000
Bank Deposits & Cash	4,754,703	5,859,100	2,559,820
	104,382,412	96,388,232	78,343,235

*Up to and including 31 December 2013, the Society's administrative office building was included within Investment Land and Buildings, from 1 January 2014 this property was classified as a Tangible Fixed Asset as required under Financial Reporting Standard 102.

The 10 largest equity positions in our with profit fund at 31.12.15 were:

Holding	**Value £**
Legal & General UK property	735,197
Royal London property	606,081
Iridian Fund US equity	531,009
Lazard listed infrastructure	524,143
Blackrock European equity	460,450
I Shares FTSE 250	454,545
I Shares Japan	436,770
Tritax Big Box Reit	375,003
Marlborough Fund Managers	369,878
Fundsmith equity	316,173

Outlook for 2016
For 2016 our investment advisor is predicting some limited growth overall in equity values but gilt and bond yields will remain depressed. These expectations have been factored into the interim bonus rates that we have put in place for 2016 but we will be monitoring the position carefully and adjust them as and when it is prudent to do so.

We continue to press our investment advisor to recommend assets and asset classes which deliver a solid yield with low volatility and low correlation to our other assets such as infrastructure funds and absolute return funds.

Total investment income rose during the year from £3,604,482 in 2014 to £6,800,993 in 2015 primarily due to the additional funds invested as a result of the increased business levels.

On 31 December, funds invested by Branches in the Central Investment Fund had fallen by £136,910 from £6,296,806 to £6,159,896.

Premium income to our Insurance and Endowment fund saw a decrease from £17.7m to £9.3m reflecting a planned reduction in new business levels and volatile market conditions. Claims on the Insurance and Endowment fund amounted to £2,279,514, an increase from the figure of £1,844,198 in 2014. This is consistent with the increase in the value of Investment Bond and ISA holdings with subsequent pay-outs on death or early surrender. The Insurance and Endowment fund at the end of the year stood at £46,397,363 compared to £38,854,203 in 2014 and £20,608,461 in 2013, after allowing for the addition of interest and transfers.

Operating expenses excluding costs relating to acquisition of new business rose by 19.36% during the year, largely due to increasing regulatory requirements and Actuarial costs as we prepared for the transition to Solvency II. Acquisition costs reduced reflecting the lower level of new business generated. The Board remain conscious of the need to control management expenses and continues to monitor financial information monthly.

4. MARGIN OF SOLVENCY

At 31 December 2015 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. Where a dispute or complaint not relating to matters regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA) 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.

Recent complaints history

	2015	**2014**	**2013**
Number of complaints received during the year	6	4	2
Number of complaints resolved during the year	6	4	2
Number outstanding at the year end	0	0	0

Where a complaint falls within matters regulated by the PRA or FCA or any other organisation appointed to regulate the activities of the Society under the Financial Services and 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. GOING CONCERN

After taking account of the Society's current position and principal risks the Board has a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future, this being a period of no less than 12 months from the date of this report. In considering this, the Board took into account the information set out earlier in this report, the level of funds under management and the ability of the Society to meet all of its liabilities and ongoing expenses. We have also carried out business and growth projections for the next 5 years along with detailed budgets for 2016 and 2017 and these indicate that the Society will continue to be able to meet its obligations in the immediate future. For the purpose of this report it is appropriate to confirm that the Board is confident of the Society's financial position for at least the next 2 years. Accordingly, it is reasonable for the financial statements to continue to be prepared on a going concern basis.

9. OTHER MATTERS

The Board is not aware of any other matters material to an appreciation by its members of the state of affairs of the Society in 2015.

10. CORPORATE GOVERNANCE AND DIRECTORS' RESPONSIBILITIES

Friendly Society legislation requires the Society Board 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 Board 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. 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.

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 PRA and to comply with the PRA's principles for approved persons and its code of practice. Nominations for membership of the Board are considered firstly by the Nominations Sub-Committee and subsequently by the full Board.

STRATEGIC REPORT
For the year ended 31 December 2015

DIRECTORS' REPORT

All Directors are annually appraised individually by the Chairman following completion of an assessment form, and the performance of the Chairman is reviewed by the Board as a whole led by the Senior Independent Director.

During 2015 the Board commissioned an external review of its composition and structure which was carried out by Oxford Actuaries and Consultants (OAC). This involved individual interviews with all Board members along with attendance at one of the Board meetings. The outcome of this review, amongst other items, was confirmation of the Board's view that additional skills were required and suggested changes to the structure and frequency of Board and Committee meetings.

A Business Plan, Budget and key objectives are set each year, and progress against these is monitored during the course of the year through detailed management information and regular agenda items at Board meetings and Committee meetings.

The following served as Trustees during 2015:-

Clifford Gordon Banks
Paul Clarke
Derek Thomas

On 1 January 2016, upon incorporation the Society ceased to have Trustees.

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

The following Directors served on the Board during 2015:-

Graeme Charters
Peter Darragh
Robert Edwards
Tracy Parker (resigned 6 August)
Ian Prescott (resigned 31 December)
Andrew Townsley
Timothy Watson
Kate Wright

The Board considers that Graeme Charters, Peter Darragh and Robert Edwards are independent in accordance with the criteria outlined in the Board's independence statement and the Annotated UK Corporate Governance Code.

There have been no changes to any other significant commitments of the Chairman during the year.

During 2015 Tracy Parker and Ian Prescott retired from the Board and we would like to extend our thanks and appreciation to both of them for their contributions during their period of office.

In September 2015 the Nomination Committee interviewed candidates for the position of Non-Executive Director in order to fill identified skills gaps in the areas of Audit and Investment. As a result we were pleased to be able to offer appointments to the Board, subject to Regulatory approval, to Bernard Nelson who is a qualified Actuary but for many years has been employed as a Strategic Investment Advisor and Bernard White who is a qualified Accountant and has a background within Friendly Societies, currently at One Family.

Statement of Compliance with the Annotated UK Corporate Governance Code
The Annotated UK Corporate Governance Code requires the Society Board to either comply with the provisions contained or where it does not explain why. The Board considers that throughout the year the Society has complied with both the provisions and spirit of the Code with the following exceptions:

- The position of Secretary and Chief Executive should not be held by the same person.

  Due to our size the position of Secretary is held by the Chief Executive. However, the Board considers that it receives the appropriate level of support at this stage, that there are appropriate controls on the powers of the Chief Executive, and that it would not be a beneficial use of members' funds to split the roles.

- Does the Board have a policy on diversity, including gender, and measurable objectives for implementing the policy?

  The Board does have a diversity policy but because of its size it is very apparent whether this is being followed and therefore no measurable objectives are considered necessary.

- Are the terms and conditions of appointment of non-executive Directors made available for inspection by any person at the Society's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting)?

  Terms and conditions of appointment are available for inspection but have not historically been provided at the AGM

- Has the Chairman ensured that all new Directors meet with members, either via member forums or panels or individually, as part of their induction?

  New Directors are either elected from the membership or are introduced to delegates at the AGM, not as part of the induction process. The Board feels that this represents an effective opportunity for members to engage with new Directors.

- Does the Chairman regularly review and agree with each Director his or her training and development needs?

  There is an annual process in place for Board members to engage with the Chairman to identify their own training needs after which a solution is agreed. Directors attend seminars and conferences appropriate to their role to develop skills and understanding. Regular reviews were not held during this reporting period by the Chairman due to the Directors being engaged in a formal external governance review which included review and identification of training and development needs.

- Do the Society Secretary's responsibilities include facilitating (under the direction of the Chairman) induction and assisting with professional development as required?

  Induction and assistance with professional development is carried out by the Chairman though the Secretary would be involved where required.

- Is a significant proportion of executive Directors remuneration structured so as to link rewards to corporate and individual performance?

  There is a small element of performance related remuneration but not significant at this stage. It is, however, linked to agreed objectives which reward corporate and individual performance.

- Do performance related elements of remuneration form a significant proportion of the total remuneration package of executive Directors?

  No. Performance related element is small as the Society's current structure does not facilitate a significant proportion to be paid.

- Is the Remuneration Committee responsible for appointing any consultants in respect of executive director remuneration?

  This is not in the current terms of reference of the Remuneration Committee as no new executives have been appointed for over 6 years and there is no intention to do so in the near future. Any such responsibility would currently lie with the Board but may be delegated to the Remuneration Committee should the need arise.

- Were proxy appointments provided to members for each resolution?

  Delegate voting system so proxy votes not used.

- Did the proxy forms provide members with the option to direct their proxy to vote either for or against the resolution or to withhold their vote?

  Delegate voting system therefore proxy votes not used. Alternate delegates may be appointed to replace those not able to attend.

- Is the Board satisfied that levels of remuneration for non-executive Directors reflect the time commitment and responsibilities of the role?

  The level of commitment required from a non-executive Director has increased considerably in recent years and remuneration has been increased to recognise this. However, the Society's remuneration is still below average for its peer group and this will need to be monitored. If it is seen to be having an adverse effect on the recruitment of suitably skilled non executives, further adjustment will be required.

- Does the Board (or where permitted by the constitution of the Society, a sub-committee of the Board) determine the remuneration of the non-executive Directors within the limits set in the constitution?

  Board remuneration is recommended by the Board but subject to approval by the delegates at the Annual General Meeting.

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

The Society Board 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 Society Board 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.

The Board 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 and Markets Act 2000, Friendly Societies Act 1992 and the regulations made under it. The Board 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.

We consider the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provide the information necessary for members to assess the Society's performance, business model and strategy.

11. 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. In addition to the Investment Committee made reference to above, the following Committees also meet:

The **Remuneration Committee** was chaired by Ian Prescott for the majority of the year but it is now led by Graeme Charters and meets at least twice per year to:-

- Make annual recommendations to the Board relating to Board fees and staff salaries.

The **Nomination Committee** meets as required 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 and make recommendations for election to the Board.

Meetings with prospective candidates for the Board are carried out in line with the balance of skills set by the Board as required for our future plans. In considering potential candidates for the Board the Committee will try to ensure that particular skill sets are not duplicated and that the overall balance of skills is appropriate to ensure good Corporate Governance sufficient to meet present and future requirements.

Policy on Equality and Diversity in Recruitment and Selection
Kingston Unity Friendly Society (the "Society") shall ensure that discrimination and stereotyping play no part in the recruitment, selection and appointments process at all levels.

However, the Society also recognises and values the differences between people, and understands the positive benefits for Members of employing a diverse range of talented people.

In taking this positive approach to diversity, the Society recruits on merit alone and free from bias on the grounds of factors such as age, disability, gender, sexual preference or race that are not relevant to the person's ability to fulfil the role, subject to the Society's rules.

Audit Committee

The Society's Board had an Audit and Risk Management Committee for the majority of 2015 but in response to changing business requirements a separate Risk Management Committee was established in November. The Audit Committee consists of elected Non-Executive Directors and was chaired by Tracy Parker and Bernard White during the year. The Committee requested through invitation only Executive Director attendance when deemed appropriate. The Audit and Risk Management Committees met three times during the year ended 31 December 2015.

Roles and Responsibilities

The main responsibilities of the Committee:-

- To make recommendations to the Board in relation to the appointment and removal of the External Auditor and to approve their remuneration and terms of engagement.
- Review the External Auditor's independence and objectivity and the effectiveness of the Audit process, taking into consideration relevant UK Professional and Regulatory requirements.
- Develop and implement policy on the engagement of the External Auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services.
- Monitoring the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance.
- Review and monitor the effectiveness of the Society's internal controls and risk management systems, including reviewing the processes for identifying, assessing and reporting all major risks.
- Oversee the Society's whistleblowing provisions and to ensure they are operating effectively.
- Manage and review the Internal Auditor and the Internal Audit programme and approve the Internal Audit Charter.

The Committee reports to the Board on its findings, identifying matters in respect of which the Committee considers action or improvement is required, and making recommendations as to the steps to be taken.

Activities of the Committee

- Reviewed and discussed with the External Auditor the key accounting considerations and judgements reflected in the Society's financial statements for the year ended 31 December 2015.
- Reviewed and agreed the External Auditors strategy memorandum in advance of their audit for the year ending 31 December 2015.
- Discussed the report received from the External Auditor regarding their audit in respect of the year ended 31 December 2015 which included commentary on the scope of the audit, materiality and areas of particular focus.
- Approved the Internal Audit work programme for the year ended 31 December 2015.
- Received reports from Internal Audit covering various aspects of the Society's operations, regulatory compliance and Board management information.
- Received reports from the Compliance Officer regarding the Annual Compliance Plan and provided recommendations for management of compliance activity.
- Appointed new Internal Auditor, KPMG LLP, for the year ending 31 December 2015.

Significant Areas

The primary areas of judgement considered by the Committee in relation to the 2015 financial statements and discussed with the External Auditor during the year were:-

- Property valuations.
  The Society's Board received a report from Jones Lang LaSalle Limited, on the valuation of the Society's property assets for the year ended 31 December 2015. In considering the valuation proposals provided by the external valuer, it was confirmed that they were sufficiently independent from the Society and Society business. We were content after due challenge and debate with the assumptions and judgements applied.
- Actuarial information.
  Throughout the period we received and reviewed reports in relation to the level of provisioning for contingent and other liabilities and is an issue where management and legal judgement are important. The Board discusses all valuations at length and key judgements are assessed.
- Management override of internal controls.
  The Committee reviewed the risk of fraud in revenue recognition and the potential for management overrides of internal controls and we were satisfied. The presumed risk of fraud, as defined by auditing standards, were considered by the Committee and no issues were identified.

As well as the work carried out by the Committee, we also noted that there had not been any adverse comment from the External Auditor and that the External Auditor had not identified any significant issues in the audit report. The Committee therefore concluded that there were no significant issues, which requires reporting to the Society Board.

External Audit

The Committee reviews the performance, cost effectiveness and general relationship with the External Auditor each year. In addition, each year the Audit Committee reviews the independence and objectivity of the External Auditor. The External Auditor also reports to the Board and the Audit Committee each year, confirming their independence in accordance with Auditing Standards and outline the safeguards that they have put in place. The Audit Committee concluded the External Auditor, Brown Butler, Chartered Accountants, are independent of the Society and recommended to the Board a resolution to re-appoint them as External Auditor.

Risk Management Committee

Purpose

The Risk Management Committee assists the Board of the Society in meeting its obligations under the Friendly Societies Act 1992, the Financial Services and Markets Act 2000, the Financial Services Act 2012 and Solvency II when it takes effect in January 2016. The Risk Management Committee provides a forum for independent oversight of the operations of the Society. It is chaired by Graeme Charters.

Appointment of Risk Management Committee

This Committee is established under the Authority of the Board to assist and advise the Board in exercising its responsibilities for all aspects connected with the current and future risk strategy including the determination of risk appetite, tolerance, risk measurement, management and mitigation procedures throughout the Society.

This Committee undertakes the role of the "second line of defence" within the Society's governance framework and, in fulfilling its expectations under Solvency II, oversees the risk and compliance functions.

Purpose and responsibilities

The Risk Management Committee is a body that will:-

- Be responsible for challenging Management and for providing guidance, advice and recommendations to the Board on all matters relating to risk management;
- Assist the Board to foster a culture within the Society that encourages good stewardship of risk and emphasises and demonstrates the benefits of a risk based approach to internal control and management of the Society;
- Have an over-riding responsibility to ensure that through its work the best interests of the Society's members and customers are always considered and protected;
- Ensure that systems and processes are in place to enable existing and emerging risks to be identified, measured, mitigated, monitored and reported;
- Ensure the Society's compliance with all relevant statutory requirements including Solvency II, and other regulatory requirements including in respect of prudential and conduct risk; and
- Ensure the completion of a regular Own Risk and Solvency Assessment and the regulatory reporting requirements of all risk related matters.

Objectives

- Provide oversight and advice to the Board in relation to current and potential future risk exposures, as well as on the principles and practice of the Society's current and future risk policy, risk measurement and management, including determination of risk appetite and tolerance within the capital constraints of the Society;
- To provide independent oversight to the risk management function and the effective operation of risk management policies and systems and documented procedures and other internal controls, across the Society;
- Establish and maintain positive working relationships with the senior management of the Society and with the relevant executives to foster a collaborative approach to risk management;
- Assist the Board to promote a culture of risk awareness throughout the Society, reflecting risk management practices which are consistent with the risk appetite as set by the Board;
- Oversee the ORSA process and assist the Board and in relation to the ORSA process; and
- Assist on such matters as the Board and other Board Committees may refer to it.

With Profits Committee

Purpose

To exercise independent judgement in considering the rights, interests and reasonable expectations of all With Profits Policyholders and make appropriate recommendations to the Board. It is chaired by Bernard Nelson.

Responsibilities

Consider the following and make recommendations to the Board as necessary.

- To assess whether the PPFM accurately reflects the way in which the With Profit Fund is managed and advise on changes as appropriate.
- To determine whether any conflicting rights of policyholders have been addressed.
- Consider how surplus and excess surplus has been identified and whether any proposed method of distribution or retention is fair.
- Consider how bonus rates and if appropriate smoothing has been calculated and applied.
- Manage With Profit customers communications including bonus notices and periodic reviews of literature.
- Assess the Society's future strategy for With Profit business that is supported by the fund and consider any potential impact on surplus, and report to the Board any findings.
- Carry out a review of With Profit fund expenses.
- Review annually the performance of the With Profit Actuary and make appropriate recommendations.
- At least annually review the performance of the Committee including its Terms of reference.

Investment Committee

Rob Edwards chaired the Investment Committee during 2015, Bernard Nelson will be taking over this role in 2016. It is authorised by the Board, in conjunction with the Actuarial Function Holder, to recommend to the Board the investment strategy, including asset allocation, for the Society and the Committee will make asset allocation decisions in line with agreed policy and strategy. The policy and strategy are to be reviewed and approved by the Board on an annual basis. More detailed terms of reference are set our earlier in this report.

Other Board Committees are set up on an ad hoc basis to meet particular needs, and full terms of reference for all of the above Committees are available on the Society's website.

STRATEGIC REPORT
For the year ended 31 December 2015

DIRECTORS' REPORT

Below are the details of the Directors' attendance record at Board meetings and relevant Board Committee meetings during 2015.

Attendance	Board	Sub-Committees
Graeme Charters	7/8	3/3
Peter Darragh	11/11	18/19
Robert Edwards	11/11	18/18
Tracy Parker	7/7	2/2
Ian Prescott	5/11	7/8
Andrew Townsley	11/11	19/19
Timothy Watson	11/11	3/3
Kate Wright	10/11	0/0
Bernard Nelson*	1/2	2/2
Bernard White*	1/2	3/3

*Bernard Nelson and Bernard White have been in attendance at meetings pending approval from the Regulator, which has now been received.

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

Robert Edwards	Director	RCE Transformations Limited
Ian Prescott	Director	Bond House Systems Limited Target Components Limited European Property UK Limited Mood Developments Limited
Graeme Charters	Director	Graeme Charters Associates Limited

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.

Rob Edwards
Chairman

Andrew Townsley
Chief Executive

8 March 2016

STRATEGIC REPORT
For the year ended 31 December 2015

REMUNERATION REPORT

This report is submitted in respect of the year ended 31 December 2015. A vote to approve the report will be put to the 2016 Annual General Meeting.

Statement of the Society's Policy on Directors' Remuneration

The Board consists of seven non-executive 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

Following the increase in fees approved at the 2015 Annual General Meeting, the Society Board is recommending an increase of 2.75% for fees in 2016 and will be seeking approval at the Annual General Meeting.

Fees, Salaries and other benefits in 2015 amounted to:

	Fees	Salary	Taxable Benefits	Commission	Pension	2015	2014
	£	£	£	£	£	£	£
Graeme Charters	2,521					2,521	0
Peter Darragh	10,102					10,102	10,245
Robert Edwards	12,167					12,167	4,011
Philip Howcroft						0	2,802
Tracy Parker	2,891					2,891	4,035
Ian Prescott	3,733					3,733	5,290
Andrew Townsley		98,696	11,439		11,400	121,535	117,400
Timothy Watson	5,325			833		6,158	7,757
Kate Wright	7,569			710		8,279	10,106
Total	44,308	98,696	11,439	1,543	11,400	167,386	161,646

Included in the above salary for Andrew Townsley is a provision of £3,207 (2014: £2,700) in respect of a bonus paid after the year end.

General expenses such as travel and parking are not included in the above figures. During the year these totalled £7,813 (2014: £7,251).

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

Non-Executive Directors

The Board considers that Peter Darragh, Robert Edwards and Graeme Charters are independent in accordance with the criteria outlined in their own independence statement and the Annotated UK Corporate Governance Code.

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 having 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

Tracy Parker acted as the Society's Senior Independent Director during the period until her resignation and was succeeded by Peter Darragh. The Senior Independent Director 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.

Skills, Knowledge and Experience

We continue to ensure that the following skills and experience including (but not limited to) the following are demonstrated by the Board:-

- Accounting
- Audit
- Risk management
- Legal and Compliance
- Actuarial
- Property Investment
- Equity and Fixed Interest Securities
- Consumer Financial Services Sector Experience
- IT and the Digital Economy
- Marketing
- Society Products and Structure
- Experience of Mutuals
- Relevant Insurance Industry experience
- Business Development
- Leadership

STRATEGIC REPORT
For the year ended 31 December 2015

REMUNERATION REPORT

We believe that the current Board demonstrate skill and experience in each of these areas.

On behalf of the board of management

Rob Edwards | Andrew Townsley

Chairman | **Chief Executive and Secretary**

8 March 2016

STATEMENT OF COMPREHENSIVE INCOME

TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2015

	Note		2015 £		2014 £
INCOME					
Earned premiums	5		9,372,549		17,747,830
Investment income	6		6,562,127		3,479,923
Unrealised gains on investments	7		475,490		2,267,620
Other income	8		58,356		61,235
TOTAL INCOME			16,468,522		23,556,608
EXPENDITURE					
Claims incurred	9		2,368,073		1,928,970
Change in long term business provision	32 & 33		6,270,020		17,773,032
Net operating expenses					
Acquisition costs	10	523,073		746,559	
Administration	11	676,872		574,079	
			1,199,945		1,320,638
Investment expenses and charges					
Investment management expenses	12	189,583		219,227	
Realised losses on investments	13	497,596		273,714	
			687,179		492,941
Unrealised losses on investments and tangible fixed assets	14		4,842,374		1,763,052
			15,367,591		23,278,633
Tax attributable to the long term business	17		-		-
			15,367,591		23,278,633
Transfer from reserves provided for by the rules and tables	28		(618,516)		(512,844)
Transfer to funds for future appropriations	30		1,719,447		790,819
			16,468,522		23,556,608
Balance on technical account long term business			-		-

The above results relate wholly to continuing activities. The Society had no other recognised gains or losses other than those included above in the Technical Account and the movements in the Child trust fund Stakeholder and Unit linked ISA Funds as shown in note 33 and therefore no separate statement of recognised gains and losses has been presented.

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

The notes on pages 42 to 72 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

NON-TECHNICAL ACCOUNT

For the year ended 31 December 2015

	Note	2015 £	2015 £	2014 £	2014 £
INCOME					
Investment income	6		238,866		124,559
Unrealised gains on investments	7		24,237		146,282
Other income	8		41,264		25,407
TOTAL INCOME			304,367		296,248
EXPENDITURE					
Claims incurred	9		23,084		10,446
Administration	11		96,778		74,087
Investment expenses and charges					
Investment management expenses	12	21,064		24,358	
Realised losses on investments	13	25,363		17,657	
			46,427		42,015
			166,289		126,548
Unrealised losses on investments and tangible fixed assets	14		50,055		34,449
EXPENDITURE BEFORE INTEREST AND ALLOCATION TO INVESTING BRANCHES			216,344		160,997
Divided among the member branches	15		197,024		234,498
TOTAL EXPENDITURE			413,368		395,495
Transfer (from)/to funeral re-insurance fund	28		(412)		22
Transfer (from) management fund	28		(78,186)		(59,148)
Transfer (from) accumulated income fund	30		(30,403)		(40,121)
			304,367		296,248
Balance on non-technical account			-		-

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

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

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

The notes on pages 42 to 72 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	2015 £	2015 £	2014 £	2014 £
ASSETS					
INVESTMENTS					
Investment land and buildings	20	12,140,000		10,615,000	
Other financial investments					
Shares and other variable yield securities	21	13,229,136		10,620,587	
Debt securities and other fixed income securities	22	28,388,909		23,014,503	
Loans secured by mortgages	23	122,743		772,288	
			53,880,788		45,022,378
Assets held to cover linked liabilities	24		45,869,664		46,279,042
DEBTORS					
Other debtors	25		10,859		4,174
OTHER ASSETS					
Tangible fixed assets	26	258,935		293,738	
Cash at banks, brokers and in hand	27	4,754,703		5,859,100	
			5,013,638		6,152,838
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest and rent		340,329		281,844	
Other prepayments and accrued income		97,264		55,180	
			437,593		337,024
			105,212,542		97,795,456
LIABILITIES					
RESERVES					
Reserves provided for by the rules and tables	28	2,483,123		1,941,290	
Fund for future appropriations	29	2,317,956		2,481,864	
			4,801,079		4,423,154
TECHNICAL PROVISIONS					
Long term business provision	32	47,967,922		40,422,372	
Technical provisions for linked liabilities	33	45,869,664		46,279,042	
			93,837,586		86,701,414
CREDITORS					
Other creditors – including taxation, social security and investing branches	34		6,190,030		6,317,307
ACCRUALS AND DEFERRED INCOME	36		383,847		353,581
			105,212,542		97,795,456

These financial statements were approved and authorised for issue by the Directors on 8 March 2016.

…………………………………………….
Robert Charles Edwards (Chairman)

…………………………………………….
Richard Andrew John Townsley (Chief Executive and Secretary)

The notes on pages 42 to 72 form part of these financial statements.

1. Accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below.

(a) Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standards 102 and 103 (FRS 102 and FRS 103) as issued by the Financial Reporting Council, and in accordance with the Friendly Societies Act 1992 and the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

The financial statements have been prepared under the historical cost basis, modified to include certain assets at fair value, and in accordance with FRS 102 and FRS 103.

The prior year financial statements have been amended for any material adjustments arising on adoption of FRS 102 and FRS 103. For more information see note 39.

In accordance with FRS 103, the Society has applied existing accounting policies for insurance contracts.

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 2.

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.

The Society's activities, together with factors likely to affect its future development, performance and position, are set out in the Strategic Report.

The Directors Report, which forms part of the Strategic Report, also describes the financial position of the Society, its liquidity position, the Society's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk.

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.

(b) Contract classification

The Society's contracts are classified at inception for accounting purposes. Insurance contracts are those contracts that transfer significant insurance risk.

A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Deposits and withdrawals are recorded directly as an adjustment to the contract liability in the Statement of Financial Positon, a method known as deposit accounting. Fees charged and investment income received are recognised in the Statement of Comprehensive Income when earned.

1. Accounting policies (continued)

(c) Earned premiums

Premiums and contributions are accounted for on an accruals basis. Premiums are stated gross of commissions payable to intermediaries.

(d) 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.

(e) 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.

(f) Investment income

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

(g) Gains and losses on investments

Realised gains and losses on investments are calculated as the difference between the 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.

(i) Pension contributions

The Society operates a defined contribution pension scheme. A defined contribution plan is a pension plan under which the Society pays fixed contributions into a separate entity. The Society has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

1. Accounting policies (continued)

(j) Investments – land and buildings

The investment land and buildings are those held for rental value and/or capital appreciation and are valued on the basis of market value based on existing tenancies. Independent professionally qualified valuers carry out valuations every year.

Gains or losses arising from changes in the market value of investment land and buildings are included in the Statement of Comprehensive Income for the period in which they arose.

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

(k) 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.

(l) Investments – loans secured by mortgages

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

(m) Property, plant and equipment

Property, plant and equipment, other than the long leasehold building are stated at cost, less accumulated depreciation and any recognised impairment loss.

The Society operates from a long leasehold building. The Society's long leasehold building is valued on the basis of market value based on existing tenancy. Independent professionally qualified valuers carry out a valuation every year. Any gain or loss arising from a change in the market value of the Society's, long leasehold building is included in the Statement of Comprehensive Income for the period in which it arises.

Other than the long leasehold building, depreciation is charged on other assets so as to write off the cost over their estimated useful lives, less estimated residual value, using the following annual rates and methods:-

Fixtures, fittings and equipment	15% reducing balance basis
Computer equipment	33⅓% straight line basis
Motor vehicle	25% reducing balance basis

Depreciation is charged for the full year in the year of acquisition and no depreciation is charged in the year of disposal.

The residual values and useful lives of property, 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.

1. Accounting policies (continued)

(n) Fund for future appropriations

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

(o) Cash and cash equivalents

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

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

(p) Leases

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

(q) Taxation

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

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the date of the Statement of Financial Position. The tax expense represents the sum of the tax currently payable and deferred tax.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Statement of Financial Position date where transactions or events that results in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Statement of Financial Position date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The carrying amount of deferred taxation assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

1. Accounting policies (continued)

(r) Long term business provision

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 financial statements that are designed to present a true and fair view. This adjusted basis is referred to as the modified statutory solvency basis.

The calculation uses the net premium method, modified by a Zillmer adjustment 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	123% AMC00 and 116% AFC00 for ages 17 and above, 100% ELT for ages below 17 non CTF and 35% ELT for ages below 17 CTF
Morbidity	60% of the Manchester Unity AHJ (1893 – 97)
Investment returns	1.53% for tax exempt policies, 1.22% for taxable With Profits policies and 2.03% for tax exempt non-profit policies

(s) Cash flow statement

The Society has taken advantage of the exemption under Financial Reporting Standard 102 not to prepare a cash flow statement.

2. 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.

2. Critical accounting judgements and estimates (continued)

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 or reinsurers' tables, adjusted where appropriate to reflect the Society's own experience. 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. 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.

3. Capital management

Policies and objectives

The Society's key capital management objectives are:-

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

These objectives are reviewed at least annually, and benchmarks are set by which to judge the adequacy of the Society's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Society.

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

The capital requirement in the annual PRA Return is the statutory minimum capital requirement. The statutory minimum capital requirement is based on EU directives.

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

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

3. Capital management (continued)

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 PRA therefore the capital statement reflects the solvency position of the Society and its Branches.

A statement showing the Society's capital position, once all the Branch assets and liabilities have been aggregated with its own, is shown below:

		2015 £		2014 £
Assets				
Freehold land and buildings	12,140,000		10,615,000	
Mortgages on land and buildings	122,743		772,288	
British government securities	18,792,183		17,971,174	
Other investments – non-linked	22,825,862		15,663,916	
Other investments – for linked benefits	45,869,664		46,279,042	
		99,750,452		91,301,420
Debtors	9,558		5,248	
Tangible assets	259,113		294,049	
Deposits, cash at bank, brokers and in hand	4,778,525		5,880,922	
Other prepayments and accrued income	437,593		337,024	
		5,484,789		6,517,243
Total assets		105,235,241		97,818,663
Liabilities				
Technical provisions				
Branch insurances	6,084,141		5,477,770	
Central insurances (non-linked)	47,967,922		40,422,372	
Central linked insurances	45,869,664		46,279,042	
		99,921,727		92,179,184
Non-technical liabilities				
Branch funds for management, distress and marketing	36,292		85,463	
Central funds for management, distress and marketing	50,010		50,422	
Creditors	40,628		25,567	
Accruals and deferred income	383,847		353,581	
		510,777		515,033
Consolidated fund for future appropriations		4,802,737		5,124,446
Total liabilities		105,235,241		97,818,663

Measurement and monitoring of capital
The capital position of the Society is monitored on a regular basis and reviewed formally on a monthly basis by the Directors. 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 on a regular basis and compared against the available capital and the Society's minimum internal rate of return.

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.

3. Capital management (continued)

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.

An allowance is made for actions that management would take in adverse conditions, such as reducing bonus rates. The assets are taken at market value. The whole of the available capital resources is available to meet the regulatory and other solvency requirements of the fund.

Capital Statement
The following table sets out the capital available:-

		2015 £		2014 £
Consolidated fund for future appropriations		4,802,737		5,124,446
Less: Inadmissible assets	34,113		44,049	
Expense overrun	461,000		550,000	
		495,113		594,049
Assets available for required minimum margin		4,307,624		4,530,397
Required minimum margin		4,141,744		3,333,425
Assets in excess of required minimum margin		165,880		1,196,972

The movement in capital resources is as follows:-

	2015 £	2014 £
Starting available capital resource	4,530,000	4,687,000
Net business strain	(64,000)	(283,000)
Branch distribution	(947,000)	-
Branch interest allocation	(74,000)	-
Expense Overrun reserve	89,000	(140,000)
Change in valuation basis	636,000	(1,212,000)
Cost of bonus	(659,000)	(855,000)
Investment surplus	1,311,000	2,786,000
Expenses	(223,000)	(91,000)
Economic factors	(291,000)	(362,000)
Available capital resources at end of year	4,308,000	4,530,000
% assets	104%	136%

The assets available for the required minimum margin are 104% of the required minimum margin.

3. Capital management (continued)

Sensitivity of long-term insurance contract liabilities

The value of the long term insurance contract liabilities is sensitive to changes in market conditions and to the demographic assumptions used in the calculations, such as mortality and morbidity 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 mortality, morbidity or expense experience by the Society may result in the need to change the assumptions used to value the liabilities. This may increase or reduce the value placed on liabilities. The sensitivity of the liabilities to changes in the assumptions varies according to the type of business. For example, a change in mortality rates has a greater impact on whole life liabilities than ISAs.

The table below sets out the exposure to life insurance risk:-

	2015 £	2014 £
Technical provisions		
Branch insurances	6,084,141	5,477,770
Central insurances (non-linked)	47,967,922	40,422,372
Central linked insurances	45,869,664	46,279,042
Total	99,921,727	92,179,184

The table below sets out the impact on the long term contract liabilities for movement in key assumptions:-

	Change in liabilities
Increase in mortality rates by 15%	£20,000
Increase in morbidity rates by 10%	£55,000
Increase in expenses by 10%	£74,000
Decrease in valuation interest by 0.5%	£250,000

4. Risk management and control

FRS 103 requires a Society which issues insurance contracts to make certain disclosures regarding their insurance risk. The required information is summarised below:-

a) Objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks

The Society is principally exposed to risks in relation to lapses, expenses, market, credit and liquidity.

The objectives of the Society in managing these risks is to minimise those risks (such as expenses) which are seen as primarily negative in their impact on the Society or policyholders and to carefully monitor and balance those risks (such as market risk) where a positive outcome is of benefit to the members and policyholders.

The principal methods involve:-

i. Holding reserves to meet the obligations of the Society,
ii. Monitoring and managing internal and externally generated reports that provide information about the performance or level of key indicators,
iii. Closely matching investments to policy liabilities where those liabilities are tightly defined,
iv. Actively managing the investment portfolio after taking advice from the actuarial function holder about the nature and term of the liabilities and the parameters appropriate to limit the downside risks.

b) Nature and extent of risks arising from insurance contracts

Insurance risk
Insurance risk is risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims policyholder behaviour and expenses.

The Society sells insurance and financial investment products. The types of products include life, health, annuity, participating and non-participating insurance. A variety of assumptions are made when a product is designed and priced. The assumptions are based on Society and industry past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

These assumptions are used to develop the initial measurement of insurance contract liabilities and form the insurance risk. The setting of these assumptions requires a significant amount of professional judgment and therefore, actual experience may be materially different from assumed experience which results in the nature of the insurance risk exposure.

4. Risk management and control (continued)

To the extent that emerging experience is more favourable than assumed in the measurement of insurance contract liabilities, a surplus will emerge. If emerging experience is less favourable, deficits will result. The Society's objective is to ensure that sufficient insurance contract reserves have been set up to cover these obligations.

The following risk factors are components of insurance risk:-

Mortality risk
This is the risk that death claims are different than assumed in pricing or the most recent valuation of actuarial liabilities, adversely impacting income. This risk includes both mis-estimation in pricing, and adverse experience resulting from any combination of weak underwriting, anti-selection by policyholders, or improper claims assessment.

Morbidity risk
This is the risk that sickness claims are different than assumed in pricing or the most recent valuation of actuarial liabilities, adversely impacting income. This risk includes both mis-estimation in pricing, and adverse experience resulting from claims assessment.

Lapse risk
This is the risk that withdrawals and lapse rates are different than assumed. This risk can occur on both insurance and investment contracts. Lapses that are higher than assumed are usually detrimental, especially if they occur prior to recovering costs to issue a policy, or at a time when the guarantees underlying the risk profits contracts are onerous.

Expense risk
This is the risk that maintenance expense levels will be higher than assumed. This can arise from an increase in the unit costs or an increase in expense inflation relating to economic conditions. This risk can occur on insurance and investment contracts.

The Society manages insurance risk by establishing Board approved policies and guidelines for product development and product pricing which require that all material risks be provided for at the time of product design and pricing of new products.

The actuarial assumptions used in the measurement of insurance contract liabilities taking insurance risk factors into account are discussed in note 3. Sensitivities to changes in actuarial assumptions are provided in note 3.

4. Risk management and control (continued)

Credit risk
Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to fulfil its payment obligations. Worsening or continued poor economic conditions could result in borrower or counterparty defaults or downgrades, and could lead to increased provisions or impairments related to the Society's invested assets and an increase in provisions for future credit impairments to be included in insurance contract liabilities. The Board approved Investment Policy sets out the policies and procedures to manage this risk. Specific guidelines have been established to minimise undue concentration of exposure to a single debtor or a group of related debtors; to limit the purchase of fixed income securities to investment-grade assets; and to specify minimum and/or maximum limits for fixed income securities by credit quality ratings.

Following a restructuring of the Society's sub-committees, its asset portfolios will be monitored and reviewed regularly with the Investment Committee.

i) Maximum exposure to credit risk
The Society's maximum exposure to credit risk related to financial instruments and other assets is the carrying value of those assets, net of any allowances for losses. The Society's maximum credit exposure is as follows:-

	2015 £	2014 £
Assets		
Freehold land and buildings	12,140,000	10,615,000
Mortgages on land and buildings	122,743	772,288
British government securities	18,792,183	17,971,174
Other investments – non-linked	22,825,862	15,663,916
Other investments – for linked benefits	45,869,664	46,279,042
Total	99,750,452	91,301,420

ii) Concentration of credit risk
Concentration of credit risk arises from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics.

The Society has investment targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

Total exposure includes the sum of the Society's investment in bonus, equities, money market instruments, financial instruments and mortgages.

Bonds and other fixed-term securities
Other than constraints imposed by liquidity requirements, there is no upper limit to the amount of the Society's total assets that can be invested in bonds and fixed term annuities.

4. Risk management and control (continued)

The following table provides details of the carrying value of bonds by sector and country.

	United Kingdom £	North America £	Europe £	Grand Total £
British funds	18,792,183			18,792,183
Fixed interest	6,130,232		302,420	6,432,652
Foreign bonds		195,218	2,968,856	3,164,074
Total	24,922,415	195,218	3,271,276	28,388,909

Mortgages

Mortgages are secured by first recourse on the underlying property and carry a fixed interest rate.

Equities

Investments in equities are limited to 30% of total assets.

Equities held by type and country are shown below:-

	United Kingdom £	North America £	Japan £	Europe £	Asia Pacific (inc Aus and NZ) £	Other Overseas £	Grand Total £
Basic materials and resources	91,092						91,092
Consumer goods	935,677	89,903		210,498			1,236,078
Consumer services	584,227	116,734					700,961
Diversified collective investments	1,155,674	1,593,298	436,770	666,103	660,487	316,173	4,828,505
Diversified collective investments - CTF	1,072,956						1,072,956
Financials	787,322	208,648					995,970
Health Care	285,460	61,771		121,818			469,049
Hedge Fund						528,163	528,163
Industrials and Ind. goods and services	98,650	252,828					351,478
Oil and gas	232,711						232,711
Property collective	1,716,282					524,143	2,240,425
Technology		126,151					126,151
Telecommunications	142,644						142,644
Utilities	212,953						212,953
Total	7,315,648	2,449,333	436,770	998,419	660,487	1,368,479	13,229,136

4. Risk management and control (continued)

Investment land and buildings
Investments in land and buildings are limited to 50% of the Society's total assets. The direct investments are listed below:-

Property	Market value £
Retail	8,420,000
Office	1,530,000
Industrial	2,190,000
Total	12,140,000

Liquidity risk
Liquidity risk is the risk that the Society cannot meet its obligations associated with financial liabilities as they fall due. The Society has adopted an appropriate liquidity risk management framework for the management of the Society's liquidity requirements. The Society manages liquidity risk by maintaining a proportion of its assets in cash and investing in marketable securities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. Liquidity management ensures that the Society has sufficient access to funds necessary to cover insurance claims, surrenders, withdrawals and maturing liabilities.

There were no changes in the Society's liquidity risk exposure in the financial year nor to the objectives, policies and processes for managing liquidity risk.

Contractual maturities
For insurance contracts, the expected timing of cash flows payable under such contracts is shown in the table below.

Almost all investment contracts may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is therefore the current Statement of Financial Position date and the surrender amount would be approximately equal to the liability shown on the current Statement of Financial Position.

The cash flows for the Society's significant financial assets and liabilities as at 31 December 2015 are shown in the following table for the next 20 years.

Year	Cashflow out £	Fixed interest coupons and maturities £
0 – 5	15,134,387	10,771,338
6 – 10	15,713,745	9,159,664
11 – 15	9,869,203	4,665,478
16 – 20	5,408,833	1,543,992

4. Risk management and control (continued)

Market risk
Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the Society in managing its market risk is to ensure risk is managed in line with the Society's risk appetite.

The Society has established policies and procedures in order to manage market risk and methods to measure it.

There were no changes in the Society's market risk exposure in the financial year nor to the objectives, policies and processes for managing market risk.

i) Currency risk
The Society denominates all of its insurance and investment contracts in Sterling.

As part of its investment diversification policy, the Society holds certain investments denominated in foreign currencies. As a result, foreign exchange risk arises from assets denominated in these currencies.

Currently all assets denominated in foreign currencies are equities or equity funds. The foreign currencies held are:-

Current	Market value £
Swiss Franc	241,871
Euro	90,445
US Dollar	2,029,695
	2,362,011

ii) Interest rate risk
Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Society is exposed to interest rate risk as the Society invests in long term debt at both fixed and floating interest rates. The risk is managed by the Society by maintaining an appropriate mix between fixed and floating rate borrowings.

Interest rate risk also exists in products sold by the Society. The Society has no significant concentration of interest rate risk. The Society manages this risk by adopting close asset/liability matching criteria, to minimise the impact of mismatches between asset and liability values arising from interest rate movements.

iii) Equity market risk
The Society is exposed to price risk arising from fluctuations in the value of equities as a result of changes in the market prices.

This is a significant risk for the Society. Assets held to provide returns on With Profit policies comprise a substantial portion of equity assets. The positive return on these assets is used to provide part of the addition of bonuses to the With Profit policies. The risk is managed by the Society by maintaining an appropriate mix of investment instruments, actively monitoring the level of prices in the stock markets and having the right to apply a market value reduction if policies are surrendered at a time when equity markets are stressed.

4. Risk management and control (continued)

iv) Property price risk
The property price risk arises from changes in the value of the investment properties.

This is also a significant risk for the Society. The risk is managed by the Society maintaining an appropriate mix of properties and actively managing the risk of rental default and monitoring the market values.

Summary of market risk sensitivities:-

	Change in surplus assets £
Equity values fall by 10%	(1,016,000)
Equity values rise by 10%	892,000
Fixed interest yields rise by 1%	(1,825,000)
Fixed interest yields fall by 1%	1,914,000
Property values fall by 10%	(1,337,000)

5. Earned premiums

	2015 £	2014 £
Central health benefit contributions	3,316	3,177
Long term savings contributions	43,464	48,074
Insurance and endowment premiums	9,325,769	17,696,579
	9,372,549	17,747,830

6. Investment income

	2015		2014	
	Technical account £	Non-technical account £	Technical account £	Non-technical Account £
Income from listed investments	2,891,221	51,752	2,306,977	48,891
Income from land and buildings	1,016,395	51,808	829,845	53,533
Gains on realised investments	2,590,903	132,064	273,270	17,631
Bank interest receivable	23,585	1,202	22,494	1,451
Mortgage interest receivable	40,023	2,040	47,337	3,053
	6,562,127	238,866	3,479,923	124,559

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. Unrealised gains on investments

	2015		2014	
	Technical account £	Non-technical Account £	Technical account £	Non-technical account £
Investment land and buildings	85,708	4,369	92,861	5,990
Shares and other variable yield securities	381,340	19,438	882,665	56,940
Debt securities and other fixed income securities	8,442	430	1,292,094	83,352
	475,490	24,237	2,267,620	146,282

8. Other income

	2015		2014	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Management and other levies	58,356	41,264	61,235	25,407

9. Claims incurred

	2015		2014	
	Technical account £	Non-technical Account £	Technical account £	Non-technical account £
Funeral re-insurance fund	-	23,084	-	10,446
Central health fund	6,211	-	550	-
Long term savings fund	82,348	-	84,222	-
Insurance and endowment fund	2,279,514	-	1,844,198	-
	2,368,073	23,084	1,928,970	10,446

10. Acquisition costs

	2015 £	2014 £
Salaries and national insurance	139,389	141,071
Pension costs	8,299	8,296
Commissions	306,829	510,749
PR and marketing	26,861	51,008
Printing and stationery	1,275	1,253
Office repairs	836	1,589
Maintenance contracts	13,990	11,722
Computer software	2,798	9,170
Actuarial fees and valuation provisions	18,238	10,022
Compliance training	4,558	1,679
	523,073	746,559

11 Administration

		2015		2014
		£		£
Salaries and national insurance		247,778		224,421
Staff recruitment		414		737
Pension costs		18,945		16,592
Board meeting costs:-				
Directors' attendance fees	44,308		36,195	
Directors' mileage allowance and travel	7,813		7,251	
Trustees' and Branch Secretaries attendance fees	6,090		5,827	
Trustees' and Branch Secretaries mileage allowance and travel	3,397		5,961	
Hotel expenses	633		4,370	
Other expenses	790		724	
		63,031		60,328
Association of Financial Mutuals costs		1,775		1,594
Rent, rates, light, heat and insurance		27,491		26,492
Printing and stationery		20,643		21,996
Postages		23,814		20,315
Telephone		5,113		5,294
Office cleaning		5,839		5,492
Depreciation of tangible fixed assets		16,750		21,238
Auditors' remuneration - external	51,624		45,062	
- internal	10,254		3,807	
		61,878		48,869
Actuarial fees and valuation provisions		164,139		90,201
Property valuation fees		19,210		10,605
Legal fees		36,980		57,750
Regulators' fees and expenses		10,215		6,798
Compliance training		4,670		1,679
Officers' indemnity insurance		2,120		2,120
Staff travel and motor expenses		11,048		5,435
Motor vehicle leasing		7,857		9,136
Conference expenses		21,570		10,300
Branch insurance membership grant		10		1,959
Bank charges		11,057		9,821
Sundries		2,682		2,308
Recoverable VAT		(11,379)		(13,314)
		773,650		648,166

With the exception of the conference expenses which are charged directly to the non-technical account, the administration expenses are allocated 90% (2014: 90%) to the technical account and 10% (2014: 10%) to the non-technical account. These can be summarised below:-

	2015		2014	
	Technical Account	Non-technical account	Technical account	Non-technical account
	£	£	£	£
Conference expenses	-	21,570	-	10,300
Administration	676,872	75,208	574,079	63,787
	676,872	96,778	574,079	74,087

12. Investment management expenses

	2015		2014	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Investment advisers' charges	48,972	5,441	86,681	9,631
Property related charges:-				
Agent's management charges	44,735	4,970	38,794	4,310
Legal fees	14,244	1,583	12,806	1,423
Insurances	13,636	1,515	11,552	1,284
Rates and water	(481)	(54)	8,472	941
Heat and light	4,886	543	14,787	1,643
Repairs and renewals	61,540	6,838	44,152	4,906
Cleaning	2,051	228	1,983	220
	189,583	21,064	219,227	24,358

The investment management expenses are allocated 90% (2014: 90%) to the technical account and 10% (2014: 10%) to the non-technical account.

13. Realised losses on investments

	2015		2014	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Shares and other variable yield securities	313,074	15,958	271,196	17,495
Debt securities and other fixed income Securities	184,522	9,405	2,518	162
	497,596	25,363	273,714	17,657

14. Unrealised losses on investments and tangible fixed assets

	2015		2014	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Shares and other variable yield securities	534,871	27,263	504,299	31,961
Debt securities and other fixed income securities	423,356	21,579	38,566	2,488
Assets held to cover linked liabilities	3,860,360	-	1,220,187	-
Tangible fixed assets	23,787	1,213	-	-
	4,842,374	50,055	1,763,052	34,449

15. Divided among the member branches

	2015	2014
	£	£
Interest on investing branch deposits at 3.20% (2014: 3.70%)	197,024	230,456
Central health fund distribution	-	4,042
	197,024	234,498

16. Balance on the technical and non-technical accounts

The balance on the technical and non-technical accounts is after charging:-

	2015	2014
	£	£
Depreciation of owned assets	16,750	21,238
Operating lease charges – motor vehicle	7,857	9,136
External auditor's remuneration	51,624	45,062
Internal auditor's remuneration	10,254	3,807
Actuary's remuneration	182,377	100,223
Commissions	306,829	510,749

External auditor's remuneration is made up as follows:-

	2015	2014
	£	£
Audit of the financial statements	25,320	24,200
Other fees to external auditor		
Audit related assurance services	17,208	16,705
Tax compliance services	208	209
Other tax advisory services	2,085	1,580
Advice on general accountancy matters	6,803	2,368
	26,304	20,862
	51,624	45,062

17. Tax attributable to the long term business

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.

	2015	2014
	£	£
Corporation tax		
Current year	-	-
Current tax credit	-	-
Small profits rate	20.0%	20.0%

No provision for corporation tax has been made as taxable income arising during the year did not exceed allowable management expenses and unutilised tax losses of earlier years.

No deferred tax asset has been recognised on the remaining tax losses as the Directors have assessed that it is unlikely that sufficient taxable profits will arise in the foreseeable future to utilise the remaining tax losses.

18. Staff costs

	2015	2014
	£	£
Wages and salaries	349,176	330,370
Social security costs	37,991	35,122
Pension costs	27,244	24,888
Benefits in kind	12,662	10,461
	427,073	400,841
Average number of employees		
Chief executive	1	1
Sales	3	3
Administration	6	5
	10	9

19. Directors' emoluments

	2015 £	2014 £
Remuneration	98,696	97,268
Pension contributions	11,400	10,800
Attendance fees	44,308	36,195
Other emoluments	1,543	8,051
Benefits in kind	11,439	9,332
	167,386	161,646

The Chief executive is accruing pension benefits under a money purchase scheme.

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

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

Board 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 Directors were as follows:-

	2015 £	2014 £
Chairman - Peter Darragh (resigned 20 June 2015)	10,102	10,245
Chairman - Robert Edwards (appointed 20 June 2015)	12,167	-
	22,269	10,245

Highest paid director

	2015 £	2014 £
Remuneration	98,696	97,268
Pension	11,400	10,800
Benefits in kind	11,439	9,332
	121,535	117,400

Other directors – fees

	No.	No.
Nil - £5,000	3	5
£5,001 - £10,000	2	1
£10,001 - £15,000	-	1
	5	7

20. Investment land and buildings

	Freehold land and buildings £	Total 2015 £	Total 2014 £
Valuation			
At 1 January 2015	10,615,000	10,615,000	8,285,000
Additions	1,434,923	1,434,923	2,231,149
Surplus on revaluation	90,077	90,077	98,851
At 31 December 2015	12,140,000	12,140,000	10,615,000

The Society's investment land and buildings were professionally valued on 31 December 2015 by Jones Lang LaSalle Limited, Chartered Surveyors, Leeds, on the basis of market value based on existing tenancies.

The historical cost of the revalued investment land and buildings is £9,874,648 (2014: £8,439,725).

21. Shares and other variable yield securities

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

	2015 £	2014 £
Valuation at 1 January 2015	10,620,587	12,466,300
Additions	13,748,746	2,980,587
Disposals	(11,278,751)	(5,225,458)
Realised gains	628,942	284,504
Realised losses	(329,032)	(288,691)
Unrealised gains	400,778	939,605
Unrealised losses	(562,134)	(536,260)
Valuation at 31 December 2015	13,229,136	10,620,587

The historical cost of the shares and other variable yield securities is £12,930,636 (2014: £8,519,188).

22. Debt securities and other fixed income securities

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

	2015	2014
	£	£
Valuation at 1 January 2015	23,014,503	8,558,778
Additions	18,912,023	13,879,417
Disposals	(12,934,743)	(761,801)
Realised gains	27,116	6,397
Realised losses	(193,927)	(2,680)
Unrealised gains	8,872	1,375,446
Unrealised losses	(444,935)	(41,054)
Valuation at 31 December 2015	28,388,909	23,014,503

The historical cost of the debt securities and other fixed income securities is £28,039,390 (2014: £21,693,996).

23. Loans secured by mortgages

	2015	2014
	£	£
Valuation at 1 January 2015	772,288	880,474
Advances	-	99,000
Repayments	(691,608)	(257,576)
Charged interest	42,063	50,390
Valuation at 31 December 2015	122,743	772,288

24. Assets held to cover linked liabilities

During the year the Legal and General UK Indexed Trust units were sold and Royal London UK All Share Tracker units bought. Both are listed on a UK recognised stock exchange.

	2015	2014
	£	£
Valuation at 1 January 2015	46,279,042	46,223,337
Additions	50,472,702	1,275,892
Disposals	(49,088,629)	-
Realised gains	2,066,909	-
Unrealised losses	(3,860,360)	(1,220,187)
Valuation at 31 December 2015	45,869,664	46,279,042

The historical cost of the units is £49,730,012 (2014: £37,188,257).

25. Other debtors

	2015 £	2014 £
H M Revenue & Customs (tax credit on interest)	9,558	4,174
Due from Head Office Branch	1,301	-
	10,859	4,174

26. Tangible fixed assets

	Long leasehold building £	Fixtures, fittings and equipment £	Computer equipment £	Motor vehicle £	Total £
Valuation and cost					
At 1 January 2015	250,000	42,831	94,016	9,415	396,262
Additions	-	786	6,161	-	6,947
Disposals	-	(221)	-	-	(221)
Deficit on revaluation	(25,000)	-	-	-	(25,000)
At 31 December 2015	225,000	43,396	100,177	9,415	377,988
Depreciation					
At 1 January 2015	-	18,182	77,161	7,181	102,524
Charge	-	3,899	12,292	559	16,750
Eliminated on disposal	-	(221)	-	-	(221)
At 31 December 2015	-	21,860	89,453	7,740	119,053
Net book value					
At 1 January 2015	250,000	24,649	16,855	2,234	293,738
At 31 December 2015	225,000	21,536	10,724	1,675	258,935

The Society's long leasehold building was professionally valued on 31 December 2015 by Jones Lang LaSalle Limited, Chartered Surveyors, Leeds, on the basis of market value based on existing tenancy.

The historical cost of the long leasehold building is £399,884 (2014: £399,884). The net book value of the long leasehold building under the historical cost model would have been £225,000 (2014: £249,495).

27. Cash at banks, brokers and in hand

	2015 £	2014 £
Deposit accounts	4,109,976	5,640,120
Current account	588,925	211,937
Cash held by brokers	55,359	6,921
Cash in hand	443	122
	4,754,703	5,859,100

28. Reserves provided for by the rules and tables

	Funeral re-insurance fund £	Management fund £	Guarantee fund £	Total 2015 £	Total 2014 £
At 1 January 2015	422	1,890,868	50,000	1,941,290	1,426,150
Transfer to technical account – long term business	-	(618,516)	-	(618,516)	(512,844)
Allocation of income and expenditure Non-technical account	(412)	(78,186)	-	(78,598)	(59,126)
Management fund transfers					
Long term business provision (note 32)	-	582,351	-	582,351	466,416
Linked liabilities long term business provision (note 33)	-	656,596	-	656,596	620,694
At 31 December 2015	10	2,433,113	50,000	2,483,123	1,941,290

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.

29. Fund for future appropriations

	2015 £	2014 £
Accumulated income fund (note 30)	8,649,788	4,632,377
Reserve fund (note 31)	(6,331,832)	(2,150,513)
	2,317,956	2,481,864

30. Accumulated income fund

	2015 £	2014 £
At 1 January 2015	4,632,377	3,053,288
Transfer from technical account	1,719,447	790,819
Transfer to non-technical account	(30,403)	(40,121)
Allocation to other funds (note 32)	(1,852,952)	(1,255,939)
	4,468,469	2,548,047
Transfer from reserve fund (note 31)	4,181,319	2,084,330
At 31 December 2015	8,649,788	4,632,377

31. Reserve fund

	2015 £	2014 £
At 1 January 2015	(2,150,513)	(66,183)
Transfer to accumulated income fund (note 30)	(4,181,319)	(2,084,330)
At 31 December 2015	(6,331,832)	(2,150,513)

32. Technical provisions – long term business provision – insurance contracts

The actuarial valuation at 31 December 2015 highlighted the following technical liabilities:-

	Central health fund £	Long term savings fund £	Insurance and endowment fund £	Total 2015 £	Total 2014 £
At 1 January 2015	-	1,568,169	38,854,203	40,422,372	22,151,825
Management fund transfers (note 28)	-	-	(582,351)	(582,351)	(466,416)
Accumulated income fund transfers (note 30)	-	40,856	1,812,096	1,852,952	1,255,939
Change in long term business provision	-	(38,466)	6,313,415	6,274,949	17,481,024
At 31 December 2015	-	1,570,559	46,397,363	47,967,922	40,422,372

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 of Steve Dixon Associates LLP, the Society's Actuarial Function Holder and With Profits Actuary. The reserves and technical provisions in the financial statements reflect the results of the valuation.

33. Technical provisions – long term business provision – linked liabilities – investment contracts

The actuarial valuation at 31 December 2015 highlighted the following technical liabilities:-

	Child trust fund stakeholder fund £	Unit linked ISA fund £	Total 2015 £	Total 2014 £
At 1 January 2015	46,198,915	80,127	46,279,042	46,223,337
Deposits	394,339	2,089	396,428	412,860
Withdrawals	(1,570)	(2)	(1,572)	(861)
Transfers to other providers	(142,709)	-	(142,709)	(27,608)
Management fund transfers (note 28)	(655,459)	(1,137)	(656,596)	(620,694)
Change in long term business provision	(4,953)	24	(4,929)	292,008
At 31 December 2015	45,788,563	81,101	45,869,664	46,279,042

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 of Steve Dixon Associates LLP, the Society's Actuarial Function Holder and With Profits Actuary. The reserves and technical provisions in the financial statements reflect the results of the valuation.

34. Other creditors - including taxation, social security and investing branches

	2015 £	2014 £
Bank overdraft	1,301	-
VAT	28,833	14,742
Balances due to investing branches (note 35)	6,159,896	6,296,806
Due to Head Office Branch	-	5,759
	6,190,030	6,317,307

35. Balances due to investing branches at 31 December 2015

Branch number	Branch name	£	Total branch benefit membership
23	Inkerman	372,057	160
25	Trinity	2,177,935	900
30	Hearts of Oak	1,321,830	674
100	Head Office Branch	1,205,969	687
233	All Saints	860,323	579
272	Lord Nelson	221,782	190
		6,159,896	3,190

See note 40 regarding events post Statement of Financial Position.

36. Accruals and deferred income

	2015 £	2014 £
Actuarial fees	25,895	12,422
Commission payable to agents	22,529	47,235
Auditor's remuneration	51,624	45,062
Property valuation	18,818	11,446
Sundry accruals	45,040	46,965
Deferred income	219,941	190,451
	383,847	353,581

37. Leasing commitments

At 31 December 2015 the Society had operating lease commitments for the following years as set out below:-

	Other 2015 £	2014 £
Operating leases which expire:-		
From one to five years	12,604	7,200

38. Related party transactions and controlling party

During the year the Society has conducted business with Board members as disclosed in note 19.

During the year a member of key management personnel had a repayment mortgage with the Society. The Society charged interest of £3,029 (2014: £3,496). At the date of the Statement of Financial Position £64,372 (2014: £86,543) was owed to the Society.

During the year the Society advanced healthcare costs to a member of key management personnel totalling £3,204 (2014: £2,844). During the year £3,204 (2014: £2,844) was repaid to the Society. At the date of the Statement of Financial Position £nil (2014: £nil) was owed to the Society in respect of these costs.

No controlling party can be identified.

39. Transition to FRS 102 and FRS 103

These financial statements are the first that comply with FRS 102 and FRS 103.

The Society's date of transition to FRS 102 and FRS 103 is 1 January 2014.

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 has resulted in no changes in the Society's accounting policies compared to those used under previous UK GAAP however, the Society's administrative office, previously classified within investment land and buildings is now classified as a tangible fixed asset.

Set out below is a summary of the movements between the previously reported amounts for investment land and buildings and tangible fixed assets, showing how the Society's Statement of Financial Position has been adjusted.

Adjusted Statement of Financial Position

	31 December 2014 £	1 January 2014 £
Previously reported total assets	97,795,456	79,492,684
Amendment to investment land and buildings	(250,000)	(250,000)
Amendment to tangible fixed assets	250,000	250,000
Adjusted total assets	97,795,456	79,492,684

The adoption of FRS 103 requires the Society to account for deposits, and withdrawals, relating to investment contracts to be shown as movements within the relevant fund note and not within the Statement of Comprehensive Income as had previously been the case.

The comparative amounts within the Statement of Comprehensive Income - Technical Account have been adjusted to reflect this and a summary of the amendments is shown below.

Adjusted Statement of Comprehensive Income – Technical account

	31 December 2014 £
Previously reported total income	23,969,468
Removal of investment deposits	(412,860)
Adjusted total income	23,556,608
Previously reported total expenditure	23,969,468
Removal of investment withdrawals	(28,469)
Amendment to change in long term business provision	(384,391)
Adjusted total expenditure	23,556,608

40. Events post Statement of Financial Position

Immediately after 31 December 2015 the Society incorporated under the Friendly Societies Act 1992 and all the Society's assets and liabilities were transferred to the newly incorporated entity.

As a consequence of legal advice received in the year under review the Society was advised that its Branches were unlikely to meet the regulatory requirements to continue to undertake insurance business after the advent of Solvency II (1 January 2016).

On 1 January 2016 the assets and liabilities of the Branches were transferred to the Society. However, Lord Nelson Branch retained certain assets, under an approved non-insurance scheme, totalling £7,237.

On 3 February 2016, the Society exchanged contracts for the disposal of its investment property at 12 Union Terrace, Salford. The gross proceeds for the disposal will be £176,000.