



**Annual Report and Accounts**

**2009**

## **Board of management**

Mr C A Cain	<i>Chairman</i>	(retired 20 June 2009)
Mr P J M Smith	<i>Chairman</i> <i>Deputy Chairman</i>	(from 20 June 2009) (to 20 June 2009)
Mr A Soulsby	<i>Deputy Chairman</i>	(from 20 June 2009)
Mrs B M Schofield	<i>Senior Independent Non-executive Director</i>	(deceased 1 December 2009)
Mrs L Marriott	<i>Non-executive Director</i>	
Mrs C Wellman	<i>Non-executive Director</i>	
Mr I Passey	<i>Senior Independent Non-executive Director</i>	(from 18 February 2010)
Mr P Wyper	<i>Non-executive Director</i>	
Mr P Green	<i>Chief Executive</i>	
Mr O E Pike	<i>Secretary &amp; Director</i>	

## **Registered office**

2 The Old Court House	Tel: 0161 762 5790
Tenterden Street	Fax: 0161 764 3557
Bury	E-mail: <a href="mailto:enquiries@healthyinvestment.co.uk">enquiries@healthyinvestment.co.uk</a>
Greater Manchester	Web: <a href="http://healthyinvestment.co.uk">healthyinvestment.co.uk</a>
BL9 0AL	

## **Professional advisors**

Actuarial function holder and with profits actuary	:	Mr S Dixon Steve Dixon Associates
External auditors	:	Walla Leete Chartered Accountants and Statutory Auditors
Internal auditors	:	Clement Keys Chartered Accountants
Principle bankers	:	National Westminster Bank Plc
Investment managers	:	Sarasin & Partners LLP
Solicitors	:	Foot Anstey

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



In this my first year as Chairman I am delighted to present to you the Annual Report and Accounts for The Rechabite Friendly Society Limited, trading as Healthy Investment.

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

2009 has been a year of both challenge and success. I hope that you will take a few moments to read a little more about what your Society has achieved during the year.

At our Annual General Meeting in June, Charles Cain retired as Chairman and Non-executive Director. Having served on the Board for nearly 10 years he has made a remarkable contribution to the Society. Charles receives all of the Boards appreciation and our best wishes for the future.

Sadly in December Beryl Schofield our Senior Independent Non-executive Director died suddenly. Beryl first joined the Board as Regional Manager for Yorkshire and following centralisation rejoined the Board as a Non-executive Director. Beryl had a huge knowledge of the Society and the Friendly Society movement and she will be very sadly missed by her colleagues.

Economically 2009 was a difficult year with continued recession, stock market volatility, uncertainty in the bond market and low interest rates. This has affected the return our investments have generated which is reflected in the financial performance of the Society this year.

Despite these difficult trading conditions we have been very successful in generating significant levels of new investment business and growing our membership.

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

The Society has successfully delivered outstanding customer service to all its members.

On behalf of the Board I want to thank everyone who has contributed to the growth, development and success of the Society during the year. In particular I want to thank our staff for their dedication and skill and the Society's external advisers for their expertise.

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.

Thank you for your commitment to the Society.

Peter J M Smith  
Chairman.



**Peter J M Smith (66) - Chairman**

Peter has been on the Board since September 1997. As well as a qualified solicitor he is a minister of religion. Having recently retired from serving in the Salvation Army as head of their legal and parliamentary department, Peter has continued to advise the Army on UK legal issues. He was last re-elected to the Board in 2009 and also serves as Director of our subsidiary company The Rechabite Financial Services Limited and as a Director of The Salvation Army Trustee Company and Trustee and Vice Chair of their Housing Association.



**Alan Soulsby (57) – Deputy Chairman**

Alan, a specialist property solicitor, is a life long member of The Rechabite Friendly Society. He is currently employed by the Land Registry. Having served on the Board since July 2002 he was last re-elected in 2009. Alan is also a Director and Secretary of Ternvale Properties Limited.



**Ian Passey (64) – Senior Non-executive Director**

After retiring from a long career in the Building Society and Friendly Society sectors of financial services, Ian was elected to the Board in June 2009 in order to share his expertise. 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.



**Lindsey Marriott (40)**

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 in August 2005 and was last re-elected in 2007.



**Camilla Wellman (39)**

Camilla is currently teaching history in a Midlands secondary school. This follows a complete change in career from her work as Finance Manager of Reliance Bank Limited. 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 (50)**

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.



**Peter Green (42) 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 was last re-elected to the Board in 2007. Peter also serves as a Board member of the Association of Friendly Societies.



**Oliver E Pike (58) Director**

Oliver joined Healthy Investment in June 2004 as Finance and Risk Manager. He was subsequently appointed as Company 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 2007.

## **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 2009 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**

We are delighted to report that we have again been successful in growing premium income significantly, from £7.9m in 2008 to £11.5m in 2009. 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 £35m of members' money, an increase of £12m over the year.

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

The growth in new business resulted in commission paid to Independent Financial Advisers increasing. In line with the business plan of the Society, operating expenditure was successfully reduced by £53,000.

#### **Investment performance**

At the end of 2009 the Society's with profits fund continued to invest in a mix of UK stocks and shares, global equities, fixed interest 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.

Throughout the year we used Sarasin & Partners LLP, a London based investment house, to manage our portfolio of stocks and shares and bonds. The Board continually monitors and challenges their discretionary management of these investments.

2009 was a difficult year for investments with a volatile stock market, low interest rates and uncertainty with government bonds. These particularly challenging conditions required excellent decision making and ultra quick responses. While we work closely with our fund managers to

provide the most profitable investment strategy for our Members, we believe that on some occasions during the year opportunities were missed.

The Society is confident that it has addressed these issues in order to maximise the potential for future investment returns through active and prudent management of the fund.

In 2010 the Board have taken the decision to appoint BNP Paribas Wealth Management to act as discretionary fund managers.

Despite these challenging investment conditions we are still able to make a bonus declaration on all our with profits investments.

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**

The Board fulfils the role and responsibilities of the with profits committee, we do not have a separate sub committee.

The Board has produced a document called its Principles and Practices of Financial Management which details how it manages its with profits fund and calculates the level of bonus it is able to apply to policies.

The document has been reviewed throughout the year and the Board is able to confirm to members that it has abided by the principles of the PPFM in the management of the with profits fund and the calculation of bonuses.

A copy of the PPFM and a customer friendly version of it called 'A guide to how we manage our with profits business', is available from the Society's offices or from our web site.

### **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 all grown during the year.

Our Stakeholder and Ethical Child Trust Funds have continued to contribute significantly to the growth of the Society. These accounts, designed by the government to encourage families and friends to save for their children's future have proved highly popular. An initial contribution of either £250 or £500 is made by the government with the opportunity for families and friends to contribute up to another £1,200 every year.

### **Membership**

We started the year with 37,302 members and have been successful in growing membership of the Society to 48,327 at the end of the year.

The Society has a policy of lapsing members with low value policies for who 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. We are committed to communicating with all our with profits policyholders at least 3 times during the year.

### **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 2009.

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 bursaries to members studying in higher education of £2,850 during 2009 (£2,100 in 2008).

The first donation from our temperance fund, created to support charitable initiatives that promote healthy lifestyle choices, was made. A grant of £1,250 was made to enable Morley Camping Ventures to take a group of disadvantaged young people on an adventure holiday.

### **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 2009, were Mr P J M Smith (Chairman), Mr P Wyper and Mrs C Wellman.

Shareholders funds at 31 December 2009 were £4,090 compared with £4,358 at the end of 2008.

### **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 economic difficulties faced by the country have helped to foster a new culture of saving and the Society is well placed to meet this demand.

Through the Child Trust Fund we have the opportunity to demonstrate to a new generation of members that we can provide quality, ethical products that perform.

The Board believes that, whilst there are many political 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

18 March 2010

# **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 Mutual Insurers and The Association of Friendly Societies.

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, Mr Peter J M Smith had served as a Board member for over 9 years. The Board considered his independence and conclude 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.

The Board currently has eight members: six independent Non-executive Directors and two Executive Directors. The Board has a wide mix of skills including insurance, financial services and wider legal, business and commercial experience.

Either directly, or through the operation of committees of Directors, constituted with appropriate terms of reference and delegated authority, the Board brings an 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.

Coupled 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 company 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 Boards 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.

Mrs B Schofield, one of our longest serving Board members and Senior Independent Non-executive Director died during the course of the year. The Board have subsequently appointed Mr I Passey to act as Senior Independent Non-executive Director.

In accordance with our rules Mrs L Marriott, Mr P Green and Mr O E Pike retire by rotation at the 2010 AGM and being eligible, offer themselves for re-election.

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 18 February 2010.

## Meeting attendance in 2009

	Independent	Meetings Attendance	
		Possible	Attended
C A Cain (retired 20 June)	Y	5	5
P J M Smith	Y	10	10
A Soulsby	Y	10	9
B M Schofield (deceased 1 December)	Y	9	8
L Marriott	Y	10	9
C Wellman	Y	10	6
I Passey	Y	10	10
P Wyper	Y	10	10
P Green	N	10	10
O E Pike	N	10	10
S Dixon (Actuary)	-	9	8

## 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 Mrs B Schofield and a Remuneration and Resources sub-committee chaired until his appointment as

Chairman by Mr P J M Smith and since June by Mr A 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.

### **Nominations to the Board**

The Remuneration and Resources Committee acts 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.

No nominations to the Board were considered during the year.

### **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 'Members Matters' newsletter, our notice of the Annual General Meeting and our bonus statements.

The Society has a member's panel who are regularly asked for their opinions on our products, service and literature.

### **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 2009 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**

Throughout 2009 internal audit has been carried out by an external firm, Clement Keys, who advise the Board and management on the extent to which the systems of internal control are effective, adequate to manage business risk, safeguard the Society's resources and comply with regulatory requirements. It provides objective assurance on risk and control to the Board.

Internal audit's work is determined by an annual needs assessment prepared by Clement Keys 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 Accountant 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 meeting of 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, proposed changes to the regulatory regime including the FSA review of the distribution of financial products and the current economic operating environment.

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 Mr A 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, 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 pension and other benefits in common with many financial services organisations. No fees are paid to Executive Directors.

Remuneration reflects individual 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 Directors’ 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 received no remuneration for his role as Non-executive Director of the Association of Friendly Societies.

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 18 March 2010.

A Soulsby

*Chairman of the Remuneration and Resources sub-committee*

## **Statement of responsibilities of the committee of management**

The committee of management is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society as at the end of the financial year and the income and expenditure of the Society for the year. In preparing these financial statements the committee of management is 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.

It is the responsibility of the committee of management to keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and ensure that the accounts and balance sheet comply with the Friendly Societies Act 1992.

The committee of management is also responsible for safeguarding the assets of the Society and hence, for taking reasonable steps for the prevention and detection of fraud or other irregularities.

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.

Peter J M Smith      - *Chairman*

18 March 2010

# **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 2009 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.

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 & Ireland).

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 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 also, at the request of the Board of Directors, review whether the Corporate Governance Statement reflects the Society's compliance with the eight provisions of the Annotated Combined Code on Corporate Governance for Mutual Insurers specified for our review and we report if it does not. We are required to consider whether the statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Society's corporate governance procedures or its risk and control procedures.

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 Chairman's Statement, Corporate Government Statement, Directors' Report and the Directors' Report on Remuneration. 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**

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 2009 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 Directors' 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.

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

4 May 2010

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 £ 45,845 (before VAT) in 2009.

# Consolidated Income and Expenditure Account

For the year ended 31 December 2009

	Notes	2009 £	2008 £
Earned premiums	2		
Gross written premiums		11,511,535	7,951,016
Outward reinsurance premiums		(1,310)	(1,447)
		11,510,225	7,949,569
Investment income			
Land and buildings		33,875	33,875
Other investments		851,514	815,673
Net (losses) on realisation		(630,541)	(1,272,074)
		254,848	(422,526)
Commission income		3,083	3,342
Net unrealised gains / (losses) on investments	17	3,318,824	(2,770,290)
<b>Income</b>		<b>15,086,980</b>	<b>4,760,095</b>
Claims incurred	3		
Claims paid – gross amount		1,173,176	889,822
reinsurers share		(11,445)	-
Net claims		1,161,731	889,822
Change in technical provisions			
Long term business provisions	15	4,737,249	1,897,209
Linked liabilities provisions	15	8,084,361	3,513,734
Other technical provisions	16	(16,267)	79,230
		12,805,343	5,490,173
Net operating expenses	4		
Acquisition costs		666,021	439,596
Investment expenses		25,811	34,696
Administrative expenses		518,122	570,916
		1,209,954	1,045,208
Tax attributable to long term business	7	(11,593)	(115,416)
Transfer (from) funds for future appropriation	8	(78,455)	(2,549,692)
<b>Expenditure</b>		<b>15,086,980</b>	<b>4,760,095</b>
<b>Balance on the technical account</b>		<b>-</b>	<b>-</b>

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 2009 or 2008 other than those included in the income and expenditure account.

# Consolidated Balance Sheet

As at 31 December 2009

	Notes	2009 £	2008 £
<b>Assets</b>			
Investments			
Land and buildings	9	760,000	934,748
Other financial investments	9	20,857,832	15,407,926
		21,617,832	16,342,674
Assets held to cover linked liabilities	10	13,959,996	5,872,211
Debtors			
Debtors arising from direct insurance operations		19,091	12,830
Corporation tax		11,596	-
Other debtors		374	4,126
		31,061	16,956
Other assets			
Tangible assets	11	41,465	69,383
Cash at bank and in hand		94,291	695,446
		135,756	764,829
Prepayments and accrued income			
Accrued interest and rent		24,698	28,712
Deferred acquisition costs		101,251	73,419
Other pre-payments and deferred income		-	92
		125,949	102,223
<b>Total Assets</b>		<b>35,870,594</b>	<b>23,098,893</b>
<b>Liabilities</b>			
Funds for future appropriation	8	2,563,868	2,642,323
Technical provisions			
Long term business provision	15	18,685,792	13,948,543
Other technical provisions	16	418,749	411,998
		19,104,541	14,360,541
Technical provision for linked liabilities	15	13,950,414	5,866,053
Provision for liabilities and charges	18	-	-
Creditors			
Creditors, including taxation and social security		208,380	188,230
Accruals and deferred income		43,391	41,746
<b>Total Liabilities</b>		<b>35,870,594</b>	<b>23,098,893</b>

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

Approved by the Directors on 18 March 2010.

Peter J M Smith  
Chairman

Alan Soulsby  
Deputy Chairman

Peter Green  
Chief Executive

# Income and Expenditure Account

For the year ended 31 December 2009

	Notes	2009 £	2008 £
Earned Premiums	2		
Gross written premiums		11,511,535	7,951,016
Outward reinsurance premiums		(1,310)	(1,447)
		<b>11,510,225</b>	7,949,569
Investment Income			
Land and buildings		33,875	33,875
Other investments		851,509	815,554
Net (losses) on realisation		(630,541)	(1,272,074)
		<b>254,843</b>	(422,645)
Net unrealised gains / (losses) on investments	17	<b>3,318,824</b>	(2,770,290)
<b>Income</b>		<b>15,083,892</b>	4,756,634
Claims incurred	3		
Claims paid – gross amount		1,173,176	889,822
reinsurers share		(11,445)	-
Net claims		<b>1,161,731</b>	889,822
Change in technical provisions			
Long term business provisions	15	4,737,249	1,897,209
Linked liabilities provisions	15	8,084,361	3,513,734
Other technical provisions	16	(16,267)	79,230
		<b>12,805,343</b>	5,490,173
Net operating expenses	4		
Acquisition costs		666,021	439,596
Investment expenses		25,811	34,696
Administrative expenses		514,766	567,665
		<b>1,206,598</b>	1,041,957
Tax attributable (to) long term business	7	(11,593)	(115,416)
Transfer (from) funds for future appropriation	8	(78,187)	(2,549,902)
<b>Expenditure</b>		<b>15,083,892</b>	4,756,634
<b>Balance on the technical account</b>		-	-

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 2009 or 2008 other than those included in the income and expenditure account.

# Balance Sheet

As at 31 December 2009

	Notes	2009 £	2008 £
<b>Assets</b>			
Investments			
Land and buildings	9	760,000	934,748
Other financial investments	9	20,858,832	15,408,926
		<b>21,618,832</b>	16,343,674
Assets held to cover linked liabilities	10	<b>13,959,996</b>	5,872,211
Debtors			
Debtors arising from direct insurance operations		19,091	12,830
Corporation tax		11,596	-
Other debtors		3,114	6,745
		<b>33,801</b>	19,575
Other assets			
Tangible assets	11	41,465	69,383
Cash at bank and in hand		87,108	685,703
		<b>128,573</b>	755,086
Prepayments and accrued income			
Accrued interest and rent		24,698	28,712
Deferred acquisition costs		101,251	73,419
Other pre-payments and deferred income		-	92
		<b>125,949</b>	102,223
<b>Total Assets</b>		<b>35,867,151</b>	23,092,769
<b>Liabilities</b>			
Funds for future appropriation		2,560,778	2,638,965
Technical provisions			
Long term business provision	15	18,685,792	13,948,543
Other technical provisions	16	418,749	411,998
		<b>19,104,541</b>	14,360,541
Technical provision for linked liabilities	15	<b>13,950,414</b>	5,866,053
Provision for liabilities	18	-	-
Creditors			
Creditors, including taxation and social security		208,027	185,464
Accruals and deferred income		43,391	41,746
<b>Total Liabilities</b>		<b>35,867,151</b>	23,092,769

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

Approved by the Directors on 18 March 2010

Peter J M Smith  
Chairman

Alan Soulsby  
Deputy Chairman

Peter Green  
Chief Executive

# Notes to the accounts for the year ended 31 December 2009

## 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 registered 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*

	2009	2008
	£	£
Single	4,986,481	1,951,321
Periodic	1,227,880	915,272
	<b>6,214,361</b>	<b>2,866,593</b>
Child Trust Fund	5,297,174	5,084,423
<b>Gross premiums</b>	<b>11,511,535</b>	<b>7,951,016</b>
Less: Reinsurance	(1,310)	(1,447)
<b>Net premiums</b>	<b>11,510,225</b>	<b>7,949,569</b>

## 3. Claims analysis

### *Fund analysis*

	2009	2008
	£	£
Order insurance	489,353	613,510
Regional endowments	13,202	21,816
Adult, sick & death	36,452	166,864
Investment bonds	570,264	40,860
Medical benefits	13,310	13,496
Profit sharing	4,547	2,432
Surplus contributions	4,223	5,855
	<b>1,131,351</b>	<b>864,833</b>
Child Trust Fund	41,825	24,989
<b>Gross paid claims</b>	<b>1,173,176</b>	<b>889,822</b>
Less: Reinsurance	(11,445)	-
<b>Net paid claims</b>	<b>1,161,731</b>	<b>889,822</b>

## 4. Net operating expenses

### *Acquisition expenses*

	2009	2008
	£	£
Acquisition costs incurred during the year	693,853	460,739
Increase in deferred acquisition costs	(27,832)	(21,143)
Total	<b>666,021</b>	<b>439,596</b>

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	22,523	22,749
Auditors remuneration – non audit services	1,035	1,523
Actuarial and valuation expenses	52,873	29,170
Legal fees	9,761	10,157
Other professional fees	34,121	23,785
Depreciation of fixed assets	33,687	41,005
(Profit) on disposal of fixed assets	(1,848)	(1,567)
Operating leases	7,254	7,052

## 5. Staff costs

	2009	2008
	£	£
Salaries and wages	343,013	429,819
Social security costs	33,402	45,649
Pension costs	21,468	26,692
<b>Total</b>	<b>397,883</b>	<b>502,160</b>
Average number of employees:		
Executives	2	2
Sales & marketing	2	3
Administration	4	6
<b>Total</b>	<b>8</b>	<b>11</b>

Redundancy payments of £Nil was included within staff costs for 2009 (2008: £15,215).

## 6. Board of management emoluments

	Salary / Fees	Pension	Other Benefits	2009	2008
				£	£
<i>Non-executive Directors</i>					
* Cain, C A	1,900		1,000	2,900	3,800
Smith, P J M	4,415			4,415	3,400
Soulsby, A	2,835			2,835	3,000
# Schofield, B M	2,437			2,437	2,960
Marriott, L	2,900			2,900	3,110
Wellman, C	2,330			2,330	2,510
Passey, I	3,470			3,470	1,410
Wyper, P	3,090			3,090	1,750
<i>Executive Directors</i>					
Green, P	76,392	9,549	11,994	97,935	95,344
Pike, O E	52,541	5,593	2,826	60,960	62,923
				<b>183,272</b>	<b>180,207</b>

Other benefits are for bonuses, additional remuneration and benefits.

\* Retired 20 June 2009.

# Deceased 1 December 2009

The aggregate amount of committee members or past committee members pension is £ 11,932 (2008: £11,627)

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

	2009	2008
	£	£
Corporation tax for the year at 21% - current year	-	-
prior years	(11,593)	(3,416)
Deferred taxation	-	(112,000)
<b>Total</b>	<b>(11,593)</b>	<b>(115,416)</b>

See note 18 for an analysis of deferred taxation.

## 8. Fund for future appropriations

	2009	2008
	£	£
Balance at 1 January	2,642,323	5,192,015
Transfer (from) technical account	(78,455)	(2,549,692)
<b>Total</b>	<b>2,563,868</b>	<b>2,642,323</b>

## 9. Investments

	2009	2008
	£	£
<b>Land and buildings</b>		
Leasehold occupied by the Society	360,000	527,748
Freehold occupied by the Society	-	-
Other investment properties	400,000	407,000
	<b>760,000</b>	<b>934,748</b>

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	5,759,750	5,959,998
List fixed interest securities	14,703,969	5,053,117
Deposit with credit institutions	394,113	4,394,811

<b>Total</b>	<b>21,617,832</b>	<b>16,342,674</b>
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Other financial instruments include £60k position in respect of a derivative contract. This relates to a futures option on a 10 year gilt, which is held within a bond collective investment. The Society's share in the market value of the gilt within the future option as at 31 December 2009 was £1,900k and the agreed sale price in March is £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 £
<b>Cost</b>				
At 1 January 2009	107,200	81,448	28,412	217,060
Additions	-	-	17,221	17,221
Disposals	-	-	(28,412)	(28,412)
At 31 December 2009	107,200	81,448	17,221	205,869
<b>Depreciation</b>				
At 1 January 2009	72,805	62,813	12,059	147,677
For the period	14,550	13,877	5,260	33,687
Disposals	-	-	(16,960)	(16,960)
At 31 December 2009	87,355	76,690	359	164,404
<b>Net Book Value</b>				
At 31 December 2008	34,395	18,635	16,353	69,383
At 31 December 2009	19,845	4,758	16,862	41,465

## 12. Capital commitments

There were capital commitments as at 31 December of:

Authorised and contracted for: £Nil (2008: £Nil)  
 Authorised and not contracted for: £Nil (2008: £Nil)

## 13. Director's loans and transactions

There were four transactions involving income received by persons connected with Directors from the Society in the sum of £15,307 (2008: £2,292).

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	13,948,543	5,866,053
Transfer to technical account	4,737,249	8,084,361
<b>Funds at 31 December</b>	<b>18,685,792</b>	<b>13,950,414</b>

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	2.25 - 2.75%	15% of gross premium / £17.11pa if single or PUP	100% AM/F92 ult	N/A
With profit pure endowment	Zillmerised net premium	2.25 - 2.75%	15% of gross premium / £17.11pa if single or PUP	100% AM/F92 ult	N/A
Mortgage protection	Zillmerised net premium	2.25 - 2.75%	15% of gross premium / £17.11pa if single or PUP	100% AM/F92 ult	N/A
Investment bonds and ISAs	Accumulating with profits and expenses reserve	2.25 - 2.75%	£17.11 pa	100% AM/F92 ult	N/A
Adult Sick & Death	Prevalence method	2.75%	£17.11 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	2.75%	£1.55 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 £17.11 per annum plus 3% of premium as well. Where applicable, the Zillmer adjustment is 3.0% of sum assured.

## 16. Other technical provisions

	2009 £	2008 £
Funds at 1 January	411,998	332,768
Increase in fund	23,018	-
Transfer to technical account	(16,267)	79,230
<b>Funds at 31 December</b>	<b>418,749</b>	<b>411,998</b>

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

	2009	2008
	£	£
Net unrealised gains / (losses) written back on realisation	154,002	(725,459)
Net unrealised gains / (losses) on investments:-		
With profits	491,229	(411,462)
Unit linked	2,673,593	(1,633,369)
	<b>3,318,824</b>	<b>(2,770,290)</b>

## 18. Provision for liabilities and charges

Provision for liabilities is in respect of deferred taxation.

	2009	2008
	£	£
As at 1 January 2009	-	112,000
Income and expenditure account	-	(112,000)
As at 31 December 2009	-	-

The potential to deferred tax is made up as follows:

Capital allowances	(1,202)	(419)
Deferred acquisition costs	(30,509)	(6,932)
Unrealised gains on investments	31,711	7,351
	-	-

## 19. Contingent liability

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 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 will be formalised shortly. 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.

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 liabilities the Trustee has 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 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 estimates" 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 believes that the actuarial valuation assumptions and / or recovery plan are inappropriate. For example the regulator could require that the Trustee 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 will be forwarded to the Pension Regulator in due course.

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 Trustee of the Plan. The Trustee's 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 employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2008. As at this date the estimated employer debt for the Society was £383,174.

## 20. Capital statement

The valuation was carried out in conformity with Liability Valuation Rule 5 in Appendix 5 of the Interim Prudential Sourcebook for Friendly Societies (“IPRU (FSOC)”) and so limitations apply to many of the key assumptions used.

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

	<b>2009</b>	2008
	<b>£000s</b>	£000s
Funds for future appropriations	<b>2,561</b>	2,639
Shareholder funds		
-Adjustment on to regulatory basis		
Adjustment to asset value	<b>(198)</b>	(116)
Assets admissibility rules	-	-
Resilience reserve	<b>(340)</b>	(470)
Accrual / deferred income	-	-
<b>Total available capital resources</b>	<b>2,023</b>	2,053

Total available capital resources are 214% of the required minimum margin.

The largest holding of assets is in UK bonds and changing market conditions can affect bond values and future returns. Also, 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 1% p.a. An implied adjustment is made to the yield on equities of about 0.3% 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 IPRU (FSOC) Appendix 5 Section 12. This involved carrying out 2 tests; an equity fall of 20.3% together with a 10% fall in earnings combined with either a rise in bond yields of 0.89% or a fall in bond yields of 0.89%. It was the first scenario that produced the greater change, and this was modelled in the valuation by increasing the valuation interest rate by 0.5%. The fall in asset value resulted in a resilience reserve of £340,447.

The expense margins on the policies were not changed from the previous year’s valuation. This meant that 3% of all premiums received was used, together with a per policy allowance for non-CTF policies of £17.11 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, £1.55 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 £540,000 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. A further £94,000 is required to cover on going expense during the run off due to increased expenses on a pension scheme deficit.

A mortality and morbidity investigation was carried out during 2006. 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.

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 a small increase in the available capital resources from December 2008 to December 2009.

An analysis of the change is set out below:

	£000s
Available capital resources 31 December 2008	2,053
Economic experience	(219)
Changes in valuation method (Zillmer introduced)	349
New business strain	241
Cost of bonus	(409)
Change in expense reserve	(212)
Mortality, Expense & other	220
Available capital resources 31 December 2009	<u>2,023</u>

## **21. Pension Contribution Creditors**

As 31 December 2009 £9,613 (2008: £8,466) contributions had not been paid over.



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