HealthyInvestment
ethical investments since 1835

Annual Report and Accounts

The Rechabite Friendly Society Limited
Annual Report and Accounts
for the year ended 31 December 2017

Index

Financial Highlights 2017

Our key financial performance indicators are chosen by the Board to measure our performance in order to ensure that we deliver our strategy of growing the Society to maximise member value.

Member investments

In 2017 members chose to invest a total of £14.4 million (£16.4 million in 2016) in the savings and investment products the Society provides, of which £13.9 million were gross written premiums and £537,806 (2016: £501,625) were additional contributions to Child Trust Funds which are treated as deposits.

£9.6 million (£11.6 million in 2016) was invested in our Investment Bonds and ISAs during 2017, demonstrating the continuing popularity of these With-profits investments.

£4.8 million (£4.8 million in 2016) was invested in regular premium endowment contracts.

Administrative expenses

Administration expenses excluding commission costs for the year were £1,562,680 (2016: £1,480,303). This was favourable against our budgeted costs and is largely due to deferred spending on advertising and marketing. There remains a consistent focus on how we manage our costs without compromising the service to our members.

Membership

As a mutual society our success can be measured by the way in which we look after our members. At the end of 2017, 115,015 (2016:115,926) members trusted us to look after their investments, demonstrating their satisfaction with our performance and standards of service. A total of 1,348 (2016: 1,418) new policies were taken out with us during the year. Whilst membership of the main With-profits Fund grew, overall membership showed a slight decline due in the main to the maturity of Coventry Assurance policies. Our service standards are published and monitored throughout the year.

Assets under management

At the end of 2017 we looked after £156 million (2016: £137.3 million) of members' investments with the Society. The growth in our business resulted in an increase in total assets to £158 million from £140.3 million, an increase of 12.6%.

Mutual bonus

The Board declared a mutual bonus of £2,071,659 (2016: £1,700,631) on the 15 March 2018 in respect of the year ended 31 December 2017.

Chairman's Welcome

I am very pleased to welcome you to the 2017 Annual Report and Accounts of Healthy Investment and to thank you for continuing to support the Society. We have a proud record of helping our members prepare for their financial future and 2017 was no exception.

Our history and mutuality

As a mutual friendly society we have no shareholders, everything we do is for the benefit of members. Formed in 1835, the Society has a long and distinguished history. Today Healthy Investment is a modern mutual, providing a range of savings and investment products.

An ethical provider

At the very heart of the Society is our desire to be an ethical provider of ethical savings and investment products. To support this, all of our With-profits policies avoid investments in alcohol, arms and tobacco industries and gambling and pornography providers.

New business

New business whilst not at levels attained in 2016 was close to planned levels and enabled the Society to see record levels of assets under management, with investors particularly attracted to the capital and bonus guarantees that our With-profit policies provide.

Bonus rates

I am pleased that we are able to increase the bonus rates for Investment Bonds and ISAs whilst maintaining the rates for the Society's endowment products. Ensuring bonus rates are fair and competitive remain a Society priority.

Thanks

On behalf of the Board I want to thank everyone who has contributed to these successes, in particular our loyal members, all the Healthy Investment team for their dedication and hard work during the year, my colleagues on the Board and the Society's external advisers for their expert contributions.

Annual General Meeting

As a mutual friendly society we take membership very seriously and are committed to listening to the views of all our members. Members are encouraged to exercise their AGM vote and to engage with us throughout the year on relevant issues. Our website includes a dedicated members' area where they can share with the Board their views on the Society.

Steven Spilsbury

Chairman
2 May 2018

Chief Executive's Introduction and Business Review

Results

New business levels were close to those projected in the business plan for 2017 and claims were well below forecast.

Strong investment returns have enabled the Society to increase bonus levels on our Investment Bonds and ISAs, whilst maintaining bonus levels on other With-profits plans.

Administration expenses for the year excluding costs of commission were slightly lower than in 2016. The increased value of our assets under management has increased our investment management charges. Whilst some charges in the business have increased we have been able to manage other costs effectively. A repricing of some products has led to reduced commission costs. There remains a consistent focus on how we manage our costs without compromising the service to our members.

Valuation

During the 2017 year-end valuation it was identified that there had been an ongoing issue with the data extraction used to calculate the Society's technical provisions. The valuation at 31 December 2017 shows the correct position; however the technical liabilities as at 31 December 2016 have been revised upwards by £2.8million and have led to a restatement of the 2016 comparatives. This is explained further in note 37 on page 63.

It is important to state that this has not impacted on the value of members' policies and that the Society still maintains adequate levels of capital.

Regulation and corporate governance

The Society aims to meet the highest standards of regulation and corporate governance. The Governance Report can be seen on pages 13-21.

2018 sees the introduction of the General Data Protection Regime (GDPR) which represents a new regulatory challenge for the Society. We are on target to comply with these new regulatory requirements.

Thanks

The Society's Director of Finance & Risk, Oliver Pike, retired during the year. I would like to take this opportunity to thank Oliver for his service over many years with the Society and wish him a long and happy retirement.

Strategic Report

What do we do?

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

In addition to administering a number of historic products the Society provides a range of With-profits investments including Tax Exempt and Standard Savings Plans, Investment Bonds, ISAs and Junior ISAs.

The Society manages Unit-linked Child Trust Funds and administers the policies previously held with Coventry Assurance Society.

The Society actively avoids investments in alcohol, arms and tobacco industries and gambling and pornography providers.

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

Why do we do it?

Healthy Investment's vision is to be a successful, growing, ethical friendly society providing a range of ethical With-profits savings and investment products.

How we do it?

The strategy of the Society is to grow the assets and membership in order to add value for members.

We achieve this by actively promoting our range of products through financial advisers, introducers and by directly engaging with existing and potential members.

We seek to maximise the potential for investment returns by using professional investment managers, whilst only exposing the Society and its members to an agreed level of risk.

How have we performed this year?

Financial performance

As you can see from the Financial Highlights on page 2 and the further details of the financial performance on pages 35 to 38, together with the accompanying notes to the accounts on pages 39-64, 2017 has been another successful year.

The Society was successful in generating levels of new business in line with its business plan.

The new single premium business generated and our growing book of regular premium business has helped us to achieve total premium income of £14.4 million (2016: £16.4 million), including Unit-linked Child Trust Funds, which are accounted for as deposits.

The Society now looks after over £156 million (2016 - £138 million) of members' money, which includes our main With-profits Fund, the Coventry Assurance Ring Fenced Fund and our Unit-linked Child Trust Funds.

Investment performance

The Society's main With-profits Fund and the Coventry Assurance Ring Fenced Fund invest in a mix of government and corporate fixed interest bonds, UK and global equities, commercial property and cash deposits. The mix of each asset class held changes over time as the Society seeks to maximise members' returns within the agreed appetite for risk.

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 and gambling and pornography providers.

In order to maximise the potential for growth, our fixed interest and equity holdings are professionally managed by Investec, an internationally renowned fund management and investment company. Investec is responsible for actively managing the strategic asset allocation and stock selection within the clearly defined matrices determined by the Board and based on the risk appetite of the Society.

The return With-profits policyholders receive is smoothed to avoid members being exposed to the full effect of the volatility of stock market fluctuations.

We have now seen 2 years of much better returns following several years of challenging investment markets. We have been able to declare bonuses which are fair and competitive whilst ensuring that we are able to continue to smooth investment returns for members.

Our stakeholder Child Trust Funds are invested in the Healthy Investment Stakeholder CTF Unit-linked Life Fund which is 100% invested with Legal and General in their UK All Share Index Trust. The objective of the fund is to provide growth by tracking the performance of the FTSE All-share Index. The Fund has delivered strong investment performance in both 2016 and 2017.

The Society also offers an ethical Child Trust Fund which invests in the Healthy Investment Ethical CTF Unit-linked Life Fund. This is a cautious fund which aims to provide capital growth over the long term. It avoids investments in alcohol, arms and tobacco industries and gambling and pornography providers. The assets within the fund are actively managed by Investec.

How many members does the Society have?

At year end the total membership of the Society was 115,015 (2016: 115,926).
A total of 1,348 (2016: 1,418) new policies were taken out with us during the year.
Whilst membership of our main with With-profits Fund increased, overall membership declined. This was due to the Coventry Assurance Ring Fenced Fund decreasing, as expected from a closed fund, and the Child Trust Fund membership which fell slightly with 211 more transfers out than received.

The Society is committed to the highest standards of customer service and to treating all our members fairly. Our policy administration and membership teams have continued to serve our members with skill, courtesy and responsiveness throughout the year and listen carefully to feedback from members to ensure members views are heard by the Board.

We do however 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 complaints to the Financial Ombudsman Service.

How do we manage risk?

The Society is committed to the highest standards of risk management and actively identifies and manages risks.

Keith Ashcroft is the Society's Chief Risk Officer. At 31 December 2017 Keith was awaiting formal approval from the Prudential Regulation Authority 'PRA' to perform various Controlled Functions in connection with his risk and other responsibilities. Approval was confirmed on 25 January 2018.

It is a regulatory requirement that all prudentially regulated insurance firms have an Own Risk and Solvency Assessment (ORSA) process in place in order to manage risk and the Board believes that the process which has been developed over the last three years is effective.

A Risk Management Team, consisting of the Executive Directors and senior managers meets on a regular basis to undertake detailed reviews of the risk register, examine actuarial, internal and external audit reports, consider operational issues and identify new and emerging risks.

The Risk Management Team reports to the Board's Risk Committee which met 3 times during 2017. The Committee reviewed the reports of the Risk Management Team, developed the Board's policies on risk management and recommend to the Board the Society's appetite for risk. The Risk Committee recommended approval by the Board of continued use of the regulator's Solvency II Standard Formula Model.

The Chief Executive and Chief Risk Officer, based on the key risks and results of the Forward Looking Assessment of Own Risk (FLAOR), have developed a strategic and operational business plan, which has been approved by the Board. Performance against the plan is monitored by a series of key performance indicators and risk tolerance levels.

The Society's principal risks

The Board has identified the principal risks and uncertainties to its business, which is both operational and financial. It is the responsibility of the risk committee to manage these risks whilst allowing the business to operate effectively.

The following key risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

- Lower levels of new business
  The market for UK financial services is highly competitive and several factors could affect the Society's ability to sell enough of its products to ensure its continued profitability. This business risk is mitigated by effective strategic and operational business planning. The Society has a pro-active sales and marketing strategy in order to continue to generate significant levels of new business.

- Performance of the investment portfolio
  Market risk has a direct impact on the financial strength of the Society, and the returns available to members. A reduction in the value of our investments will erode the free assets of the Society. Lower than expected investment returns could mean that the Society may, if it is not able to smooth returns to members, have to cut bonus rates and in extreme circumstances reduce them to nil.

  Equities have, over the long term, produced higher returns than other asset classes and are, in the view of the investment managers, most likely to produce the best returns over the medium to long term.

  Fixed interest income securities whilst providing secure income, expose the Society to interest rate risk and credit risk. The value of fixed interest securities can be directly affected by changes in interest rates. Bonds can expose the Society to credit risk in that the counterparties will be unable to pay amounts in full when they fall due. We invest in both government bonds and corporate bonds. We only invest in UK government bonds which traditionally carry a very low level of risk whilst with our corporate bonds credit risk is managed through strict counterparty limits detailed within the investment mandates.

  The above risks are mitigated by appointing a specialist investment manager to actively manage our investment portfolio in the With-profits Funds. An investment matrix approved by the Board defines the parameters within which the funds are to be managed. They are broad enough to allow the investment managers to function properly, yet specific enough to safeguard the investment assets. The Board works closely with the investment managers and the Chief Actuary to monitor investment markets and to monitor the investment portfolio.

- A rise in lapse rates
  An unexpected rise in lapse rates could undermine the overall financial strength of the business, reducing the size of the With-profits Fund, with the potential for not being able to recover the costs of running the Society from the policies remaining in force. This insurance risk is mitigated by the continued focus to offer our members quality products that meet their needs and a high level of service. We continue to see brand loyalty and are confident our overall membership base will continue to grow.

- Expense overrun
  When calculating the value of the policyholders' liabilities an allowance is made for future expenses. There is a risk that the actual expenses incurred in the future are more than those allowed for. Whilst the Society does not compromise on the service it provides to members it works hard to ensure expenses are carefully monitored and controlled.

The risk is mitigated through the production of an annual budget, monthly management accounts and revisiting our 5 year business plan. Strict spending limits are set by the Board and Senior Managers and Executive Directors must have Board approval for expenditure that materially exceeds that of the budget and business plan.

- Operational and conduct risk
  The Society is exposed to operational risk in the ordinary course of business. It manages these risks through a risk register and the system of internal controls in order to reduce the risk of unplanned costs or interruption to the service we give to members.

  The Society is also exposed to conduct risk. It has in place robust compliance procedures and training schemes to ensure that all marketing material and sales activities are compliant with FCA rules.

Note 5 to the financial statements on pages 46-51 provides further details on Society risks and the risk management framework that exists to mitigate exposure to those risks and proactively identify and mitigate new exposures.

Capital management

Along with all other Prudential Regulation Authority (PRA) registered life insurers, the Society is required to maintain sufficient capital that is consistent with the Group's risk profile and is subject to a number of regulatory capital tests. The failure of any life insurer to meet these PRA capital tests can result in the insurer being closed to new business and being placed into 'run off'.

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

Internal control

The Society's system of internal control is an important part of its risk management system and includes financial, operational, compliance and risk management controls.

The Board has overall responsibility for the Society's system of internal control and for reviewing its effectiveness. Its implementation and maintenance are the responsibility of the Chief Executive and the Director Finance & Risk.

The Society manages its risks with a number of control policies and procedures which are documented in the form of policy statements and operational procedures and these are subject to periodic review.

The Society has implemented accounting policies, financial reporting processes and internal control procedures designed to safeguard policyholders' investments and the Society's assets. Measures taken include physical controls, segregation of duties and review by management, the Board and external advisers.

The Society operates a Risk Management Team which is made up of the Executive Directors and Senior Managers. They meet on a regular basis to consider and review the Society's Risk

Register and Risk Appetite Framework Report and are involved in the day to day management of risk.

The Society operates 3 lines of defence for the monitoring of internal control:

Operational Management:
- As a small organisation the Senior Managers on a daily basis have a direct involvement in the workload, which acts as a sound basis for monitoring the controls' effectiveness.
- During the year the complaints received have not indicated any fundamental breakdown of internal controls.
- Treating Customer Fairly 'TCF' issues are monitored. There were no significant TCF issues raised during the year. The Society continues to implement its programme of product reviews following an industry wide FCA review on the treatment of long standing customers.

Risk Management & Compliance Functions:
- The Risk Committee which comprises of Executive and Non-executive Directors which has responsibility for oversight of the Society's risk management.
- The Head of Risk who has day to day responsibility for monitoring key risks.
- A Risk Management Team which includes the Executive Directors and Senior Managers who are responsible for embedding the Society's system of risk management and identifying emerging risks.
- The Compliance Officer who is responsible for ensuring compliance with PRA and FCA rules.

Internal Audit:
- The Society operates an independent internal audit function which carries out an annual needs assessment approved by the Audit Committee. The work is conducted through a risk-based walk through approach and provides assurance to the Society's Board of Directors and senior management of the adequacy and effectiveness of the Society's risk management and control processes. Internal audit review and evaluate the Society's processes, procedures and controls, give recommendations and document agreed management actions. This function is outsourced to MHA Moore & Smalley.

Summary
The Board is satisfied that the risk management framework and necessary monitoring and controls are in place to ensure that all risks are actively managed within agreed tolerance limits. The Board is satisfied that the level of risk to which the Society is exposed is acceptable.

How we will do in the future?
The Board, as part of its five year business planning and risk management work, has considered the future prospects of the organisation.

The Society will continue to market its products in the adviser, introducer and direct markets with the aim of producing balanced levels of new business from each source such that the Society can continue to grow the business over the long term whilst providing competitive returns to its members.

The Board continues to believe that With-profits investments have a place in well balanced and well advised investment portfolios.

The Society's strategy includes growing the assets under management by maintaining the current high levels of new With-profits business, controlling expenditure and maximising the potential for investment returns. As the size of the Society's With-profits Fund grows there will be a need to continue to build the capital base of the Society to ensure resilience to market volatility.

Whilst there are still some economic and regulatory challenges ahead, by active and effective management the Board is confident that the long term prosperity of the Society is assured.

The Board, having considered the year end statutory solvency position, available resources, the business plan, the results of the Forward Looking Assessment of Own Risks (FLAOR) and the management actions available to manage risk, has concluded that the Society is able to continue on a going concern basis.

Longer Term Viability Statement

During 2017 the Directors assessed the viability of the Society over a five year period to 31 December 2022. The formal process of its analysis of risks is carried out as part of the Own Risk and Solvency Assessment 'ORSA' and the culmination of that process is the Society's strategic and operational business plan. The business plan draws on the findings of the Forward Looking Assessment of Solvency and the results of a Board strategy day. The purpose of the business plan is to detail the activities needed for the Society to meet its objectives, ensure its future solvency and add value to members.

The key risk assumptions crucial to the business plan are achieving the levels of new business forecast, product profitability, keeping a level of investment return commensurate with the level of returns we wish to be able to offer to our members, being able to ensure expenses are kept within acceptable levels in line with budget and longer term projections do not exceed affordable levels which could impact on the Society's ability to operate profitably. The risks of the above not being achieved are drawn out in the 'ORSA' and there are appropriate management actions in force to respond to these risks.

There are a number of actions management can take to respond to change.
Management can respond to a fall in new business sales by reviewing sales strategy, products on offer and distribution channels, and conversely can respond to an increase in sales over and above trigger points set out in the budget by putting limits on new business where changes in solvency demands put pressure on the Society.
The Society can respond to low investment returns with a reduction in bonuses, and can respond to an expense overrun with cost reductions or product repricing programmes.

The overall process includes stress and scenario testing together with ongoing monitoring of the risks and the controls the Society has in place.

Based on this assessment the Directors have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2022.

In making this statement the Directors have considered the resilience of the Society, taking into account its current financial position, the principal risks facing the business in various severe but reasonable scenarios and the effectiveness of mitigating actions. This assessment has given consideration to the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. The Directors have determined that the five year period to 31 December 2022 is an appropriate period over which to provide its viability statement. In making their assessment, the Directors have taken account of the Society's solvency position, its investment policy and the management actions available to mitigate risk

Approval of the Strategic Report

The Board approved the Strategic Report at their meeting on 2 May 2018.

Steven Spilsbury
Chairman

2 May 2018

Peter Green
Chief Executive

2 May 2018

Governance Report
The governance of your Society

The Board is committed to the highest standards of corporate governance.

The Annotated Corporate Governance Code

The Society has regard to the principles of the Annotated Corporate Governance Code for Mutual Insurers. This involves the Society meeting a number of corporate governance standards.

Specifically, we are aware that we have not complied with one of these standards and have therefore provided the following explanation of non-compliance.

> The Board has retained responsibility for setting the remuneration of all Executive and Non-Executive Directors rather than delegate the responsibility to the Remuneration Committee.
>
> Whilst the Board listens carefully to the view of the Remuneration Committee regarding Director remuneration, given the size of the organisation and the importance of managing overall expenses, the Board did not feel it appropriate to delegate authority to the committee to set levels of Director remuneration.

The Board

The Board has responsibility for ensuring that the Society is run for the benefit of members and that all members are treated fairly. It is responsible for developing and setting the strategic direction of the Society, ensuring adequate risk management policies and procedures are in place, defining the culture of the Society and for ensuring that it is governed in accordance with its Rulebook and the PRA's and FCA's principles and rules.

To ensure it fulfils its responsibilities it has established a governance structure which includes:

- The formation of 5 committees with agreed terms of reference and responsibility for monitoring and reporting on specific areas.
- A written statement of the matters reserved for the Board.
- The appointment of Key Function Holders with specific responsibilities for operational activities.
- Job descriptions for the Chairman and Chief Executive which define their roles and responsibilities and detail segregation of duties.
- The implementation of a robust risk management system which includes the annual review and setting of a risk profile and appetite.
- Written policy statements and procedures for all critical functions and processes which clearly identify roles, responsibilities and reporting requirements, and are reviewed regularly.
- The provision of timely management information to monitor the key risks and performance of the Society.
- The annual review and approval of the Strategic and Operational Business Plan.

The Board brings independent judgement on all issues of strategy, performance, resources and standards of conduct. It is responsible for establishing the framework of systems and controls, monitoring risk and agreeing the appointment and remuneration of Executive Directors.

The Board has seven members including the Chief Executive and Director Finance and Risk and five Independent Non-executive Directors. The Board has a wide mix of skills including actuarial, investment, financial services and wider legal, business and commercial experience.

As at 31 December 2017 the Society were awaiting regulatory approval for Keith Ashcroft to assume the roles of Chief Finance Officer and Chief Risk Officer. Following PRA and FCA approval the Board appointed him as a Director on the 25 January 2018.

The Board has a mix of Society members and non-members.

Directors

The majority of the Board are Independent Non–executive Directors. They have a wide range of professional and business experience. Their remuneration consists only of fees (annual retainer and daily attendance allowance).

All of the Non-executive Directors are independent. The Board has determined that Peter Wyper, having served on the Board for more than 9 years will remain as a Director due to his extensive knowledge and experience of the Society and the skills he brings to the Board.

The mix of Executive and Independent Non-executive Directors allows the Board to function collectively without domination from any individual. Any Director having a concern in this or any other regard can raise it with the Chairman, Deputy Chairman, or Senior Independent Non-executive Director. 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 appraisal system. A structured programme of on-line training has been successfully completed by all Directors.

The job descriptions and authority limits of the Chairman, Chief Executive, Director Finance and Risk and Non-executive Directors are clearly defined to ensure a division of responsibilities and appropriate decision making authority.

All Directors are re-elected on an annual basis.

There were no changes in the membership of the Non-executive members of the Board during 2017.

The Society's previous Director Finance and Risk, Oliver Pike, retired in August 2017. Initially this role was covered by an interim post-holder before Keith Ashcroft was recruited.

The Board, following the advice of the Nomination Committee and after evaluating their performance and commitment, approved the nomination for re-election of all the existing Directors at their meeting on 20 December 2017. The Board paid particular attention to Peter Wyper who has now served on the Board for over nine years. They concluded that despite this length of service he remained independent in character and judgement.

Member engagement

The Board listen carefully to the views of members, which as a mutual, are the owners of the Society. All member feedback collected through the AGM voting cards is reported directly to the Board.

The Board receives a summary of all complaints and details of how these have been resolved.

The website includes a dedicated members' area where members are encouraged to share their experiences of the Society.

The Society has a programme of regular product reviews which includes seeking feedback from new, existing and past members. The feedback from these reviews is discussed by the Board.

The Board believes that the communication and engagement programme it has in place is sufficient for the Board to understand any issues or concerns members may have.

Meet the Board
Board Directors

Steven Spilsbury – Chairman
Steven joined the Board in August 2014 following his retirement as Chairman and Non-executive Director of Vernon Building Society. Steven has enjoyed a long and successful financial services career, holding a variety of senior positions, working mainly for mutual organisations.

Peter Wyper – Deputy Chairman
Peter joined the Board in 2008. As a qualified Independent Financial Adviser, Peter has considerable experience and knowledge of financial services and regulatory compliance. He is also a Director of his IFA practice; Peter Wyper Associates and the Society's subsidiary company The Rechabite Financial Services Limited.

Dianne Payne – Senior Independent Non-executive Director
As a Chartered Accountant running her own practice, Dianne has a wide range of accounting expertise. During her career Dianne has worked as a Finance Director within the mutual financial services sector. She joined the Board in April 2014.

Mr Philip Okell – Non-executive Director
Philip is an experienced investment specialist and Principal of Mosaic Money Management. He brings experience of developing and implementing investment strategies and during his career has advised some of the UK's largest mutuals. Philip was appointed to the Board in September 2015.

Timothy Birse – Non-executive Director
Timothy was appointed to the Board in June 2016. He is a qualified actuary with experience of managing large With-profits Funds and an interest in actuarial education. Tim is also a Non-executive Director of Metropolitan Police Friendly Society Limited.

Peter Green – Chief Executive
Peter was appointed as Chief Executive of the Society in October 2006. Following an early banking career, he served as Chief Executive of a mutual health insurance company specialising in health care cash plans. He has a MBA focused on small business management.

Keith Ashcroft – Director Finance and Risk - appointed 25 January 2018
Keith is a Chartered Accountant and is the newest member of the team, joining us in 2017 and being appointed as a Director on the 25 January 2018. He has a wide range of professional expertise, including financial services and is an experienced Finance Director.

Committees of the Board

The Board has appointed a number of committees which meet independently in order to assist its work.

Each committee is required to review their performance annually against its terms of reference.

Whilst the Society Chairman is not a member of all committees he has the right, with the exception of the independent With-profits Committee, to attend meetings and be co-opted to a committee if necessary.

The committees currently comprise:

The Audit Committee

Dianne Payne (Committee Chair)
Philip Okell
Timothy Birse

The Audit Committee has responsibility for:

- Overseeing the Society's system of control.
- Ensuring that all financial reporting is in line with accounting standards and regulatory requirements.
- Recommending to the Board the appointment of external and internal auditors.
- Oversight of the external and internal audit functions.
- Recommending to the Board approval of the Annual Report and Accounts.
- Recommending to the Board approval of the Solvency and Financial Condition Report and the Regulatory Supervisory Report.
- Recommending to the Board the process for approval and submission of the Quarterly Reporting Templates.
- Recommending to the Board the internal and external audit strategy.
- Reviewing external and internal audit reports.
- Ensuring management information is appropriate and consistent with the business plan and risk profile.
- Recommending to the Board approval of the Solvency II technical provision assumptions.

Appointment of external auditors
KPMG LLP were re-appointed at the Society's AGM on June 23 2017 but subsequently resigned during the year.
Following a tendering process which included inviting a long list of firms to submit proposals and Audit Committee interviews of short listed firms, the committee, following receipt of satisfactory references, recommended to the Board appointment of Deloitte LLP as the Society's external auditors. The Board approved the appointment.

The external auditors do not provide any non-audit services to the Society.

Significant issues discussed
The Audit Committee discussed and agreed the need for restatement of the previous year's comparatives following identification of an issue in the extraction of data from the Society's policy administration data base and used in the calculation of technical provisions.

The Risk Committee

Timothy Birse (Committee Chair)
Steven Spilsbury
Peter Green
Oliver Pike (retired 11 August 2017)
Keith Ashcroft (appointed 25 January 2018)

The Risk Committee has responsibility for:

- Oversight of the risk management system.
- Recommending to the Board the Society's appetite for risk and Risk Appetite Framework.
- Recommending the approval of the Own Risk and Solvency Assessment process.
- Identification of the key risks and recommending the operational management tolerance limits.
- Approval of the reverse stress and FLAOR testing scenarios.
- Review of the result of the stress tests.
- Reporting to the Board on the effectiveness of the risk management system.
- Recommending the appointment of the Chief Risk Officer.
- Oversight of the compliance function.
- Recommending use of the Standard Formula Model.

The Nomination Committee

Steven Spilsbury (Society Chair)
Dianne Payne
Peter Wyper
Peter Green

The Nomination Committee has responsibility for:

- Monitoring the balance of skills, knowledge, experience and diversity on the Board to ensure that the Board has the necessary mix to meet regulatory expectations and effectively pursue its strategy.
- Recommending to the Board and monitoring the implementation of the Board's diversity and gender policies.
- Recommending to the Board the appointment of Board and Committee members.
- Reviewing the independence of Non-executive Directors.
- Reviewing the fitness and propriety of Directors and Senior Managers.
- Ensuring the performance of the Board and individual Directors is appraised annually.
- Leading the recruitment of new Executive and Non-executive Director appointments.

Board performance evaluation
The Board has continued to implement the recommendations of the external evaluation of Board effectiveness and performance undertaken in 2015. During 2017, the Board, in line with the Society's policy statement on Board appraisals, conducted a self-appraisal of its

performance, that of the Board's committees and of individual Board members. The Board also carries out an annual skills audit to assess the changing needs of the Society.

Action points for further consideration included the need to develop the Society's succession plan, ensure sufficient diversity in the boardroom in line with current corporate governance recommendations and extending the opportunities available to Directors to attend courses, conferences and technical briefings to maintain competence and aid future development.

Process for Board appointments
The Board recruited Keith Ashcroft as the new Director Finance and Risk during 2017 although regulatory approval of his appointment was not received until January 2018. The process for this recruitment was:

- A job specification and person specification was drawn up for the role.
- The Board agreed that a recruitment consultant should be engaged to assist in the recruitment. Fletcher Jones, who have no other connections with the Society, were appointed.
- The Board agreed an indicative salary and benefits package.
- The Nomination Committee managed the recruitment process.
- A shortlist of candidates was provided by Fletcher Jones with the Nomination Committee selecting candidates for interview.
- The Nomination Committee held interviews and made a recommendation to the Board.
- Following assessment of the candidate's fitness and propriety the Board approved the appointment.

There were no new Non-executive Director appointments in 2017.

Gender and diversity
The Board approved a formal gender and diversity policy in 2013 which it reviews annually. The Board recognises the benefits of a diverse Board and in seeking to promote a balance of genders will be flexible in the timing and location of meetings to assist members in meeting family commitments and will meet the reasonable child care expenses of Non-executive Directors whilst on Society business. As part of its gender and diversity policy the Board has not set quotas, with all appointments being made purely on merit.

The Remuneration Committee

Dianne Payne (Committee Chair)
Steven Spilsbury
Peter Wyper
Philip Okell
Peter Green

The Remuneration Committee has responsibility for:

- Reviewing and recommending to the Board the remuneration strategy and policy.
- Ensuring that the remuneration policy and strategy is consistent with the Society's appetite for risk and compliant with regulatory requirements.
- Making recommendations to the Board for the remuneration of Executive and Non-executive Directors.

- Monitoring employees' compliance with the regulators' fitness and propriety requirements.

The Investment Committee

Philip Okell (Committee Chair)
Peter Wyper
Peter Green
Oliver Pike (retired 11 August 2017)
Keith Ashcroft (appointed 25 January 2018)

The Investment Committee has responsibility for:

- Recommending an investment strategy in line with the Society's risk appetite.
- Overseeing the outsourced discretionary management of the Society's investment portfolios.
- Reviewing investment performance.
- Recommending to the Board investment matrices, taking into account the views of the actuary and investment managers that seek to match the Society's asset exposure to the key features of its liabilities, whilst taking risks in line with the Risk Appetite Framework.
- Monitoring asset allocation to the investment matrices.
- Monitoring adherence to the Society's ethical investment strategy.
- Monitoring counterparty exposure.

With-profits Committee

Roger Frier (Independent Chair)
Elaine Fairless
Timothy Birse

The With-profits Committee provides independent oversight of the Society's management of the With-profits Funds. It comprises two independent members and one Non-executive Director, all with experience of managing With-profits business. The With-profits Committee meets at least annually and receives the papers of all Board and Committee meetings to enable it to comment on any issues of fairness.

The With-profits Committee has responsibility for:

- Reviewing the Board's compliance with its Principles and Practices of Financial Management of its With-profits Funds.
- Monitoring the Society's fair treatment of all members.
- Considering the fairness of the annual bonus declaration.
- Reviewing member communications.
- Being an independent voice on behalf of policyholders.

Terms of Reference

Copies of the terms of reference of the Board and committees are available from the Society's website or by contacting the Society's office.

Meeting attendance in 2017

	Board	Audit Committee	Risk Committee	Investment Committee	Remuneration Committee	Nomination Committee
S Spilsbury	7 (7)		3 (3)		1 (1)	1 (1)
P Wyper	7 (7)			3 (3)	1 (1)	1 (1)
D Payne	7 (7)	3 (3)			1 (1)	1 (1)
P Okell	6 (7)	2 (3)		3 (3)	1 (1)	
T Birse	7 (7)	3 (3)	3 (3)			
P Green	7 (7)		3 (3)	3 (3)	1 (1)	1 (1)
O Pike	4 (4)		1 (1)	2 (2)		

The figures in brackets represent the number of meetings held since appointment or prior to retirement.

Directors' Report

Directors
The Directors listed on page 16 of the Board's Governance Report acted as Directors throughout the year, apart from Keith Ashcroft who was appointed a Director on 25 January 2018. Oliver Pike retired on 11 August 2017.

All of the existing Directors will stand for re-election at the Annual General Meeting.

Healthy Investment in the community
The Society does not make any political donations or sponsor any political activities.

The Temperance Fund, created to support charitable initiatives that promote healthy lifestyle choices, made donations to Bury Involvement Group of £1,000 and One Recovery Bury of £500 during the year.

The Douglas Carr Memorial Scholarship Scheme, in memory of a previous Chief Executive of the Society, made 13 bursaries to members studying in higher education totalling £3,250 during 2017 (£2,400: 2016).

Management of the With-profits Funds
The Board has produced a report to all With-profits policyholders explaining how it has managed its With-profits business, complied with the Principles and Practices of Financial Management (PPFM) and how it has exercised discretion in their decisions. You can obtain a copy of the report for the main With-profits Fund and the Coventry Assurance Ring Fenced Fund, from the Society's office or website.

Copies of the PPFMs, which detail how the Society manages the With-profits Funds and calculates the level of bonus applied to policies, are available from the Society's office or website.

The management of the With-profits Funds for the benefit of members is the Board's primary concern and to help provide independent oversight of the Board's management, the With-profits Committee has reviewed all decisions taken by the Board. The committee comprises one Non-executive Director, Timothy Birse, and two independent members, Elaine Fairless and Roger Frier, all of whom have considerable professional experience in managing With-profits business.

Subsidiary company performance
The Rechabite Financial Services Limited which is a wholly owned subsidiary of the Society has not traded during the year. The Directors of the subsidiary, as at 31 December 2017, were Peter Wyper and Peter Green.

Shareholders' funds at 31 December 2017 were £2,392 compared with £2,421 at the end of 2016.

External audit

The external audit has been undertaken by Deloitte LLP. 2017 was the first audit year for Deloitte having succeeded KPMG who had been in place for the previous six years.

The Board undertook an evaluation of their performance based on the depth of their audit investigations, analysis of their technical knowledge and quality of their report to the Audit Committee. The Board recommend to members their re-appointment at the next AGM.

Deloitte LLP did not provide any other services to the Society during the year.

Directors' statement of responsibility

As an incorporated friendly society, in accordance with the 1992 Friendly Society Act, the Board of Directors has assumed the responsibility and duties of the Committee of Management.

The Committee of Management is responsible for preparing the Annual Report, the Report of the Committee of Management and the Financial Statements in accordance with applicable law and regulations.

Friendly society law requires the Committee of Management to prepare Group and Society Financial Statements for each financial year. Under that law they have elected to prepare the Group and Society Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Group and Society Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and of the Society as at the end of the financial year and of the income and expenditure of the Group and of the Society for the financial 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

The Committee of Management is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society and enables them to ensure that its financial statements comply with the Friendly Societies Act 1992 and the regulations made under it.

The Committee of Management is also responsible for preparing a Directors' Report in accordance with the Friendly Societies Act 1992 and the regulations made under it.

The Committee of Management has general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Committee of Management is responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure to auditors

Each person who is a Director at the date of this report confirms that, so far as each of them is aware, there is no information relevant to the audit of the Group and Society's Financial Statements for the year ended 31 December 2017 of which the Auditors are unaware; and they have taken all steps that they ought to have taken in their duty as a Director to make themselves aware of any relevant audit information and to establish that the Group and Society's Auditors are aware of that information.

Other information

The Directors are not aware of any significant events which have occurred since the end of the financial year.

Whilst there are no plans to change the existing strategy the Board will continue to monitor its appropriateness and respond appropriately to changes in the market and member needs.

Going concern

The Society's capital position met the required regulatory capital at 31 December 2017 and throughout the year. Having considered the year end statutory solvency position and the results of the Forward Looking Assessment of Own Risks, the Board has concluded that it is satisfied that the Society is able to continue in business on a going concern basis.

Approval of the Directors' Report

It is the opinion of the Directors that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's position and performance, business model and strategy.

The Board approved the Directors' Report at their meeting on 2 May 2018.

Steven Spilsbury
Chairman

2 May 2018

Peter Green
Chief Executive

2 May 2018

Directors' Report on Remuneration

Remuneration Committee

The Remuneration Committee is chaired by Dianne Payne, Senior Independent Non-executive Director. The committee makes recommendations to the Board on the remuneration of all Directors. The committee includes Executive and Non-executive Directors; however individual Directors are not allowed to participate in decisions relating to their own remuneration.

The remuneration strategy and policy for all staff is reviewed annually by the committee.

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 fair, 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 and is benchmarked to other friendly societies and mutual insurers.

Service contracts

Executive Directors

The Chief Executive is employed on a contract with the Society which requires six months' notice by either party and includes a discretionary 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 discretionary performance related bonus element of up to 15% of basic salary. No non-executive Directorships are held.

Non-executive Directors

Fees for Non-executive Directors, which take the form of a daily allowance of £300 and an annual retainer, are determined by the Board.

There is no other remuneration except where the Society meets the authorised expenses of Non-executive Directors incurred on Society business.

Annual retainers:
Chairman £6,000
Other Non-executive Directors £3,000

The remuneration of Non-executive Directors is subject to the pension auto-enrolment legislation and where obligated to Non-executive Directors have been auto-enrolled at the minimum contribution rate into the Society's Stakeholder Pension Scheme with Peoples Pension.

On retirement a Non-executive Director may receive a discretionary retirement honorarium of £100 per year of service in respect of Board membership prior to June 2016.

Whilst the remuneration of non-executive Directors is reviewed annually a more detailed review and benchmarking exercise will be undertaken every 3 years.

The Executive Directors' service contracts and the letters of appointment of Non-executive Directors are available for inspection during normal working hours at the registered office of the Society.

Salaries

All staff salaries are reviewed annually, 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.

Variable remuneration

As Executive Directors the Chief Executive and Director Finance and Risk participate in a discretionary bonus scheme which provides a maximum payment of up to 15% of salary. Any payment under the scheme is not pensionable.

Payment is based on the achievement of Society wide key performance indicators and personal objectives set by the Board.

Payment of 60% of the bonus is paid annually in arrears with 20% of the bonus deferred for a further 12 months and the final 20% deferred for 24 months and is not payable on certain criteria.

- No reversionary bonus is declared for members.
- The Society has breached its minimum solvency requirements.
- The Society is subject to PRA / FCA enforcement action.
- The employee is dismissed for misconduct.

The Society's sales staff receive an element of commission and bonus which is determined by the Board.

There are no elements of variable remuneration for any Non-executive Directors.

Director remuneration

The detail of the remuneration paid to individual Directors is shown in note 35 on page 62 of the Financial Statements.

Pension arrangements

The Society operates a money purchase pension scheme which is open to employees who have completed their probationary period, with the option of contribution levels of 2.5% or 5.0% of basic salary, with respective employer contributions of 6.25% and 12.5%.

The Society has an auto-enrolment pension scheme to which eligible staff and Directors are enrolled, although there is the ability to opt out. Contribution levels for the year were 1% for employees and the Society.

Approval

The Directors' Report on Remuneration was approved by the Directors on 2 May 2018.

Dianne Payne
Chairman of the Remuneration Committee

2 May 2018

Independent Auditor's Report to the members of The Rechabite Friendly Society Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the group's and of the society's affairs as at 31 December 2017 and of the group's and society's profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **have been prepared in accordance with the Friendly Societies Act 1992.**

We have audited the financial statements of The Rechabite Friendly Society Limited (the 'Society') and its subsidiaries (the 'group') which comprise:

- the consolidated and Society statement of comprehensive income;
- the consolidated and Society Statement of Financial Position; and
- the related notes 1 to 38.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Data extraction error- insurance contract provisions;* • *Technical Provisions –future expense assumption; and* • *Revenue recognition – valuation of annual management charges.* This is the first year of our appointment as the external auditor to the Society, as such all key audit matters are new this year.
Materiality	The materiality that we used in the current year was £204,000 which was determined on the basis of the Fund for Future Appropriations.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As this is our first year of appointment, all key audit risks identified below are included for the first time.

Data extraction error – insurance contract provisions	
Key audit matter description	The Society's insurance contract provisions are estimated using underlying policy data from a database which is maintained by management. Management outsource the setting of technical provisions to a third party Actuarial Function. During 2017, management identified that since 2014 there has been an error in the extraction process for the data supplied to the actuary, impacting on the recognised insurance contract liabilities on the Balance Sheet as at 31 December 2015, 2016 and 2017. As such, if the correct data had been used in the 2016 valuation, the insurance contract provision reported would have been £2.8m higher. As a result, management has restated the comparative figures in this year's accounts. The restatement has been disclosed and explained within note 37.
How the scope of our audit responded to the key audit matter	In addressing the key audit matter we have performed the following procedures: • Held discussions with management to identify the source and cause of the error; • Using our actuarial specialists, assessed whether the recalculated 2015 and 2016 valuations, based on the updated data extract, appeared reasonable; • Tested a sample of policyholder transactions in the Actuarial functions data to the policyholder system for 2015, 2016 and 2017 and through to supporting evidence; • Reconciled the premiums and claims totals from the policyholder system through to the general ledger; and • Reconciled the policyholder "current value" from the Actuarial

	Functions data to the Policyholder system for 2015, 2016 and 2017; • Assessed the reasonableness of the estimated bonuses used in the policy movements by comparing estimated amounts to declared bonuses post year end • Reviewed the restatement disclosure in note 37
Key observations	We consider that the 2016 comparative figures within the financial statements have been appropriately restated as well as the brought forward insurance contract provision balance at the 2015 year end. The restatement disclosure in note 37 is reasonable.
Technical provisions – future expense assumption	
Key audit matter description	At the year-end the Society carried insurance contract provisions of £86.5m (2016 restated: £80.2m), which are deemed both quantitatively and qualitatively material. The provision is set based on a number of assumptions made by management, some of which are sensitive and require a significant level of judgment. We have identified a key audit matter around the future expense assumption used in the calculation of this provision. These assumptions are complex and there is a potential for management bias and inappropriate adjustments given the increased level of focus on the Society's expense base in the current period, and the sensitivity to the assumption. Further detail is provided in note 2, note 5 and note 18 which outlines the accounting policy, the process undertaken by the Society in forming its assumption around the future expense base, the controls the Society has in place to mitigate the risk of an inappropriate expense assumption being used and a sensitivity analysis for the expense assumption.
How the scope of our audit responded to the key audit matter	In addressing the key audit matter we have performed the below procedures: • We have evaluated the design and implementation of the key controls put in place by the Society to support the expense setting and approval process; • We worked with our actuarial specialists to challenge the methodology applied in the calculation of the future expense assumption; • We have challenged the expense base in the assumption setting process by comparison to the actual expense figure incurred in the period (which has been tested substantively); • We challenged any overlay or adjustments to the underlying base expense assumption to ensure these are appropriate; and • We performed sample checks on the technical provisions to test that appropriate assumptions have been included in the underlying model. We have worked directly with the Society's outsourced Actuarial Function Holder, assessing their competency, qualifications and the scope of the work performed.
Key observations	We consider that the expense base used in setting the expense assumption is reasonable. Management's use of the CPI inflation measure provides a lower level of rate of future expense increases than RPI, however we considered that this choice of assumption does not materially impact the overall level of technical provisions determined.

Annual Management Charges	
Key audit matter description	The Society offers a number of different products to customers, including: • Endowment Saving Plans; • Investment Bonds; • ISAs • Junior ISAs and • Child Trust Funds The contractual terms of these products include an Annual Management Charge ('AMC') which varies per product and are deducted from policyholder assets. There is complexity within these contractual terms and these charges are calculated manually creating a risk that these are calculated incorrectly or include inappropriate bias. We have identified this as a key audit matter. Further detail is provided in Note 10 and the accounting policy in Note 2.
How the scope of our audit responded to the key audit matter	In addressing the key audit matter we have performed the following procedures: • We have evaluated the design and implementation of the controls put in place by the Society around the calculation and recording of the AMC; • On a sample basis, we have validated the rate applied to the policyholder assets by comparison to supporting policyholder documentation and performed a recalculation of the AMC to test that this is in line with the Society's calculation; and • We have checked for the above sample that the charges have been deducted in the correct accounting period.
Key observations	We consider that the annual management charges deducted in the period are appropriate and are recorded in the correct period.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group and Society materiality	£204,000
Basis for determining materiality	3% of the Fund for Future Appropriations has been used as the basis for determining materiality.
Rationale for the benchmark applied	The Fund for Future Appropriations represents the available accounting surplus available to the members of the Society, and is the most suitable basis to evaluate the stability of the Society. The year-end Fund for Future Appropriations also reflects the year-end revaluation of the assets and liabilities of the Society. The same materiality has been applied to the consolidated and society only financial statements due to the society owning all of the group's operating activities and due to the assets of the Society's sole subsidiary being immaterial to the group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £10,200, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Society and its environment, including firm-wide controls, and assessing the risks of material misstatement. Based on that assessment, we performed a full audit of the Society executed at a level of materiality applicable to the individual entity.

We have treated the Group as a single component due to the subsidiary of the Society being immaterial to the Group.

Other information

We have nothing to report in respect of these matters.

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's and the society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the society or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Friendly Society Act 1992

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors’ report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors’ report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 26 October 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. This is the first year of our appointment.

Consistency of the Audit Report with the additional report to the Audit Committee
Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

David Heaton
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester
United Kingdom

2 May 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	Group 2017 £	Group 2016 £ Restated (Note 37)
Gross earned premiums	6	**13,865,598**	15,877,074
Premiums ceded to reinsurers		**-**	-
Net earned premiums		**13,865,598**	15,877,074
Investment income	8	**5,024,693**	4,256,680
Net gains on investments	9	**7,223,960**	9,309,789
Other income	10	**813,213**	613,299
Total income		**26,927,464**	30,056,842
Net benefits and claims	11	**6,968,679**	6,598,488
Change in contract liabilities		**12,856,374**	22,082,760
Change in provisions		**(38,041)**	(5,979)
Change in contract liabilities	17	**12,818,333**	22,076,781
Other operating and administrative expenses	12	**1,954,663**	2,052,133
Total claims and expenses		**21,741,675**	30,727,402
Profit/(loss) before tax		**5,185,789**	(670,560)
Tax (credit)/charge	27	**(44,730)**	335,500
Transfer to/(from) the Fund for Future Appropriations		**5,230,519**	(1,006,060)
Total comprehensive income for the year		**-**	-

As a friendly society, all net earnings are for the benefit of policyholders and are carried forward within the Fund for Future Appropriations. Accordingly, there is no profit for the year shown in the Statement of Comprehensive Income.

The Group and the Society have not presented a Statement of Changes in Equity as there are no equity holders in either the Group or Society as the Society is a mutual organisation.

The notes on pages 39 to 64 inclusive form an integral part of these Financial Statements.

Financial Services Register no.109994.

Consolidated Statement of Financial Position

As at 31 December 2017

Assets	Notes	Group 2017 £	Group 2016 £ Restated (Note 37)
Intangible assets	19	**291,623**	312,361
Property, plant and equipment	20	**291,613**	294,955
Investment properties	21	**-**	348,200
Prepayments and accrued income	24	**664,736**	613,163
Financial assets – fair value through income	14	**155,929,258**	137,345,223
Insurance receivables	23	**21,370**	376,885
Cash and other cash equivalents		**747,945**	979,826
Total Assets		**157,946,545**	140,270,613

Liabilities	Notes	Group 2017 £	Group 2016 £
Fund for Future Appropriations	33	**9,446,597**	4,216,078
Insurance contract liabilities	16	**86,466,237**	80,151,193
Investment contract liabilities	15	**61,164,974**	54,623,644
Provisions	30	**313,979**	352,020
Corporation tax liability		**1,073**	93,500
Deferred tax liability	28	**90,000**	306,500
Insurance payables	25	**205,171**	177,787
Trade and other payables	26	**258,514**	349,891
Total liabilities		**157,946,545**	140,270,613

The notes on pages 39 to 64 inclusive form an integral part of these financial statements and were approved by the Board on 2 May 2018 and signed on its behalf by:

Steven Spilsbury	Keith Ashcroft	Peter Green
Chairman	Director Finance & Risk	Chief Executive

Financial Services Register no.109994.

Society Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	Society 2017 £	Society 2016 £ Restated (Note 37)
Gross earned premiums	6	**13,865,598**	15,877,074
Premiums ceded to reinsurers		**-**	-
Net earned premiums		**13,865,598**	15,877,074
Investment income	8	**5,024,693**	4,256,680
Net gains on investments	9	**7,223,960**	9,309,789
Other income	10	**813,213**	613,297
Total income		**26,927,464**	30,056,840
Net benefits and claims	11	**6,968,679**	6,598,488
Change in contract liabilities		**12,856,374**	22,082,760
Change in provision		**(38,041)**	(5,979)
Change in contract liabilities	17	**12,818,333**	22,076,781
Other operating and administrative expenses	12	**1,954,634**	2,050,881
Total claims and expenses		**21,741,646**	30,726,150
Profit/(loss) before tax		**5,185,818**	(669,310)
Tax (credit)/charge	27	**(44,730)**	335,500
Transfer to/(from) the Fund for Future Appropriations		**5,230,548**	(1,004,810)
Total comprehensive income for the year		**-**	-

As a friendly society, all net earnings are for the benefit of policyholders and are carried forward within the Fund for Future Appropriations. Accordingly, there is no profit for the year shown in the Statement of Comprehensive Income.

The Group and the Society have not presented a Statement of Changes in Equity as there are no equity holders in either the Group or Society as the Society is a mutual organisation.

The notes on pages 39 to 64 inclusive form an integral part of these Financial Statements.

Financial Services Register no.109994.

Society Statement of Financial Position

As at 31 December 2017

Assets

	Notes	Society 2017 £	Society 2016 £ Restated (Note 37)
Intangible assets	19	**291,623**	312,361
Property, plant and equipment	20	**291,613**	294,955
Investment properties	21	**-**	348,200
Investment in Group undertakings	22	**1,000**	1,000
Prepayments and accrued income	24	**664,736**	613,163
Financial assets – fair value through income	14	**155,929,258**	137,345,223
Loans and other receivables		**1,200**	2,650
Insurance receivables	23	**21,370**	376,885
Cash and cash equivalents		**744,353**	973,555
Total assets		**157,945,153**	140,267,992

Liabilities

	Notes	Society 2017 £	Society 2016 £ Restated (Note 37)
Fund for Future Appropriations	33	**9,445,205**	4,214,657
Insurance contract liabilities	16	**86,466,237**	80,151,193
Investment contract liabilities	15	**61,164,974**	54,623,644
Provisions	30	**313,979**	352,020
Corporation tax liability		**1,073**	93,500
Deferred tax liability	28	**90,000**	306,500
Insurance payables	25	**205,171**	177,787
Trade and other payables	26	**258,514**	348,691
Total liabilities		**157,945,153**	140,267,992

The notes on pages 39 to 64 inclusive form an integral part of these financial statements and were approved by the Board on 2 May 2018 and signed on its behalf by:

Steven Spilsbury
Chairman

Keith Ashcroft
Director Finance and Risk

Peter Green
Chief Executive

Financial Services Register no.109994.

Notes to the Financial Statements
for the year ended 31 December 2017

1. Significant accounting policies
Basis of presentation

The accounts have been prepared in accordance with applicable accounting standards and under historical cost accounting rules. The Group and Society financial statements have been prepared in accordance with the Friendly Societies Act 1992 and the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

These financial statements were prepared in accordance with Financial Reporting Standard 102 & 103. The Financial Reporting Standards applicable in the UK and Republic of Ireland ("FRS 102 & 103") as issued by the Financial Reporting Council.

The financial statements are presented in pound sterling, being the functional currency of the Society and being the currency in which it operates.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Estimates made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

As further discussed in note 37, the accounts have been restated to reflect an understatement of long term insurance contract liabilities. The restatement affects the Statement of Comprehensive Income, the Statement of Financial Position and notes 16 and 17. A detailed explanation can be read in note 37 on page 63.

Measurement convention
The financial statements are prepared on the historical cost basis except that assets, liabilities and financial instruments are stated at their fair value.

Premium income
Premium income in respect of With-profits single premium and endowment policies is included in the Statement of Comprehensive Income on the basis of premiums due from members during the year. Re-insurance premiums are included when they are payable. Child Trust Fund premiums are treated on a deposit accounting basis.

Claims
Claims are included in the comprehensive income before tax on the following basis:
- Maturities when they become due
- Deaths when notified to the Society
- Surrenders when paid

All sickness claims are accounted for when notified to the Society.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances at 31 December 2017. Cash is all in current accounts with instant access.

Investment income
Investment income includes dividends, interest, and rents on investments, which is accounted for on an accruals basis.

Annual management charge
Healthy Investment charges the Child Trust Funds an annual management charge of 1.5% less any charges paid in respect of collective investments held. The charge is deducted from the unit price based on 1/365th of the annual amount per day. This is reflected as Other Income.

Investments
Financial assets are classified at fair value with any subsequent movement in valuation recognised through the Statement of Comprehensive Income. Quoted investments are shown at the bid market value at the accounting date.

Realised gains and losses on investments carried at fair value are calculated as the difference between the proceeds of sale less cost. Unrealised gains and losses on investments represent the difference between the fair value of an instrument owned at the last Statement of Financial Position date and its most recently recorded fair value, being either its carrying value at the last reporting date or its purchase price if purchased in the current financial period.

Investment property
Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost.
Subsequent to initial recognition any gains or losses arising from changes in the fair value are recognised in the Statement of Comprehensive Income in the period that they arise.

Property, plant and equipment
Tangible fixed assets are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

Leases in which the Society assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

The Society assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:
- buildings - 50 years
- furniture and equipment - 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

Intangible assets
Computer software that is acquired by the Society is stated at cost less accumulated amortisation and less accumulated impairment losses.

In December 2016 the Society received the transfer of a number of Child Trust Fund (CTF) policies from Red Rose Assurance Friendly Society. The payments in excess of the liabilities were treated as an intangible asset. The CTF policies acquired by transfer are stated at cost less accumulated impairment losses.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- computer software - 4 years
- CTF policies transferred from Red Rose Assurance Friendly Society - to policy maturity at age 18

The basis for choosing these useful lives is the estimated useful life of the asset.

The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date and are tested for impairment when there is an indication that they may be impaired.

Foreign currencies

Transactions in foreign currencies are translated to sterling. The exchange rate is the ruling official rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated to sterling at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Exchange gains and losses are dealt with in that part of the Statement of Comprehensive Income in which the underlying transactions are reported.

Impairment excluding investment properties and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Society would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Society's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" (CGU)).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the Statement of Financial Position when the Society has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Taxation attributable to long term business

The Society recognises a current tax liability for tax payable on taxable profit for the current and past periods. The Society is subject to tax on part of its life and endowment business, interest income, any income from property, certain realised gains, unrealised gains on collective investment equity funds (spread over 7 years) and unrealised gains on the value of listed fixed interest securities.

The Society measures a tax liability (asset) at the amount it expects to pay (recover) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of timing differences at the reporting date.

Timing differences arise where there are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Timing differences also arise and deferred tax recognised when the tax allowances for the cost of a fixed asset are received before or after the depreciation of the fixed asset is recognised in profit or loss. If and when all conditions for retaining the tax allowances have been met, the deferred tax shall be reversed.

Unrelieved tax losses and other deferred tax assets shall be recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Fund for Future Appropriations (FFA)

The unallocated divisible surplus incorporates amounts which have yet to be allocated to participating policyholders. Any surplus or deficit arising in the Statement of Comprehensive Income is transferred to or from the Fund for Future Appropriations on an annual basis. Surpluses are appropriated by the Directors to participating policyholders by way of bonuses. Any unappropriated surplus is carried forward in the Fund for Future Appropriations.

Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Society and its subsidiary, The Rechabite Financial Services Limited, drawn up to 31 December 2017.

Presentation of cash-flows

The Society being a mutual life assurance company is exempt from the requirement under FRS102 7.1A to produce a cash-flow statement.

Presentation of insurance and investment contract liabilities

The Statement of Financial Position shows the split of insurance and investment contract liabilities between participating and non-participating contract liabilities.

Employee benefits

We operate a defined contribution plan which is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss in the periods during which services are rendered by employees. We do not operate a defined benefit scheme.
The Society has an auto-enrolment pension scheme, which staff and Directors are enrolled into automatically. The Society is obligated to pay the minimum statutory contributions.

2. Significant accounting estimates and judgements

The preparation of the financial statements requires management to rely on estimates in applying accounting policies. The valuation of long term insurance contract liabilities are material to the Society's financial position and require actuarial estimates and assumptions. The valuations of the Society's financial assets are all at fair value on quoted bid prices and not subject to estimation.

In the course of preparing the financial statements, judgement is applied when assessing historical data to ensure the data is used appropriately. Judgement is also used where assessing data validity.

Contract classification

The Society issues contracts that transfer insurance or financial risk.
Insurance contracts are those contracts that transfer significant insurance risk. The Society's traditional products of bonds, ISA's and other endowments fall in this category.
Investment contracts are those contracts that transfer financial risk with no significant insurance risk. The Society's Child Trust Fund Unit-linked products fall in this category

All With-profits insurance contracts are participating contracts as these contracts entitle the holder to receive, as a supplement to guaranteed benefits, additional bonuses.

Contract liabilities

Child Trust Funds are being treated as investment contracts under accounting rules rather than insurance contracts. The provision made for these contracts is the value of units attached to the policies issued.

For insurance contracts, the Best Estimate of Liabilities are determined by the Society's Chief Actuary and With-Profits Actuary following the annual investigation of the Society's long-term business and linked liabilities related assets.

The Best Estimate of Liabilities is calculated as the sum of the policy reserves and the Cost of Guarantee. The best estimate for the With-profits business is calculated by projecting, for each individual policy, the net monthly cash-flows and then discounting these net cash-flows back to the valuation date.

Fair value measurements of the financial instruments are subject to classification and its application to the Society is subject to a fair value hierarchy. The three levels of hierarchy are:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This did not apply to any financial instruments held.

Level 3 – Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs). This did not apply to any financial instruments held.

The financial assets are all held on a recognised stock market and are valued at the bid quoted market price. Investment properties have been valued at an open market valuation by a chartered surveyor.

Any changes to the fair value are recognised within net gains/losses on investments within the Statement of Comprehensive Income.

Liability adequacy testing

At each reporting date, an assessment is made of whether the recognised long-term contract liabilities are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities is insufficient in light of the estimated cash flows, the deficiency is recognised in the Statement of Comprehensive Income.

All the following notes relate to the Group and Society except for note 22 which relates to the Society only.

3. Segmental information

The activities of the operational segments are:

With-profits
The principal activity is providing With-profits business. The core products are Endowment Savings Plans, Investment Bonds, ISAs and JISAs.

Unit-linked
The principal activity is providing Unit-linked Child Trust Fund business. The core products are stakeholder and ethical policies.

Revenue and expenses

	2017		2016 Restated (note 37)	
	With-profits £000s	**Unit-linked £000s**	With-profits £000s	Unit-linked £000s
Gross premiums	**13,866**	**-**	15,877	-
Premiums ceded to reinsurers	**-**	**-**	-	-
Net premiums	**13,866**	**-**	15,877	-
Investment income and other income	**6,437**	**6,625**	6,936	7,244
Total income	**20,303**	**6,625**	22,813	7,244
Benefits and claims	**6,969**	**-**	6,598	-
Net change in contract liabilities	**6,277**	**6,541**	15,461	6,616
Other expenses	**1,878**	**77**	1,989	63
Total segment expenses	**15,124**	**6,618**	24,048	6,679
Profit before tax	**5,179**	**7**	(1,235)	565

Gross written premiums for investment contracts, which are deposit accounted for, and not included above are £537,806 (2016: £501,625).

Assets and liabilities

	2017		2016 Restated (note 37)	
	With-profits £000s	**Unit-linked £000s**	With-profits £000s	Unit-linked £000s
Intangibles		**292**	-	312
Property, plant and equipment	**292**	**-**	295	-
Investment properties	**-**	**-**	348	-
Financial assets	**94,678**	**61,251**	83,072	54,273
Other assets	**685**	**1**	635	356
Cash and cash equivalents	**740**	**8**	976	4
Total assets	**96,395**	**61,552**	85,326	54,945
Insurance and investment contract liabilities	**86,466**	**61,165**	80,151	54,624
Other liabilities	**869**	**-**	1,263	17
Total liabilities	**87,335**	**61,165**	81,414	54,641
Net assets	**9,060**	**387**	3,912	304

4. Capital management

Policies and objectives

The key capital management objectives are:

- To comply with the capital requirements of the Prudential Regulatory Authority (PRA)
- To ensure that the Society's financial strength is maintained
- To ensure that the Society's strategy is sustainable and can be implemented
- To give current and future members and other stakeholders confidence in the long term stability of the Society

These objectives are reviewed at least annually. The Board is responsible for meeting the capital requirement at all times. The Society complied with the PRA's capital requirement throughout the year. The Board aims to maintain an appropriate buffer in excess of the capital requirement.

The Society prepares a strategic business plan over 5 years and an operational business plan for 1 year.

The Society maintains the agreed capital objectives through its system of risk management, investment policy, control of expenses and the implementation of its operational business and distribution plan.

Measurement and monitoring of capital

The capital position of the Society is monitored on a regular basis. Benchmarks are set to assess the adequacy of the Society's financial strength. In circumstances where there is a significant fall in the capital base management actions are taken to reduce risk exposure.

Capital statement: Summary Solvency II Balance Sheet

The following tables set out the capital available:

	2017	2016
	£000s	£000s
Value of assets	**157,662**	139,985
Technical provisions and other liabilities	**(145,257)**	(130,291)
Available assets	**12,405**	9,694
Capital requirement	**(8,545)**	(5,366)
Own Funds	**3,860**	4,328

The Solvency II Balance Sheet does not form part of the audit of the financial statements, but will be subject to another audit at a later date. The 2016 comparative has not been restated for the purposes of this report.

5. Risk management

The Society is committed to the highest standards of risk management with the Risk Committee having oversight of the Board's risk management system.

The overarching risk strategy is to ensure that the Society is run in the best interests of members and that it is able to maintain its regulatory capital requirements and honour the guarantees made to policyholders, whilst achieving a fair and realistic investment return.

The Society's system of risk management includes the categorisation, recording and assessment of risks, undertaking sensitivity analysis of risk exposures and setting operational tolerance limits for management.

Principal risks

The Society is exposed to the following principal risks:

Underwriting risk

Underwriting or insurance risk is the risk of loss arising from actual experience being different than that assumed when a product was designed and priced. For Healthy Investment insurance risk includes mortality and longevity risk, expense risk and persistency risk.

Mortality and longevity

Life business is exposed to changes in life expectancy experience. The product's technical provisions are calculated based on the assumed mortality of policyholders. The risk is that more or fewer policyholders die than expected and the benefit paid is more or less than the policy's technical provision.

As at 31 December 2017 Healthy Investment was exposed to £45.9 million of mortality risk in the form of total benefits that would be payable on death (assuming everyone died immediately) in excess of the technical provisions.

A 15% permanent increase in future mortality rates assumed would increase technical provisions by £61,100 causing an equivalent reduction in Own Funds. A 20% reduction in future mortality rates assumed could increase some of the technical provisions by £115,000 causing an equivalent reduction in Own Funds. Under Solvency II rules negative values are not taken into account in stress calculations and the nature of the profile of the policies is such that both scenarios could lead to an increase in technical provisions.

The mortality exposure is not concentrated in a few lives but is widely spread through all the insurance policies written by the Society.

The risk is mitigated through regular review of actual experience against estimated mortality so that adequate provisions are established. Underwriting standards for new policies are reviewed following on from the experience review.

Expenses
In pricing the insurance policies and in setting technical provisions, assumptions are made as to the acquisition and maintenance expenses over the life of the policies. The Society is exposed to the risk that the charges it deducts from policyholders' benefits are not sufficient to cover these expenses and that the technical provisions make inadequate allowance for future expenses.

A significant part of the cost of running the Society is fixed and not dependent upon the number or value of policies in force. Therefore, the volume of new and in force business has a major impact on whether policy charges can meet the expenses incurred.

Total expenses (excluding commission) in 2017 were £1,562,680 (2016: £1,480,303).

A permanent 10% increase in expenses and a 1% per annum permanent increase in future inflation would increase the technical provisions by £1.4 million (2016: £1.5 million).

Expenses are largely concentrated in employee remuneration and other employment costs.

The risk is mitigated through implementing an effective sales strategy, regular reports on expenses against budget and control of expenditure where necessary.

Persistency
In pricing the life insurance business and in setting technical provisions, assumptions have been made as to the rate at which the policyholder will surrender or lapse policies. The risk is that policies do not remain in force as long as expected or stay in force longer than expected. In turn, this also affects the number of policies over which fixed costs can be spread and the recovery of acquisition costs.

An analysis of a permanent 50% increase or decrease in the rates of assumed lapses had minimal impact on technical provisions. Allowing for a mass lapse of 40% of the policies in force reduces future margins and would reduce the Own Funds by £2.3 million.

The risk is mitigated through regular reporting of claims experience and persistency and where appropriate pursuing an active member retention strategy. An analysis of exposure by adviser firm has been undertaken to ensure no material exposure to any one source of business.

Summary of changes to key assumptions sensitivity	**Change in technical provisions £000s**
Expenses +10%p.a. / inflation +1% p.a.	1,252
Lapse +10%	32
Lapse -10%	(41)
Mortality +10%	(42)
Mortality -10%	53

Market risk

Market risk is the risk of a loss arising either directly or indirectly from fluctuations in the level and volatility of the market prices of assets and liabilities.

The key market risks relates to the performance of the assets invested in the With-profits Funds.

Equity price risk

The equity price risk is the exposure to fluctuations in the market value of the equity portfolios.

As at 31 December 2017 the equity exposure was £24.9 million reflecting both direct holdings and through collective investments held within the financial assets shown above.

The equity risk capital required under Solvency II before loss absorbency was £10.2 million which reflects both the movement in the assets in line with a fall of:

	Equities held before 1/1/2017	Equities purchased after 31/12/2016
Type 1 - traded on OECD exchanges	27.4%	40.9%
Type 2 - not traded on OECD exchanges	30.3%	50.9%

The equity price risk is controlled through limits on equity exposure, which is determined based on the Society's risk appetite. There is a process, when appropriate, for management action to reduce equity exposure.

Property price risk

The property price risk arises from changes in the value of the investment properties held directly or through collective investment schemes.

As at 31 December 2017 the property exposure was £14.8 million reflecting both direct holdings in property and through collective investments shown within the financial investments in the Statement of Financial Position. The latter includes shares in investment trusts who "gear up" their property exposure by borrowing money to invest in property above their total net assets. The exposure reflects this full exposure. The property risk capital required under Solvency II (reflecting a 25% fall in property values) before loss absorbency was £3.7 million.

Property price risk is managed through setting a maximum exposure and monitoring the value of holdings. There is a process, when appropriate, for management action to reduce property exposure.

Interest rate risk

Interest rate risk is the risk that the value of fixed interest financial instruments will vary as market rates of interest vary and that technical provisions will vary due to changes in the level of risk free rates of return used to discount the underlying cash-flows.

As at 31 December 2017 the interest rate exposure was £59.5 million which was the total amount of bonds held both directly or through collective investments. The interest rate risk capital required under Solvency II before loss absorbency was £2.0 million.

The control of the interest rate risk is achieved by aiming to ensure that fixed interest securities match the duration of the liability cash-flows underlying the technical provision. In practice, cash-flow matching is very difficult to achieve and the interest rate risk is mitigated by setting a target mean duration of the fixed interest portfolio. The interest rate risk is managed through regular review and re-assessment of the mean duration and monitoring market interest rates.

Currency risk

Currency risk is the exposure to fluctuations in currencies in the value of non-sterling denominated assets.

As at 31 December 2017 the currency exposure was £8.2 million in the form of direct assets (bonds and equities) and assets held within collective investments. The currency risk capital required under Solvency II before loss absorbency was £2.1 million.

The currency risk is controlled through limits on holdings of non-sterling currency denominated securities and the overseas equity exposure, which is determined based on the Society's risk appetite. There is a process, when appropriate, for management action to reduce equity exposure.

Credit spread risk

Credit spread risk is the sensitivity of the values of corporate bonds to changes in the level or in the volatility of credit spreads. As credit spreads will typically be narrower for well rated securities than for poorly rated securities (and for short duration rather than long duration securities), the Society specifies credit quality limits to the assets in its investment policy.

As at 31 December 2017 the credit spread exposure was £17.7 million which was the total of corporate bonds held both directly and through collective investments.

The credit quality steps are Healthy Investment's assessment of the credit quality of the bonds reflecting information from two external rating agencies as provided by its investment managers. The rating agencies provide information on some of the bonds and some of the bonds are rated by one or both of these agencies.

The steps reflect the steps defined within the Solvency II rules with 0 being the highest credit quality and 6 being the lowest. Credit step 4 is normally equivalent to the lowest investment grade step. Credit step 7 reflects bonds under which no rating was available.

The table below shows the exposure of the corporate bonds by credit rating:

Credit quality step	**HI WPF £000s**	**%**	**CAS RFF £000s**	**%**	**Total £000s**	**%**
1	181	1%	111	7%	292	2%
2	4,886	30%	491	34%	5,377	30%
3	8,142	50%	597	49%	8,739	49%
4	1,757	11%	0	0%	1,757	10%
5	405	2%	0	0%	405	2%
7	954	6%	225	10%	1179	9%
Total	**16,325**	**100%**	**1,424**	**100%**	**17,749**	**100%**

The credit spread risk capital required under Solvency II before loss absorbency was £3.1 million.

The credit spread risk exposure is managed by setting limits on the exposure to counterparties of various risk classifications.

Credit risk

The Society reviews the carrying amount of its financial assets at each statement of financial position date. If the carrying value of a financial asset is impaired, the carrying amount is reduced. This primarily relates to receivables where there is no realistic of prospect of recovery. There are no impairment provisions being carried.

An age analysis of the receivables is:

As at 31 December 2017	**Not overdue**	**<30 days**	**>30 days**	**Total**
	£	**£**	**£**	**£**
Loan and other receivables	**1,213**	**-**	**-**	**1,213**
Insurance receivables	**-**	**8,254**	**13,116**	**21,370**
Total	**1,213**	**8,254**	**13,116**	**22,583**

As at 31 December 2016	Not overdue	<30 days	>30 days	Total
	£	£	£	£
Loan and other receivables	2,650	-	-	2,650
Insurance receivables	2,766	19,137	-	21,903
Total	5,416	19,137	-	24,553

Counterparty risk

The counterparty risk is the risk of a loss arising due to a party defaulting on any type of debt. The key area of risk for the Society is the amounts held with banks and other financial institutions.

Counterparty risk is managed through limits on total exposure to individual counterparties. The investment managers provide a quarterly look through of holdings in collective investment schemes.

As at 31 December 2017 the Society's exposure is:

Directly exposed to bank accounts	£0.7 million
Exposed through collective investments to bank counterparties	£0.4 million

The amount of capital required under Solvency II stresses of the counterparty risk was £0.2 million.

Liquidity risk

Liquidity risk is the risk that the Society cannot make payments as they become due because there are insufficient cash or assets that can be realised quickly.
The fixed interest and equity holdings are traded on recognised investment exchanges and can be realised for cash within five business days. Illiquid investments are holdings in investment property held directly.

	2017	2016
	£000	£000
Assets in cash or realisable in 5 days	**95,422**	84,367
Illiquid assets	-	348

The insurance cash-flow expected from policies and fixed interest investment:

	Policy (claims plus expenses less premiums)	**Fixed interest maturities and coupons**
< 1 year	6,675	1,734
1 - 3 years	18,911	11,783
4 - 5 years	9,958	8,773
6 - 10 years	24,255	14,059
11 - 15 years	24,403	8,621
16 - 20 years	7,605	10,924
Total	**91,807**	**55,894**

The fixed interest assets extend in maturity beyond 20 years.

Liquidity is maintained at a level where the Society is confident all claims can be paid without delay to the member. The risk exposure is managed by matching maturities of assets and liabilities and holding investments which can be readily realised.
The liquidity requirements are taken in to consideration in the investment matrices set by the Board. No liquidity sensitivity analysis has been undertaken.

Operational risk

Operational risk covers the losses due to failure of people or processes. The material risks are:

- Data security – the risk of unauthorised access, use or disclosure of data
- IT infrastructure – the risk of system failure, integrity, reliability or effectiveness
- Outsourcing – the risk of a service provider failure, non-performance or ineffective management
- Compliance – the risk of not meeting regulatory or legal requirements
- Reputation – the risk of adverse publicity
- Fraud – the risk of policyholders' funds being misappropriated
- Keyman – the risk of the Society losing more than one key member of staff without notice

Management of operational risk is through the close involvement of Senior Managers in the day to day running of the business, a robust data security regime, monitoring of regulatory and legal changes, reporting on compliance issues to the Board, sign off by the Board of all new products, internal operating procedures and controls, internal audit and the Society's succession plan.

Strategic risk

There is a strategic risk that the Society will not effectively implement its strategy and achieve the objectives of its Business Plan.

The Strategic and Operational Business Plan identified 3 strategic risks that have the potential to affect the achievement of the long term objectives:

- CTF business provides a significant contribution to support the Society's expense base and as they begin to mature from 2020 this contribution has to be replaced.
- Distribution of our products is primarily through Independent Financial Advisers and Introducers. The intermediary market continues to change and there is a risk of not adapting to meet the needs of these channels.
- Failure to grow the business by developing the range of products and distribution channels to meet the needs of existing and new members.

The strategic risk is managed through the implementation of the business plan, the setting of sales objectives and the monthly monitoring of performance.

6. Net premiums

	2017	2016
	£	£
Single	**8,973,464**	10,715,838
Periodic	**4,892,134**	5,161,236
Gross premiums	**13,865,598**	15,877,074
Less: reinsurance	**-**	-
Net premiums	**13,865,598**	15,877,074

7. New business premiums

	2017	2016
	£	£
Investment and savings – single premium	**897,346**	1,071,624
Investment and savings – regular premiums	**452,628**	485,608
Unit-linked savings	**53,781**	50,163
	1,403,755	1,607,395

All new business is stated above as annual premium equivalent.

Unit-linked savings are premiums, which are accounted for on a deposit accounting basis, and are stated on the same basis as single premium contracts, being 1/10th of the deposited amount.

8. Investment income

	2017	2016
	£	£
Rental income from investment properties	**1,277**	36,540
Income from investments at fair value through income		
Interest	**1,708,809**	1,863,451
Dividends	**3,314,525**	2,355,103
Interest receivables	**82**	1,586
	5,024,693	4,256,680

9. Net gains on investments

	2017	2016
	£	£
Investment properties	-	(21,800)
Investment at fair value through income		
Fixed interest securities	**514,147**	2,559,810
Equity securities	**6,709,813**	6,771,779
	7,223,960	9,309,789

10. Other income

	2017	2016
	£	£
Interest receivable	-	2
Unit-linked annual management charges received	**813,213**	613,297
	813,213	613,299

11. Net benefits and claims

	2017	2016
	£	£
Deaths	**985,351**	1,115,623
Maturities	**1,488,186**	919,263
Surrenders	**4,495,142**	4,563,602
	6,968,679	6,598,488

12. Other operating and administrative expenses

	2017	2016
	£	£
Commission expenses	**391,983**	571,830
Employee benefit expenses	**576,457**	567,570
Investment management charges	**340,245**	306,602
Auditor's remuneration (note 13)	**83,940**	123,000
Actuarial and valuation expenses	**221,482**	214,092
Marketing and advertising	**16,005**	9,629
Other fees and expenses	**285,238**	247,703
Amortisation of intangible assets	**28,568**	449
Depreciation on property and equipment	**10,745**	11,258
Total	**1,954,663**	2,052,133

Acquisition costs have been deferred only when they are recoverable out of future revenue margins.

13. Auditor's remuneration

	2017	2016
	£	£
Auditor's remuneration		
Audit of these financial statements	**51,540**	47,400
Audit of Society Solvency and Financial Condition report	**32,400**	72,000
Other Services	**-**	3,600
Total	**83,940**	123,000

14. Financial instruments carrying amounts

The carrying amounts of the financial assets and liabilities include:

	2017	2016
	£	£
Assets measured at fair value through the profit and loss	**155,929,258**	137,345,223
Assets measured at cost less impairment	**1,271,542**	1,568,679
Total financial assets	**157,200,801**	138,913,902
Liabilities measured at amortised cost	**463,685**	527,677

The fair value of financial assets at fair value through the profit and loss is determined by reference to their quoted bid price at the Statement of Financial Position date.

An analysis of financial assets – fair value through profit and loss:

	2017	2016
Shares, other variable yield securities and units in unit trusts	**£**	£
UK listed	**88,052,909**	78,162,314
Overseas listed	**8,233,098**	5,366,876
Debt and other fixed income securities		
UK listed	**59,643,251**	53,816,033
	155,929,258	137,345,223
Assets held to cover linked liabilities included above:	**61,251,262**	54,272,965

Fair value measurement hierarchy of financial instruments

Table of financial assets by category:

	Level 1	**Level 2 and 3**	**2017 Total**	Level 1	Level 2 and 3	2016 Total
	£000s	**£000s**	**£000s**	£000s	£000s	£000s
Financial assets – fair value through income	**155,929**	**-**	**155,929**	137,345	-	137,345

Refer to note 2 for the classification criteria

15. Investment contract liabilities

	2017	2016
	£	£
Investment contract liabilities	**61,164,974**	54,623,644

Movement in investment contract liabilities

	2017	2016
	£	£
Balance at 1 January	**54,623,644**	41,818,255
Acquisition from Red Rose Friendly Society	**-**	6,444,069
Deposits received from policyholders	**537,806**	501,625
Payments made to policyholders	**(199,482)**	(142,863)
Change in contract liabilities	**6,203,006**	6,002,558
Balance at 31 December	**61,164,974**	54,623,644

16. Insurance contract liabilities

	2017	2016
	£	£ Restated (note 37)
Insurance contract liabilities	**86,466,237**	80,151,193
Provisions (note 30)	**313,979**	352,020
Total	**86,780,216**	80,503,213

Movement in long term insurance contract liabilities

	£	£ Restated (note 37)
Balance at 1 January	**80,151,193**	64,684,288
Mortality assumption change	**188,121**	(136,511)
Expense assumption change	**(388,770)**	589,132
Lapse assumption change	**198,178**	193,397
Economic assumption change	**(2,502,521)**	3,830,077
Policy movements	**8,820,036**	10,990,810
Balance at 31 December	**86,466,237**	80,151,193

17. Change in long term contract liabilities

	2017	2016
	£	£
Change in long term contract liabilities		Restated
Increase in insurance contract liabilities	**6,315,044**	15,466,905
Increase in investment contract liabilities	**6,541,330**	6,615,855
(Decrease) in provisions	**(38,041)**	(5,979)
Net change in contract liabilities	**12,818,333**	22,076,781

18. Long term insurance and investment contract liability valuation assumptions

The calculation of the technical provisions requires realistic assumptions on:

- discount rates for future cash-flows
- lapse rates
- expenses and expense inflation
- mortality rates

Discount rates for future cash-flows

The discount rates are used to discount the expected future net cash-flows to generate a value as at the valuation date. The rates used are spot rates provided by the European Insurance and Occupational Pensions Authority (EIOPA). EIOPA publishes risk-free spot rate curves for each currency on a monthly basis. As the Society's liabilities are all denominated in Sterling the GBP yield curve is used.

Example rates from the implied forward yield curve as at 31 December 2017 are shown in the table below:

Term to maturity (years)	Risk free rate	Term to maturity (years)	Risk free rate
1	0.555%	**30**	1.340%
2	0.684%	**40**	1.241%
5	0.937%	**50**	1.166%
10	1.188%	**60**	1.437%
15	1.330%	**70**	1.780%
20	1.378%	**75**	1.933%
25	1.365%	**80**	2.069%

No judgement has been applied as the risk-free interest rate is supplied by EIOPA.

Lapse assumptions

For With-profits products, lapse is a generalised term for when a policy is lapsed or surrendered. For the CTF products a lapse is a transfer of the CTF Fund out of the Society. It is assumed that all CTFs mature at the life assured's 18th birthday.

The lapse rate assumptions are based on the latest analysis of the Society's past experience. The lapse assumption rates reflect actual experience, based on an investigation in 2016 into full lapses and partial withdrawals.

Judgement is applied when assessing historical data to ensure the data used is applied appropriately. Judgement is also used where assessing data validity.

The table below shows the lapse assumptions used within the valuation:

		Lapse Rate pa					
		0-12 months	12-36 months	36-48 months	48-60 months	>60 months	MVR Free Date
Healthy Investment	Adult Sick and Death	n/a	0.6%	0.6%	0.6%	0.6%	n/a
	Child Trust Fund	0.14%	0.14%	0.14%	0.14%	0.14%	n/a
	Adult ISA Direct	5.2%	5.2%	17.9%	10.0%	10.0%	30%
	Adult ISA Adviser	5.3%	9.7%	9.7%	9.7%	9.7%	30%
	Junior ISA	3.4%	1.8%	1.8%	1.8%	1.8%	30%
	SPB Series 1-3	2.9%	2.9%	2.9%	17.2%	6.8%	30%
	SPB Series 4	3.3%	6.2%	6.2%	6.2%	6.2%	30%
	SPB Series 5 &6	2.9%	2.9%	2.9%	17.2%	6.8%	30%
	Conventional	3.8%	1.7%	1.7%	1.7%	1.7%	n/a
Coventry Assurance	Conventional	n/a	0.6.%	0.6.%	0.6.%	0.6.%	n/a
	Unibond	n/a	8.2%	8.2%	8.2%	8.2%	46%

Product	Partial Withdrawal pa
Single Premium Bond Series 1-3	2.22%
Single Premium Bond Series 4 /6	2.51%
Single Premium Bond Series 5	2.22%
Adult ISA Single Premium Direct	1.20%
Adult ISA Regular Premium Direct	2.33%
Adult ISA Single Premium Advisers	1.64%
Adult ISA Regular Premium Advisers	2.84%
Junior ISA Direct	0.00%
Junior ISA Single Premium Adviser	0.36%
Junior ISA Regular Premium Adviser	0.90%

Conventional With-profits policies include Tax Exempt and Taxable Endowment Savings Plans.

Expense assumptions

The expense assumptions have been set based on the most recent open fund expense analysis for the Society.

The expense analysis projects forward the Society's budgeted management expenses allowing for expense inflation. The management expenses are split between acquisition, renewal and investment expenses. The acquisition and renewal expenses are further split between administration and overhead expenses.
The analysis also projects forward the expected premium income, number of in force policies and the With-profits and CTF funds in order to derive appropriate assumptions to cover all expected future management expenses.

For the CTF valuation an assumption is required on the costs incurred by the Society for administering the CTF policies which need to be covered by the annual management charge applied to the policy units. The expected CTF administration costs are based on a Society budget of the expected costs for the forthcoming year and the number of CTF policies in force.
The expense inflation is based on inflation figures from the government bond market (comparing index linked and nominal based UK gilts) and the expectation of management on the level of salary and non-salary based inflation and its comparison with CPI.
Judgement is used to split expenses between the expense category and the products.

The table below shows the expense assumptions used within the valuation:

Product	**Expense assumptions**
Healthy Investment CTF	Allowance of 0.6% pa of the fund Allowance for marginal administration per policy expense of £0.19 per annum per policy Allowance for maturity expense of £3.00 per maturity. Expense inflation of 2.9% pa to apply to the per policy allowances.
Healthy Investment other products	Allowance of 0.68% pa of funds under management Allowance of 0.65% of annual premium Allowance of £12.00 per policy expense Expense inflation of 2.9% pa to apply to the per policy allowances.
Coventry products	For Table A whole of life policies; Allowance of £5 per claim not inflating Allowance of 0.7% pa funds under management For Unibond endowment policies; Allowance of 0.7% pa funds under management Allowance of 7.5% of future premiums. For other endowment policies; Allowance of 0.7% pa funds under management Allowance of 12.5% of future premiums.

Mortality assumptions

Mortality assumptions are based on published standard mortality tables. These are then adjusted by applying a percentage based on the latest analysis of the Society's past experience.
The standard mortality tables used for all products, except the CTF, are the AMC00/AFC00 tables. The mortality table used for the CTF is the English Life Table number 16 (ELT16).

The table below shows the mortality assumptions:

Product type	**Assumptions made**
Healthy Investment CTF	14% English Life Tables 16 for ages up to 17 and 77% AMC00 / 106% AFC00 mortality tables for older ages.
Healthy Investment Adult Sick and Death	65% AMC00 and 65% AFC00 series.
Healthy Investment Endowment / Whole Life and AWP products	100% English Life Tables 16 for ages up to 17 and 77% AMC00 /106% AFC00 mortality series for older ages.
Supplementary Pensions	92% of IMA92C20 and IFA92C20
Coventry Assurance products	100% English Life Tables 16 for ages up to 17 and 100% AMC00 series / 100% AFC00 for older ages.

Judgement is used in the selection of the standard mortality tables. Judgement is also applied when assessing historical data to ensure the data used is valid and applied appropriately.

Tax rates

The current Corporation Tax rate applicable to the Society is 20%. (2016: 20%).

Level of uncertainty associated with the value of technical provisions

The technical provisions are calculated using financial models and as such there is always an inherent degree of uncertainty. Historical Society experience is used to guide the assumption setting but past experience is no guarantee of future experience.

Analysis of how model results compare to past experience can be used as a guide. The sensitivity of the model results is also central to the assumption setting process. A robust assumption setting process is followed to ensure that any uncertainties are kept to a minimum.

19. Intangible assets

	CTF policy transfer	Computer Software	Total 2017	Total 2016
	£	£	£	£
Cost/valuation				
At 1 January	**312,361**	**84,116**	**396,477**	84,116
Additions	-	**7,830**	**7,830**	312,361
At 31 December	**312,361**	**91,946**	**404,307**	396,477
Depreciation				
At 1 January	-	**84,116**	**84,116**	83,667
For the period	**28,568**	-	**28,568**	449
At 31 December	**28,568**	**84,116**	**112,684**	84,116
Net Book Value	**283,793**	**7,830**	**291,623**	312,361

20. Property, plant and equipment

	Furniture & Equipment	Land & Buildings	Total 2017	Total 2016
	£	£	£	£
Cost / valuation				
At 1 January	**74,279**	**320,000**	**394,279**	394,279
Additions	**7,403**	-	**7,403**	-
At 31 December	**81,682**	**320,000**	**401,682**	394,279
Depreciation				
At 1 January	**68,424**	**30,900**	**99,324**	88,066
For the period	**4,845**	**5,900**	**10,745**	11,258
At 31 December	**73,269**	**36,800**	**110,069**	99,324
Net Book Value	**8,413**	**283,200**	**291,613**	294,955

The net book value of the property is considered to be at fair value. A desktop valuation has been carried out by management taking into account similar office accommodation and the current condition of the property.

21. Investment properties

	2017	2016
	£	£
As at 1 January	**348,200**	370,000
Revaluation in the year	**-**	(21,800)
Disposal	**(348,200)**	-
As 31 December	**-**	348,200

The investment property in Bury was sold during 2017 and was sold at net book value.

There were no market value movements in the year on land and buildings.

22. Investment in group undertakings

The wholly owned subsidiary undertaking included in this consolidation is The Rechabite Financial Services Limited, whose principal activity is to provide additional products and services to members.

	2017	2016
	£	£
Cost at 1 January	**1,000**	1,000
Movement in the year	**-**	-
As 31 December	**1,000**	1,000

23. Insurance receivables

	2017	2016
	£	£
Due from CTF transferor	**-**	354,982
Due from policyholders	**21,370**	19,787
Due from agents and intermediaries	**-**	2,116
	21,370	376,885

Insurance receivables are all due within one year.

24. Prepayments and accrued income

	2017	2016
	£	£
Accrued dividends	**55,663**	45,063
Accrued interest	**572,262**	565,717
Other prepayments and accrued income	**36,811**	2,383
	664,736	613,163

Prepayments and accrued income are all due within one year.

25. Insurance payables

	2017	2016
	£	£
Due to policyholders	**195,722**	155,599
Due to brokers and intermediaries	**9,449**	22,188
	205,171	177,787

26. Trade and other payables

	2017	2016
	£	£
Trade payables	**29,589**	27,004
Other taxes and social security costs	**31,521**	34,054
Other creditors	**22,781**	23,631
Accruals and deferred income	**174,623**	265,202
	258,514	349,891

27. Tax on profit on ordinary activities

Current tax charge	2017	2016
	£	£
Corporation tax on profits of the period	**61,762**	93,500
Adjustment in respect of prior years	**110,008**	-
	171,770	93,500
Deferred tax		
Current year	**30,000**	357,500
Adjustment in respect of prior years	**(246,500)**	(115,500)
	(216,500)	242,000
Tax (credit)/charge for the period	**(44,730)**	335,500
Profit on ordinary activities before tax	**5,185,789**	(670,560)
UK Corporation tax at 20% (2016:20%)	**1,037,158**	(134,112)
Factors affecting the tax charge at the tax rate:		
Adjustment for (net income not taxable)/expenses not deductible	**(3,509,062)**	(4,062,281)
Adjustment for change in contract liabilities	**2,563,666**	4,647,393
Adjustment in respect of prior years	**(136,492)**	(115,500)
Current year tax due	**(44,730)**	335,500

28. Deferred tax

Deferred tax assets and liabilities are attributable to the following:	2017	2016
	£	£
Accelerated capital allowances	**-**	(750)
Excess expenses	**(282,000)**	(285,750)
Unused tax losses	**(75,000)**	-
Unrealised gains	**447,000**	593,000
Deferred tax liability	**90,000**	306,500

29. Employee expenses

	2017	2016
	£	£
Salaries and wages	**506,160**	489,478
Social security costs	**44,936**	44,574
Pension costs	**29,940**	33,518
Total	**581,036**	567,570

	2017	2016
Average number of employees:		
Executives	**2**	2
Sales & marketing	**4**	4
Administration	**6**	6
	12	12

30. Provisions

	Douglas Carr Memorial Scholarship Scheme	**Supplementary Pension Fund**	**Surplus Contribution Fund**	**Temperance Fund**	**2017**	2016
	£	£	£	£	**£**	£
As at 1 January 2017	74,164	135,625	42,231	100,000	**352,020**	357,999
Income return in the year	4,645	-	-	6,452	**11,097**	-
Amounts paid/movement in provision in the year	(3,250)	(41,450)	(2,938)	(1,500)	**(49,138)**	(5,979)
As at 31 December 2017	**75,559**	**94,175**	**39,293**	**104,952**	**313,979**	352,020

The provisions made are in respect of:

- The Douglas Carr Memorial Scholarship Scheme was established to give bursaries to members who are in full time education. Any payments are at the discretion of the Society.
- The Supplementary Pension Fund is in respect of pensions to former officers or spouses.
- The Surplus Contribution Fund is a legacy product.
- The Temperance Fund was created to support charitable initiatives that promote healthy lifestyle choices. Any payments are at the discretion of the Society.

31. Contingent liabilities

As at 31 December 2017 there were no contingent liabilities.

32. Capital and leasing commitments

There were no capital commitments and no operating lease commitments as at 31 December 2017 or 2016.

33. Fund for Future Appropriations

	2017 £	2016 £ Restated (note 37)
Balance at 1 January	**4,216,078**	5,222,138
Transfer from/(to) Statement of Comprehensive Income	**5,230,519**	(1,006,060)
Balance at 31 December	**9,446,597**	4,216,078

34. Related party transactions

In 2017 there were no transactions with the subsidiary (2016: £ nil). As at 31 December 2017 the subsidiary owed the Society £1,200 (2016: £2,650).

Oliver Pike was awarded a termination payment of £30,000 as compensation for loss of office upon his resignation as Director Finance and Risk on 11 August 2017. There were no other compensation payments to senior personnel, including Directors, in 2017 or 2016.

Transactions entered into by the Society Director's and Committee of Management have all been conducted at arm's length. Some of the Society's Directors and Committee of Management members are members of the Society, and pay annual or monthly premiums to policies.

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.

35. Directors' emoluments

Non-executive Directors		Salary / Fees	Pension	Bonus	Other Benefits	2017 £	2016 £
S Spilsbury		12,600	-	-	-	**12,600**	12,387
P Wyper		6,300	63	-	-	**6,363**	8,032
D Payne		6,900	-	-	-	**6,900**	7,287
P Okell		6,900	-	-	-	**6,900**	6,687
T Birse	Note 2	7,800	-	-	-	**7,800**	7,856
P Smith	Note 3	-	-	-	-	**-**	5,537
C Wellman	Note 4	-	-	-	-	**-**	7,209
S Kelly	Note 5	-	-	-	-	**-**	3,537
Executive Directors							
P Green		105,560	13,195	7,800	8,500	**135,055**	138,537
O Pike	Note1	73,354	4,736	3,045	4,413	**85,548**	78,758
						261,166	275,827

The table shows amounts paid. Other benefits are for additional remuneration and benefits in kind.

Notes: 1 O Pike retired - 11 August 2017
2 T Birse appointed - 18 June 2016
3 P J M Smith resigned - 18 June 2016
4 C Wellman resigned - 31 December 2016
5 S Kelly resigned - 18 June 2016

The aggregate amount of past committee members' pension is £18,592 (2016: £11,125).

36. With-Profits Actuary

Below is the information in accordance with Section 77 of the Friendly Society Act 1992.

The Chief Actuary and the With-Profits Actuary was Mr S Dixon of Steve Dixon Associates LLP.

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 LLP, for professional services, which amounted to £184,568 (before VAT) in 2017.

37. Explanation of the 2016 restatement

During the preparation of the Annual Report and Accounts for 2017 we identified an issue with the extraction of data supplied to the society's Actuary in 2016. This resulted in the technical provisions for 2016 being understated by £2.8million, with a corresponding reduction in Own Funds. As explained below, no customers have received incorrect payments on death or surrender withdrawals and no incorrect bonus statements have been issued.

The cause of the error was the incorrect interpretation of one of the data fields supplied to the Actuary resulting in additions and withdrawals to existing policies during the year not being taken into consideration in the technical provisions of the year.

The 2016 financial statements have been restated to remedy this error and our external auditors, Deloitte have confirmed the accuracy of the data now being used in the calculation of the technical provisions in the 2016 and 2017 Annual Report and Accounts.

Had the correct figure for technical provisions been used in 2016 we can confirm that, at no time would the Society have breached its statutory solvency position.

We are confident that no members have been disadvantaged, that there is no member detriment and that no underpayment to members has occurred. All of the fields within the database used to calculate full and partial withdrawals and death claims have been reconciled to individual policy movements and have been found to be accurate. We have analysed all of the remaining fields used in the data extraction reports that are supplied to the Actuary and have established that both the data is accurate and that the Actuary fully understands the composition of the data fields.

The circumstances leading up to this error and its resolution have been examined by the Audit Committee and the Board of Directors and they are satisfied that appropriate measures are in place to prevent any recurrence.

The net effect of recalculating the long term liabilities has resulted in the need to restate the liabilities for 2016. The net effect of the £2.8m understatement is represented by a restatement of the 2016 opening balance and in the change in long term liabilities revalued for 2016. The adjustment is summarised in the table below.

Insurance contract liabilities 2016 (Restated):

	2016
	£
Balance at 1 January 2016 restated	64,684,288
Change in long term contract liabilities	16,627,089
Decrease in long term insurance contract liabilities revalued as at 31 December 2016	(1,160,184)
Balance at 31 December 2016 restated	80,151,193

38. Society Information

The Rechabite Friendly Society Limited
Incorporated and registered in England and Wales

Registered office

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