



Annual Report and Accounts

2010

Board of management

Mr P J M Smith	<i>Chairman</i>	
Mr A Soulsby	<i>Deputy Chairman</i>	
Mr I Passey	<i>Senior Independent Non-executive Director</i>	
Mrs L Marriott	<i>Non-executive Director</i>	
Mrs C Wellman	<i>Non-executive Director</i>	
Mr P Wyper	<i>Non-executive Director</i>	
Mr S Kelly	<i>Non-executive Director</i>	<i>(appointed 1 October 2010)</i>
Mr P Green	<i>Chief Executive</i>	
Mr O E Pike	<i>Secretary & Director</i>	

Registered office

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Web: healthyinvestment.co.uk

Professional advisors

Actuarial function holder and With profits Actuary	:	Mr S Dixon Steve Dixon Associates
External auditors	:	Walla Leete Chartered Accountants and Registered Auditors
Internal auditors	:	Parkhill (Internal Audit Services)
Principle bankers	:	National Westminster Bank Plc
Investment managers	:	BNP Paribas
Solicitors	:	Hill Dickinson Thring Townsend Lee & Pembertons

Healthy Investment is the trading name of The Rechabite Friendly Society Limited
and is an incorporated Society within the meaning of the Friendly Society Act 1992

Register No 218F

Authorised and Regulated by The Financial Services Authority

FSA Register No109994

A welcome from the Chairman



As Chairman I am delighted to present to you the Annual Report and Accounts of The Rechabite Friendly Society Limited, trading as Healthy Investment.

Formed as part of the temperance movement of the 19th century the Society has a long and distinguished history of which it is proud.

I hope that you will take a few moments to find out more about what the Society has achieved over the last full financial year.

Due to the continued growth of the Society the FSA now class us as a Directive Society. This is a significant achievement in the history of the Society. The Society more than meets the higher capital requirement and additional regulatory regime that comes with being a Directive Society.

At the very heart of everything we do is our desire to be an ethical provider of ethical savings and investment products that meet the needs of all our members.

As a mutual friendly society we have no shareholders, everything we do is for the benefit of members.

Against a backdrop of difficult economic conditions Healthy Investment has performed well.

We have been successful in generating new business, growing our membership and delivering outstanding customer service to all our members.

The investment return our With profits Fund achieved has enabled us to declare regular bonuses that are higher than the interim bonus rates and ones that are competitive and fair.

We have seen more independent financial advisers recommending our products to their clients.

On behalf of the Board I want to thank everyone who has contributed to this success.

In particular I want to thank my colleagues on the Board, our staff for their dedication and skill and the Society's external advisers for their expert contributions.

Finally I want to thank you the member for your commitment to the Society.

Peter J M Smith
Chairman.

**Peter J M Smith (67) - Chairman**

Peter was first elected to the Board in September 1997. As well as a qualified solicitor he is a minister of religion for the Salvation Army where, until his recent retirement, he acted as head of their legal and parliamentary department. Peter was last re-elected to the Board in 2010 and also serves as Director of our subsidiary company The Rechabite Financial Services Limited. He is a Director of The Salvation Army Trustee Company and Trustee and Vice Chair of their Housing Association.

**Alan Soulsby (58) – Deputy Chairman**

Alan is a specialist property solicitor currently employed by the Land Registry. He is a life long member of The Rechabite Friendly Society. Having served on the Board since July 2002 he was last re-elected in 2010. Alan is also a Director and Secretary of Ternvale Properties Limited.

**Ian Passey (65) – Senior Non-executive Director**

Ian was elected to the Board in June 2009 following his retirement from a long career in the Building Society and Friendly Society sectors of financial services. Ian is also a Non-executive Director of Pharmaceutical and General Provident Society Ltd and is a member of the Insurance Committee of the Independent Order of Oddfellows Manchester Unity Friendly Society. He is also a member of the Regulation Committee of the Association of Financial Mutuals.

**Lindsey Marriott (41)**

Following a successful career in marketing with the International Air Transport Association, Lindsey is now concentrating on raising her 3 children, as well as developing her business teaching French to pre-school children. She joined the Board, to share her marketing expertise, in August 2005 and was last re-elected in 2010.

**Camilla Wellman (40)**

Camilla's early career in internal audit lead her to a position as Finance Manager for Reliance Bank. After a complete change in career she is currently teaching history in a Midlands secondary school. Camilla joined the Board in August 2005 and was last re-elected in 2008. She is also a Director of our subsidiary company The Rechabite Financial Services Limited.

**Peter Wyper (51)**

Peter, an Independent Financial Adviser, was first elected in June 2009, bringing his experience and knowledge to the Board. He is also a Director of his IFA practice, Peter Wyper Associates and The Rechabite Financial Services Limited.

**Steven Kelly (54)**

Steven was appointed to the Board in October 2010. He is a qualified actuary with experience of life and With profits business currently working for Co-operative Insurance. He is married with two grown up children.

**Peter Green (43) Chief Executive**

Peter was appointed as Chief Executive of the Society in October 2006, after serving as Chief Executive of a mutual health insurance company specialising in health care cash plans. He has a MBA in small business management and was last re-elected to the Board in 2010.

**Oliver E Pike (59) Director**

Oliver joined Healthy Investment in June 2004 as Finance and Risk Manager. He was subsequently appointed as Society Secretary and a Director in November 2006. He also acts as Secretary for our subsidiary company The Rechabite Financial Services Limited. Oliver was last re-elected to the Board in 2010.

Directors' report

The financial statements and notes to the accounts have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994. Due attention has also been given to Financial Reporting Standards in preparing the accounts. The accounting policies are those stated on page 22 of this Annual Report and Accounts.

Business objectives and activities

The principle activity of the Society is the transaction of long term insurance business.

During 2010 it carried out its activities in accordance with its Memorandum and Rules.

In accordance with the requirements of the Friendly Societies Act 1992 the Board of Management confirms that all the activities carried out during the year by the Society have been carried out within its respective powers.

Business Review

Financial performance

The financial performance of the Society in 2010 was strong. Despite difficult economic conditions for attracting new business, premium income of over £10.4m has been collected. We have achieved this through strong sales performance of our single premium investments, a growing book of regular premium savings plans and participation in the government's Child Trust Fund initiative.

The Society now looks after over £49m of members' money, an increase of £13.6m over the year.

The Board can confirm that the Society has exceeded The Financial Services Authority's required margin of solvency throughout the year.

In line with the business plan of the Society operating expenditure was successfully controlled to a similar level as last year, despite the increased expenditure on actuarial advice needed to plan for the implementation of the FSA's Solvency II requirements.

Investment performance

At the end of 2010 the Society's With profits Fund continued to invest in a mix of UK stocks and shares, global equities, cash deposits, government and commercial bonds and commercial property.

The proportion of each asset class held changes over time based on the view of the fund managers and the needs of the Society.

In accordance with our ethical principles, which have been at the heart of the Society since its formation in 1835, we do not knowingly invest directly in alcohol, arms or tobacco industries.

Early in the year BNP Paribas were appointed as discretionary managers of the equity and fixed interest elements of the fund.

Working within strict parameters laid down by the Board, BNP Paribas have actively managed the asset allocation and stock selection in order to maximise the potential returns, within the risk appetite of the Society.

They have outperformed the benchmarks set by the Board.

The stakeholder Child Trust Funds are unit linked contracts. These funds are managed by Legal & General through their UK All Share Tracker Fund.

Report of the With profits Committee to members

Traditionally the whole of the Board have sat on the With profits Committee. Whilst, as a mutual we have said that everything we do is for our members, the Board recognises that it can strengthen the governance of its With profits Fund by recruiting independent members to sit on the With profits Committee. This recruitment is currently underway.

The Board has produced a report to all With profits policyholders explaining how it has managed the With profits Fund, complied with the Principles and Practices of Financial Management (PPFM) and how the Board have exercised discretion in their decisions. You can obtain a copy of this report from our website or from the Society's office.

You can also obtain a copy of the PPFM, which details how we manage our With profits Fund and calculate the level of bonus we are able to apply to policies, and a customer friendly version of it called 'A guide to how we manage our With profits business', from our office or our website.

Product performance

The majority of our new With profits members are generated through Independent Financial Advisers, who recommend Healthy Investment as being suitable to meet the needs of their clients. We are grateful for their continued support. They tell us that as well as products that perform they choose Healthy Investment for the exceptional service that they and their clients receive.

Sales of our Tax Exempt Savings Plans, Investment Bonds and ISAs have been broadly in line with the business plans of the Society.

Actuarial work has been undertaken during the year in understanding the profitability of each product in order to ensure that all new and existing members are being treated fairly.

Our Stakeholder and Ethical Child Trust Funds have continued to contribute significantly to the growth of the Society. These accounts, designed by the previous government to encourage families and friends to save for their children's future, have proved highly popular. Sadly the government announced that it was reducing the value of vouchers and ceasing to issue them altogether to children born after 3 January 2011.

Membership

We started the year with 48,327 members and have been successful in growing membership of the Society to 61,686 at the end of the year.

The Society has a policy of lapsing members with low value policies where we have no address details, at age 95. This helps to ensure that the stated membership of the Society is accurate.

As a mutual Friendly Society we take membership very seriously and are committed to listening to the views of all our members.

Administrative performance

We have continued to provide all our members, old and new, with a level of service that is second to none. This has only been achieved through the dedication and skill of our staff, who the Board thank for their continued commitment.

We are also grateful to our professional advisers for their contribution throughout 2010.

Whilst we are committed to the highest standards of customer service and to treating all our members fairly we recognise that on occasion things can go wrong. The Society has a formal complaints procedure, a copy of which is always available, which includes the right to refer your complaint to the Financial Ombudsman Service.

Charitable and political donations

The Society does not make any political donations or sponsor any political activities.

The Douglas Carr Memorial Scholarship Scheme, in memory of a previous Chief Executive of the Society made 11 bursaries to members studying in higher education totalling £3,850 during 2010 (£2,850 in 2009).

The temperance fund, created to support charitable initiatives that promote healthy lifestyle choices made a grant of £500 to support the work of the Southwark Salvation Army in their work with the homeless and a grant of £2,000 to Arcade to assist their work in promoting alcohol and drug free living with children.

Subsidiary company performance

The Rechabite Financial Services Limited is a wholly owned subsidiary of the Society which deals with the administration of commission from our third party administrator, Bluefin Insurance Services Limited, who specialise in providing home and motor insurance policies.

Over the years many of our members have arranged insurance through Bluefin for which we receive a commission.

The Directors of the subsidiary, as at 31 December 2010, were Mr P J M Smith (Chairman), Mr P Wyper and Mrs C Wellman.

Shareholders funds at 31 December 2010 were £4,474 compared with £4,090 at the end of 2009.

The future outlook

The Board, as part of their business planning and risk management work, have considered the future prospects for the organisation.

The Board believes that With profits investments have a place in well balanced and well advised investment portfolios.

Our low minimum monthly contribution to our Tax Exempt Savings Plans, which allows everyone to save up to £25 per month, provides a valuable contribution to encouraging people from all sectors of society to save for the future.

The Board believes that, whilst there are many economic and regulatory challenges ahead, through active and effective management, it is confident about the long term prosperity of the Society.

Peter J M Smith
Chairman

10 March 2011

Corporate governance statement

The Annotated Combined Code of corporate governance

The Board is committed to the highest standards of corporate governance and has sought throughout the year to comply with the principles and provisions of The Annotated Combined Code for Mutual Insurers (July 2006). To assist in doing this we have used the guidance published by The Association of Financial Mutuals.

In the following sections of this report we explain how we complied with the requirements of the code.

We are aware that we have not complied with two aspects of the code and report the following:

As the Society is regulated by the Financial Services Authority's Small Firms Division there is not an allocated FSA supervisor. Therefore, there have not been opportunities for the Non-executive Directors to meet with an FSA supervisor.

On his initial appointment as Chairman in 2009, Mr Peter J M Smith had served as a Board member for over 9 years. The Board considered his independence on appointment and reappointment and concluded that despite his length of service he remained independent in character and judgement.

Compliance with the code will be reviewed by Association of Financial Mutuals.

The Board

The Board determines the strategic direction of the Society.

It assists the Executive Directors in preparing a business plan and budgets, which the Board approves.

As well as monitoring performance against the business plan the Board has a formal schedule of matters specifically reserved for it, which can only be amended by the Board itself and is reviewed annually. The Board meets at least 8 times a year and considers a formal agenda of items for discussion and decision.

In October 2010 the Board appointed Steven Kelly as a Non-executive Director. Steven is a qualified actuary, currently working for The Co-operative Insurance, with experience of life and With profits business. The Board now has nine members including the Chief Executive, Society Secretary and 7 independent Non-executive Directors. The Board has a wide mix of skills including actuarial, insurance, financial services and wider legal, business and commercial experience.

The Board brings independent judgement on all issues of strategy, performance, resources and standards of conduct.

Whilst the day to day management of the Society is the responsibility of the Executive Directors, the Board is responsible for establishing the framework of systems and controls, monitoring risk and agreeing the appointment and remuneration of Executive Directors.

Directors

The majority of the Board are independent Non-executive Directors with wide business experience and whose remuneration consists only of fees (annual retainer and daily attendance allowance) approved by members at an Annual General Meeting (AGM) in accordance with the rules.

Together with the focus and experience of the Executive Directors, the Board is able to lead and give direction to the Society without any imbalance that may allow domination in its decision making. Any Director having a concern in this or any other regard may raise it with the Chairman or Deputy Chairman. All Directors have access to the services of the Society Secretary and external advisers.

As well as participating in professional development activities relating to their own careers the Society makes available training and development opportunities to all Directors to match the training needs identified through the Board's self appraisal system.

There is a clear division of responsibility between the Chairman and Chief Executive. The roles of the Chairman, Chief Executive, Society Secretary and other Directors are clearly defined, so as to give no individual unfettered powers of decision.

The Chairman, the Deputy Chairman and the other Non-executive Directors are independent.

In accordance with our rules Camilla Wellman, Ian Passey and Peter Wyper retire by rotation at the 2011 AGM and being eligible, offer themselves for re-election.

Mr Steven Kelly is required to stand election at the 2011 AGM as this is his first AGM following his appointment to the Board.

Mr Peter J M Smith has served on the Board for more than 9 years and is therefore required to stand for re-election annually. The Board has carefully considered his independence as well as his professionalism, expertise and objectivity and are satisfied that he remains independent. The Board has accordingly approved his nomination at their meeting on 9 February 2011.

Meeting attendance (including AGM) in 2010

	Independent	Meetings Attendance	
		Possible	Attended
P J M Smith	Y	10	10
A Soulsby	Y	10	10
L Marriott	Y	10	9
C Wellman	Y	10	4
I Passey	Y	10	8
P Wyper	Y	10	10
S Kelly (appointed 1 October 2010)	Y	3	3
P Green	N	10	10
O E Pike	N	10	10

Committees of the Board

The Board have appointed a number of sub-committees to assist its work.

These include an Audit, Risk and Compliance sub-committee, which was chaired by Peter Smith and a Remuneration and Resources sub-committee chaired by Alan Soulsby. Both these committees are able to meet without the Executive Directors being present.

A Finance and Investment committee and Marketing committee also meet.

All committees of the Board are chaired by and have a majority of, or exclusively comprise, independent Non-executive Directors.

The business of each sub-committee is considered by all the Society's Directors within the main Board meetings.

The Remuneration and Resources sub-committee is responsible for performance review, remuneration, including bonus systems and salary levels and also for the recruitment of senior management.

The Audit, Risk and Compliance sub-committee is responsible for planning and managing the internal and external audit, identifying and managing risk and for monitoring the implementation of compliance initiatives. The sub-committee meets on a regular basis with both internal and external auditors.

During the year the Board undertook a review of its governance. New terms of reference for Risk, Audit, Remuneration and Nomination committees have been agreed. These committees, with smaller numbers of Directors, will meet independently and report to the Board.

Nominations to the Board

During the year the Remuneration and Resources Committee acted as the Nominations Committee and considers and makes recommendations to the Board in respect of all new Board appointments. It is composed of Non-executive Directors only.

It is responsible for proposing the appointment of new directors, considering the composition of the Board, the demands made on the Board and its committees and the requirements of good corporate governance.

During the year one nomination was made, Steven Kelly, who was subsequently appointed on 1 October 2010. Recognising the need for actuarial experience on the Board, details of the vacancy were circulated around The Co-operative Insurance as it was known a number of actuaries were approaching retirement.

Reporting to members

As a mutual society, Healthy Investment is committed to engaging with members and listening to their suggestions and views on a wide range of issues.

We have communicated with all our members through our notice of the Annual General Meeting and our annual bonus statements. The Society's website has been redeveloped to help improve communication with members.

The Society has a members' panel who are regularly asked for their opinions on our products, service and literature. If you would like to get involved in this please register your interest at the office.

Internal controls

The Board has overall responsibility for the Society's system of internal control and for reviewing its effectiveness.

Implementation and maintenance of the internal control systems are the responsibility of the Chief Executive and senior management. During 2010 the performance of the internal control system was reviewed on a regular basis by the Audit, Risk, and Compliance sub-committee.

The Society's control policies and procedures are documented and regularly updated.

The Society has implemented accounting policies, financial reporting processes and internal control procedures designed to safeguard policyholder's investments and the Society's assets. Measures taken include physical controls, segregation of duties where possible in a smaller organisation and reviews by management, the Board and external advisers.

The Combined Code requires Directors to review and report to members on the Society's internal control systems, which include financial, operational and compliance controls and risk management.

The Board concluded that appropriate internal controls had been maintained throughout the year.

Internal audit

In 2010 internal audit was carried out by Clement Keys and Parkhill, who advised the Board and management on the extent to which the systems of internal control were effective, adequate to manage business risk, safeguard the Society's resources and comply with regulatory requirements. It provided objective assurance on risk and control to the Board.

Internal audit's work is determined by an annual needs assessment prepared by Parkhill involving the Chief Executive and senior management. The output from this assessment is summarised in a plan which is approved by the Audit, Risk and Compliance sub-committee. The internal auditors report regularly to the Chief Executive and directly to the Audit, Risk and Compliance sub-committee.

External audit

The external audit is undertaken by Walla Leete, Chartered Accountants and Statutory Auditors.

In addition to this service the firm provides payroll services to the Society and acts as scrutineer at the Annual General Meeting.

The Board has reviewed and discussed these services and concluded that they are not material and have been undertaken objectively and independently.

Risk management

The Board is responsible for the management of risk. It fulfils this duty through the Audit, Risk and Compliance sub-committee which includes all of the Board. Internal Auditors and the Actuary attend meetings of the sub-committee on a regular basis.

Detailed risk assessments are undertaken on a regular basis and a series of documented procedures and controls are in place to ensure all risks are controlled to acceptable levels.

Key risks are monitored through management information and an agreed programme of audit and inspection.

The Board considers the key risks to be investment performance and the proposed changes to the regulatory regime including the FSAs review of the distribution of financial products and Solvency II.

The Board are satisfied that the level of risk to which the Society is exposed is acceptable.

Directors’ report on remuneration

Remuneration and Resources sub-committee

The committee is chaired by Alan Soulsby and comprises all the Non-executive Directors. The committee considers business at every normal Board meeting with additional meetings organised as necessary during the year. Meetings are attended by the Chief Executive and other managers or staff only at the specific request of the committee.

The remuneration strategy and policy for all staff is reviewed annually by the committee. The committee also makes recommendations to the Board each year in respect of the Executive Directors remuneration.

Remuneration policy

The Society’s remuneration policy is designed to support the recruitment, motivation and retention of employees. Remuneration is considered within the context of the financial services and friendly society sectors. The objective is to pay at the relevant market level with a package that is competitive, rewards performance, provides attractive benefits and motivates staff to achieve the Society’s objectives and inspires individuals to reach their full potential.

Remuneration policy for Executive Directors

The remuneration of the Society’s Executive Directors comprises salary together with pensions and other benefits in common with many financial services organisations. No fees are paid to Executive Directors.

Remuneration reflects individuals experience and responsibility. It is based on relevant individual market comparators related to job size, function and sector, as well as individual and company performance.

The Executive Director’s service contracts are available for inspection during normal working hours at the registered office of the Society.

Details of Directors’ remuneration is shown in note 6 on page 24.

Service contracts

Executive Directors

The Chief Executive is employed on a contract with the Society which requires six month notice by either party and includes a performance related bonus element of up to 15 % of basic salary.

The Chief Executive’s contract precludes him for engaging in any other paid employment or business activities for profit. The Chief Executive has received no remuneration for any of his voluntary roles in the charity sector.

The other Executive Director is employed on a contract with the Society with a three months notice period and includes a performance related bonus element of up to 7.5% of basic salary.

Non-executive Directors

Fees for the Non-executive Directors, which take the form of a daily allowance of £190 and an annual retainer, are determined by the Board and approved by members at the Annual General Meeting. There is no other remuneration except where the Society meets authorised expenses of Non-executive Directors incurred on Society business.

Annual retainers	Chairman	£1,500
	Deputy Chairman	£1,250
	Others	£1,000

The above fees are non-pensionable and Non-executive Directors' were in receipt of no other benefits.

Salaries

Salaries are reviewed annually in April for all staff, or at other times if there is a significant change in an individual's responsibilities. The Society aims to pay salaries at the relevant level for the role based on the individual's performance.

Approval

The Directors' Report on remuneration was approved by the Directors on 10 March 2011.

Alan Soulsby

Chairman of the Remuneration and Resources sub-committee

Statement of responsibilities of the committee of management

The committee of management are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Friendly Society Act 1992. They are also responsible for safeguarding the assets of the Society and hence taking responsible steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- there is no relevant audit information (information needed by the Society's auditors in connection with preparing their report) of which the Society's auditors are unaware of;
- the Directors have taken all the steps that they ought to have taken to ensure they are aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Following the incorporation of the Society under the Friendly Societies Act 1992, its rules provide that the board of directors has assumed the responsibilities of the committee of management of the Society under the Friendly Societies Act 1992 in relation to these accounts.

Independent Auditors Report to the members of The Rechabite Friendly Society Limited.

We have audited the financial statements of The Rechabite Friendly Society Limited for the year ended 31 December 2010 which comprise the income and expenditure account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out on page 22. The financial framework that has been applied to their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom generally accepted accounting practice).

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 the auditors' 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 auditors

The committee of management's responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of the committee of management's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it. We also report to you our opinion as to whether the Director's Management Report has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and as to whether the information given therein is consistent with the accounting records and the financial statements.

We also report to you if, in our opinion, the Society has not kept proper accounting records or if we have not received all the information, explanations and access to documents that we require for our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the committee of management report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the committee of management in the preparation of the financial statements and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion on the financial statements

In our opinion the financial statements give a true and fair view of the state of affairs of the Society's and the Group's affairs as at 31 December 2010 and of the income and expenditure of the Society and the Group for the year then ended and have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

In our opinion the Director's Report has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it and the information given therein is consistent with the accounting records and the financial statements for the year.

The information given in the Corporate Governance Statement with respect to internal control and risk management systems in relation to the financial reporting processes is consistent with the financial statements.

Raymond Walla (Senior Statutory Auditor)
for and on behalf of Walla Leete, (Statutory Auditor)

11 March 2011

The Mews
Northlands
Grey Road
Altrincham
WA14 4BT

Actuary Statement in accordance with section 77 of The Friendly Societies Act 1992

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 :-

The Head of the Actuarial Function and the With Profits Actuary was Mr S Dixon of Steve Dixon Associates.

The Society has requested him to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr S Dixon has confirmed that neither he nor his family, nor any of his associates were members of the Society, nor have they any financial or pecuniary interests in the Society, with the exception of fees paid to Steve Dixon Associates, for professional services, which amounted to £94,220 (before VAT) in 2010.

Consolidated Income and Expenditure Account

For the year ended 31 December 2010

	Notes	2010 £	2009 £
Earned premiums	2		
Gross written premiums		10,439,988	11,511,535
Outward reinsurance premiums		(391)	(1,310)
		10,439,597	11,510,225
Investment income			
Land and buildings		36,341	33,875
Other investments		1,312,520	851,514
Net gains (losses) on realisation		1,303,719	(630,541)
		2,652,580	254,848
Commission income		2,900	3,083
Net unrealised gains on investments	17	2,950,308	3,318,824
Income		16,045,385	15,086,980
Claims incurred	3		
Claims paid – gross amount		1,237,072	1,173,176
reinsurers share		-	(11,445)
Net claims		1,237,072	1,161,731
Change in technical provisions			
Long term business provisions	15	4,713,912	4,737,249
Linked liabilities provisions	15	7,900,700	8,084,361
Other technical provisions	16	(17,705)	(16,267)
		12,596,907	12,805,343
Net operating expenses			
Acquisition costs	4	624,157	666,021
Investment expenses		89,689	25,811
Administrative expenses		505,614	518,122
		1,219,460	1,209,954
Tax attributable to long term business	7	69,000	(11,593)
Transfer to (from) funds for future appropriation	8	922,946	(78,455)
Expenditure		16,045,385	15,086,980
Balance on the technical account		-	-

The notes on pages 22 to 30 inclusive form an integral part of these financial statements.

All income and expenditure relates to continuing operations.

There were no recognised gains or losses in 2010 or 2009 other than those included in the income and expenditure account.

Consolidated Balance Sheet

As at 31 December 2010

	Notes	2010 £	2009 £
Assets			
Investments			
Land and buildings	9	1,084,510	760,000
Other financial investments	9	26,065,784	20,857,832
		27,150,294	21,617,832
Assets held to cover linked liabilities	10	21,852,972	13,959,996
Debtors			
Debtors arising from direct insurance operations		29,338	19,091
Corporation tax		-	11,596
Other debtors		2,219	374
		31,557	31,061
Other assets			
Tangible assets	11	22,078	41,465
Cash at bank and in hand		98,137	94,291
		120,215	135,756
Prepayments and accrued income			
Accrued interest and rent		213,528	24,698
Deferred acquisition costs		108,041	101,251
Other pre-payments and deferred income		-	-
		321,569	125,949
Total Assets		49,476,607	35,870,594
Liabilities			
Funds for future appropriation	8	3,486,814	2,563,868
Technical provisions			
Long term business provision	15	23,399,704	18,685,792
Other technical provisions	16	401,044	418,749
		23,800,748	19,104,541
Technical provision for linked liabilities	15	21,851,114	13,950,414
Provision for liabilities and charges	18	69,000	-
Creditors			
Creditors, including taxation and social security		223,840	208,380
Accruals and deferred income		45,091	43,391
Total Liabilities		49,476,607	35,870,594

The notes on pages 22 to 30 inclusive form an integral part of these financial statements.

Approved by the Directors on 10 March 2011.

Peter J M Smith
Chairman

Alan Soulsby
Deputy Chairman

Peter Green
Chief Executive

Income and Expenditure Account

For the year ended 31 December 2010

	Notes	2010 £	2009 £
Earned Premiums	2		
Gross written premiums		10,439,988	11,511,535
Outward reinsurance premiums		(391)	(1,310)
		10,439,597	11,510,225
Investment Income			
Land and buildings		36,341	33,875
Other investments		1,312,517	851,509
Net gains / (losses) on realisation		1,303,719	(630,541)
		2,652,577	254,843
Net unrealised gains on investments	17	2,950,308	3,318,824
Income		16,042,482	15,083,892
Claims incurred	3		
Claims paid – gross amount		1,237,072	1,173,176
reinsurers share		-	(11,445)
Net claims		1,237,072	1,161,731
Change in technical provisions			
Long term business provisions	15	4,713,912	4,737,249
Linked liabilities provisions	15	7,900,700	8,084,361
Other technical provisions	16	(17,705)	(16,267)
		12,596,907	12,805,343
Net operating expenses			
Acquisition costs	4	624,157	666,021
Investment expenses		89,689	25,811
Administrative expenses		503,095	514,766
		1,216,941	1,206,598
Tax attributable (to) long term business	7	69,000	(11,593)
Transfer (from) funds for future appropriation		922,562	(78,187)
Expenditure		16,042,482	15,083,892
Balance on the technical account		-	-

The notes on pages 22 to 30 inclusive form an integral part of these financial statements.

All income and expenditure relates to continuing operations.

There were no recognised gains or losses in 2010 or 2009 other than those included in the income and expenditure account.

Balance Sheet

As at 31 December 2010

	Notes	2010 £	2009 £
Assets			
Investments			
Land and buildings	9	1,084,510	760,000
Other financial investments	9	26,066,784	20,858,832
		27,151,294	21,618,832
Assets held to cover linked liabilities	10	21,852,972	13,959,996
Debtors			
Debtors arising from direct insurance operations		29,338	19,091
Corporation tax		-	11,596
Other debtors		2,005	3,114
		31,343	33,801
Other assets			
Tangible assets	11	22,078	41,465
Cash at bank and in hand		93,747	87,108
		115,825	128,573
Prepayments and accrued income			
Accrued interest and rent		213,528	24,698
Deferred acquisition costs		108,041	101,251
Other pre-payments and deferred income		-	-
		321,569	125,949
Total Assets		49,473,003	35,867,151
Liabilities			
Funds for future appropriation		3,483,340	2,560,778
Technical provisions			
Long term business provision	15	23,399,704	18,685,792
Other technical provisions	16	401,044	418,749
		23,800,748	19,104,541
Technical provision for linked liabilities	15	21,851,114	13,950,414
Provision for liabilities	18	69,000	-
Creditors			
Creditors, including taxation and social security		223,710	208,027
Accruals and deferred income		45,091	43,391
Total Liabilities		49,473,003	35,867,151

The notes on pages 22 to 30 inclusive form an integral part of these financial statements.

Approved by the Directors on 10 March 2011

Peter J M Smith
Chairman

Alan Soulsby
Deputy Chairman

Peter Green
Chief Executive

Notes to the accounts for the year ended 31 December 2010

1. Accounting policies

Basis of accounting

The accounts have been prepared in accordance with the Friendly Societies Act 1992, the Friendly Societies (Accounts and Related Provisions) Regulations 1994 and with applicable accounting standards.

Premium income

Premium income is included in the income and expenditure account on the basis of premiums due from members during the year. Re-insurance premiums are included when they are payable.

Technical provisions

The technical provisions are determined by the Society's Actuarial Function and With Profits Actuary following the annual investigation of the Society's long-term business and linked liabilities related assets.

Taxation attributable to long term business

Taxation is provided at current rates in respect of the taxable element of the Society's business. As a Friendly Society the Society is subject to tax on only part of its life and endowment business, on realised gains on the disposal of its investments and in respect of the increase / decrease in the value of its listed fixed interest securities.

Deferred taxation

Provision is made using the liability method for taxation deferred in respect of all material timing differences only to the extent that, in the opinion of the Directors there is a reasonable probability that the liability will arise in the foreseeable future.

Deferral of acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the writing of insurance contracts. Deferred acquisition costs comprise the costs of acquiring new insurance contracts, which are incurred during a financial period and are deferred to the extent that they are recoverable out of future revenue margins.

Claims

Claims are included in the income and expenditure account on the following basis: Maturities when they become due. Deaths when notified to the Society. Surrenders are accounted for when paid. All other claims are accounted for when notified to the Society.

Investment income

Investment income includes dividends, interest, rents and realised gains and losses on investments, accounted for on an accruals basis.

Investments

These are shown in the balance sheet at the following values:

Land and buildings	-	at the last independent professional valuation (triannually)
Quoted investments	-	at the mid-market value at the accounting date
Other investments	-	at cost

Depreciation

No depreciation is provided on the investment properties as they are included in the accounts at market value. Tangible assets are depreciated as follows:

Furniture & equipment	-	25% on cost
Computer software	-	25% on cost, when fully brought in to use
Motor vehicles	-	25% on cost

2. Premium analysis

All premiums are in respect of participating policies and are accounted for when due.

Segmental analysis

	2010	2009
	£	£
Single	3,256,848	4,986,481
Periodic	1,623,296	1,227,880
	4,880,144	6,214,361
Child Trust Fund	5,559,844	5,297,174
Gross premiums	10,439,988	11,511,535
Less: Reinsurance	(391)	(1,310)
Net premiums	10,439,597	11,510,225

3. Claims analysis

Fund analysis

	2010	2009
	£	£
Order insurance	508,820	489,353
Regional endowments	11,869	13,202
Adult, sick & death	28,534	36,452
Investment bonds	590,389	570,264
Medical benefits	14,388	13,310
Profit sharing	3,555	4,547
Surplus contributions	8,155	4,223
	1,165,710	1,131,351
Child Trust Fund	71,362	41,825
Gross paid claims	1,237,072	1,173,176
Less: Reinsurance	-	(11,445)
Net paid claims	1,237,072	1,161,731

4. Net operating expenses

Acquisition expenses

	2010	2009
	£	£
Acquisition costs incurred during the year	630,947	693,853
Increase in deferred acquisition costs	(6,790)	(27,832)
Total	624,157	666,021

Acquisition costs have been deferred only to the extent that they are recoverable out of future revenue margins.

Included in the operating expenses are:

Auditors remuneration – audit services	31,083	22,523
Auditors remuneration – non audit services	1,528	1,035
Actuarial and valuation expenses	110,865	52,873
Legal fees	3,110	9,761
Other professional fees	30,938	34,121
Depreciation of fixed assets	19,386	33,687
(Profit) on disposal of fixed assets	-	(1,848)
Operating leases	3,503	7,254

5. Staff costs

	2010	2009
	£	£
Salaries and wages	322,787	343,013
Social security costs	33,146	33,402
Pension costs	20,405	21,468
Total	376,338	397,883
Average number of employees:		
Executives	2	2
Sales & marketing	3	2
Administration	4	4
Total	9	8

6. Board of management emoluments

	Salary / Fees	Pension	Other Benefits	2010	2009
				£	£
<i>Non-executive Directors</i>					
Smith, P J M	4,920			4,920	4,415
Soulsby, A	3,340			3,340	2,835
Marriott, L	3,755			3,755	2,900
Wellman, C	1,950			1,950	2,330
Passey, I	2,520			2,520	3,470
Wyper, P	3,090			3,090	3,090
~ Kelly, S	1,640			1,640	-
* Cain, C A				-	2,900
# Schofield, B M				-	2,437
<i>Executive Directors</i>					
Green, P	77,435	9,679	3,651	90,765	97,935
Pike, O E	52,555	5,669	34	58,258	60,960
				170,238	183,272

Other benefits are for bonuses, additional remuneration and benefits.

* Retired 20 June 2009.

Deceased 2 December 2009

~ Appointed 1 October 2010

The aggregate amount of past committee members pension is £ 10,542 (2009: £11,932)

The Chief Executive is employed on a 6 month period of notice by either party and the other Executive Director is on a 3 month period of notice.

7. Taxation

	2010	2009
	£	£
Corporation tax for the year at 21% - current year	-	-
prior years	-	(11,593)
Deferred taxation	69,000	-
Total	69,000	(11,593)

See note 18 for an analysis of deferred taxation.

8. Fund for future appropriations

	2010	2009
	£	£
Balance at 1 January	2,563,868	2,642,323
Transfer to (from) technical account	922,946	(78,455)
Total	3,486,814	2,563,868

9. Investments

	2010	2009
	£	£
Land and buildings		
Leasehold occupied by the Society	360,000	360,000
Freehold occupied by the Society	-	-
Other investment properties	724,510	400,000
	1,084,510	760,000

Land and buildings were valued in 2009. All properties were valued by chartered surveyors at open market value for existing use. The valuations were by McNeill Maguire & McCreath, Edinburgh and Tom Myerscough & Co, Manchester. The next valuation is due in 2012.

Other financial investments:

Listed share and variable yield securities	10,230,008	5,759,750
Listed fixed interest securities	15,431,749	14,703,969
Deposit with credit institutions	404,027	394,113

Total	27,150,294	21,617,832
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Other financial instruments include £Nil (2009 - £60k) position in respect of a derivative contract. This related to a futures option on a 10 year gilt, which was held within a bond collective investment. The Society's share in the market value of the gilt within the future option at 31 December 2009 was £1,900k and the agreed sale price in March 2010 was £1,960k.

10. Assets held to cover linked liabilities

These assets are shares, other variable yield securities and unit trusts.

11. Tangible Assets

	Furniture & Equipment	Computer Software	Motor Vehicles	Total
	£	£	£	£
Cost				
At 1 January 2010	107,200	81,448	17,221	205,869
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2010	107,200	81,448	17,221	205,869
Depreciation				
At 1 January 2010	87,355	76,690	359	164,404
For the period	12,186	2,896	4,305	19,387
Disposals	-	-	-	-
At 31 December 2010	99,541	79,586	4,664	183,791
Net Book Value				
At 31 December 2009	19,845	4,758	16,862	41,465
At 31 December 2010	7,659	1,862	12,557	22,078

12. Capital commitments

There were no capital commitments as at 31 December 2010 or 2009.

13. Director's loans and transactions

There were four transaction involving income received by persons connected with Directors from the Society in the sum of £1,724 (2009: £15,307).

Details of loans, transactions and arrangements with Directors and their connected persons are included in a register maintained, under Section 69 of the Building Societies Act 1986 (as applied to Friendly Societies by part II of Schedule 11 to the Friendly Societies Act), at the Society's principal office.

The register is available for inspection during normal business hours.

14. Subsidiary company

Directly held subsidiary business

	Nature of Business	Class of Shares	Society's Interest %
The Rechabite Financial Services Limited	General insurance administrator	Ordinary	100

15. Technical provisions

	Long Term Business £	Linked Liabilities £
Funds at 1 January	18,685,792	13,950,414
Transfer to technical account	4,713,912	7,900,700
Funds at 31 December	23,399,704	21,851,114

The long-term business provision has been calculated by the actuarial function on an annual basis and movement between years is reflected in the technical account.

The principle assumptions underlying the calculations were:

<i>Class of business</i>	<i>Method</i>	<i>Interest Rate</i>	<i>Allowance for expenses</i>	<i>Mortality</i>	<i>Morbidity</i>
With profit endowment and whole of life	Zillmerised net premium	1.75 - 2.25%	15% of gross premium / £17.88pa if single or PUP	100% AM/F92 ult	N/A
With profit pure endowment	Zillmerised net premium	1.75 - 2.25%	15% of gross premium / £17.88pa if single or PUP	100% AM/F92 ult	N/A
Mortgage protection	Zillmerised net premium	1.75 - 2.25%	15% of gross premium / £17.88pa if single or PUP	100% AM/F92 ult	N/A
Investment bonds and ISAs	Accumulating with profits and expenses reserve	1.75 - 2.25%	£17.88 pa	100% AM/F92 ult	N/A
Adult Sick & Death	Prevalence method	2.25%	£17.88 pa	100% AM92 ult	100% Manchester Sickness 1893-97 occupational group A,H, J rated down 5 years
Child Trust Fund	Unit linked with expense reserve calculation	2.25%	£1.62 pa plus 0.2% of unit linked funds plus fund manager charges	100% AM92 ult	N/A

The valuation interest rate makes a margin of 0.7% per annum for expenses. All percentage of premium allowances have been tested against £17.88 per annum plus 3% of premium as well. Where applicable, the Zillmer adjustment is 3.0% of sum assured.

16. Other technical provisions

	2010 £	2009 £
Funds at 1 January	418,749	411,998
Increase in fund	-	23,018
Transfer to technical account	(17,705)	(16,267)
Funds at 31 December	401,044	418,749

Other technical provisions are made in respect of the Douglas Carr Memorial Scholarship Scheme, Supplementary Pension Fund, the Surplus Contribution Fund and the Temperance Fund.

17. Gains / (losses) on investments

	2010	2009
	£	£
Net unrealised (losses) / gains written back on realisation	(743,521)	154,002
Net unrealised gains on investments:-		
With profits	1,549,854	491,229
Unit linked	2,143,975	2,673,593
	2,950,308	3,318,824

18. Provision for liabilities and charges

Provision for liabilities is in respect of deferred taxation.

	2010	2009
	£	£
As at 1 January 2010	-	-
Income and expenditure account	69,000	-
As at 31 December 2010	69,000	-

The potential to deferred tax is made up as follows:

Capital allowances	(1,894)	(1,202)
Deferred acquisition costs	(4,625)	(30,509)
Unrealised gains on investments	75,519	31,711
	69,000	-

19. Contingent liability

Pension

The Society participates in The Pension Trust's Growth Plan (the Plan). The Plan is funded and is not contracted out of the state scheme. The Growth Plan is a multi-employer pension plan.

Contributions paid into the Growth Plan up to and including September 2001 were converted to defined amounts of pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Growth Plan or by the purchase of an annuity.

The rules of the Growth Plan allow for the declaration of bonuses and / or investment credits if this is within the financial capacity of the Plan assessed on a prudent basis. Bonuses / investment credits are not guaranteed and are declared at the discretion of the Plan's Trustee.

The Trustees commission an actuarial valuation of the Growth Plan every 3 years. The purpose of the valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Assets values are calculated by reference to market levels. Accrued past service levels are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The rules of the Growth Plan give the Trustee the power to require employers to pay additional contributions in order to ensure that the statutory funding objective under the Pension Act 2004 is met. The statutory funding objective is that a pension scheme should have sufficient assets to meet its past service liabilities, known as technical provisions.

If the actuarial valuation reveals a deficit, the Trustee will agree a recovery plan to eliminate the deficit over a specific period of time either by way of additional contributions from the employers, investment returns or a combination of these.

The rules of the Growth Plan state that the proportion of obligatory contributions to be borne by the Member and the Member's Employer shall be determined by agreement between them. Such agreement shall require the Employer to pay part of such contributions and may provide that the Employer shall pay the whole of them.

The Society paid contributions at the rate of 6.25 or 12.5% during the accounting period. Members paid contributions at the rate on 2.5 or 5.0% during the accounting period.

As at the balance sheet date there were 3 active members of the Plan employed by The Society. The Society continues to offer membership of the Plan to its employees.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Growth Plan is a multi-employer scheme where the scheme assets are co-mingled for investment purposes and the benefits are paid from the total scheme assets. Accordingly, due to the nature of the plan, the accounting charge for the period under FRS 17 represents the employer contribution payable.

The valuation results at 30 September 2008 have now been completed and have been formalised. The valuation of the Scheme was performed by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £742 million and the Plan's technical provisions (i.e. past service liabilities) were £771 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £29 million, equivalent to a funding level of 96%.

The financial assumptions underlying the valuation as at 30 September 2008 were as follows:

	% per annum
Investment return pre retirement	7.6
Investment return post retirement	
Active/deferreds	5.1
Pensioners	5.6
Bonuses on accrued benefits	0.0
Rate of price inflation	3.2

In determining the investment return assumptions the Trustees considered advice from the Scheme Actuary relating to the probability of achieving particular levels of investment return. The Trustees have incorporated an element of prudence into the pre and post retirement investment return assumptions: such that there is a 60% expectation the return will be in excess of that assumed and a 40% chance that the return will be lower than that assumed over the next 10 years.

The Scheme Actuary has prepared a funding position updated as at 30 September 2009. The market value of the Plan assets at that date was £765 million and the Plan's Technical Provisions (i.e. past service liabilities) were £820 million. The valuation therefore revealed a shortfall of £55 million, equivalent to a funding level of 93%.

If an actuarial assessment reveals a shortfall of assets compared to liabilities the Trustees must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

In view of the small funding deficit and the level of prudence implicit in the assumptions used to calculate the Plan's liabilities the Trustees have prepared a recovery plan on the basis that no additional contributions from participating employers are required at this point in time. In reaching this decision the Trustees have taken actuarial advice and have been advised that the shortfall of £29 million (as at 30 September 2008) will be cleared within 10 years if the investment returns from the assets are in line with the "best estimate" assumptions. "Best estimate" means that there is a 50% expectation that the return will be in excess of that assumed over the next 10 years. These "best estimate" assumptions are 8.4% per annum pre retirement and 5.1% per annum post retirement (actives and deferreds) and 5.6 per annum post retirement (pensioners).

A copy of the recovery plan must be sent to the Pension Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it is believes that the actuarial valuation assumptions and / or recovery plan are inappropriate. For example the regulator could require that the Trustees strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). A copy of the recovery plan in respect of the September 2008 valuation was forwarded to the Pension Regulator on 18 December 2009.

The next full actuarial valuation will be carried out as at 30 September 2011.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustees of the Plan. The Trustees' current policy is that it only applies to employers with pre October 2001 liabilities in the Plan. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Plan. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Plan's pre October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre October 2001 liabilities (relating to employment with all the currently participating employers). The leaving

employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Plan liabilities, Plan investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The Society has been notified by the Pensions Trust of the estimated debt on withdrawal as at 30 September 2009 to be £406,316.

Letter of solvency support

The Society is in advanced negotiations with another Friendly Society with a view to them transferring their engagements into Healthy Investment.

The Society has provided a letter of support to enable them to continue to write new business whilst the transfer is concluded. A maximum facility of £250,000 is available.

20. Capital statement

The valuation was carried out in conformity with INSPRU 1.2 (Mathematical Reserves) and so limitations apply to many of the key assumptions used.

As the Society has no shareholders, all capital belongs to its members.

	2010	2009
	£000s	£000s
Funds for future appropriations	3,483	2,561
Shareholder funds		
- Adjustment on to regulatory basis		
Adjustment to asset value	(151)	(198)
Assets admissibility rules	-	-
Resilience reserve	-	(340)
Accrual / deferred income	-	-
Total available capital resources	3,332	2,023

The largest holding of assets is in UK bonds and changing market conditions can affect bond values and future returns. Each bond also has its own individual credit risk. One third of the fund is held in UK equities and these are sensitive to market movements in general.

The valuation interest rate is determined by the overall return achieved on the assets held by the fund. For the fixed interest stocks, the yield is reduced by an appropriate factor based on the perceived risk of each individual bond. For property rental income, the yield is reduced by a risk factor of 2% p.a. An adjustment is made to the yield on equities of 0.5% p.a. The overall yield figure is then adjusted downwards by multiplying by 97.5% to allow for more general risk.

In order to ascertain the exposure to market risk, the Actuarial Function Holder carried out a resilience test as per INSPRU3.1.9. This involved carrying out 2 tests; an equity fall of 10% together with a 10% fall in earnings combined with either a rise in bond yields of 0.8% or a fall in bond yields of 0.8%. It was the first scenario that produced the greater change, and this was modelled in the valuation by increasing the valuation interest rate by 0.75%. The fall in asset value resulted in a resilience reserve of £39,086.

The expense margins on the policies were changed to reflect the higher levels of inflation experienced over the year. This meant that 3% of all premiums received was used, together with a per policy allowance for non-CTF policies of £17.88 p.a. (with future increases) and 0.7% p.a. of funds under management. The 0.7% is an additional margin between the valuation rate of interest and the anticipated rate of future investment return. A net premium test for regular premium conventional insurances was then carried out to ensure the 85% restriction provided sufficient margin. For CTF policies, £1.62 per policy plus 0.2% of the unit linked fund plus the fund managers' charges was allowed for.

The total expenses incurred by the fund were analysed between those that would occur if the fund was closed to new business twelve months after the valuation date and the remainder. The closed fund expenses would be covered by the above expense margins. However, a reserve of £521,000 is required for the costs of changing to a closed fund and to cover the remaining expenses for the twelve months before closing the

fund. The cost required to cover on going expense during the run off due to increased expenses on a pension scheme deficit has been allowed for in the calculation of the closed fund expense reserves.

A mortality investigation was carried out during 2010. The mortality investigation used data from the preceding 5 financial years whilst for the morbidity investigation data was available from the previous 3 years. The mortality tables used were AM92 ultimate / AF92 ultimate for insurance policies and 95% of IMA92C20 / IFA92C20 for pensions policies. By comparing the actual number of recorded deaths with the expected number of deaths based on these tables, the conclusion was that this is likely to allow for an adequate margin over actual experience.

A morbidity investigation was carried out in 2006. The results of the morbidity investigation (based on the Manchester Unity AHJ table with a 5-year reduction) gave a similar result. This is likely to allow for an adequate margin.

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

The Principles and Practices of Financial Management (PPFM) for Healthy Investment allow the Board unlimited movements on bonus rates. This means that, if market conditions deteriorate, management have the discretion to avoid paying any bonuses until things improve.

The capital management policies and objectives and the Society's approach to managing risks are covered in the PPFM, which is available on request from the Society.

There has been an increase in the available capital resources from December 2009 to December 2010. An analysis of the change is set out below:

	£000s
Available capital resources 31 December 2009	2,023
Economic experience	2,166
Change in valuation method	(162)
New business strain	265
Cost of bonus	(859)
Change in expense reserve	114
Mortality & Other	(215)
Available capital resources 31 December 2010	<u>3,332</u>

21. Pension Contribution Creditors

As 31 December 2010 £7,942 (2009: £9,613) contributions had not been paid over.



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