



## **Annual Report and Financial Statements 2012**

**KINGSTON UNITY FRIENDLY SOCIETY**

KINGSTON UNITY FRIENDLY SOCIETY

ANNUAL REPORT AND FINANCIAL STATEMENTS 2012

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# 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 Edward John Darragh	R
Deputy Chairman	Neil Stuart Morrison	T
Senior Independent Director	David Hawkes	A, T
Directors	Philip Joseph Howcroft (co-opted 19 January 2013) Tracy Jane Parker Ian David Prescott Timothy John Watson	A A R T
Sub-Committees	A = Audit and Risk Management chaired by Tracy Jane Parker R = Remuneration and Nomination chaired by Ian David Prescott T = Treating Customers Fairly chaired by David Hawkes	
Chief Executive, Director and Secretary	Richard Andrew John Townsley BA Cert PFS	
Compliance Officer	Miss Sarah Bostwick	
Statutory Auditor	Brown Butler Chartered Accountants Leigh House 28-32 St Paul's Street Leeds LS1 2JT	
Actuarial Function Holder and With Profits Actuary	Stephen W Dixon FIA Steve Dixon Associates LLP Oaks House 12-22 West Street Epsom Surrey KT18 7RG	
Solicitors	Newstead & Walker Mercury House Mercury Row Otley LS21 3HQ	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  
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### 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	David Williams ASFA FCol 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 £88,081 (including VAT) in 2012.

### 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

16 February 2013

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

We have audited the financial statements of Kingston Unity Friendly Society for the year ended 31 December 2012 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 2012 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 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 those provisions of the Annotated UK Corporate Governance Code specified for our review by the Association of Financial Mutuals.

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

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

4 March 2013

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**CHAIRMAN'S REPORT**

**Chairman's Introduction**

I am very pleased to be writing an introduction to the Annual Report and Financial Statements for the first time. It is a privilege and a challenge in equal measure to be helping to prudently steer the Society in such volatile times to ensure its success today, and position it for success tomorrow.

I would first like to thank our immediate past-Chairman, Peter Dawson, for fulfilling the role of Chairman so effectively, and also for his dedicated service over many years. Peter continues to be an ardent supporter of the Society in his 'retirement', and we wish him well for the future. I would also further echo my words of thanks at the 2012 Conference to both Brian Kinsey and Jenny Thomas for their outstanding commitment to the Society over the years, having left the Board in 2012.

I am delighted to officially welcome a new Non-Executive Director, Tracy Parker, who joined the Board in June 2012. Tracy was formerly Assistant Secretary of Royal Albert Branch and is an Accountant by profession, and is proving to be a great asset to the Society in taking over from Brian Kinsey as Chair of our Audit and Risk Management Sub-Committee. In addition Philip Howcroft was co-opted to the Board in January 2013. Philip is a member of Inkerman Branch and is a qualified Accountant. He also brings with him many years of experience in the Financial Services Sector having been Chief Executive of the Branch based Manchester Unity Friendly Society, and a past-President of the Association of Friendly Societies.

2012 was a hugely successful year for Kingston Unity, with leaps forward on a number of fronts:

- **Insurance and Endowment Premium Income** – 68% increase on 2011, surging past £60m of assets for the first time.
- **Net New Members** – a material net increase in new members for the first time in years.
- **Investment Performance** – continued strong yield and index-beating performance of our assets.
- **Improvements in Efficiency** – reducing management cost as a factor of both premium income and assets under management.
- **New Staff** – the appointment of some great new staff who share our values.
- **Fantastic Returns** – e.g. ISA and Investment Bond rates currently set at 4%.
- **Engagement** – an improvement in engagement with Branches with the quarterly Secretaries' forum, more open dialogue and proactive sales support.

The Chief Executive's and Directors' Report set out these achievements in more detail, but suffice to say we are delighted with the 2012 performance, and confident that going into 2013 the Society is in better financial health than it has been in for a long time – well ahead of our business plan.

One of the main themes running through my first year as Chairman has been to question everything, the core of which has been trying to put into words 'why we exist'. This may sound like a somewhat puerile question, but every stakeholder I have discussed it with has struggled to articulate an answer. Whilst growth and sound financial returns are important objectives, they are ultimately self-serving unless harnessed to a purpose. Without a defined purpose we are at risk of making decisions based on what is convenient or expedient for the present, unintentionally losing our way and losing sight of the culture and values that we believe sets us apart from other service providers. I am reminded of a quote from the celebrated author Alexander Harris "Those who stand for nothing fall for anything".

The Society was founded in 1840 to bring together a collection of individuals to provide financial help and support to each other in times of distress. Although this need has obviously been tempered by the welfare state and greater employment rights, we live in deeply troubling economic times.

Generations growing up in an environment where it is normal to borrow to get what you want when you want it, often living beyond their means, and making poor financial provision for their future. Company pension schemes are a pittance of what they used to be, and a state pension that may not be there for them when they reach retirement: there has never been a greater need for a Society that genuinely cares about people's financial affairs.



COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**CHAIRMAN'S REPORT**

Added to this, our marketplace is changing. We can all understand a lack of trust in banks resulting from the recurring mis-selling scandals and credit crunch, but almost by stealth the provision of financial advice is being excluded from all but the most wealthy due to charges levied by IFAs to make up for their lost commission after the Retail Distribution Review. Set against this backdrop we believe that with trust in our brand, history and ethos, combined with excellent customer service and market-leading products, we are in a unique position to encourage and support financial independence, and have a real opportunity to extend this benefit out to a much wider audience.

Whilst 2012 was undoubtedly a good year for the Society, we cannot afford to be complacent. Being mutual is not an automatic passport to success; we still need a sound strategy that is implemented well, and the Board will do all in its power to deliver our ongoing mission, and trust that you will continue to support us to do so.

On behalf of the Board, I would like to extend my thanks to the staff, secretaries and agents for their diligence and hard work throughout the year; to our professional advisers for their expert contributions; and to you, the members, for your continued active and positive engagement with the Society and its values.

*Peter Darragh*  
**Chairman**

**1 March 2013**

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**CHIEF EXECUTIVE'S REPORT**

**Membership**

Following a period in which overall membership numbers of the Society had been declining we reversed that trend in 2011 with a small increase, it is very encouraging to report that 2012 has seen this continue on a more significant scale with net new membership growth (new members joining minus those leaving) of 77. This has been the result of our growing presence in the IFA market but also from the efforts of individual Society Agents and it is important that we maintain this momentum for our future prosperity.

This growth has been achieved through the popularity of our saving and investment products, but we continue to have difficulty in extending this to traditional Branch schemes although there are early signs of success from some Branch based sales initiatives. Further discussion will take place with Branches in 2013 to develop solutions for the challenges being encountered to enable us to build on the achievement in other areas.

We advised last year of the impending reduction in new Child Trust Fund (CTF) members following the Governments withdrawal of the scheme and this has been borne out in 2012. New receipts have now almost ceased but we continue to look after almost 100,000 CTF members. Managing these accounts is a substantial part of the business in its own right, and will be an ongoing feature for a number of years until the accounts start to mature.

As we continue to develop alternative distribution channels for our products it is important to remember that our current members can help us by making friends and relatives aware of the Society. Existing members are our best advert. Kingston Unity has a long and proud history of providing excellent service and benefits to its members and sharing the news of those benefits with friends and family is a tradition that we want to continue.

**Mutuality**

There has been much criticism within the media of certain sections of the Financial Services sector and this has resulted in a lack of confidence amongst the general public particularly in the Banking sector. In contrast mutual organisations like Kingston Unity have, in many cases, seen their share of the market grow by providing excellent value and high levels of customer service. Being a mutual means that profit is not the main driving force which enables decisions to be made for the long term and allows a greater customer focus.

**Staffing**

In order to maintain our development and as a result of Sarah Beaumont leaving to broaden her experience, we employed two new members of staff in the last quarter of the year. Julie Monkman joins us as Head of New Business and Marketing to replace Sarah and has an added brief to develop direct business and assist the Branches with their promotional activity. Peter Ridley comes to us from an IFA and development background and he will concentrate on the IFA market and building connections with Schools, Hospitals and other affinity groups.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**CHIEF EXECUTIVE'S REPORT**

**The future**

Despite the possibility of the UK entering a triple dip recession, we have enjoyed a very successful year in 2012 experiencing continuing growth in both Insurance and Endowment premium income and overall membership. We have established good relationships in the IFA marketplace and this source is providing a significant proportion of our growth. However, it is also pleasing to see that some of our existing Agents have been very active during the year, in particular promoting the benefits of our very attractive With Profits ISA bonus rate.

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

The improved return overall on our investments during 2012 has enabled the Board to increase the Bonus rate on the With Profits ISA to 4% after charges and this will make an attractive alternative to cash ISA's for some people depending on their circumstances. Similarly the Investment Bond bonus for 2012 has been declared at 4% up from 3.5% the previous year. We continue to declare these rates on a prudent basis with the intention of providing consistency of returns rather than offering short term incentives to attract customers followed by rate reductions.

On the 1<sup>st</sup> January 2013 the Retail Distribution Review (RDR) provisions came into force. This is a major restructuring of the advised financial services marketplace, designed to improve standards for Advisers and eliminate any possible bias due to commission payments by the charging of fees to the customer for the provision of advice. As a result of the changes it was agreed that the Society would no longer offer advice to customers but is continuing to write new business on a non advised basis.

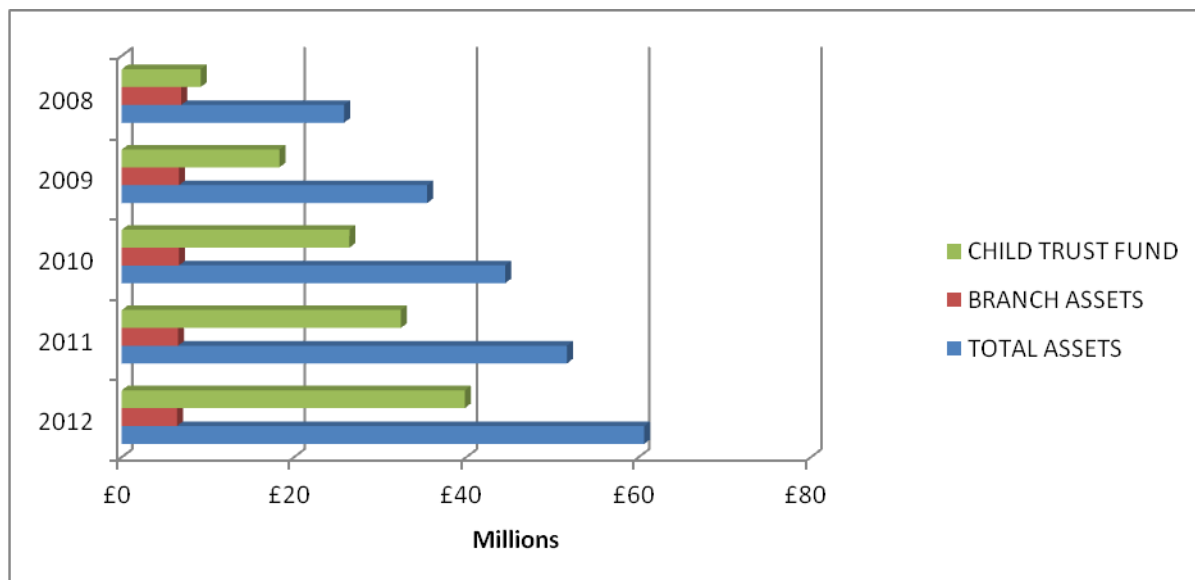
A further consequence of the RDR is that we now have variations of the same basic product depending on where the source of the business originates. It is still too early to determine how the market will settle, as Advisers are in many cases having to adapt to the new requirements and it is forecast that there will be a reduction in the number of individuals providing advice in the future, but the early signs are that our planning will help us to continue our connections in this area.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**CHIEF EXECUTIVE'S REPORT**

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

**Total, Branch and Child Trust Fund assets since 2008**



**Key figures at a glance**

	2012	2011	2010
Assets £000's	60,660	51,672	44,500
Insurance and Endowment Premium Income £000's	3,056	1,818	734
Unit Linked Child Trust Fund Contributions £000's	2,430	8,011	5,606
Unit Linked ISA income £000's	20	30	21
Members (excluding CTF)	4753	4676	4668
Branch CIF balances £000's	6,415	6,524	6,636
Management Expenses £000's	572	589	550

*Andrew Townsley*  
**Chief Executive**

**1 March 2013**

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**DIRECTORS' REPORT**

The directors are pleased to present their 172<sup>nd</sup> annual report and financial statements for the year ended 31 December 2012.

**1. Business review and future developments**

It is fantastic to be able to report on success despite the dark economic clouds looming overhead. We believe this not only to be an affirmation of our diversification of distribution channels, but testimony to the hard work of Branches and several individuals within the Society.

Insurance and Endowment premium income over the year has risen from £1.82m (2011) to just over £3m (2012), and our net membership (after deducting maturities and surrenders) has grown by 77. This excellent performance has been achieved during a difficult economic period and underlines the desire in the marketplace for a safe and secure home for personal savings and investments.

We are also in the enviable position of having products that in large part sell themselves when presented to potential members, so we are concentrating our efforts on bringing the benefits of membership of Kingston Unity to a wider public audience rather than diversify our product range. To this end we are planning a step change in our marketing efforts over 2013, with improved product literature, branding, website, PR Activity and greater focus on particular affinity groups (such as teachers).

Last year we reported on the Retail Distribution Review which has seen the biggest change to the financial services industry in many years. Completely contrary to the regulator's intentions, we believe that it has restricted financial advice to those who can afford hundreds or even thousands of pounds for it. We took the decision not to incur the costs of bringing in, or training up multiple advisers up to degree-level qualifications on the basis that we can offer a suite of solid and straight-forward financial products that cater for most general financial needs. This has resulted in a lot of work, but has many benefits in the way that Agents and introducers interact with members and potential members. Agents no longer need to ask invasive questions and fill in multiple detailed forms, and the Society has a reduced risk profile in terms of compliance issues: win – win!

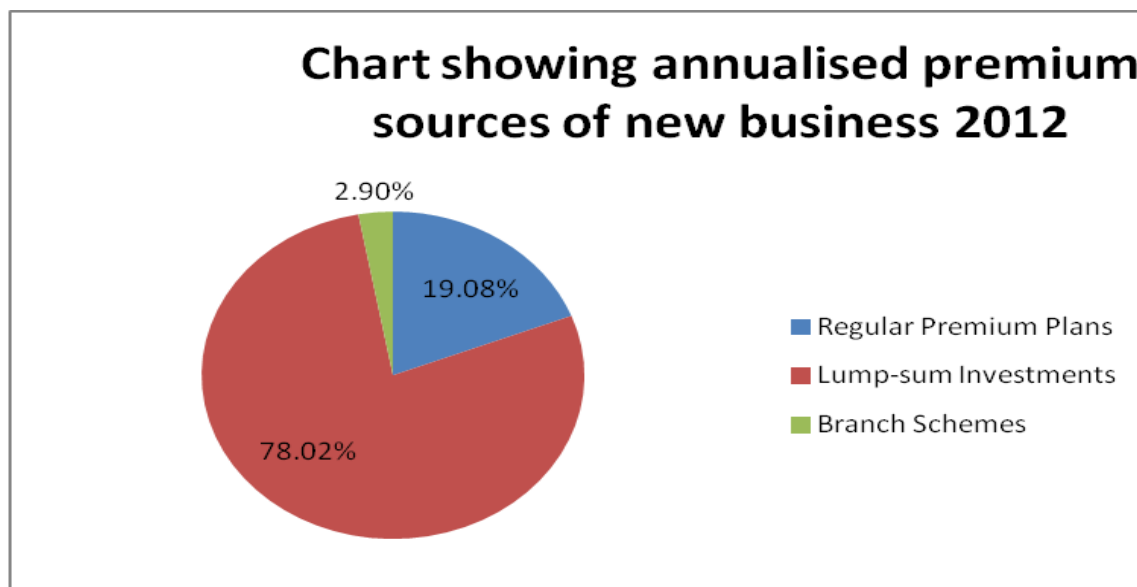
Whilst we do our best to improve direct sales, we must also be mindful of continuing to manage and grow our network of IFA's, and support our introducers and Agents. If you have not been actively involved in introducing Society products to your network of friends, family and acquaintances before it has never been more simple. Please talk to Julie Monkman if you would like to explore this more.

The Child Trust Fund product has proved very beneficial to the Society over the last six years in increasing membership and income, and we will retain this part of our business for some years to come. As expected, growth has tailed off as the Child Trust Fund has been phased out, but we continue to manage these accounts efficiently and effectively, and hope that we can introduce the benefits of other Society benefits to those members and their families in time.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**DIRECTORS' REPORT**

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



There are still strong headwinds with our increasingly vigilant and intrusive regulator, uncertainty about the eventual outcome of Project Chrysalis, increases in professional and regulatory costs, and general operational and business risks as we expand our marketing and business development budget: undoubtedly it will be an uphill struggle to grow our With Profits fund in the way we believe we need to year on year. We are, however, ever mindful that Society money is members' money, and continue to diligently monitor and mitigate our risks proactively.

The challenges facing Branches echo many of those faced by the Society generally, but Branches have additional concerns regarding falling Branch membership and long term succession plans for their Committees. These have continued to be discussed during 2012, with individual Branches each considering the options available to them to best serve the interests of their members. The Board has tried to support this with Secretaries' Forums and open and frank dialogue with Branches. This has resulted in further consolidation of the Branch network, with the members of Royal Albert and Admiral Nelson Branches agreeing to merge with Lily of the Valley, Rosebud with Hearts of Oak, and Philanthropic and St George's joining Head Office Branch.

It is recognised that it is still an uphill struggle for Branches to overcome the challenges they face, but where there have been transfers future viability has been enhanced. The Board is still committed to retaining a Branch presence and has allocated both financial and staff resource to support this. The Board will continue to work closely and collaboratively with Branch Committees to help find solutions to the challenges they face in order to preserve the benefits and option that Branch membership provides.

Treating Customers Fairly is in our DNA, and the Board and Staff are all committed to continuing to provide excellent customer service, value for money and engagement with members. We are looking at ways of improving dialogue with all Society members in a cost effective way, and hope to report more on developments on this front next year. In addition during 2013 we are initiating a programme with Assets Reunited to try and trace members whose policies have matured or have a benefit entitlement, who may have died or not advised us of a change of address: so called 'orphan funds'. We will utilise this facility where there is a minimum value of £300 in the policy as there are charges associated with the service which are borne by the policy holder.

# KINGSTON UNITY FRIENDLY SOCIETY

## COMMITTEE OF MANAGEMENT'S ANNUAL REPORT For the year ended 31 December 2012

### DIRECTORS' REPORT

#### 2. Chief Executive

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

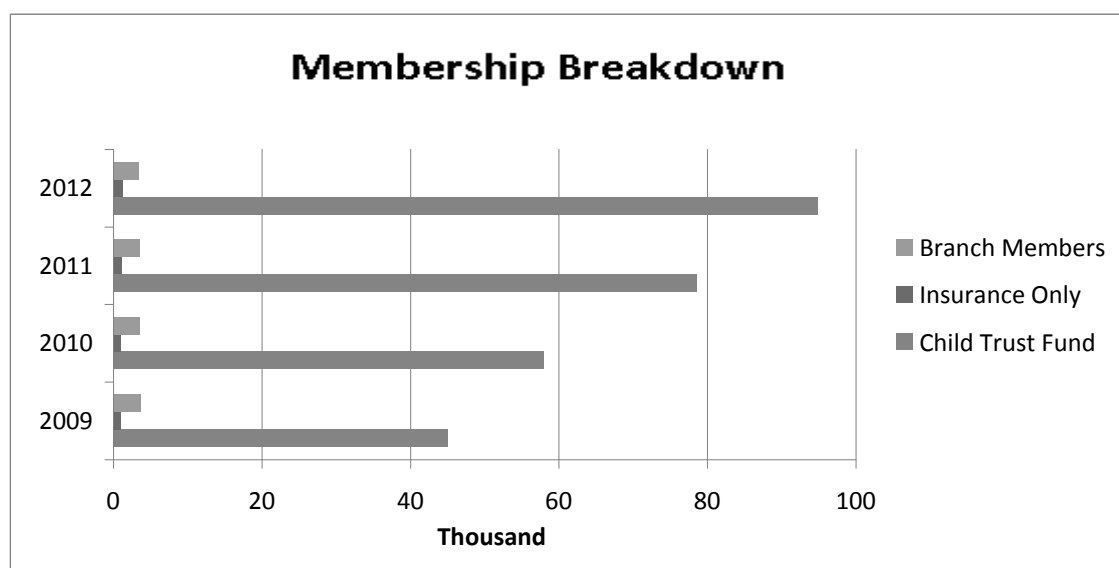
#### 3. The Society's objectives and review of 2012

The Kingston Unity Friendly Society is a registered Friendly Society with ten Branches at the end of the year but will reduce to 6 in the first quarter of 2013. The Society is classified as a registered unincorporated directive 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 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.

The following tables summarise activity within the Society and Branches as at 31<sup>st</sup> December 2012 with comparisons for earlier years.



KINGSTON UNITY FRIENDLY SOCIETY

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**DIRECTORS' REPORT**

**Membership**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>% Change from 2011 to 2012</b>
Branch members	3,488	3,559	3,637	-2.00
Insurance Only	1,265	1,117	1,031	13.25
Child Trust Fund	94,922	78,574	57,975	20.80
	<hr/>	<hr/>	<hr/>	<hr/>
Total	99,675	83,250	62,643	19.73
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Membership change during 2012**

	<b>2012</b>	<b>2011</b>	<b>% Change</b>
New Branch members	35	26	34.62
Branch members leaving	106	104	1.92
	<hr/>	<hr/>	<hr/>
Change in Branch members	-71	-78	8.97
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
New Insurance members	229	151	51.66
Insurance members leaving	81	65	24.62
	<hr/>	<hr/>	<hr/>
Change in Insurance members	148	86	72.09
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Tax Exempt savings policies	2,375	2,392	-0.71
Investment Bonds	224	85	163.53

**Premium Income**

	<b>2012 £</b>	<b>2011 £</b>	<b>% Change</b>
Branches	260,819	279,230	-6.59
Insurance and Endowment	3,056,185	1,818,309	68.08
Unit Linked CTF	2,430,160	8,010,501	-69.66
Unit Linked ISA	20,330	30,110	-32.48
<b>Total Assets</b>	<b>60,659,839</b>	<b>51,671,517</b>	<b>17.40</b>



COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**DIRECTORS' REPORT**

The Society's commercial property portfolio has performed well during the year and we have worked hard with our Managing Agent, Ryden LLP, to retain tenants.

We had a vacancy at our unit on Low Petergate, York for a few months of the year but this has now been re-let and all our premises are occupied.

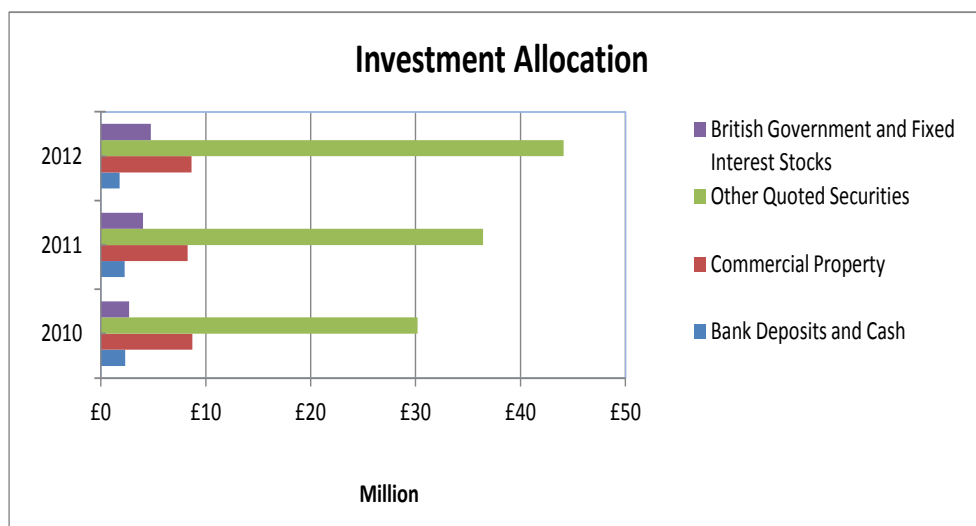
We also completed the purchase of the former Man in Space public house in Eastwood near Nottingham during 2012, which, after refurbishment, are let on long leases to Sainsbury plc and Vets 4 Pets with a solid income yield.

Despite the success of our own portfolio, in income terms, the market in general is still very depressed and we have seen a further reduction in our capital values which is obviously disappointing. The latest property portfolio valuation carried out at the end of 2012 has seen the value fall on an adjusted basis by just over 5% with a capital value of £8,630,000 though this figure still represents a significant increase from the cost value.

The Society Board still views Commercial property as a valuable part of the asset mix within the With Profit fund due to the income yield and the potential for capital growth but in the medium term it is intended that the percentage within this asset class will be reduced from the present position at just over 40% to between 30% and 35% with new premium income being invested in other asset classes.

It is apparent that there will still be much volatility in the markets across the world, with none of the fundamental economic problems solved on a macro-level and slow growth expected to remain for some years to come. However, there are early signs of some confidence returning. In the UK unemployment figures are falling but we are still seeing the demise of some previously established business names that arguably have not changed to meet current customer demands. The increased premium income flows have enabled us to invest during the year on a steady basis helping us to improve the overall investment return following the market upturn with both our fixed interest securities and equities outperforming the index.

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



COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**DIRECTORS' REPORT**

31 December	2012 £	2011 £	2010 £
British Government and Fixed Interest Stocks	4,761,331	4,009,813	2,687,896
Other Quoted Securities	44,119,815	36,432,149	30,187,877
Commercial Property	8,630,000	8,270,000	8,730,000
Bank Deposits and Cash	1,788,819	2,256,385	2,319,388
	<u>59,299,965</u>	<u>50,968,347</u>	<u>43,925,161</u>

Total investment income rose during the year from £1,941,256 to £2,354,178.

On 31 December, funds invested by Branches in the Central Investment Fund had fallen by £108,771 from £6,524,221 to £6,415,450.

Premium income to our Insurance and Endowment fund saw a substantial increase from £1.82m to £3.06m. Maturity claims on the Insurance and Endowment fund amounted to £680,272, an increase from the figure of £674,066 in 2011. The Insurance and Endowment Fund at the end of the year stood at £9,839,439 compared to £7,090,935 in 2011 and £5,544,725 in 2010, after allowing for the addition of interest and transfers.

Administration expenses excluding acquisition costs reduced by just under 3% during the year. 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.

#### 4. Margin of solvency

At 31 December 2012, 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.

##### Recent Complaints history

	2012	2011	2010
Number of complaints received during the year	1	0	8*
Number of complaints resolved during the year	1	0	8
Number outstanding at the year end	0	0	0

\*Relates to individuals from two families with the same complaint about maturity values.

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.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**DIRECTORS' REPORT**

**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 2012.

**9. Corporate governance and 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.

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 and Nominations Sub-Committee and subsequently by the full Board.

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

In addition, the Board undertakes an annual evaluation of the performance of the Board as a whole to consider its effectiveness and whether there are any skills gaps in its composition, either for present or future activities, which need to be filled. Objectives are set within the annual Business Plan and progress against these are reviewed during the course of the year.

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

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**DIRECTORS' REPORT**

The following members of the Society served on the Board during 2012:-

Peter Darragh  
Peter Dawson (retired 19 May 2012)  
David Hawkes  
Brian Kinsey (retired 19 May 2012)  
Neil Morrison  
Tracy Parker (elected 22 June 2012)  
Ian Prescott  
Jennifer Thomas (resigned 1 May 2012)  
Andrew Townsley  
Timothy Watson

During 2012 Peter Dawson and Brian Kinsey retired from the Board after completing 12 years service and Jennifer Thomas tendered her resignation in May. The Board would like to extend their thanks and appreciation to all three individuals for their dedication and contribution both within the Board, all having served as Chairman, and on behalf of the membership as a whole.

We would also like to formally welcome Tracy Parker as a Director, having been elected at the Annual General Meeting in May. Tracy was formerly Assistant Secretary of Royal Albert Branch, is a qualified Accountant and her experience has resulted in her succeeding Brian Kinsey as Chair of the Audit and Risk Management Sub-Committee. In addition Philip Howcroft was co-opted to the Board in January 2013. Philip is a member of Inkerman Branch and is a qualified Accountant. He also brings with him many years of experience in the Financial Services Sector having been Chief Executive at the Branch based Manchester Unity Friendly Society and a Past President of the Association of Friendly Societies.

The Remuneration and Nomination Sub-Committee is currently reviewing the balance of skills required for our future plans. In considering potential candidates for the Board the Sub-Committee will try to ensure that particular skill sets are not duplicated and that the overall balance of skills is appropriate to ensure good Corporate Governance sufficient to meet present and future requirements. Sourcing suitable candidates will encompass nominations from the Society's membership or alternatively we will advertise externally either directly, through Agencies or both.

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.

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.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**DIRECTORS' REPORT**

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 and all its Branches updating their Risk Registers.

**Sub-Committees**

The Board has established Sub-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 Sub-Committee Chairman.

The Remuneration and Nomination Sub-Committee is chaired by Ian Prescott and meets at least twice per year to:-

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

Tracy Parker chairs the Audit and Risk Management Sub-Committee. This Sub-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.

**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.

# KINGSTON UNITY FRIENDLY SOCIETY

## COMMITTEE OF MANAGEMENT'S ANNUAL REPORT For the year ended 31 December 2012

### DIRECTORS' REPORT

Below are the details of the Directors' attendance record at Board meetings and relevant Board Sub-Committee meetings during 2012. Other relates to informal Sub-Committees or other events e.g., training.

Attendance	Board	Sub-Committees	Other
Peter Dawson	7/7		4
Peter Darragh	13/13	3/3	7
David Hawkes	12/13	6/6	2
Brian Kinsey	5/7	2/2	1
Neil Morrison	13/13	1/1	9
Tracy Parker	5/6	1/1	2
Ian Prescott	10/13	2/2	4
Jennifer Thomas	4/4	1/1	4
Andrew Townsley	12/13		
Timothy Watson	13/13	1/1	5

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, and welcome feedback to help us improve.

#### Other directorships and business interests

Andrew Townsley	Director:	Association of Financial Mutuals
	Director:	Carr House Court Management Company Limited
Neil Morrison	Director:	Aquila Properties (Yorkshire) Limited
Ian Prescott	Director:	Bond House Systems Limited
		Target Components Limited
		European Property UK Limited
		Mood Developments Limited

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

**Peter Darragh**  
Chairman

**Andrew Townsley**  
Chief Executive

**1 March 2013**

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**REMUNERATION REPORT**

This report is submitted in accordance with the Directors' Remuneration Report Regulations 2002 in respect of the year ended 31 December 2012. 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 seven non-executive and one executive director. New directors are appointed with the expectation that they will serve for a period of three years. Thereafter directors' appointments are reviewed formally every three years and approved by the delegates at the AGM. None of the non-executive directors has a contract of service and may resign by notice in writing at any time. Non-executive directors are remunerated in the form of fees payable in arrears. There are no long term incentive schemes or pension arrangements for non-executive directors and the fees are not specifically related to the directors' performance, either individually or collectively.

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

**Review of fees**

Following the discussion regarding the proposed increase to directors' fees at the 2012 Annual General Meeting there has been no increase in fees since those agreed in 2011. A remuneration proposal for consideration at the 2013 Annual General meeting has been circulated.

**Fees, Salaries and other benefits in 2012 amounted to:**

	<u>Fees</u>	<u>Salary</u>	<u>Taxable</u> <u>Benefits</u>	<u>Commission</u>	<u>Pension</u>	<u>2012</u>	<u>2011</u>
	£	£	£	£	£	£	£
Paul Clarke	0					0	4,289
Peter Dawson	4,476					4,476	5,829
Peter Darragh	6,247			231		6,478	4,786
David Hawkes	4,384			2,305		6,689	7,859
Brian Kinsey	2,378			1,000		3,378	4,358
Neil Morrison	4,894					4,894	5,517
Tracy Parker	1,800			44		1,844	0
Ian Prescott	3,912			72		3,984	1,524
Jennifer Thomas	2,276			9,917		12,193	15,222
Andrew Townsley		92,032	4,166	2,178	9,863	108,239	104,872
Timothy Watson	4,207			111		4,318	5,738
<b>Total</b>	<b>34,574</b>	<b>92,032</b>	<b>4,166</b>	<b>15,858</b>	<b>9,863</b>	<b>156,493</b>	<b>159,994</b>

Included in the above salary for Andrew Townsley is a provisional amount of £3,000 (2011: £Nil) in respect of a bonus to be paid after the year end.

General expenses such as travel and parking are not included in the above figures. During the year these totalled £7,107 (2011: £8,158).

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

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2012

**REMUNERATION REPORT**

**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**

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

**Skills, Knowledge and Experience**

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

- Accounting
- Audit
- Risk Management
- Legal and Compliance
- Actuarial
- Property Investment
- Equity and Fixed Interest Securities
- Financial Services Sector
- IT and Digital Economy
- Marketing
- Society Products and Structure
- Experience of Mutuals
- Business Development
- Leadership

We believe that the current Board demonstrate skill and experience in each of these areas, and all are appropriately classified by the FSA as 'fit and proper people'.

On behalf of the Committee of Management

*Peter Darragh*  
**Chairman**

*Andrew Townsley*  
**Chief Executive and Secretary**

**1 March 2013**



KINGSTON UNITY FRIENDLY SOCIETY

INCOME AND EXPENDITURE ACCOUNT

TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2012

	Note	2012 £	2011 £
<b>INCOME</b>			
Earned premiums	2	5,567,949	9,924,340
Investment income	3	2,260,511	1,808,776
Unrealised gains on investments	4	3,739,466	303,038
Other income	5	15,534	87,692
<b>TOTAL INCOME</b>		<b>11,583,460</b>	<b>12,123,846</b>
<b>EXPENDITURE</b>			
Claims incurred	6	860,299	807,378
Change in long term business provision	29 & 30	4,730,413	(1,959,723)
Net operating expenses			
Acquisition costs	7	242,693	164,590
Administration	8	444,785	427,469
		687,478	592,059
Investment expenses and charges			
Investment management expenses	9	114,727	50,363
Losses on realisation of investments	10	22,706	93,826
		137,433	144,189
Unrealised losses on investments	11	545,115	2,912,070
		6,960,738	2,495,973
Tax attributable to the long term business	14	(20,000)	-
<b>TOTAL EXPENDITURE</b>		<b>6,940,738</b>	<b>2,495,973</b>
<b>EXCESS OF INCOME OVER EXPENDITURE FOR THE FINANCIAL YEAR</b>		<b>4,642,722</b>	<b>9,627,873</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 27 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 2012

	Note	2012 £	2011 £
<b>INCOME</b>			
Investment income	3	93,667	132,480
Unrealised gains on investments	4	63,809	38,992
Other income	5	25,755	36,095
<b>TOTAL INCOME</b>		<u>183,231</u>	<u>207,567</u>
<b>EXPENDITURE</b>			
Claims incurred	6	11,216	24,722
Administration	8	127,069	162,018
Investment expenses and charges			
Investment management expenses	9	28,682	16,786
Losses on realisation of investments	10	2,056	12,073
		<u>30,738</u>	<u>28,859</u>
		169,023	215,599
Unrealised losses on investments	11	49,341	90,251
<b>EXPENDITURE BEFORE INTEREST AND ALLOCATION TO INVESTING BRANCHES</b>		218,364	305,850
Divided among the member branches	12	274,826	301,075
<b>TOTAL EXPENDITURE</b>		<u>493,190</u>	<u>606,925</u>
<b>EXCESS OF EXPENDITURE OVER INCOME FOR THE FINANCIAL YEAR</b>		<u>(309,959)</u>	<u>(399,358)</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 27 to 48 form part of these financial statements.

KINGSTON UNITY FRIENDLY SOCIETY

BALANCE SHEET

As at 31 December 2012

	Note	2012 £	2011 £
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Land and buildings	17	8,630,000	8,270,000
Other financial investments			
Shares and other variable yield			
Securities	18	5,310,294	3,866,554
Debt securities and other fixed income			
Securities	19	4,761,331	4,009,813
Loans secured by mortgages	20	1,118,997	417,308
		<u>19,820,622</u>	<u>16,563,675</u>
Assets held to cover linked liabilities	21	38,809,521	32,565,595
<b>DEBTORS</b>			
Other debtors	22	2,647	102,177
<b>OTHER ASSETS</b>			
Tangible assets	23	31,626	28,245
Cash at banks, brokers and in hand	24	1,788,819	2,256,385
		<u>1,820,445</u>	<u>2,284,630</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		178,295	123,805
Other prepayments and accrued income		28,309	31,635
		<u>206,604</u>	<u>155,440</u>
		<u>60,659,839</u>	<u>51,671,517</u>
<b>LIABILITIES</b>			
<b>RESERVES</b>			
Reserves provided for by the rules and tables	25	995,766	863,680
Fund for future appropriations	26	2,771,023	2,861,976
		<u>3,766,789</u>	<u>3,725,656</u>
<b>TECHNICAL PROVISIONS</b>			
Long term business provision	29	11,376,703	8,598,586
Technical provisions for linked liabilities	30	38,809,521	32,565,595
		<u>50,186,224</u>	<u>41,164,181</u>
<b>CREDITORS</b>			
Other creditors – including taxation, social security and investing branches	31	6,432,910	6,557,616
ACCRUALS AND DEFERRED INCOME	33	273,916	224,064
		<u>60,659,839</u>	<u>51,671,517</u>

These financial statements were approved and authorised for issue by the Committee of Management on 1 March 2013.

.....  
Peter Edward John Darragh (Chairman)

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

The notes on pages 27 to 48 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 an accruals basis.

(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 2012

### 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 on the basis of market value based on existing tenancies. 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

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

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

#### (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 2012

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 adjustment and by a minimum provision for expenses, and as such includes explicit provision for vested bonuses, including those vesting for the current valuation. Implicit provision is made for future reversionary bonuses and future terminal bonuses by a reduction in the valuation rate of interest.

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

The principal assumptions used in the valuation are:

Mortality	115% AMC00 and 111% AFC00 for ages 17 and above, 100% ELT for ages below 17 non CTF and 83% ELT for ages below 17 CTF
Morbidity	60% of the Manchester Unity AHJ (1893 – 97)
Investment returns	2.99% for tax exempt policies, 2.39% for taxable with profit policies and 3.49% 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) Leasing

Operating lease rentals are charged to the technical and non-technical accounts as incurred.

(r) 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 2012

2. Earned premiums

	2012 £	2011 £
Central health benefit contributions	2,656	3,014
Long term savings contributions	58,618	62,206
Insurance and endowment premiums	3,056,185	1,818,309
Child Trust Fund – stakeholder	2,430,160	8,010,501
Unit linked ISA	20,330	30,310
	<u>5,567,949</u>	<u>9,924,340</u>

3. Investment income

	2012		2011	
	Technical account £	Non-technical account £	Technical account £	Non-technical Account £
Income from listed investments	1,516,567	26,332	1,102,248	41,572
Income from land and buildings	664,753	60,168	627,041	80,680
Gains on the realisation of investments	27,503	2,489	51,160	6,582
Bank interest receivable	18,066	1,635	14,321	1,844
Mortgage interest receivable	27,065	2,450	14,006	1,802
Mortgage arrangement charges receivable	6,557	593	-	-
	<u>2,260,511</u>	<u>93,667</u>	<u>1,808,776</u>	<u>132,480</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.

4. Unrealised gains on investments

	2012		2011	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Shares and other variable yield securities	438,985	39,734	138,275	17,792
Debt securities and other fixed income securities	265,991	24,075	164,763	21,200
Assets held to cover linked liabilities	3,034,490	-	-	-
	<u>3,739,466</u>	<u>63,809</u>	<u>303,038</u>	<u>38,992</u>

KINGSTON UNITY FRIENDLY SOCIETY

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For the year ended 31 December 2012

5. Other income

	2012		2011	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Management and other levies	15,534	25,755	87,692	36,095

6. Claims incurred

	2012		2011	
	Technical account £	Non-technical Account £	Technical account £	Non-technical account £
Funeral re-insurance fund	-	11,216	-	24,722
Central health fund	200	-	789	-
Long term savings fund	90,444	-	57,736	-
Insurance and endowment fund	680,272	-	674,066	-
Child Trust Fund – stakeholder: claims	3,928	-	3,286	-
Transfers	37,068	-	46,960	-
Unit linked ISA fund	48,387	-	24,541	-
	860,299	11,216	807,378	24,722

7. Acquisition costs

	2012 £	2011 £
Salaries and national insurance	22,928	20,827
Pension costs	1,821	1,773
Commissions	192,349	119,754
Printing and stationery	2,196	2,584
Office repairs	664	159
Maintenance contracts	11,163	6,792
Computer software	1,517	767
Actuarial fees and valuation provisions	8,808	10,071
Compliance training	1,247	1,863
	242,693	164,590





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For the year ended 31 December 2012

9. Investment management expenses

	2012		2011	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Investment adviser's charges	29,281	7,320	-	-
Property related charges:-				
Agent's management charges	28,095	7,024	22,290	7,431
Legal fees	25,925	6,481	3,635	1,211
Insurances	6,927	1,732	6,191	2,064
Rates and water	739	185	704	234
Heat and light	4,315	1,079	2,208	736
Repairs and renewals	17,528	4,382	13,263	4,421
Cleaning	1,917	479	2,072	689
	<u>114,727</u>	<u>28,682</u>	<u>50,363</u>	<u>16,786</u>

The investment management expenses are allocated 80% (2011: 75%) to the technical account and 20% (2011: 25%) to the non-technical account.

Prior to the year to 31 December 2012 the investment adviser's charges were included as part of the purchase costs, and selling proceeds, of the investments. For the year to 31 December 2012 the advisers have charged these costs as a separate expense.

10. Losses on realisation of investments

	2012		2011	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Shares and other variable yield securities	8,725	790	92,277	11,874
Debt securities and other fixed income securities	13,981	1,266	1,549	199
	<u>22,706</u>	<u>2,056</u>	<u>93,826</u>	<u>12,073</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. Unrealised losses on investments

	2012		2011	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Land and buildings	436,534	39,512	407,560	52,440
Shares and other variable yield securities	94,858	8,586	185,436	23,860
Debt securities and other fixed income securities	13,723	1,243	108,421	13,951
Assets held to cover linked liabilities	-	-	2,210,653	-
	<u>545,115</u>	<u>49,341</u>	<u>2,912,070</u>	<u>90,251</u>

12. Divided among the member branches

	2012 £	2011 £
Interest on investing branch deposits at 4.50% (2011: 4.50%)	274,826	291,243
Central health fund distribution	-	9,832
	<u>274,826</u>	<u>301,075</u>

13. Excess of income over expenditure

The excess of income over expenditure is after charging:-

	2012 £	2011 £
Depreciation of owned assets	14,670	12,175
Operating lease charges – motor vehicles	7,816	3,257
External auditor's remuneration – audit services	37,994	44,294
– for other services	300	4,494
Internal auditor's remuneration	11,700	7,500
Actuary's remuneration	88,081	100,709
Commissions	<u>192,349</u>	<u>119,754</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. 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.

	2012 £	2011 £
Corporation tax		
Current year	-	-
Adjustments for prior years	(20,000)	-
Current tax credit	(20,000)	-
Small profits rate	20.00%	20.25%

15. Staff costs

	2012 £	2011 £
Wages and salaries	205,540	194,634
Social security costs	23,739	20,963
Pension costs	18,211	17,729
Benefits in kind	5,277	-
	<u>252,767</u>	<u>233,326</u>
Average number of employees		
Chief executive	1	1
Administration	5	5
	<u>6</u>	<u>6</u>

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For the year ended 31 December 2012

16. Committee members' emoluments

	2012 £	2011 £
Remuneration	92,032	93,209
Pension contributions	9,863	10,849
Attendance fees	34,574	41,296
Other emoluments	15,858	14,640
Benefits in kind	4,166	-
	<u>156,493</u>	<u>159,994</u>

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

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

Emoluments include all payments and benefits received by members of the 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:-

	2012 £	2011 £
Chairman – Paul Clarke, retired 31 December 2011	-	4,289
– Peter Dawson, appointed 1 January 2012 and retired 19 May 2012	4,395	-
– Peter Darragh, appointed 19 May 2012	3,462	-
	<u>7,857</u>	<u>4,289</u>

Highest paid committee member

Remuneration	92,032	93,209
Pension	9,863	10,849
Benefits in kind	4,166	-
	<u>106,061</u>	<u>104,058</u>

Other committee members

	No.	No.
Nil - £5,000	8	4
£5,001 - £10,000	1	4
£10,001 - £15,000	-	-
£15,001 - £20,000	-	1
	<u>9</u>	<u>9</u>

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For the year ended 31 December 2012

17. Land and buildings

	Freehold land and buildings £	Long leasehold land and buildings £	2012 £	2011 £
Valuation				
At 1 January 2012	7,960,000	310,000	8,270,000	8,730,000
Addition	836,046	-	836,046	-
Deficit on revaluation	(416,046)	(60,000)	(476,046)	(460,000)
At 31 December 2012	<u>8,380,000</u>	<u>250,000</u>	<u>8,630,000</u>	<u>8,270,000</u>

The society's land and buildings were professionally valued on 31 December 2012 by Ryden LLP, Chartered Surveyors, Leeds, on the basis of market value based on existing tenancies.

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 £250,000 (2011: £310,000).

The historical costs of the revalued properties are as follows:

	2012 £	2011 £
Freehold land and buildings	6,143,768	5,307,722
Long leasehold land and buildings	399,884	399,884
	<u>6,543,652</u>	<u>5,707,606</u>

18. Shares and other variable yield securities

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

	2012 £	2011 £
Valuation at 1 January 2012	3,866,554	3,843,507
Additions	1,493,468	2,168,844
Disposals	(442,543)	(2,022,542)
Realised gains	27,055	34,125
Realised losses	(9,515)	(104,151)
Unrealised gains	478,719	156,067
Unrealised losses	(103,444)	(209,296)
Valuation at 31 December 2012	<u>5,310,294</u>	<u>3,866,554</u>

The historical cost of the shares and other variable yield securities is £4,731,099 (2011: £3,663,158).

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. 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.

	2012 £	2011 £
Valuation at 1 January 2012	4,009,813	2,687,896
Additions	1,776,943	3,106,979
Disposals	(1,288,215)	(1,870,522)
Realised gains	2,937	23,617
Realised losses	(15,247)	(1,748)
Unrealised gains	290,066	185,963
Unrealised losses	(14,966)	(122,372)
Valuation at 31 December 2012	<u>4,761,331</u>	<u>4,009,813</u>

The historical cost of the debt securities and other fixed income securities is £4,429,881 (2011: £3,880,222).

20. Loans secured by mortgages

	2012 £	2011 £
At 1 January 2012	417,308	442,461
Advances	715,000	-
Repayments	(42,826)	(40,961)
Charged interest	29,515	15,808
At 31 December 2012	<u>1,118,997</u>	<u>417,308</u>

21. 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.

	2012 £	2011 £
Valuation at 1 January 2012	32,565,595	26,344,370
Additions	3,209,436	8,431,878
Surplus/(deficit) on revaluation	3,034,490	(2,210,653)
Valuation at 31 December 2012	<u>38,809,521</u>	<u>32,565,595</u>

The historical cost of the units is £34,895,660 (2011: £31,686,224).

KINGSTON UNITY FRIENDLY SOCIETY

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For the year ended 31 December 2012

22. Debtors

	2012 £	2011 £
Tax refunds due	512	6,732
H M Revenue & Customs (tax credit on interest)	2,135	5,486
Property deposit and associated costs	-	89,959
	<u>2,647</u>	<u>102,177</u>

23. Tangible assets

	Fixtures, fittings and equipment £	Computer equipment £	Motor vehicle £	Total £
Cost				
At 1 January 2012	24,850	69,339	9,415	103,604
Additions	756	17,295	-	18,051
Disposals	-	(8,800)	-	(8,800)
	<u>25,606</u>	<u>77,834</u>	<u>9,415</u>	<u>112,855</u>
At 31 December 2012				
Depreciation				
At 1 January 2012	9,006	62,234	4,119	75,359
Charge	2,490	10,856	1,324	14,670
Eliminated on disposal	-	(8,800)	-	(8,800)
	<u>11,496</u>	<u>64,290</u>	<u>5,443</u>	<u>81,229</u>
At 31 December 2012				
Net book value				
At 1 January 2012	<u>15,844</u>	<u>7,105</u>	<u>5,296</u>	<u>28,245</u>
At 31 December 2012	<u>14,110</u>	<u>13,544</u>	<u>3,972</u>	<u>31,626</u>

24. Cash at banks, brokers and in hand

	2012 £	2011 £
Deposit accounts	1,184,793	1,666,179
Current account	578,302	573,102
Cash held by brokers	25,429	16,941
Cash	295	163
	<u>1,788,819</u>	<u>2,256,385</u>



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

25. Reserves provided for by the rules and tables

	Funeral re-insurance fund £	Management fund £	Guarantee fund £	2012 £	2011 £
At 1 January 2012	(380)	814,060	50,000	863,680	717,738
Allocation of income and expenditure					
Technical account	-	(407,740)	-	(407,740)	(338,296)
Non-technical account	570	(113,100)	-	(112,530)	(150,645)
Management fund transfers	-	602,356	-	602,356	384,883
Accumulated income fund transfers					
Administration	-	50,000	-	50,000	250,000
At 31 December 2012	<u>190</u>	<u>945,576</u>	<u>50,000</u>	<u>995,766</u>	<u>863,680</u>

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.

26. Fund for future appropriations

	2012 £	2011 £
Accumulated income fund (note 27)	1,440,043	9,402
Reserve fund (note 28)	<u>1,330,980</u>	<u>2,852,574</u>
	<u>2,771,023</u>	<u>2,861,976</u>

27. Accumulated income fund

	2012 £	2011 £
At 1 January 2012	9,402	8,645
Allocation of income and expenditure		
– Technical account	2,123,078	798,138
– Non-technical account	(211,897)	(187,622)
Allocation to other funds		
Interest and dividends	<u>(430,540)</u>	<u>(359,759)</u>
Transfer to management fund (note 25)	<u>1,490,043</u> <u>(50,000)</u>	<u>259,402</u> <u>(250,000)</u>
At 31 December 2012	<u>1,440,043</u>	<u>9,402</u>

KINGSTON UNITY FRIENDLY SOCIETY

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For the year ended 31 December 2012

28. Reserve fund

	2012 £	2011 £
At 1 January 2012	2,852,574	3,562,974
Allocation of income and expenditure		
Technical account	(1,536,062)	(649,309)
Non-technical account	14,468	(61,091)
At 31 December 2012	<u>1,330,980</u>	<u>2,852,574</u>

29. Technical provisions – long term business provision

The actuarial valuation at 31 December 2012 highlighted the following technical liabilities:-

	Central health fund £	Long term savings fund £	Insurance and endowment fund £	Total 2012 £	Total 2011 £
At 1 January 2012	8	1,507,643	7,090,935	8,598,586	6,987,318
Allocation of income and expenditure					
Technical account	2,456	(31,826)	2,131,709	2,102,339	984,867
Management fund transfers	(330)	-	(116,997)	(117,327)	-
Accumulated income fund Transfers					
Interest and dividends	19	58,144	372,377	430,540	359,759
Change in long term business provision	(2,153)	3,303	361,415	362,565	266,642
At 31 December 2012	<u>-</u>	<u>1,537,264</u>	<u>9,839,439</u>	<u>11,376,703</u>	<u>8,598,586</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.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

30. Technical provisions – linked liabilities long term business provision

The actuarial valuation at 31 December 2012 highlighted the following technical liabilities in respect of linked liabilities:-

	Child trust fund stakeholder fund £	Unit linked ISA fund £	Total 2012 £	Total 2011 £
At 1 January 2012	32,507,287	58,308	32,565,595	26,344,370
Allocation of income and expenditure				
Technical account	2,389,164	(28,057)	2,361,107	8,832,473
Management fund transfers	(484,156)	(873)	(485,029)	(384,883)
Change in long term business provision	4,327,122	40,726	4,367,848	(2,226,365)
At 31 December 2012	<u>38,739,417</u>	<u>70,104</u>	<u>38,809,521</u>	<u>32,565,595</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.

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

	2012 £	2011 £
Corporation tax	-	20,000
VAT	17,460	13,395
Balances due to investing branches (note 32)	<u>6,415,450</u>	<u>6,524,221</u>
	<u>6,432,910</u>	<u>6,557,616</u>

KINGSTON UNITY FRIENDLY SOCIETY

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For the year ended 31 December 2012

32. Balances due to investing branches at 31 December 2012

Branch number	Branch name	£	Total branch benefit membership
23	Inkerman	346,908	169
25	Lily of the Valley	1,815,026	756
29	Admiral Nelson	429,309	209
30	Hearts of Oak	958,882	477
35	Philanthropic	483,640	314
53	Rosebud	418,398	256
100	Head Office Branch	596,376	401
233	All Saints	911,793	613
243	St George's	222,262	103
272	Lord Nelson	232,856	190
		<u>6,415,450</u>	<u>3,488</u>

On 1 February 2012, 1 March 2012 and 1 April 2012, Young Man's Friend, Loyal Windmill and Loyal Alexandra joined the Head Office Branch respectively. In addition, on 1 May 2012 Royal Albert merged with Lily of the Valley.

33. Accruals and deferred income

	2012 £	2011 £
Actuarial fees	7,231	7,052
Commission payable to agents	23,041	11,909
Auditor's remuneration	37,994	33,900
Property valuation	8,181	9,924
Sundry accruals	42,789	16,436
Deferred income	154,680	144,843
	<u>273,916</u>	<u>224,064</u>

34. Leasing commitments

At 31 December 2012 the society had operating lease commitments for the following year as set out below:-

	2012 £	Other 2011 £
Operating leases which expire:-		
From one to five years	<u>7,165</u>	<u>7,165</u>

KINGSTON UNITY FRIENDLY SOCIETY

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For the year ended 31 December 2012

35. Related party transactions and controlling party

During the year the society has conducted business with committee members as disclosed in note 16.

During the year R A J Townsley had a repayment mortgage with the society. The society charged R A J Townsley interest of £5,002 (2011: £5,656). At the balance sheet date £123,319 (2011: £142,917) 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 £2,011 (2011: £8,145). During the year he repaid to the society £2,582 (2011: £8,813). At the balance sheet date £nil (2011: £571) was owed to the society in respect of these costs.

No controlling party can be identified.

36. 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 36(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.

- (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.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. Liabilities analysed in accordance with FRS 27 - continued

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

	2012 £	2011 £
<b>Assets</b>		
Freehold land and buildings	8,630,000	8,270,000
Mortgages on land and buildings	1,118,997	417,308
British government securities	1,889,816	2,742,818
Other investments – non-linked	8,181,809	5,133,549
Other investments – for linked benefits	38,809,521	32,565,595
	<u>58,630,143</u>	<u>49,129,270</u>
Debtors	2,650	102,187
Tangible assets	32,622	28,279
Deposits, cash at bank, brokers and in hand	1,816,438	2,294,481
Other prepayments and accrued income	206,604	155,440
	<u>2,055,664</u>	<u>2,478,200</u>
<b>Total assets</b>	<u><u>60,688,457</u></u>	<u><u>51,709,657</u></u>
<b>Liabilities</b>		
Technical provisions		
Branch insurances	5,453,538	5,729,618
Central insurances (non-linked)	11,419,699	8,601,815
Central linked insurances	38,766,524	32,562,366
	<u>55,639,761</u>	<u>46,893,799</u>
Non-technical liabilities		
Branch funds for management, distress and marketing	93,033	137,675
Central funds of management, distress and marketing	50,190	863,680
Creditors	20,145	35,195
Accruals and deferred income	273,916	224,064
	<u>437,284</u>	<u>1,260,614</u>
Consolidated fund for future appropriations	<u>4,611,412</u>	<u>3,555,244</u>
<b>Total liabilities</b>	<u><u>60,688,457</u></u>	<u><u>51,709,657</u></u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

	2012 £	2011 £
Fund for future appropriations	4,611,412	3,555,244
Less: Inadmissible assets	36,344	46,092
Expense reserve required	<u>205,000</u>	<u>-</u>
	<u>241,344</u>	<u>46,092</u>
Assets available for required minimum margin	<u>4,370,068</u>	<u>3,509,152</u>
Required minimum margin	<u>2,974,112</u>	<u>2,458,200</u>
Assets in excess of required minimum margin	<u>1,395,956</u>	<u>1,050,952</u>

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

	2012 £	2011 £
Starting available capital resource	3,509,000	3,693,000
Liability correction from previous valuation	-	(223,000)
Release of management fund reserve	813,000	-
Model change	(41,000)	-
Change in CTF policy fee	148,000	-
Change in valuation basis	(21,000)	36,000
Expense overrun reserve	(205,000)	266,000
Cost of bonus	(312,000)	(198,000)
Investment surplus	197,000	(28,000)
Expense loading	159,000	7,000
Economic factors	<u>123,000</u>	<u>(44,000)</u>
Available capital resources at end of year	<u>4,370,000</u>	<u>3,509,000</u>
% assets	<u>147%</u>	<u>143%</u>

The assets available for the required minimum margin are 147% of the required minimum margin.

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For the year ended 31 December 2012

36. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

Risks

Just over 40% 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 are subject to risks of voids caused by counterparty risks with the tenant and the ability to lease the property.

The second largest holding, approximately 21%, 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 22% 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%. The yield on equities is reduced by 0.50%. There is no reduction for risk on the deposit yields. The overall yield figure is then reduced by 0.70% for management expenses and then adjusted downwards by multiplying by 97.50% 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% and 10% fall in rental yields combined with an equity fall of 10% together with a 10% fall in earnings combined with either a rise in bond yields of 0.45% or a fall in bond yields of 0.45%. 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 capital requirement was £1.85m.

The expense allowance within the valuation for the conventional business is the difference between the office premium and net premium subject to a 40% limit of the net premium received together with a per policy allowance of £21.28 p. a. for non premium paying policies (plus future increases) and 0.70% p. a. of funds under management.

The expense allowance within the valuation for the non-linked funds is 1.30% of CTF funds and 1.50% for ISA and single premium bonds.

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 £205,000 expense over-run calculated for next year after allowing for the cost of closure.



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

A mortality and morbidity investigation was carried out during 2012. 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 Principles and Practices of Financial Management (PPFM) was first issued in August 2010. No changes have been carried out on the PPFM prior to 31 December 2012.