



## **Annual Report & Financial Statements 2011**

**KINGSTON UNITY FRIENDLY SOCIETY**

KINGSTON UNITY FRIENDLY SOCIETY

ANNUAL REPORT & FINANCIAL STATEMENTS 2011

CONTENTS

	Page
Officers and professional advisers	2 – 3
Statement of information on the actuarial function holder and with profits actuary and actuary's certificate	4
Independent auditor's report	5 – 6
Committee of management's annual report	
Chairman's report	7
Chief executive's report	8 – 9
Directors' report	10 – 19
Remuneration report	20 – 21
Income and expenditure – Technical account	22
Income and expenditure – Non-technical account	23
Balance sheet	24
Notes to the financial statements	25 – 48

# KINGSTON UNITY FRIENDLY SOCIETY

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

## OFFICERS AND PROFESSIONAL ADVISERS

Registered Office	9 Navigation Court Calder Park Wakefield West Yorkshire WF2 7BJ Tel: 01924 240164 Fax: 01924 242992 Email: <a href="mailto:enquiries@kingstonunity.co.uk">enquiries@kingstonunity.co.uk</a> Web: <a href="http://www.kingstonunity.co.uk">www.kingstonunity.co.uk</a>	
Trustees	Clifford Gordon Banks Paul Clarke Derek Thomas	
Chairman	Peter Dawson	R
Deputy Chairman	Peter Edward John Darragh	R, T
Senior Independent Director	Jennifer Thomas	A
Directors	David Hawkes Neil Stuart Morrison Brian George Kinsey Timothy Watson Ian Prescott	A, T T A
Sub-Committees	A = Audit and Risk Management chaired by Brian George Kinsey R = Remuneration and Nomination chaired by Peter Edward John Darragh T = Treating Customers Fairly chaired by David Hawkes	
Chief Executive, Director & Secretary	Richard Andrew John Townsley BA Cert PFS	
Compliance Officer	Miss Sarah Bostwick Cert PFS	
Statutory Auditor	Brown Butler Chartered Accountants Leigh House 28-32 St Paul's Street Leeds LS1 2JT	
Actuarial Function Holder and With Profits Actuary	Stephen W Dixon FIA Steve Dixon Associates LLP West Hill House 32 West Hill Epsom Surrey KT19 8JD	
Solicitors	Newstead & Walker Mercury House Mercury Row Otley LS21 3HQ	Addleshaw Goddard LLP Sovereign House PO Box 8 Sovereign Street Leeds LS1 1HQ

## KINGSTON UNITY FRIENDLY SOCIETY

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

### OFFICERS AND PROFESSIONAL ADVISERS

Bankers	National Westminster Bank plc 8 Park Row Leeds LS1 5HD
Chartered Surveyors	Ryden LLP Park House Park Square West Leeds LS1 2PW
Investment Advisers	Investec Asset Management Limited 2 Gresham Street London EC2V 7QP
Internal Auditor	Mazars LLP Chartered Accountants The Lexicon 10-12 Mount Street Manchester M2 5NT
Compliance	D Williams ASFA FCoI Haven Risk Management PO Box 19 Chipping Campden GL55 6YX

The society is:

A registered unincorporated directive friendly society.

Authorised and regulated by the Financial Services Authority FRN 110056.

A member of:

The Financial Services Compensation Scheme.

The Association of Financial Mutuals.

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

## KINGSTON UNITY FRIENDLY SOCIETY

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

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

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

Mr Dixon confirmed that neither he nor his family, nor any of the members or employees of Steve Dixon Associates LLP were members of the society, nor have they any financial or pecuniary interest in the society, with the exception of fees paid to, or incurred with, Steve Dixon Associates LLP for professional services, which amounted to £100,709, (including VAT) in 2011.

### ACTUARIAL FUNCTION HOLDER AND WITH PROFITS ACTUARY'S CERTIFICATE

In my opinion:

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

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

9 February 2012

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

We have audited the financial statements of Kingston Unity Friendly Society for the year ended 31 December 2011 which comprise the Income and Expenditure Accounts, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

Respective responsibilities of the Committee of Management and Auditor

As explained more fully in the Committee of Management's Responsibilities Statement set out in the Committee of Management's Annual Report, the Committee of Management is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Committee of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Committee of Management's annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the society's affairs as at 31 December 2011 and of the income and expenditure of the society for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Opinion on other matters prescribed by the Friendly Societies Act 1992

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

Continued on page 6

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

Continued from page 5

Matters on which we are required to report by exception

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

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

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

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

7 March 2012

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

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**CHAIRMAN'S REPORT**

Despite a particularly negative year for the economy we have had an encouraging 12 months that promises much for the future. Our new products are proving increasingly popular, our prudent investment strategy has helped us sustain sound financial stability and our introducers reward scheme will give us an additional avenue for new business.

We have exciting challenges ahead; but the principles and beliefs of the Society are still the same today as they were in 1840. We may need to source and deal with customers in different ways, we may also have to offer 21<sup>st</sup> century products for 21<sup>st</sup> century customers but the heart and soul of the Society remains the same.

Can I take this opportunity to thank both Paul Clarke, who stood down as a member of the Board at the end of 2011 and Michael Hewan, who stepped down as a Trustee in November. We owe both a debt of gratitude for their contribution to the Society in their respective roles over the years.

Can I also welcome Michelle Land to the ranks of the Head office staff in her role as our new Finance Officer.

And last but not least may I thank all the Head Office staff for their hard work over the past 12 months.

***Peter Dawson***

*Chairman*

*7 March 2012*



COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**CHIEF EXECUTIVE'S REPORT**

**Membership**

During 2011 the Society has seen continued growth in membership, particularly within the Child Trust Fund, but following the withdrawal of Child Trusts Funds at the end of 2010 by the Government this aspect of our business will remain fairly static in the future. The Board had previously identified that this, along with the falling numbers of Branch members was a major concern and as outlined last year has already taken steps to begin to rectify the position and these will continue in the coming years. As a result of the action instigated, we have seen a net growth in non Child Trust Fund membership numbers during 2011 for the first time in many years. Whilst the actual number for 2011 is small this demonstrates, along with the significant increase in premium income, that the Society has much to offer in the wider market place. This growth has been achieved through the popularity of our saving and investment products, but regrettably our traditional Branch products have been less successful. We will therefore continue to develop our growth strategy in the areas that are most productive. We are building new distribution channels for our products but it is important to remember that our current members can help us by making friends and relatives aware of the Society. Kingston Unity has a long and proud history of providing excellent service and benefits to its members and we will continue to build on that tradition.

**Mutuality**

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

**The future**

I am very pleased with the progress that the Society has made during 2011 despite a backdrop of economic uncertainty in markets around the world. At the time of writing it is still not clear how or when the problems in the euro zone will be resolved although the recent support package outlined appears to have calmed matters for the moment. In the UK there is a danger of us entering a double dip recession and the possibility of rising unemployment which means that 2012 will be another difficult year. However, despite this gloomy outlook the Society and its members can be optimistic about the future having preserved a good financial position through prudent management, increasing levels of new business and an extended product range to better meet the needs of our customers.

2012 will bring further change to the way in which we carry out our business under the requirements of the Retail Distribution Review (RDR). This regulation enhances the qualification necessary for an individual to provide financial advice along with altering the remuneration for advisers from commission to the charging of fees. As a result of this, once in force, the Society will no longer provide advice to members, but will continue to write new business on a non advised basis. The RDR will also necessitate us providing different product variations depending upon the source of the business being written. Inevitably this will add further expense to our cost base, arguably for little tangible benefit to our members.

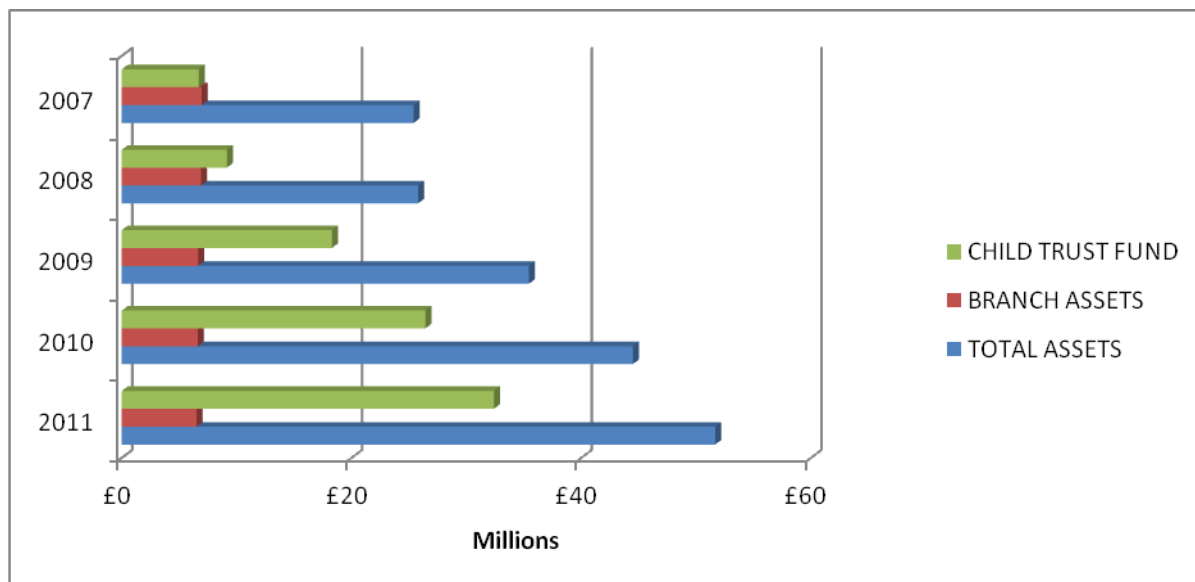
The coming year will continue to present us with challenges to enable us to compete in an ever more complex and regulated market place, an environment that has caused several Societies to merge in the last twelve months. However, we are taking strong action to ensure that the future of Kingston Unity remains healthy and that we will continue to provide benefits and savings solutions for our members for many years to come.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

CHIEF EXECUTIVE'S REPORT

Total, Branch and Child Trust Fund assets since 2007



Key figures at a glance

	2011	2010	2009
Assets £000's	51,672	44,500	35,577
Insurance and Endowment Premium Income £000's	1,818	734	713
Unit Linked Child Trust Fund Contributions £000's	8,011	5,606	5,442
Unit Linked ISA income £000's	30	21	52
Members (excluding CTF)	4676	4668	4710
Branch CIF balances £000's	6,524	6,636	6,649
Management Expenses £000's	589	550	503

**Andrew Townsley**

*Chief Executive*

*7 March 2012*

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**DIRECTORS' REPORT**

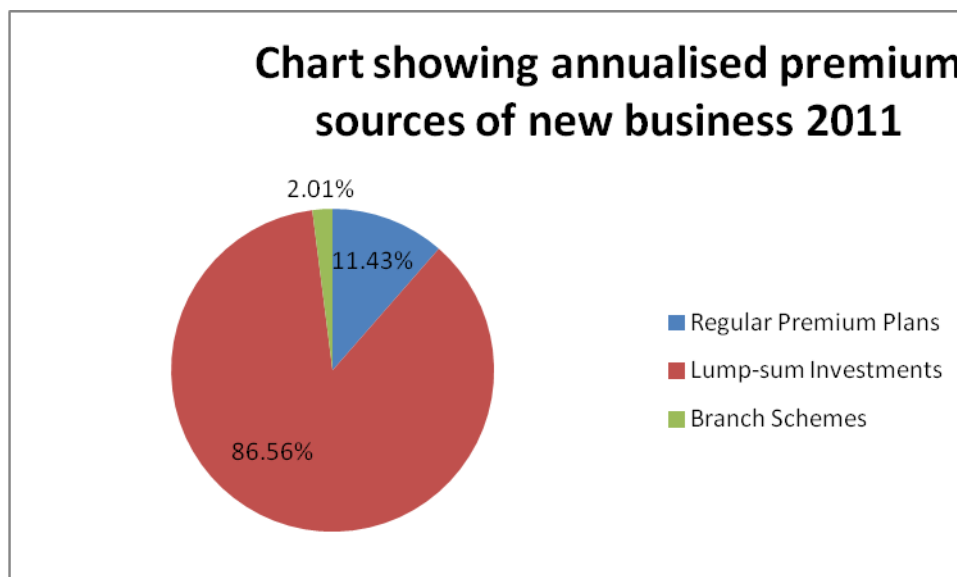
The directors are pleased to present their 171<sup>st</sup> annual report and financial statements for the year ended 31 December 2011.

**1. Business review and future developments**

In our last report we outlined our strategy to develop business away from our traditional Branch structure as this has been in gradual decline, and concentrate on alternative sources such as Independent Financial Advisers (IFA's) and direct. You will see from the following chart that this strategy has proved successful during the year producing an increase in our With Profit premium income from £734,046 in 2010 to £1,818,309 in 2011 and positive membership growth to accompany this. The Investment Bond introduced at the end of 2010 has played its part in achieving this result but we have also seen an increasing take up of our other regular savings products and transfers from other providers into the With Profit ISA.

It has become increasingly difficult to attract new members into the existing schemes offered by the Branches and, whilst these have not been closed, two new products have been introduced, the Guaranteed Acceptance Over 50's Plan and an Accident and Sickness policy to try to stimulate Branch sales. These two products are available from our local Branches and via the Society and our other distribution channels. The Child Trust Fund has now been replaced by the Junior ISA and in order to maintain our commitment to younger members we have brought in both With Profit and Tracker versions of this scheme for children under the age of 18 who are not eligible for Child Trust Funds. We will continue to add further products where we can see there is a need but having introduced five new products in the last eighteen months there are no immediate plans to add more at this stage other than making our existing range RDR compliant.

The following chart identifies the breakdown of premium income for new business during the year. Lump sum investments are calculated using the Annual Premium Equivalent (APE) of 10% of the initial investment.



COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**DIRECTORS' REPORT**

Since the end of 2010 we have been holding discussions with our Branches regarding their future in the light of falling member numbers, increasing costs, regulation and long term succession plans and as a consequence the actions that need to be taken if they are to remain viable. Following this, three Branches have held Special General Meetings for their members to discuss their options and after unanimous votes they have all agreed to transfer in to Head Office Branch. These transfers are scheduled to take place in the first quarter of 2012. In the meantime other Branch Committees are considering the possibility of merging to form stronger units and further consolidation of the Branch structure may be the outcome in the coming months subject to approval by individual Branch members.

We have also reviewed the potential for our existing members to help us to attract new members and as a result have brought in two new schemes, one for introducers to the Society and the other a simple member get member offer, both of which provide a reward for successful applications. Details of these schemes are available either from the Society or Branch Secretaries.

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

**2. Chief Executive**

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

**3. The Society's objectives and review of 2011**

The Kingston Unity Friendly Society is a registered Friendly Society with thirteen branches at the end of the year, but will reduce to 10 in the first quarter of 2012. The Society is classified as a directive registered Friendly Society under the EEC Third Life Directive and these financial statements have been prepared to comply with the relevant accounting regulations.

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

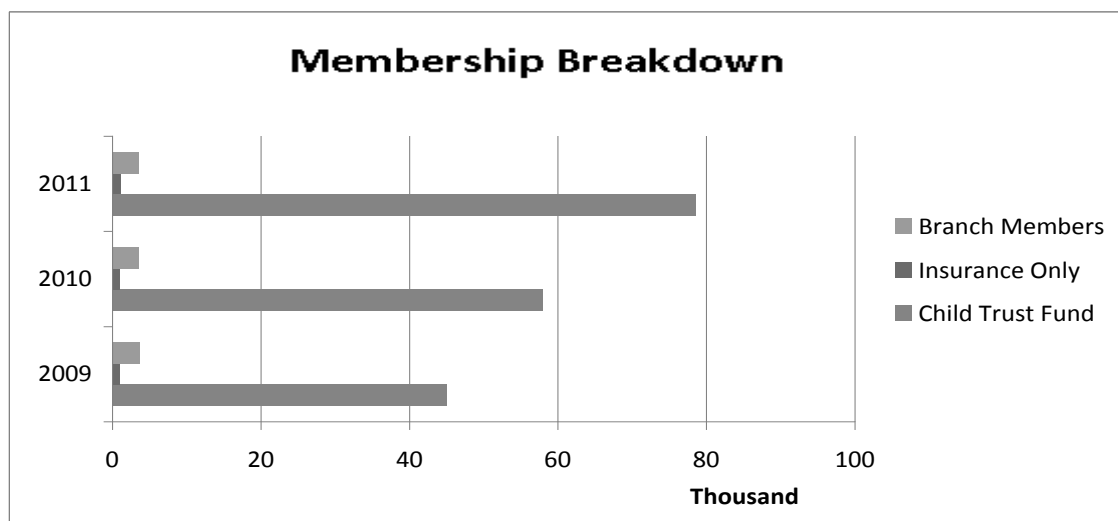
The remaining Branches of the Society continue to offer health and life assurance benefits from their own funds. Whilst Branches are independent in respect of certain aspects of their business, the Society Board carries full responsibility for their compliance and wellbeing.

## COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**DIRECTORS' REPORT**

The following tables summarise activity within the Society and Branches as at 31<sup>st</sup> December 2011 with comparisons for 2010 and 2009.

**Membership**

	2011	2010	2009	% Change from 2010 to 2011
Branch Members	3,559	3,637	3,684	-2.14
Insurance Only	1,117	1,031	1,026	8.34
Child Trust Fund	78,574	57,975	45,019	35.53
Total	<u>83,250</u>	<u>62,643</u>	<u>49,729</u>	<u>32.90</u>

**Membership change during 2011**

	2011	2010	% Change
New Branch members	26	43	-39.53
Branch members leaving	88	68	29.41
Change in Branch members	<u>-78*</u>	<u>-25</u>	<u>212.00</u>
New Insurance members	151*	75	101.33
Insurance members leaving	65	77	-15.58
Change in Insurance members	<u>86</u>	<u>-2</u>	<u>-4,400</u>

\* Includes 10 members moving from Branch to Insurance only and 6 dual members from merged branches.

Tax Exempt savings policies	<u>2,392</u>	<u>2,723</u>	<u>-12.16</u>
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## COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**DIRECTORS' REPORT****Earned Premiums**

	<b>2011</b>	<b>2010</b>	<b>% Change</b>
	<b>£</b>	<b>£</b>	
Branches	279,230	287,496	-2.88
Insurance and Endowment	1,818,309	734,046	147.71
Unit Linked ISA	30,310	20,925	44.85
Unit Linked CTF	8,010,501	5,606,065	42.89
<b>Total Assets</b>	<b>51,671,517</b>	<b>44,499,680</b>	<b>16.12</b>

On 31 December, funds invested by branches in the Central Investment Fund had fallen by £111,666 from £6,635,887 to £6,524,221.

Despite some signs of improvement in the property market in central London, the general picture for the rest of the country presents a static or slightly falling commercial market. This has been reflected in our latest property portfolio valuation with the value having fallen by just over 5% to £8,270,000 though this figure still represents a significant increase from the cost value. We have worked with our managing agents Ryden LLP to retain tenants and at the year end, unlike many other portfolios, there were no voids. This is a successful outcome in present market conditions but the scope for short term rental growth is severely restricted. Whilst the overall market value of our portfolio has fallen the fact that prices are depressed creates opportunities for further investment to create long term value. We have taken advantage of this and at the beginning of February 2012 acquired a newly refurbished property near Nottingham with long term leases to Sainsbury's and Vets 4 Pets which will provide us with a good income yield.

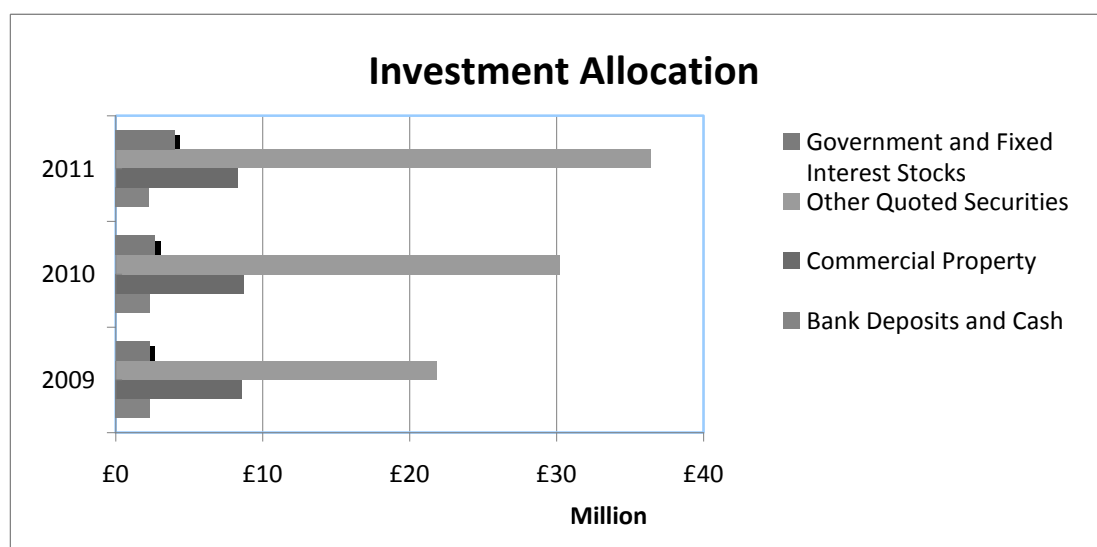
Equity markets have fluctuated during the year due to the global financial crisis and the almost unprecedented threat of some Governments in the euro zone being unable to meet their debt repayments. We undertook a review of our Investment Managers during 2011 and as a result appointed BNP Paribas Private Investment Management Limited to the position although subsequently they have become part of Investec Asset Management Limited. We have continued to make further investment into equities during the year but have also added to our fixed income portfolio. The cash holding will fall in the early part of 2012 following the acquisition of the new property.

## COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**DIRECTORS' REPORT**

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



31 December	2011 £	2010 £	2009 £
British Government and Fixed Interest Stocks	4,009,813	2,687,896	2,281,902
Other Quoted Securities	36,432,149	30,187,877	21,857,599
Commercial Property	8,270,000	8,730,000	8,605,000
Bank Deposits and Cash	2,256,385	2,319,388	2,308,969
	<u>50,968,347</u>	<u>43,925,161</u>	<u>35,053,470</u>

The asset split within the Society's With Profits Fund at the year end was Equities 17.7% (2010 18.4%), Property 46.2% (2010 49.5%), Fixed interest 23.7% (2010 19.3%) and cash 12.4% (2010 12.8%).

Total investment income rose during the year from £1,775,816 to £1,941,256 due to changes in asset mix and the additional funds generated by increased business levels.

Premium income to our Insurance and Endowment Fund saw a substantial increase from £734,046 to £1,818,309 reflecting the benefit of a wider distribution network. Maturity claims on the Insurance and Endowment Fund amounted to £674,066, an increase from the figure of £613,233 in 2010. The Insurance and Endowment Fund at the end of the year stood at £7,090,935 compared to £5,544,725 in 2010 and £5,163,728 (restated) in 2009, after allowing for the addition of interest and transfers.

Administration expenses excluding acquisition costs rose by just over 7% during the year, primarily due to increased Actuarial fees resulting from ongoing work on the requirements of Solvency II and new product development. Acquisition costs increased substantially due to commission payments relating to the level of new business generated. The Committee remain conscious of the need to control management expenses and continues to monitor financial information monthly.

At the beginning of 2012 we completed the review of our Professional advisers by inviting tenders for the positions of the Actuarial Function Holder and With Profits Actuary. Three firms made presentations and all were very competent but it was decided that our existing holder of these functions, Steve Dixon, of Steve Dixon Associates LLP would be reappointed.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**DIRECTORS' REPORT**

**4. Margin of solvency**

At 31 December 2011, the Society had the required margin of solvency as prescribed in regulations made under section 48(2) of the Friendly Societies Act 1992.

**5. Political and charitable donations**

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

**6. Complaints procedures**

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

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

**7. Officers' indemnity insurance**

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

**8. Other matters**

The Committee of Management is not aware of any other matters material to an appreciation by its members of the state of affairs of the Society in 2011.

**9. Corporate governance & Directors' responsibilities**

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

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



COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**DIRECTORS' REPORT**

This has included:

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

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

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

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

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

The following members of the Society served on the Board during 2011:-

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

At the end of 2011 Paul Clarke resigned from the Board as he felt he was unable to devote sufficient time to the role due to the pressure of his normal work commitments. Additionally, following the Annual General Meeting in 2012 Peter Dawson and Brian Kinsey will retire as required by the Society's Rules following completion of 12 years service. We would like to record our thanks to all three individuals, all of whom have served as Chairman during their period of office, for their contributions both to the Board and to the Society as a whole.

We would also like to formally welcome Ian Prescott as a Director, having been co-opted in September as part of our succession planning. Ian brings wide commercial knowledge to the Board particularly in relation to electronic marketing and will offer himself for election at the next Annual General Meeting. The Remuneration and Nomination sub-committee is currently reviewing the balance of skills required for our future plans.

Michael Hewan also tendered his resignation as a Trustee late in the year and once again we would like to record our thanks for his input and diligence shown in the performance of his role. As the position of Trustee requires a reduced time commitment and in order to take advantage of his recent time on the Board, Paul Clarke has been appointed to replace Michael and will serve alongside the existing Trustees, Cliff Banks and Derek Thomas.

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

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**DIRECTORS' REPORT**

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

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

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

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

**Sub-Committees**

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

The Remuneration and Nomination sub-committee was chaired by Paul Clarke and subsequently Peter Darragh and meets at least twice per year to:

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

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

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

Other Board sub-committees are set up on an ad hoc basis to meet particular needs.

## COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**DIRECTORS' REPORT****Statement of compliance with the combined code**

The Board considers that throughout the year the Society has complied with the relevant provisions of the Annotated Combined Code for Mutual Insurers issued by the Association of Financial Mutuals with the following exception. Due to our size, the position of Secretary is held by the Chief Executive and the Code suggests that they should be separate. However, the Board considers that it receives the appropriate level of support at this stage and that it would not be a beneficial use of members' funds to split the roles.

Below are the details of the Directors' attendance record at Board meetings and relevant Board sub-committee meetings during 2011:

Attendance	Board	Sub-Committees	Other
Paul Clarke	11/11	2/2	4
Peter Dawson	11/11	7/7	11
Peter Darragh	10/11	5/5	10
David Hawkes	10/11	3/3	5
Brian Kinsey	9/11	3/3	6
Neil Morrison	10/11	9/9	5
Ian Prescott	4/4	2/2	
Jennifer Thomas	11/11	8/8	5
Andrew Townsley	11/11		
Timothy Watson	11/11	7/7	1/1

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

**Other directorships and business interests**

Paul Clarke	Director:	Thomas Vale Construction Limited
Andrew Townsley	Director:	Association of Financial Mutuals
	Director:	Carr House Court Management Company Limited
	Arbitrator:	Grand United Order of Oddfellows
Neil Stuart Morrison	Director:	Aquila Properties (Yorkshire) Limited
Ian Prescott	Director:	Bond House Systems Limited
		Target Components Limited
		European Property (UK) Limited
		Mood Developments Limited

KINGSTON UNITY FRIENDLY SOCIETY

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**DIRECTORS' REPORT**

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

***Peter Dawson***

*Chairman*

***Andrew Townsley***

*Chief Executive*

*7 March 2012*

## COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**REMUNERATION REPORT**

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 31 December 2011. An advisory vote to approve the report will be put to the 2012 Annual General Meeting.

**Statement of the Society's Policy on Directors' Remuneration**

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

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

**Review of fees**

In order to reflect the ever increasing demands and responsibilities being placed on Board members, following a recommendation from the Remuneration and Nomination sub-committee, having reviewed fees paid by similar organisations, the Board has agreed to amend the fees being paid to directors. Fees for 2012 are as follows; attendance at Board meetings – the Chairman £180.00 (2011 - £216.50) per meeting; other directors £150.00 (2011 - £163.00), and for normal sub-committee meetings of up to four hours: the Chairman £90.00 (2011 - £108.50); other directors and co-opted members £75.00 (2011 - £81.50). However, if a sub-committee meeting extends beyond four hours the full meeting rate is paid. In addition to meeting fees, an additional sum of £2,400 (2011 - £1,035.25) per annum is paid to each Board member and to the Chairman £5,400 (2011 - £1,552.88) to cover the time and expense of carrying out their duties and responsibilities in a professional manner. Whilst this represents a significant increase, fees are still less than half of the sector average for small mutuals. Apart from the above travelling and subsistence fees are paid when appropriate. It was also agreed that the Board composition will be reduced from 9 to 8 following the retirement of Peter Dawson and Brian Kinsey in 2012.

**Fees, Salaries and other benefits in 2011 amounted to:**

	<u>Fees</u>	<u>Salary</u>	<u>Commission</u>	<u>Pension</u>	<u>2011</u>	<u>2010</u>
	£	£	£	£	£	£
Paul Clarke	4,289				4,289	5,510
Peter Dawson	5,829				5,829	4,792
Peter Darragh	4,786				4,786	3,819
David Hawkes	4,616		3,243		7,859	5,435
Brian Kinsey	4,305		53		4,358	4,212
Neil Morrison	5,517				5,517	4,021
Ian Prescott	1,524				1,524	0
Jennifer Thomas	5,144		10,078		15,222	9,529
Andrew Townsley		93,209	814	10,849	104,872	100,527
Timothy Watson	5,286		452		5,738	729
Allan Beckett					0	1,284
	<u>41,296</u>	<u>93,209</u>	<u>14,640</u>	<u>10,849</u>	<u>159,994</u>	<u>139,858</u>

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

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

For the year ended 31 December 2011

**REMUNERATION REPORT**

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

**Non-Executive Directors**

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

**Chairman and Chief Executive**

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

**Senior Independent Director**

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

On behalf of the board of management.

***Peter Dawson***

*Chairman*

***Andrew Townsley***

*Chief Executive and Secretary*

***7 March 2012***

KINGSTON UNITY FRIENDLY SOCIETY

INCOME AND EXPENDITURE ACCOUNT

TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2011

	Note	2011 £	2010 £
<b>INCOME</b>			
Earned premiums	3	9,924,340	6,431,277
Investment income	4	1,808,776	1,571,576
Unrealised gains on investments	5	303,038	2,908,450
Other income	6	87,692	39,911
<b>TOTAL INCOME</b>		<b>12,123,846</b>	<b>10,951,214</b>
<b>EXPENDITURE</b>			
Claims incurred	7	807,378	778,090
Change in long term business provision	30 & 31	(1,959,723)	2,772,847
Net operating expenses			
Acquisition costs	8	164,590	76,630
Administration	9	427,469	397,091
		592,059	473,721
Investment expenses and charges			
Investment management expenses	10	50,363	61,653
Losses on realisation of investments	11	93,826	131,970
		144,189	193,623
Unrealised losses on investments	12	2,912,070	295,709
		2,495,973	4,513,990
Tax attributable to the long term business	15	-	3,240
<b>TOTAL EXPENDITURE</b>		<b>2,495,973</b>	<b>4,517,230</b>
<b>EXCESS OF INCOME OVER EXPENDITURE FOR THE FINANCIAL YEAR</b>		<b>9,627,873</b>	<b>6,433,984</b>

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

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

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

The notes on pages 25 to 48 form part of these financial statements.

KINGSTON UNITY FRIENDLY SOCIETY

INCOME AND EXPENDITURE ACCOUNT

NON-TECHNICAL ACCOUNT

For the year ended 31 December 2011

	Note	2011 £	2010 £
<b>INCOME</b>			
Investment income	4	132,480	204,240
Unrealised gains on investments	5	38,992	49,459
Other income	6	36,095	27,699
<b>TOTAL INCOME</b>		<u>207,567</u>	<u>281,398</u>
<b>EXPENDITURE</b>			
Claims incurred	7	24,722	16,442
Administration	9	162,018	152,502
Investment expenses and charges			
Investment management expenses	10	16,786	20,551
Losses on realisation of investments	11	12,073	23,289
		<u>28,859</u>	<u>43,840</u>
		215,599	212,784
Unrealised losses on investments	12	90,251	52,184
<b>EXPENDITURE BEFORE INTEREST AND ALLOCATION TO INVESTING BRANCHES</b>		305,850	264,968
Divided among the member branches	13	301,075	293,431
<b>TOTAL EXPENDITURE</b>		<u>606,925</u>	<u>558,399</u>
<b>EXCESS OF EXPENDITURE OVER INCOME FOR THE FINANCIAL YEAR</b>		<u>(399,358)</u>	<u>(277,001)</u>

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

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

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

The notes on pages 25 to 48 form part of these financial statements.



KINGSTON UNITY FRIENDLY SOCIETY

BALANCE SHEET

As at 31 December 2011

	Note	2011 £	2010 £
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Land and buildings	18	8,270,000	8,730,000
Other financial investments			
Shares and other variable yield			
Securities	19	3,866,554	3,843,507
Debt securities and other fixed income			
Securities	20	4,009,813	2,687,896
Loans secured by mortgages	21	417,308	442,461
		<u>16,563,675</u>	<u>15,703,864</u>
Assets held to cover linked liabilities	22	32,565,595	26,344,370
<b>DEBTORS</b>			
Other debtors	23	102,177	9,080
<b>OTHER ASSETS</b>			
Tangible assets	24	28,245	34,372
Cash at banks, brokers and in hand	25	2,256,385	2,319,388
		<u>2,284,630</u>	<u>2,353,760</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		123,805	66,879
Other prepayments and accrued income		31,635	21,727
		<u>155,440</u>	<u>88,606</u>
		<u>51,671,517</u>	<u>44,499,680</u>
<b>LIABILITIES</b>			
<b>RESERVES</b>			
Reserves provided for by the rules and tables	26	863,680	717,738
Fund for future appropriations	27	2,861,976	3,571,619
		<u>3,725,656</u>	<u>4,289,357</u>
<b>TECHNICAL PROVISIONS</b>			
Long term business provision	30	8,598,586	6,987,318
Technical provisions for linked liabilities	31	32,565,595	26,344,370
		<u>41,164,181</u>	<u>33,331,688</u>
<b>CREDITORS</b>			
Other creditors – including taxation, social security and investing branches	35	6,557,616	6,666,862
ACCRUALS AND DEFERRED INCOME	37	224,064	211,773
		<u>51,671,517</u>	<u>44,499,680</u>

These financial statements were approved and authorised for issue by the Committee of Management on 7 March 2012.

.....  
Peter Dawson (Chairman)

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

The notes on pages 25 to 48 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. Accounting policies

(a) Basis of preparation

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

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

(b) Earned premiums

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

(c) Claims incurred

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

(d) Acquisition costs

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

(e) Investment income

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

(f) Realised gains and losses on investments

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

(g) Unrealised gains and losses on investments

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

# KINGSTON UNITY FRIENDLY SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 1. Accounting policies (continued)

#### (h) Pension contributions

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

#### (i) Investments – land and buildings

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

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

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

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

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

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

#### (k) Investments – loans secured by mortgages

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

#### (l) Depreciation of tangible assets

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

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

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

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

#### (m) Fund for future appropriations

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. Accounting policies (continued)

(n) Long term business provision

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

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

The principal assumptions used in the valuation are:

Mortality	108% AMC00 and 108% AFC00 for ages 17 and above, and 100% ELT for ages below 17
Morbidity	60% of the Manchester Unity AHJ (1893 – 97)
Investment returns	3.00% for tax exempt policies, 2.40% for taxable with profit policies, 3.50% for tax exempt non profit policies

(o) Taxation

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

Taxation is provided for in accordance with current legislation.

(p) Deferred taxation

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

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

(q) Cash flow statement

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

# KINGSTON UNITY FRIENDLY SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

### 2. Prior year adjustments

The prior year adjustments in 2010 arose as a result of the change from a 'Non-Directive' to a 'Directive' society. Accounting policies regarding asset valuations meant that the recognition of unrealised gains and losses were now shown in the income and expenditure accounts. Therefore the balances on the revaluation reserves on notes 32, 33 and 34 were reallocated to the appropriate fund.

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

### 3. Earned premiums

	2011 £	2010 £
Central health benefit contributions	3,014	3,465
Long term savings contributions	62,206	66,776
Insurance and endowment premiums	1,818,309	734,046
Child Trust Fund – stakeholder	8,010,501	5,606,065
Unit linked ISA	30,310	20,925
	<u>9,924,340</u>	<u>6,431,277</u>

### 4. Investment income

	2011		2010	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Income from listed investments	1,102,248	41,572	798,121	67,748
Income from land and buildings	627,041	80,680	593,153	104,674
Gains on the realisation of investments	51,160	6,582	152,291	26,875
Bank interest receivable	14,321	1,844	15,624	2,757
Mortgage interest receivable	14,006	1,802	12,387	2,186
	<u>1,808,776</u>	<u>132,480</u>	<u>1,571,576</u>	<u>204,240</u>

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

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

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. Unrealised gains on investments

	2011		2010	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Shares and other variable yield securities	138,275	17,792	222,760	39,311
Debt securities and other fixed income securities	164,763	21,200	57,503	10,148
Assets held to cover linked liabilities	-	-	2,628,187	-
	<u>303,038</u>	<u>38,992</u>	<u>2,908,450</u>	<u>49,459</u>

6. Other income

	2011		2010	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Management and other levies	<u>87,692</u>	<u>36,095</u>	<u>39,911</u>	<u>27,699</u>

7. Claims incurred

	2011		2010	
	Technical account £	Non-technical Account £	Technical account £	Non-technical account £
Funeral re-insurance fund	-	24,722	-	16,442
Central health fund	789	-	2,957	-
Long term savings fund	57,736	-	53,059	-
Insurance and endowment fund	674,066	-	613,233	-
Child Trust Fund – stakeholder: claims	49,215	-	68,476	-
Transfers	1,031	-	2,803	-
Unit linked ISA fund	24,541	-	37,562	-
	<u>807,378</u>	<u>24,722</u>	<u>778,090</u>	<u>16,442</u>



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. Administration - continued

With the exception of the conference expenses which are charged directly to the non-technical account, the administration expenses are allocated 75% (2010: 75%) to the technical account and 25% (2010: 25%) to the non-technical account. These can be summarised below:-

	2011		2010	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Conference expenses	-	19,528	-	20,138
Administration	427,469	142,490	397,091	132,364
	<u>427,469</u>	<u>162,018</u>	<u>397,091</u>	<u>152,502</u>

10. Investment management expenses

	2011		2010	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Commissions and legal fees	25,925	8,642	30,650	10,216
Property insurance	6,191	2,064	7,727	2,576
Rates and water	704	234	1,601	534
Heat and light	2,208	736	5,082	1,694
Unlet property service charges	-	-	4,894	1,631
Repairs and renewals	13,263	4,421	10,374	3,458
Cleaning	2,072	689	1,325	442
	<u>50,363</u>	<u>16,786</u>	<u>61,653</u>	<u>20,551</u>

The investment management expenses are allocated 75% (2010: 75%) to the technical account and 25% (2010: 25%) to the non-technical account.

11. Losses on realisation of investments

	2011		2010	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Shares and other variable yield securities	92,277	11,874	116,946	20,637
Debt securities and other fixed income securities	1,549	199	15,024	2,652
	<u>93,826</u>	<u>12,073</u>	<u>131,970</u>	<u>23,289</u>



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. Unrealised losses on investments

	2011		2010	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Land and buildings	407,560	52,440	233,651	41,233
Shares and other variable yield securities	185,436	23,860	62,058	10,951
Debt securities and other fixed income securities	108,421	13,951	-	-
Assets held to cover linked liabilities	2,210,653	-	-	-
	<u>2,912,070</u>	<u>90,251</u>	<u>295,709</u>	<u>52,184</u>

13. Divided among the member branches

	2011 £	2010 £
Interest on investing branch deposits at 4.50% (2010: 4.50%)	291,243	293,431
Central health fund distribution	9,832	-
	<u>301,075</u>	<u>293,431</u>

14. Excess of income over expenditure

The excess of income over expenditure is after charging:-

	2011 £	2010 £
Depreciation of owned assets	12,175	16,895
Operating lease charges – motor vehicles	3,257	-
External auditor's remuneration – audit services	44,294	29,223
– for other services	4,494	14,971
Internal auditor's remuneration	7,500	2,669
Actuary's remuneration	100,709	67,440
Commissions	<u>119,754</u>	<u>25,387</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. Taxation

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

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

	2011 £	2010 £
Corporation tax		
Current year	-	20,000
Adjustments for prior year	-	(16,760)
	<u>-</u>	<u>(16,760)</u>
Current tax charge	<u>-</u>	<u>3,240</u>
Small profits rate	<u>20.25%</u>	<u>21.00%</u>

The Society has tax losses carried forward at the balance sheet date of £178,034 (2010: £100,771). The deferred tax asset which would arise of £35,607 (2010: £21,162) (calculated at 20% (2010: £21%)) has not been recognised.

16. Staff costs

	2011 £	2010 £
Wages and salaries	194,634	219,265
Social security costs	20,963	23,193
Pension costs	17,729	19,016
	<u>233,326</u>	<u>261,474</u>
Average number of employees		
Chief executive	1	1
Administration	5	5
	<u>6</u>	<u>6</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. Committee members' emoluments

	2011 £	2010 £
Remuneration	93,209	90,382
Pension contributions	10,849	10,145
Attendance fees	41,296	32,576
Other emoluments	19,853	11,099
	<u>165,207</u>	<u>144,202</u>

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

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

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

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

	2011 £	2010 £
Chairman – Paul Clarke, retired 31 December 2011	<u>5,606</u>	<u>6,033</u>
Highest paid committee member	<u>104,058</u>	<u>100,527</u>
Other committee members	No.	No.
Nil - £5,000	2	6
£5,001 - £10,000	6	3
£10,001 - £15,000	-	-
£15,001 - £20,000	1	-
	<u>9</u>	<u>9</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. Land and buildings

	Freehold land and buildings £	Long leasehold land and buildings £	2011 £	2010 £
Valuation				
At 1 January 2011	8,420,000	310,000	8,730,000	8,605,000
Addition	-	-	-	399,884
Deficit on revaluation	(460,000)	-	(460,000)	(274,884)
At 31 December 2011	<u>7,960,000</u>	<u>310,000</u>	<u>8,270,000</u>	<u>8,730,000</u>

The society's land and buildings were professionally valued on 31 December 2011 by Ryden LLP, Chartered Surveyors, Leeds, on the basis of open market value.

During the year the society occupied the long leasehold building for the purpose of its own activities. This building is included in the above figures at £310,000 (2010: £310,000).

The historical costs of the revalued properties are as follows:

	2011 £	2010 £
Freehold land and buildings	5,307,722	5,307,722
Long leasehold land and buildings	399,884	399,884
	<u>5,707,606</u>	<u>5,707,606</u>

19. Shares and other variable yield securities

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

	2011 £	2010 £
Valuation at 1 January 2011 as previously reported	3,843,507	21,857,599
Prior year adjustment (note 2)	-	(17,950,852)
Valuation at 1 January 2011 as restated	<u>3,843,507</u>	<u>3,906,747</u>
Additions	2,168,844	1,803,034
Disposals	(2,022,542)	(2,096,919)
Realised gains	34,125	179,166
Realised losses	(104,151)	(137,583)
Unrealised gains	156,067	262,071
Unrealised losses	(209,296)	(73,009)
Valuation at 31 December 2011	<u>3,866,554</u>	<u>3,843,507</u>

The historical cost of the shares and other variable yield securities is £3,663,158 (2010: £3,438,872).

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. Debt securities and other fixed income securities

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

	2011 £	2010 £
Valuation at 1 January 2011	2,687,896	2,281,902
Additions	3,106,979	706,019
Disposals	(1,870,522)	(350,000)
Realised gains	23,617	-
Realised losses	(1,748)	(17,676)
Unrealised gains	185,963	67,651
Unrealised losses	(122,372)	-
Valuation at 31 December 2011	<u>4,009,813</u>	<u>2,687,896</u>

The historical cost of the debt securities and other fixed income securities is £3,880,222 (2010: £2,602,973).

21. Loans secured by mortgages

	2011 £	2010 £
At 1 January 2011	442,461	284,648
Advances	-	175,000
Repayments	(40,961)	(31,760)
Charged interest	15,808	14,573
At 31 December 2011	<u>417,308</u>	<u>442,461</u>

22. Assets held to cover linked liabilities

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

	2011 £	2010 £
Valuation at 1 January 2011 as previously reported	26,344,370	-
Prior year adjustment (note 2)	-	17,950,852
Valuation at 1 January 2011 as restated	<u>26,344,370</u>	<u>17,950,852</u>
Additions	8,431,878	5,765,331
(Deficit)/surplus on revaluation	(2,210,653)	2,628,187
Valuation at 31 December 2011	<u>32,565,595</u>	<u>26,344,370</u>

The historical cost of the units is £31,686,224 (2010: £23,254,346).

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

23. Debtors

	2011 £	2010 £
Tax refunds due	6,732	6,732
H M Revenue & Customs (tax credit on interest)	5,486	2,348
Property deposit and associated costs	89,959	-
	<u>102,177</u>	<u>9,080</u>

24. Tangible assets

	Fixtures, fittings and equipment £	Computer equipment £	Motor vehicle £	Total £
Cost				
At 1 January 2011	24,850	63,291	9,415	97,556
Additions	-	6,048	-	6,048
	<u>24,850</u>	<u>69,339</u>	<u>9,415</u>	<u>103,604</u>
At 31 December 2011				
Depreciation				
At 1 January 2011	6,210	54,620	2,354	63,184
Charge	2,796	7,614	1,765	12,175
	<u>9,006</u>	<u>62,234</u>	<u>4,119</u>	<u>75,359</u>
At 31 December 2011				
Net book value				
At 1 January 2011	<u>18,640</u>	<u>8,671</u>	<u>7,061</u>	<u>34,372</u>
At 31 December 2011	<u>15,844</u>	<u>7,105</u>	<u>5,296</u>	<u>28,245</u>

25. Cash at banks, brokers and in hand

	2011 £	2010 £
Deposit accounts	1,666,179	1,003,627
Current account	573,102	822,078
Cash held by brokers	16,941	493,587
Cash	163	96
	<u>2,256,385</u>	<u>2,319,388</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

26. Reserves provided for by the rules and tables

	Funeral re-insurance fund £	Management fund £	Guarantee fund £	2011 £	2010 £
At 1 January 2011 as previously reported	(380)	668,118	50,000	717,738	419,663
Prior year adjustment (note 2)	-	-	-	-	75,551
At 1 January 2011 as restated	(380)	668,118	50,000	717,738	495,214
Allocation of income and expenditure					
Technical account	-	(338,296)	-	(338,296)	(358,926)
Non-technical account	-	(150,645)	-	(150,645)	(141,245)
Transfers from insurance and endowment fund and unit linked funds	-	384,883	-	384,883	292,489
Accumulated income fund transfers					
Interest and dividends	-	-	-	-	206
Administration	-	250,000	-	250,000	430,000
At 31 December 2011	(380)	814,060	50,000	863,680	717,738

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

27. Fund for future appropriations

	2011 £	2010 £
Accumulated income fund (note 28)	9,402	8,645
Reserve fund (note 29)	2,852,574	3,562,974
	<u>2,861,976</u>	<u>3,571,619</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. Accumulated income fund

	2011 £	2010 £
At 1 January 2011 as previously reported	8,645	31,549
Prior year adjustment (note 2)	-	99,796
	<hr/>	<hr/>
At 1 January 2011 as restated	8,645	131,345
Allocation of income and expenditure – Technical account	798,138	783,076
– Non-technical account	(187,622)	(133,031)
	<hr/>	<hr/>
Allocation to other funds		
Interest and dividends	(359,759)	(342,745)
	<hr/>	<hr/>
	259,402	438,645
Transfer to management fund (note 26)	(250,000)	(430,000)
	<hr/>	<hr/>
At 31 December 2011	<u>9,402</u>	<u>8,645</u>

29. Reserve fund

	2011 £	2010 £
At 1 January 2011 as previously reported	3,562,974	(425,607)
Prior year adjustment (note 2)	-	4,151,412
	<hr/>	<hr/>
At 1 January 2011 as restated	3,562,974	3,725,805
Allocation of income and expenditure		
Technical account	(649,309)	(160,106)
Non-technical account	(61,091)	(2,725)
	<hr/>	<hr/>
At 31 December 2011	<u>2,852,574</u>	<u>3,562,974</u>



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

30. Technical provisions – long term business provision

The actuarial valuation at 31 December 2011 highlighted the following technical liabilities:-

	Central health fund £	Long term savings fund £	Insurance and endowment fund £	Total 2011 £	Total 2010 £
At 1 January 2011 as previously reported	14	1,442,579	5,544,725	6,987,318	6,611,173
Prior year adjustment (note 2)	-	-	-	-	(223,174)
At 1 January 2011 as restated	14	1,442,579	5,544,725	6,987,318	6,387,999
Allocation of income and expenditure					
Technical account	2,225	4,470	978,172	984,867	56,914
Management fund transfers	-	-	-	-	(14,381)
Accumulated income fund transfers					
Interest and dividends	20	72,241	287,498	359,759	342,539
Change in long term business provision	(2,251)	(11,647)	280,540	266,642	214,247
At 31 December 2011	8	1,507,643	7,090,935	8,598,586	6,987,318

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

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

31. Technical provisions – linked liabilities

The actuarial valuation at 31 December 2011 highlighted the following technical liabilities:-

	Child trust fund stakeholder fund £	Unit linked ISA fund £	Total 2011 £	Total 2010 £
At 1 January 2011 as previously reported	26,290,482	53,888	26,344,370	17,827,477
Prior year adjustment (note 2)	-	-	-	123,375
At 1 January 2011 as restated	26,290,482	53,888	26,344,370	17,950,852
Allocation of income and expenditure Technical account	8,825,114	7,359	8,832,473	6,113,026
Management fund transfers	(384,191)	(692)	(384,883)	(278,108)
Change in long term business provision	(2,224,118)	(2,247)	(2,226,365)	2,558,600
At 31 December 2011	<u>32,507,287</u>	<u>58,308</u>	<u>32,565,595</u>	<u>26,344,370</u>

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

32. Investment property revaluation reserve

	2011 £	2010 £
At 1 January 2011 as previously reported	-	3,297,278
Prior year adjustment (note 2)	-	(3,297,278)
At 1 January 2011 as restated	-	-
At 31 December 2011	<u>-</u>	<u>-</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

33. British government securities revaluation reserve	2011 £	2010 £
At 1 January 2011 as previously reported	-	19,070
Prior year adjustment (note 2)	-	(19,070)
	<u>-</u>	<u>-</u>
At 1 January 2011 as restated	-	-
	<u>-</u>	<u>-</u>
At 31 December 2011	<u>-</u>	<u>-</u>
34. Other investments revaluation reserve	2011 £	2010 £
At 1 January 2011 as previously reported	-	910,612
Prior year adjustment (note 2)	-	(910,612)
	<u>-</u>	<u>-</u>
At 1 January 2011 as restated	-	-
	<u>-</u>	<u>-</u>
At 31 December 2011	<u>-</u>	<u>-</u>
35. Other creditors - including taxation, social security and investing branches	2011 £	2010 £
Corporation tax	20,000	20,000
VAT	13,395	10,975
Balances due to investing branches (note 36)	6,524,221	6,635,887
	<u>6,557,616</u>	<u>6,666,862</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

36. Balances due to investing branches at 31 December 2011

Branch number	Branch name	£	Total branch benefit membership
23	Inkerman	348,798	172
25	Lily of the Valley	1,367,015	542
29	Admiral Nelson	432,417	218
30	Hearts of Oak	958,314	484
35	Philanthropic	504,382	325
53	Rosebud	426,111	268
71	Young Man's Friend	216,194	129
95	Royal Albert	499,521	237
206	Loyal Alexandra	144,041	156
215	Loyal Windmill	251,592	115
233	All Saints	914,269	616
243	St George's	222,518	104
272	Lord Nelson	239,049	193
		<u>6,524,221</u>	<u>3,559</u>

On 1 January 2011 City of Ripon merged with Hearts of Oak.

37. Accruals and deferred income

	2011 £	2010 £
Actuarial fees	7,052	8,379
Commission payable to agents	11,909	5,492
Auditor's remuneration	33,900	29,223
Property valuation	9,924	9,845
Safe custody	-	690
Sundry accruals	16,436	16,640
Deferred income	144,843	141,504
	<u>224,064</u>	<u>211,773</u>

38. Leasing commitments

At 31 December 2011 the society had operating lease commitments for the following year as set out below:-

	2011 £	Other 2010 £
Operating leases which expire:-		
Within one year	-	7,032
From one to five years	7,165	-
	<u>7,165</u>	<u>7,032</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

39. Related party transactions and controlling party

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

During the year S Bostwick had a repayment mortgage with the society. The society charged S Bostwick interest of £2,431 (2010: £2,501) during the year.

At the balance sheet date £67,395 (2010: £69,464) was owed to the society in respect of the mortgage.

During the year R A J Townsley was advanced £Nil (2010: £175,000) as a repayment mortgage with the society. The society charged R A J Townsley interest of £5,656 (2010: £4,611). At the balance sheet date £142,917 (2010: £161,611) was owed to the society in respect of the mortgage.

During the year the society advanced personal motoring and healthcare costs to R A J Townsley totalling £8,145 (2010: £10,012). During the year he repaid to the society £8,813 (2010: £13,570). At the balance sheet date £571 (2010: £1,239) was owed to the society in respect of these costs. The balance owed is being repaid during the year to 31 December 2012.

No controlling party can be identified.

40. Events after the balance sheet date

Since the year end the society has purchased a freehold property in Nottingham at a cost of £781,185.

The property was acquired to enhance the property investment portfolio.

Since the year end, as detailed in the Directors' Report, one of the branches has transferred into Head Office branch. A further two branches will transfer into Head Office branch before the end of March 2012.

41. Liabilities analysed in accordance with FRS 27

(a) Financial Reporting Standard 27 – Life Assurance (FRS 27) is applicable to these financial statements. The Capital Statement was introduced as a consequence of FRS 27 and is shown below in note 41(b).

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

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

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

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

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

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. Liabilities analysed in accordance with FRS 27

(b) Capital statement

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

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

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

	2011 £	2010 £
<b>Assets</b>		
Freehold land and buildings	8,270,000	8,730,000
Mortgages on land and buildings	417,308	442,461
British government securities	2,742,818	2,687,896
Other investments – non-linked	5,133,549	3,843,507
Other investments – for linked benefits	32,565,595	26,344,370
	<u>49,129,270</u>	<u>42,048,234</u>
Debtors	102,187	9,083
Tangible assets	28,279	34,565
Deposits, cash at bank, brokers and in hand	2,294,481	2,346,604
Other prepayments and accrued income	155,440	88,606
	<u>2,478,200</u>	<u>2,469,775</u>
<b>Total assets</b>	<u><u>51,709,657</u></u>	<u><u>44,527,092</u></u>
<b>Liabilities</b>		
Technical provisions		
Branch insurances	5,729,618	6,028,269
Central insurances (non-linked)	8,601,815	7,001,204
Central linked insurances	32,562,366	26,340,316
	<u>46,893,799</u>	<u>39,369,789</u>
Non-technical liabilities		
Branch funds for management, distress and marketing	137,675	134,360
Central funds of management, distress and marketing	863,680	495,214
Creditors	35,195	32,775
Accruals and deferred income	224,064	211,773
	<u>1,260,614</u>	<u>874,122</u>
Consolidated fund for future appropriations	<u>3,555,244</u>	<u>4,283,181</u>
<b>Total liabilities</b>	<u><u>51,709,657</u></u>	<u><u>44,527,092</u></u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

	2011 £	2010 £
Fund for future appropriations	3,555,244	4,283,181
Less: Inadmissible assets	46,092	324,410
Expense reserve required	-	266,000
	<u>46,092</u>	<u>590,410</u>
Assets available for required minimum margin	<u>3,509,152</u>	<u>3,692,771</u>
Required minimum margin	<u>2,458,200</u>	<u>2,533,698</u>
Assets in excess of required minimum margin	<u>1,050,952</u>	<u>1,159,073</u>

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

	2011 £	2010 £
Starting available capital resource	3,693,000	3,261,000
Liability correction from previous valuation	(223,000)	-
Change in valuation basis	36,000	195,000
Resilience reserve	-	817,000
Expense overrun reserve reduction	266,000	111,000
Branch surplus distribution	-	(758,000)
Cost of bonus change	(198,000)	(126,000)
Investment surplus	(28,000)	94,000
Expense loading	7,000	(9,000)
Economic factors	(44,000)	108,000
Available capital resources at end of year	<u>3,509,000</u>	<u>3,693,000</u>
% assets	<u>143%</u>	<u>146%</u>

The assets available for the required minimum margin are 143% of the required minimum margin.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

Risks

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

The second largest holding, approximately 22%, is in UK bonds or bond related investment companies for which changing market conditions can affect values and future returns. The next largest holding of approximately 18% is in equities which are sensitive to market movements in general. Most of the remaining assets are invested in deposits which are sensitive to changes in the Bank of England base interest rate and are subject to counterparty risk and risk of fluctuation in future investment return.

The valuation interest rate is determined by the overall return achieved on the assets held by the fund. For the fixed interest stocks the yield has been reduced by an appropriate factor based on the perceived risk of each individual bond except where the bond is issued by the UK government, no reduction has been allowed for.

For the property rental income the yield is reduced by a risk factor of 2.0%. The yield on equities is reduced by 0.5%. There is no reduction for risk on the deposit yields. The overall yield figure is then reduced by 0.7% for management expenses and then adjusted downwards by multiplying by 97.5% to allow for more general risk.

In order to ascertain the exposure to market risk, the Actuarial Function Holder carried out a Resilience Test as per INSPRU 3.1.9 to 3.1.26. This involved carrying out 2 tests; a fall in property values of 20.0% and 10.0% fall in rental yields combined with an equity fall of 10.0% together with a 10.0% fall in earnings combined with either a rise in bond yields of 0.5% or a fall in bond yields of 0.5%. It was the first scenario that produced the greater change, and this was modelled in the valuation by changing the valuation interest rate to the new overall rate of return after allowing for the change in the investment yields. The resilience reserve was £1.5m.

The expense margins on the policies were 7.0% of all regular premiums received together with a per policy allowance of £20.66p.a. (plus future increases) and 0.7% p.a. of non-linked funds under management plus £2.37p.a. (plus future increases) per CTF policy and 1.3% of CTF funds. The non-linked fund related expense is allowed for as an additional margin between the valuation rate of interest and the anticipated rate of future investment return. For the valuation, a net premium reserve is used and a test was then carried out to ensure the 60.0% restriction provided sufficient margin compared to the office premium.

The total expenses incurred by the fund were then analysed to get those that would occur if running it as a closed fund, and the remainder. There is a £105,000 expense over-run calculated for next year after allowing for the cost of closure. The net funds in the Central management, distress and marketing funds were offset against the total to arrive at a net additional reserve of £nil.



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

A mortality and morbidity investigation was carried out during 2011. The investigation used data from the preceding 3 financial years. The morbidity table used were the Manchester Unity AHJ tables. The mortality tables used were the AMC00 ultimate / AFC00 ultimate for insurance policies. By comparing the actual number of recorded deaths with the expected number of deaths based on these tables, the conclusion was that this is likely to allow for an adequate margin over actual experience.

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

The PPFM was first issued in August 2010. No changes have been carried out on the PPFM prior to 31<sup>st</sup> December 2011.