



## **Annual Report and Financial Statements 2013**

**KINGSTON UNITY FRIENDLY SOCIETY**

KINGSTON UNITY FRIENDLY SOCIETY

ANNUAL REPORT AND FINANCIAL STATEMENTS 2013

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 – 7
Board of management's annual report	
Chairman's report	8 – 9
Chief executive's report	10 – 12
Directors' report	13 – 27
Remuneration report	28 – 30
Income and expenditure – Technical account	31
Income and expenditure – Non-technical account	32
Balance sheet	33
Notes to the financial statements	34 – 55

# 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	Ian David Prescott	A, R
Senior Independent Director	Tracy Jane Parker	A, T
Directors	Philip Joseph Howcroft (co opted 19 January 2013 and elected 17 May 2013) A Tracy Jane Parker A, T Timothy John Watson T Kate Natalie Wright (appointed 17 May 2013) R	
Sub-Committees	A = Audit and Risk Management chaired by Tracy Jane Parker R = Remuneration chaired by Ian David Prescott T = Treating Customers Fairly chaired by Timothy John Watson	
Chief Executive, Director and Secretary	Richard Andrew John Townsley BA	T
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

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### OFFICERS AND PROFESSIONAL ADVISERS

Bankers	National Westminster Bank plc 8 Park Row Leeds LS1 5HD
Chartered Surveyors	Ryden LLP 3 <sup>rd</sup> Floor Carlton Tower 34 St Pauls' Street Leeds LS1 2QB
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 by the Prudential Regulation Authority and Regulated by the Financial Conduct Authority and Prudential Regulation 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 £77,068 (including VAT) in 2013.

### 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

15 February 2014

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 2013 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).

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 Board of Management and Auditor

As explained more fully in the Board of Management's Responsibilities Statement set out in the Board of Management's Annual Report, the Board of Management is responsible for preparing financial statements and for being satisfied that they 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 Board of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Board of Management's annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 of the state of the Society's affairs as at 31 December 2013 and of the income and expenditure of the Society for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Continued on page 6

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

Continued from page 5

Auditor commentary

a) An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Society's business and it is risk based. We undertook substantive testing on significant transactions, balances and disclosure, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls and the management of specific risks.

b) Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We established materiality for the financial statements as a whole to be £730,000 which is 1% of the Society's net assets. Due to the significance of the Society's net assets compared to the amounts of revenue shown in the income and expenditure accounts, we calculated a separate materiality for revenue of £115,000.

We have agreed the threshold at which we communicate misstatements to the Audit Committee to be £10,000. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting.

c) Areas of particular audit focus

We consider the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of audit focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out in the Board of Management's Annual Report.

i) Actuarial information

We appointed a reviewing actuary who identified and challenged those assumptions made by the Society's actuarial function holder that, in his view, had the greatest impact on the actuarially based information contained in the accounts.

ii) Property valuations

Property valuations are subject to a high degree of judgement as they are calculated from a number of different assumptions specific to each individual property. As well as carrying out test checks on the properties in the valuation report to the Society's property records, we also carried out tests on some of the assumptions used in the valuation report to other information available to us.

iii) Risk of management override of internal controls

We assessed the overall control environment of the Society, including arrangements for staff to "whistle blow" inappropriate actions, we reviewed the reports issued by the internal auditor and we met with the Audit Committee. We also examined significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors and we also tested journal entries to determine the reason for the adjustments.

Continued on page 7

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

Continued from page 6

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the report of the Board 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:-

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Society acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Board of Management's statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that were communicated to the Audit Committee which we consider should have been disclosed.

Under the Friendly Societies Act 1992, we are required 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

7 March 2014

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



BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**CHAIRMAN'S REPORT**

**Chairman's Introduction**

Welcome to the Annual Report and Financial Statements of Kingston Unity Friendly Society 2013 - a landmark year for the Society in which:

- Membership exceeded 100,000 members
- Investments under management reached almost £80 million
- Net 'with profit' membership increased by over 300 (6% growth)

Perhaps most significantly of all, our 2013 performance puts us on target to eliminate our expenses overrun by the end of 2014 – well ahead of the plans we submitted to the FSA 3 years ago. This is a hugely important milestone for the Society.

The Directors' Report goes through these achievements in more detail, but suffice to say we are very pleased with 2013's performance, and hugely positive about the outlook for 2014 and beyond.

Our 5 year goal is to triple the value of our with profit fund to £100 million in order to provide sufficient scale for the business to operate cost effectively. Whilst a comprehensive strategy underpins this goal, the basic plan is to offer simple savings and investment products with stable returns which significantly outperform money invested in the bank. We feel that this best enables us to fulfil our mission statement: *'Helping members secure their financial future'*.

Whilst the IFA distribution channel has been the mainstay of our growth over the last few years, it is very encouraging to see a growing proportion of new business come from policies introduced by our members. Agents and introducers have been empowered by the simplification of our products and the transition to non-advised sales: anyone can now introduce products to their friends and be paid for doing so.

After many years of service on the Board as Non-Executive Directors, both David Hawkes and Neil Morrison stepped down from the Board in 2013. We are grateful for all their hard work, dedication, and input over their time on the Board, and we wish them well for the future.

I am also delighted to welcome a new Non-Executive Director, Kate Wright, to the Board. Kate is the Secretary of the largest of the traditional branches, Trinity, and brings with her experience and ideas about how branches can be supported going forwards. Since joining the Board, Kate has chaired a special committee set up by the Board to take forward the open dialogue regarding rejuvenation of the branches held at last year's Conference, and we have some exciting news and feedback to share at this year's Conference regarding the future plans.

The Board recognises that it is accountable to members for good governance to facilitate efficient and effective management so that it can deliver value over the long term. I am satisfied that our Board currently operates effectively, however, looking to the future plans of the Society, the ever-increasing regulatory burden and complexity of the marketplace, the Board has identified certain skills and experiences which it believes would add value, but does not believe can be filled from within the membership. With this in mind, the Board will be proposing an amendment to the rules at this year's AGM to permit the Board to access this expertise. A paper on this will be circulated for review by delegates.

One of our key risks remains that which arises from regulatory change. The particular challenge for us going into 2014 will be meeting a new Europe-wide regulatory solvency and reporting regime that will affect all European insurers: 'Solvency II'. This was originally due to be introduced on 1 January 2013, but has suffered numerous delays and is now due to come into force on 1 January 2016. Although the Society has already implemented many of the key requirements of meeting this regime it still represents a step change for us in terms of our infrastructure and systems which will come at a cost to members. Such additional costs serve to underscore the need for us to grow the Society's with profit fund to minimise the impact on members' returns.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**CHAIRMAN'S REPORT**

Whilst we are forecasting an expenses underrun in this new financial year, the cost of writing significant levels of new business does have an effect on valuations to certain existing members. We continue to do our best to balance the interests of all with profit policy holders in determining bonus rates based on advice from our Actuary, treating all members fairly and in accordance with the established Principles and Practices of Financial Management. Investing for the long term requires a certain degree of short-term pain, and we trust that members impacted will appreciate this and recognise that our products still deliver industry-leading returns.

Delivering a successful and growing business is only possible with highly motivated and capable staff and agents, and the commitment and support of you, the members. Thank you all for standing with us in *'helping members secure their financial future'*.

*Peter Darragh*

*Chairman*

*7 March 2014*

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**CHIEF EXECUTIVE'S REPORT**

**Membership**

After a five year period in which global economies have struggled to remain afloat there appear to be early signs that the position is beginning to improve though this progress has not necessarily filtered through as yet to the public at large. Many traditional financial institutions have experienced difficulty in dealing with the challenges they faced but are slowly emerging from the perilous positions encountered. At such times the benefit of being a member of a mutual organisation, where the focus of the business is on delivering value to members, can be clearly demonstrated. The Society has continued to provide competitive returns and benefits for our members during these years and as a result we have enjoyed successive years of growth.

As you will see from the charts and figures later in the report under the review of 2013, it has been an extraordinary year for the Society in relation to our new business premium income and membership growth. Whilst the general economic conditions did not improve substantially, we have seen our traditional with profits premium income rise from just over £3.0m in 2012 to £10.6m in 2013 and at the same time we have increased our membership by over 300. This is a remarkable performance which supports the strategic decisions that have been taken in recent years.

We have continued to extend our connections in the Independent Financial Adviser (IFA) market following the appointment of Peter Ridley as Head of Sales and this has included associations with a limited number of IFA networks. It is our intention to build on these relationships as we go forward by providing excellent service with a trusted proposition. It is also important for the Society's future that we support our activity in the adviser market by generating new business through direct association with the general public. We recognise that significant volume is unlikely to be achieved in the short term but resource is being put into this area with a view to increasing the proportion of direct business to around 30% of the total over the next five years. We have also been in discussion to be a partner in an employee benefit scheme which is anticipated will start in April 2014.

The Government will be implementing changes to the Child Trust Fund (CTF) in 2015. The main changes will be to allow switching from CTF accounts to Junior ISA's on request, and on maturity of a CTF account there will in future be the facility to transfer to an adult ISA rather than at present, funds being paid out. We do not anticipate that these changes will have a significant effect on the Society's accounts although the ability to transfer to an adult ISA on maturity is seen as a positive step.

Existing members still remain as one of our best adverts and Kingston Unity has a long and proud history of providing excellent service and benefits to our members so sharing the news of those benefits with friends and family is a tradition that we want to continue. Our member get member scheme is still active and we want to encourage you to take advantage of it wherever possible.

**The future**

We have enjoyed considerable success in many areas over recent years and have good reason to be excited about our prospects for the future. A great deal of effort has gone into developing a broader operating base and whilst significant advances have been made we are continuing to spread out further and other developments are in the pipeline.

We have also been looking at a new future for our Branches which will hopefully provide impetus in taking them forward and it is anticipated, that after discussion, changes will start to be implemented later this year.

Our regulator for part of last year, the Financial Services Authority (FSA), has now been replaced by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and it is evident that the drive from both bodies for more effective regulation will continue. This will impact on the Society in different ways but the cost of Compliance will continue on an upward trend.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**CHIEF EXECUTIVE'S REPORT**

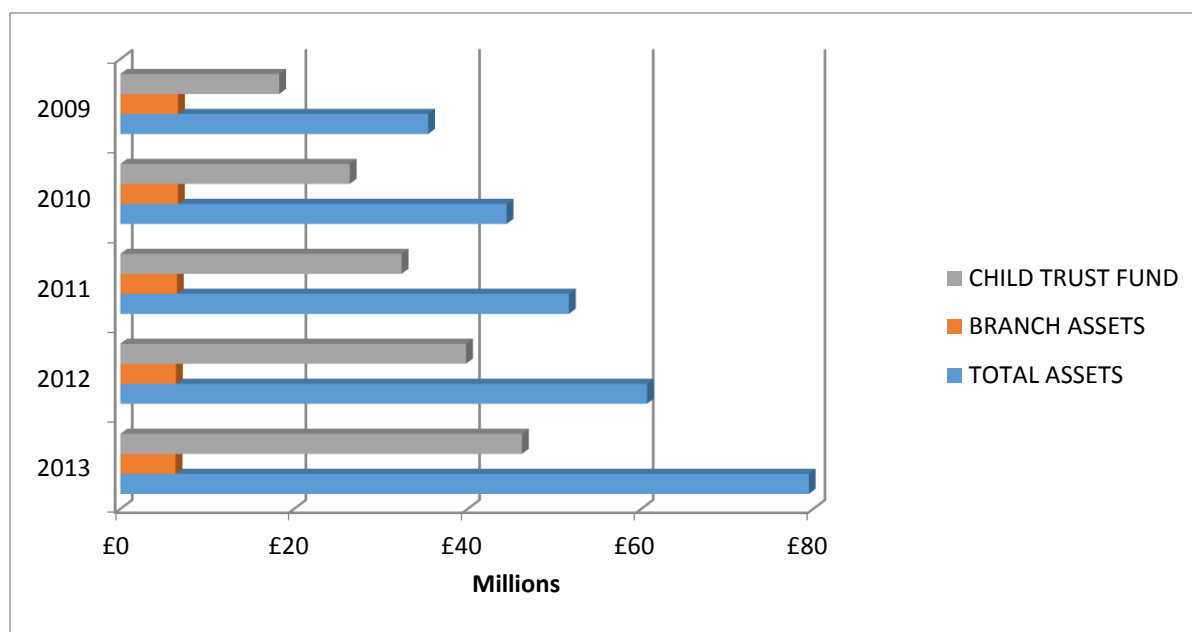
Having been delayed for a couple of years the implementation of Solvency II will now take place on the 1 January 2016. We had previously started planning for this but stopped work on it when there was uncertainty surrounding adoption within the member states, but it will once again become an item on our agenda for 2014.

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 2013 has enabled the Board to increase the Bonus rate on the With Profit ISA to 4.25% 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 2013 has been declared at 4%. 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.

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

**Child Trust Fund, Branch and Total assets since 2009**



BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**CHIEF EXECUTIVE'S REPORT**

**Key figures at a glance**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Assets £000's	79,492	60,660	51,672
Insurance & Endowment Premium Income £000's	10,632	3,056	1,818
Unit Linked Child Trust Fund Contributions £000's	386	2,430	8,011
Unit Linked ISA income £000's	18	20	30
Members (excluding CTF)	5,056	4,753	4,676
Branch CIF balances £000's	6,346	6,415	6,524
Management Expenses £000's	634	572	589

*Andrew  
Townsley*  
**Chief Executive**

**7 March 2014**

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

The directors are pleased to present their 173rd annual report and financial statements for the year ended 31 December 2013.

**1. BUSINESS MODEL**

Kingston Unity Friendly Society is a registered Friendly Society with six branches including a Head Office Branch. The Society is classified as a registered unincorporated directive Friendly Society.

In preparing this report we thought it would be useful to remind members of the background to our current situation to help explain why we have taken the decisions that we have taken, and our strategy for the future.

**Background**

For the last few years we have been pleased to be able to report on the substantial growth in the Society's business, initially as a result of the introduction of the Child Trust Fund (CTF) but more recently within our With Profit Fund. CTF has been an important product for the Society but following withdrawal of the scheme by the Government no new accounts are being opened. In time, as our CTF-only members reach the age of 18, it is likely that most of the funds held within CTF will be withdrawn. The Society Board had recognised the risk of this happening, and embarked on a medium to long term strategy to develop new distribution channels along with the introduction of additional products in order to replace CTF funds with other business. This also supported growing regulatory pressure to ensure that we write material levels of new 'with profit' business in order to protect the interests of existing members (a dwindling with profit 'pot' inevitably leads to higher charges for existing members).

**Business Plan**

We have been successful in our plans to date with both new membership and premium income growing at very healthy levels and our with profit fund value rising from £16.9m at the end of 2009 to £33.1m at the end of 2013. However, the growing cost of regulation and future operational requirements of the Society (for example the replacement of an ageing IT system), has resulted in the Board setting a bold growth objective: to achieve a with profit fund value of £100m within five years through organic growth. This decision has been taken in order to ensure that there is sufficient scale within the business to accommodate the increasing cost base and to continue providing excellent benefits to our members.

**Core Strategy**

Our core strategy underpinning this growth goal is to offer simple savings and investment products with strong but stable returns which significantly outperform cash savings over the long term, utilising the following distribution channels:

- (i) **IFAs and 'professional' introducers** – this has taken 5 years to develop, but is now a key channel for us and we continue to extend our contacts with individual IFA's and through networks.
- (ii) **Branches and 'non-professional' introducers** – historically all product sales were made by Society agents, but by simplifying products and ceasing to offer advised sales it has opened this to all members and is increasingly popular.
- (iii) **Direct sales into focused affinity groups**, regions and/or demographics, eg, workplaces, special interest organisations – we are developing direct propositions at the moment, and are increasing investment in this channel.

**Rationalisation of Products**

With our renewed strategic focus we have closed certain products from our range to new business which were unpopular with members, and others which we do not feel fit comfortably with our 'solid and steady' returns ethos, such as the FTSE tracker products. It is important to note that **existing policies will be unaffected.**

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

Additionally, we have taken the decision to focus centrally on 'savings and investment' products, and are not intending to introduce new 'protection' products (such as income protection) at this time as, having explored the opportunities available, we do not have the scale to underwrite products of a size that the market demands. In time we may consider offering 'white labelled' protection products from other providers, or develop sufficient scale to be able to reconsider this position, but at this time we feel that our efforts need to be concentrated on supporting that which is popular with members and within our core offering.

**Geographical Target Market**

Whilst the initial focus of our direct marketing activity is Yorkshire we intend to extend this in time as the model is entirely scalable. We also continue accepting business from other parts of the country, particularly when there are IFA connections and Branches.

**Target Demographics**

The under 40's age range is our main market for regular savings plans whilst the over 40's is the main lump-sum investment target market. We are also committed to continuing to offer products with relatively small premiums to encourage those of more modest means to save and make financial provision for themselves and their families, as well as writing business of a more substantial nature.

**Operational Strategy**

Having pioneered the development of IT systems for much of our section of the industry to facilitate the efficient management of CTF and ISAs, we plan to continue with the development of further platforms to support our plans for new business, improve efficiency and provide relevant management information. A major review is due to start in the second quarter of this year to consider our requirements for the future. This review may be undertaken with another similar Society to benefit from economies of scale.

**Mergers and Acquisition Growth**

Kingston Unity's Board also believes that the regulatory environment and the machinations of the marketplace will necessitate some consolidation in the long term. It also recognises the likelihood of new and disruptive entrants to the savings and investment market leveraging technology which smaller organisations will struggle to compete with in the absence of significant scale. Whilst the Board has no desire for Kingston Unity to become a 'large player' in the savings and investment market, it feels that non-organic growth will help it maintain a position from which it can continue to successfully meet the ever-changing needs of current and future members.

**Branches**

We envisage our Branches playing an important role in meeting our direct marketing objectives by developing more connections with their local communities and continuing to focus on giving individual attention to their members. A Board committee has been looking at ways in which Branches regain the prominence they once had in today's social climate, including funding, structure and purpose, and the intention is to present its findings at the 2014 AGM & Conference. Branch Secretaries and Committees will be brought into more dialogue on this in the interim.

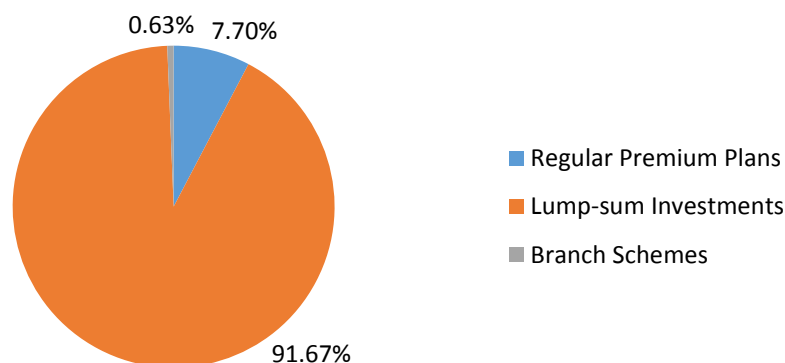
**Current Sources of Business**

The following chart identifies the breakdown of premium income for new business during 2013. Lump sum investments are accounted for prudently using the Annual Premium Equivalent (APE) of 10% of the initial investment.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

**Chart showing annualised premium sources of new business 2013**



**Financial Risks and How We Manage Them**

The Society's mutual structure means that ultimately financial risks are borne by the Society's members and particularly the with profits policyholders which represents the vast majority of our membership. There is a range of financial risks that could affect the Fund for Future Appropriations and as a result the level of bonus and benefits that can be paid from it. The Society Board has overall responsibility for managing these risks in order to:

- Protect the solvency of the Society from adverse movements in asset values and protect where possible from more extreme movements.
- Once this has been achieved to maximise the investment return available and increase the returns that can be passed on to members.
- Maintain adequate liquidity in the fund of assets to ensure payment of liabilities can be met.

**Investment Sub Committee**

The Board has established an Investment Sub Committee which considers the Society's investment strategy and makes recommendations to the Society Board. It has the following terms of reference:

The Committee is authorised by the Board, in conjunction with the Actuarial Function Holder, to recommend to the Board the investment strategy, including asset allocation, for the Society and the Committee will make asset allocation decisions in line with agreed policy and strategy. The policy and strategy are to be reviewed and approved by the Board on an annual basis.

The Committee will, within the Society's agreed risk appetite:

- approve the investment management agreements and the appointment of external investment managers.
- ensure compliance with all applicable legislation.



BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

The Committee will review and monitor:

- the matching of assets and liabilities;
- the fund performance of all asset classes plus the total portfolio against performance measurement targets (benchmarks) understanding the impacts of external factors;
- the performance and fees of all external investment managers;
- the investment strategy, including asset allocation and risk management policy;
- Conflicts of Interest Guidelines and any insider trading events; and
- risk limits and the risk appetite.

In the performance of its duties the Committee can obtain external professional advice where necessary.

The main types of risk to which the Society is exposed are as follows:

**Market Risk**

This arises from the level of volatility in market prices of Financial Instruments such as equity prices, property prices, interest rates and exchange rates. In assessing market risk we consider the impact of a change in the relevant variable on both assets and liabilities. Breaking this down further:

**Interest rate risk** considers the impact of interest rates rising or falling as we use fixed interest securities to help us match our assets and liabilities in terms of return and maturity. As with profits policies have some discretionary benefits management actions can help to mitigate this type of risk for example through bonus declarations.

**Equity risk** considers the impact of a sharp fall in equity values which would reduce the value of the fund and as a result policies via their asset shares.

**Property risk** relates to a sharp fall in the market value of property. The Society has historically had a substantial part of its assets invested in commercial property and a large decrease in value, particularly when this type of asset is relatively illiquid, could have exposed the fund and therefore asset shares. Whilst the Society's investment strategy still includes commercial property for its yield and potential capital return, the proportion of this within the overall with profit fund has been reduced during 2013 and now stands at 26% of the total.

**Credit risk** applies primarily in the Society's case to non government bonds which are used to achieve a higher return than gilts but as a consequence have a greater potential of default. The Society does not invest in the lower categories of bonds which have the highest returns but also the greatest risk, and concentrates on those with investment grade status.

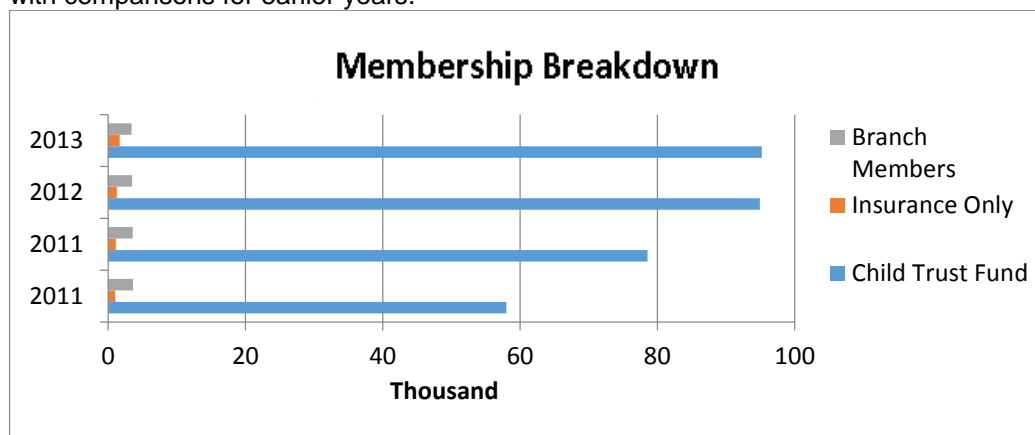
**2. CHIEF EXECUTIVE**

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

**BOARD OF MANAGEMENT'S ANNUAL REPORT**  
For the year ended 31 December 2013

**DIRECTORS' REPORT****3. REVIEW OF 2013 BUSINESS**

The following tables summarise activity within the Society and Branches as at 31 December 2013 with comparisons for earlier years.

**Membership**

	2013	2012	2011	% Change from 2012 to 2013
Branch Members	3,379	3,488	3,559	-3.12
Insurance Only	1,677	1,265	1,117	32.57
Child Trust Fund	95,202	94,922	78,574	0.29
<b>Total</b>	<b>100,258</b>	<b>99,675</b>	<b>83,250</b>	<b>0.58</b>

**Membership change during 2013**

	2013	2012	% Change
New Branch members	28	35	-20.00
Branch members left	137	106	29.25
<b>Branch member change</b>	<b>(109)</b>	<b>(71)</b>	<b>53.52</b>
 New Insurance members	 478	 229	 108.73
Insurance members left	66	81	-18.52
<b>Insurance member change</b>	<b>412</b>	<b>148</b>	<b>178.38</b>
 <b>Tax Exempt savings policies</b>	 <b>2,331</b>	 <b>2,375</b>	 <b>-1.85</b>
 <b>Investment Bonds</b>	 <b>536</b>	 <b>224</b>	 <b>139.29</b>

# KINGSTON UNITY FRIENDLY SOCIETY

## BOARD OF MANAGEMENT'S ANNUAL REPORT For the year ended 31 December 2013

### DIRECTORS' REPORT

Premium Income	2013 £	2012 £	% Change
Branches	261,425	260,819	0.23
Insurance and Endowment	10,631,741	3,056,185	247.88
Unit Linked ISA	18,228	20,330	-10.34
Unit Linked CTF	386,279	2,430,160	-89.10
Total Assets	79,491,866	60,659,839	31.05

As can be seen, the Society has seen material net growth of its membership (excluding CTF) for the first time in many years. Whilst Branch membership numbers showed a slight decline over the year, and there was a continued inability to attract significant increases in Branch business, we do see increased activity and engagement of a growing number of Branch members in introducing Society products to their own network of friends, colleagues and acquaintances. This observation has been at the centre of our new Branch initiative which we will be launching at the 2014 AGM & Conference, and, we hope, addresses many of the issues discussed at the afternoon session of the 2013 Conference focused on the future of Branches.

#### **Investment Report**

The Society's commercial property portfolio has performed well during the year though once again we have had to work hard with our managing Agents, Ryden, to retain tenants.

We have one vacant property at the end of the year following Greggs' decision not to renew their lease at premises in Salford. We were notified of this in the final quarter of the year but have had a very encouraging response from potential new tenants on advertising the unit.

In the early part of the year following the tenants at one of our properties in Farsley going into administration, an opportunity to develop the building was taken. The new tenants did not require the first floor so we converted this into two, two bed roomed flats at a cost of £64,808 which added just over £100,000 of value to the property plus an additional income stream. As other properties with similar structural properties and circumstances become void we will look to replicate this model.

Despite the continuing success of our own portfolio in income terms, and early signs of improvement in certain parts of the property market, unfortunately we have seen a further small reduction in capital values. The latest property portfolio valuation carried out at the end of 2013 has seen the value fall on an adjusted basis by just over 1% with a capital value of £8,535,000 though this figure still represents a significant increase from the cost value.

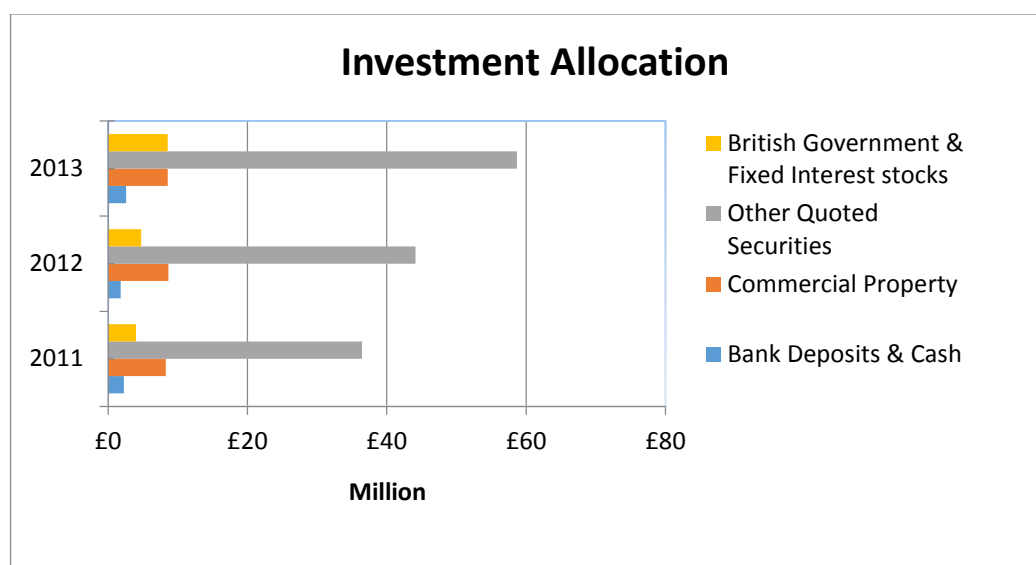
As mentioned earlier in the report the Society Board has successfully managed down the proportion of property assets within the with profit fund which is now at a level below the 30% target figure. Solid opportunities for investment which fit our investment criteria have been difficult to come by, but we have invested in property funds which have delivered good returns over the period.

Equities have enjoyed a very productive year with the FTSE index having risen by over 20% during the period, and the Society's decision, on the advice of our investment managers, to take up an overweight position in this asset class has been rewarded. A substantial portion of the increased level of premium income has been directed into equities.

**BOARD OF MANAGEMENT'S ANNUAL REPORT**  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

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



31 December	2013 £	2012 £	2011 £
British Government & Fixed Interest Stocks	8,558,778	4,761,331	4,009,813
Other Quoted Securities	58,689,637	44,119,815	36,432,149
Commercial Property	8,535,000	8,630,000	8,270,000
Bank Deposits & Cash	2,559,002	1,788,819	2,256,385
	<u>78,342,417</u>	<u>59,299,965</u>	<u>50,968,347</u>

Total investment income rose during the year from £2,354,178 in 2012 to £2,854,067 in 2013 due in part to this solid investment performance, and also due to the additional funds invested as a result of the increased business levels.

On 31 December, funds invested by branches in the Central Investment Fund had fallen by £69,660 from £6,415,450 to £6,345,790.

Premium income to our Insurance and Endowment fund saw a substantial increase from £3.06m to £10.63m reflecting the benefit of a wider distribution network. Maturity claims on the Insurance and Endowment fund amounted to £794,623, an increase from the figure of £680,272 in 2012. The Insurance and Endowment Fund at the end of the year stood at £20,608,461 compared to £9,839,439 in 2012 and £7,090,935 in 2011, after allowing for the addition of interest and transfers.

**BOARD OF MANAGEMENT'S ANNUAL REPORT**  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

Administration expenses excluding costs relating to acquisition of new business rose by 10.86% during the year, primarily due to the investment made in additional development staff at the end of 2012. However the ratio of management expenses as a ratio of mean assets fell from 1.0% at the end of 2012 to 0.9% at the end of 2013. Acquisition costs increased substantially due to commission payments relating to the level of new business generated. The Board remain conscious of the need to control management expenses and continues to monitor financial information monthly, but believe that the Society is on track to eliminate its expenses overrun by 2015.

**4. MARGIN OF SOLVENCY**

At 31 December 2013, 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 Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA) 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**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Number of Complaints received during the year	2	1	0
Number of Complaints resolved during the year	2	1	0
Number outstanding at the year end	0	0	0

Where a complaint falls within matters regulated by the PRA or FCA 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.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**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 2013.

**9. CORPORATE GOVERNANCE & DIRECTORS' RESPONSIBILITIES**

Friendly Society legislation requires the Society Board 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 Board 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. 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 PRA and to comply with the PRA's principles for approved persons and its code of practice. Nominations for membership of the Board are considered firstly by the 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. In view of the Society's growth in recent years and our plans for the future, Governance is an important consideration for the Board and it has been recognised that additional skills and greater independence will be required as we move forward. In order to achieve this it is recognised that it may necessitate changes to our Rules and structure and we will request approval for any amendments at the Society's Annual General Meeting. Objectives are set within the annual Business Plan and progress against these is reviewed during the course of the year.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

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 2013:-

Peter Darragh

David Hawkes (retired May 2013)

Philip Howcroft (co opted January 2013 and elected May 2013)

Neil Morrison (resigned April 2013)

Tracy Parker

Ian Prescott

Andrew Townsley

Timothy Watson

Kate Wright (elected May 2013)

The Board considers that Peter Darragh, Ian Prescott, Tracy Parker and Philip Howcroft are independent in accordance with the criteria outlined in the Board's independence statement and the Annotated UK Corporate Governance Code. The Society Board values the contribution of members within its composition. To this end, there are currently two Branch Secretaries on the Board and as an Order Society these individuals are not viewed as independent.

There have been no changes to any other significant commitments of the Chairman during the year.

During 2013 David Hawkes retired from the Board having served two separate periods of office including the role of Chairman, and Neil Morrison tendered his resignation in April. The Board would like to extend their thanks and appreciation to both David and Neil for their dedication and contribution both within the Board and on behalf of the membership as a whole.

**Statement of Compliance with the Annotated UK Corporate Governance Code**

The Annotated UK Corporate Governance Code requires the Society Board to either comply with the provisions contained or, where it does not, explain why. The Board considers that throughout the year the Society has complied with both the provisions and spirit of the Code with the following exceptions:

- The position of Secretary and Chief Executive should not be held by the same person.

*Due to our size the position of Secretary is held by the Chief Executive. However, the Board considers that it receives the appropriate level of support at this stage, that there are appropriate controls on the powers of the Chief Executive, and that it would not be a beneficial use of members' funds to split the roles.*

- Has the search for all board candidates been conducted against objective, merit based criteria with due regard for the benefits of diversity on the board including gender?

*The Society has a gender and diversity policy and operates within this. Subject to the Society Rules, which allows any member to be nominated for election, the board seeks to encourage candidates with the appropriate skills to retain balance. An external review of the Board and its skills is to be carried out during 2014.*

- Is a significant proportion of executive directors' remuneration structured so as to link rewards to corporate and individual performance?

*The Society has only recently started to implement a bonus structure so it is in the early stages of development. However, it is being linked to corporate objectives and individual performance.*

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

- Is the board satisfied that levels of remuneration for non executive directors reflect the time commitment and responsibilities of the role?

*The level of commitment required from a non executive director has increased considerably in recent years and remuneration has been increased to recognise this. However, the Society's remuneration is still below average for its peer group and this will need to be monitored. If it is seen to be having an adverse effect on the recruitment of suitably skilled non executives, further adjustment will be required.*

- Does the board (or where permitted by the constitution of the company, a sub committee of the board) determine the remuneration of the non executive directors within the limits set in the constitution?

*Board remuneration is recommended by the board but subject to approval by the delegates at the Annual General Meeting.*

- *Board Evaluation*

*During 2013 Directors were not formally appraised by the Chairman. The Board is commissioning a formal individual and Board effectiveness appraisal (including sub committees) with external input for 2014. The annual review for the Chairman for 2013 will be carried out during the first quarter of 2014.*

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

The Society Board 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 Society Board 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 Board 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 Board 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.

We consider the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provide the information necessary for members to assess the Society's performance, business model and strategy.



BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

**10. BOARD 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. In addition to the Investment Sub Committee made reference to above, the following Sub Committees also meet:

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

- Make annual recommendations to the Board relating to Board Fees and staff salaries.

The **Nominations Sub Committee** meets as required 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.

Meetings with prospective candidates for the Board are carried out in line with the balance of skills set by the Board as required for our future plans. In considering potential candidates for the Board the 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. However, the Society's current Rules are not as flexible as they could be in allowing a wider choice of candidates with specific skills, a position which does not sit easily with the requirements of ongoing Governance guidelines. The Society Board will therefore be making a proposal to the next Annual General Meeting to allow greater choice in external recruitment. Sourcing suitable candidates would then encompass nominations from the Society's membership or alternatively by advertising externally either directly, through Agencies or both.

**Policy on Equality and Diversity in Recruitment and Selection**

Kingston Unity Friendly Society (the "Society") shall ensure that discrimination and stereotyping play no part in the recruitment, selection and appointments process at all levels.

However, the Society also recognises and values the differences between people, and understands the positive benefits for Members of employing a diverse range of talented people.

In taking this positive approach to diversity, the Society recruits on merit alone and free from bias on the grounds of factors such as age, disability, gender, sexual preference or race that are not relevant to the person's ability to fulfil the role, subject to the Society's rules.

**Audit and Risk Committee**

The Society's Board has established an Audit Committee, which consists of elected Non-Executive Directors of the Society. Committee membership consisted of 3 Non-Executive Directors prior to May 2013 and increased to 4 Non-Executive Directors from June 2013. Throughout the year Tracy Parker chaired the Audit Committee. The Committee requested through invitation only Executive Director attendance when deemed appropriate. The Audit Committee met three times during the year ended 31 December 2013.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

**Roles and Responsibilities**

The main responsibilities of the Committee:

- To make recommendations to the Board in relation to the appointment and removal of the External Auditors and to approve their remuneration and terms of engagement.
- Review the External Auditors independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK Professional and Regulatory requirements.
- Develop and implement policy on the engagement of the External Auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services.
- Monitoring the integrity of the Financial Statements of the Society and any formal announcements relating to the Society's financial performance.
- Review and monitor the effectiveness of the Society's internal controls and risk management systems, including reviewing the processes for identifying, assessing and reporting all major risks.
- Oversee the Society's whistleblowing provisions and to ensure they are operating effectively.
- Manage and review the Internal Auditors and the Internal Audit Program and approve the Internal Audit Charter.
- Review the Financial Condition Report as produced by the Society's Actuary.  
The Committee reports to the Board on its findings, identifying matters in respect of which the Committee considers action or improvement is required, and making recommendations as to the steps to be taken.

**Activities of the Committee**

- Reviewed and discussed with the External Auditors the key accounting considerations and judgments reflected in the Society's Financial Statements for the year ended 31 December 2013.
- Reviewed and Agreed the External Auditors Audit Strategy memorandum in advance of their audit for the year ending 31 December 2013.
- Discussed the report received from the External Auditors regarding their audit in respect of the year ended 31 December 2013, which included commentary on the scope of the audit, materiality and areas of particular focus.
- Approved the Internal Audit Work Program for the year ended 31 December 2013.
- Received reports from Internal Audit covering various aspects of the Society's operations, controls and processes including IT systems and security and Risk Management.
- Received reports from the Compliance Officer regarding the Annual Compliance Plan and provided recommendations for management of compliance activity.
- Reviewed the Audit Committee's Terms of Reference.

**Significant Areas**

The primary areas of judgment considered by the Committee in relation to the 2013 accounts and discussed with the External Auditors during the year were:

- **Property Valuations**  
The Society's Board received reports from Ryden, property management consultants for the Society, on the valuation of the Society's property assets for the year ended 31 December 2013. In considering the valuation proposals provided by the external valuer's it was confirmed that they were sufficiently independent from the Society and Society business. We were content after due challenge and debate with the assumptions and judgments applied.
- **Actuarial Valuations**  
Throughout the period we received and reviewed reports in relation to the level of provisioning for contingent and other liabilities and is an issue where management and legal judgment are important. The Board discusses all valuations at length and key judgments are assessed.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

- Management override of internal controls  
The Committee reviewed the risk of fraud in revenue recognition and the potential for management overrides of internal controls and we were satisfied. The presumed risk of fraud; as defined by auditing standards, were considered by the Committee and no issues were identified.

As well as the work carried out by the Committee; we also noted that there had not been any adverse comment from the External Auditors and that the External Auditors had not identified any significant issues in the audit report. The Committee therefore concluded that there were no significant issues, which required reporting to the Society Board.

**External Audit**

The Committee reviews the performance, cost effectiveness and general relationship with the External Auditors each year. In addition, each year the Audit Committee reviews the independence and objectivity of the External Auditors. The External Auditors also report to the Board and the Audit Committee each year, confirming their independence in accordance with Auditing Standards and outline the safeguards that they have put in place. The Audit Committee concluded the External Auditors, Brown Butler Chartered Accountants, are independent of the Society and recommended to the Board a resolution to re-appoint them as External Auditors.

The **Treating Customers Fairly (TCF) Sub Committee**, chaired by Tim Watson, considers issues relating to meeting the outcomes in the Regulators 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, and full terms of reference for all of the above Sub Committees are available on the Society's website.

Below are the details of the Directors' attendance record at Board meetings and relevant Board Sub-Committee meetings during 2013. Other relates to informal sub committees or other events e.g., training.

Attendance	Board	Sub-Committees	Other
Peter Darragh	11/11	7/7	5
David Hawkes	4/5	2/2	0
Philip Howcroft	11/11	5/5	2
Neil Morrison	4/4	0	0
Tracy Parker	10/11	4/4	1
Ian Prescott	10/11	7/7	4
Andrew Townsley	11/11		
Timothy Watson	10/11	6/6	3
Kate Wright	6/6	6/6	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.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**DIRECTORS' REPORT**

**Other directorships and business interests**

Andrew Townsley	Director:	Association of Financial Mutuals (resigned July 2013)
	Director:	Carr House Court Management Company Limited
Neil Morrison	Director:	Aquila Properties (Yorkshire) Limited
Ian Prescott	Director:	Bond House Systems
		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 and appreciation.

*Peter Darragh*

**Chairman**

7 March 2014

*Andrew Townsley*

**Chief Executive**

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**REMUNERATION REPORT**

This report is submitted in respect of the year ended 31 December 2013. A vote to approve the report will be put to the 2014 Annual General Meeting.

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

The Board consists of six 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**

Following the increase in fees approved at the 2013 Annual General Meeting, the Society Board is recommending an increase of 3% for fees in 2014 and will be seeking approval at the Annual General Meeting.

**Fees, Salaries and other benefits in 2013 amounted to:**

	<u>Fees</u>	<u>Salary</u>	<u>Taxable</u> <u>Benefits</u>	<u>Commission</u>	<u>Pension</u>	<u>2013</u>	<u>2012</u>
	£	£	£	£	£	£	£
Peter Dawson						0	4,476
Peter Darragh	9,855			369		10,224	6,478
David Hawkes	1,690			9,384		11,074	6,689
Brian Kinsey						0	3,378
Philip Howcroft	4,605					4,605	0
Neil Morrison	1,475			30		1,505	4,894
Tracy Parker	4,635					4,635	1,844
Ian Prescott	4,815					4,815	3,984
Jennifer Thomas						0	12,193
Andrew Townsley		97,737	9,777		10,200	117,714	108,239
Timothy Watson	4,725			4,066		8,791	4,318
Kate Wright	3,095			23,510		26,605	0
<b>Total</b>	<b>34,895</b>	<b>97,737</b>	<b>9,777</b>	<b>37,359</b>	<b>10,200</b>	<b>189,968</b>	<b>156,493</b>

Included in the above salary for Andrew Townsley is a provisional amount of £6,500 (2012: £3,000) 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 £6,230 (2012: £7,107).

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

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**REMUNERATION REPORT**

**Non-Executive Directors**

The Board considers that Peter Darragh, Ian Prescott, Tracy Parker and Philip Howcroft are independent in accordance with the criteria outlined in their own independence statement and the Annotated UK Corporate Governance Code.

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**

Tim Watson acted as the Society's Senior Independent Director during the period, taking over from David Hawkes upon his retirement. The Senior Independent Director 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. Since the year end Tracy Parker has been appointed as the Society's Senior Independent Director. 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.

**Skills, Knowledge and Experience**

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

- Accounting
- Audit
- Risk management
- Legal and Compliance
- Actuarial
- Property Investment
- Equity and Fixed Interest Securities
- Consumer Financial Services Sector Experience
- IT and the Digital Economy
- Marketing
- Society Products and Structure
- Experience of Mutuals
- Relevant Insurance Industry experience
- Business Development
- Leadership

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2013

**REMUNERATION REPORT**

We believe that the current Board demonstrate skill and experience in each of these areas.

On behalf of the board of management

*Peter Darragh*

*Andrew Townsley*

**Chairman**

**Chief Executive & Secretary**

7 March 2014

KINGSTON UNITY FRIENDLY SOCIETY

INCOME AND EXPENDITURE ACCOUNT

TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2013

	Note	2013 £	As restated 2012 £
<b>INCOME</b>			
Earned premiums	2	11,092,438	5,567,949
Investment income	3	2,551,380	2,260,511
Unrealised gains on investments	4	7,949,859	3,739,466
Other income	5	45,486	15,534
<b>TOTAL INCOME</b>		<b>21,639,163</b>	<b>11,583,460</b>
<b>EXPENDITURE</b>			
Claims incurred	6	913,675	860,299
Change in long term business provision	29 & 30	18,314,686	9,193,859
Net operating expenses			
Acquisition costs	7	575,557	242,693
Administration	8	557,355	444,785
		1,132,912	687,478
Investment expenses and charges			
Investment management expenses	9	148,667	114,727
Losses on realisation of investments	10	54,753	22,706
		203,420	137,433
Unrealised losses on investments	11	590,493	545,115
		21,155,186	11,424,184
Tax attributable to the long term business 14		-	(20,000)
		21,155,186	11,404,184
Transfer to funds for future appropriations	27 & 28	995,846	587,016
Transfer from reserves provided for by the rules and tables	25	(511,869)	(407,740)
		21,639,163	11,583,460
Balance on technical account long term business		-	-

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 34 to 55 form part of these financial statements.



KINGSTON UNITY FRIENDLY SOCIETY

INCOME AND EXPENDITURE ACCOUNT

NON-TECHNICAL ACCOUNT

For the year ended 31 December 2013

	Note	2013 £	2012 £
<b>INCOME</b>			
Investment income	3	302,687	93,667
Unrealised gains on investments	4	116,515	63,809
Other income	5	31,036	25,755
<b>TOTAL INCOME</b>		<u>450,238</u>	<u>183,231</u>
<b>EXPENDITURE</b>			
Claims incurred	6	14,860	11,216
Administration	8	76,638	127,069
Investment expenses and charges			
Investment management expenses	9	16,519	28,682
Losses on realisation of investments	10	4,109	2,056
		<u>20,628</u>	<u>30,738</u>
		112,126	169,023
Unrealised losses on investments	11	44,310	49,341
<b>EXPENDITURE BEFORE INTEREST AND ALLOCATION TO INVESTING BRANCHES</b>		156,436	218,364
Divided among the member branches	12	257,061	274,826
<b>TOTAL EXPENDITURE</b>		<u>413,497</u>	<u>493,190</u>
<b>EXCESS OF INCOME OVER EXPENDITURE/(EXPENDITURE OVER INCOME) FOR THE FINANCIAL YEAR</b>		<u>36,741</u>	<u>(309,959)</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 34 to 55 form part of these financial statements.

KINGSTON UNITY FRIENDLY SOCIETY

BALANCE SHEET

As at 31 December 2013

	Note	2013 £	2012 £
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Land and buildings	17	8,535,000	8,630,000
Other financial investments			
Shares and other variable yield			
Securities	18	12,466,300	5,310,294
Debt securities and other fixed income			
Securities	19	8,558,778	4,761,331
Loans secured by mortgages	20	880,474	1,118,997
		<u>30,440,552</u>	<u>19,820,622</u>
Assets held to cover linked liabilities	21	46,223,337	38,809,521
<b>DEBTORS</b>			
Other debtors	22	1,307	2,647
<b>OTHER ASSETS</b>			
Tangible assets	23	29,366	31,626
Cash at banks, brokers and in hand	24	2,559,002	1,788,819
		<u>2,588,368</u>	<u>1,820,445</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		180,082	178,295
Other prepayments and accrued income		58,220	28,309
		<u>238,302</u>	<u>206,604</u>
		<u>79,491,866</u>	<u>60,659,839</u>
<b>LIABILITIES</b>			
<b>RESERVES</b>			
Reserves provided for by the rules and tables	25	1,308,896	995,766
Fund for future appropriations	26	3,104,359	2,771,023
		<u>4,413,255</u>	<u>3,766,789</u>
<b>TECHNICAL PROVISIONS</b>			
Long term business provision	29	22,151,825	11,376,703
Technical provisions for linked liabilities	30	46,223,337	38,809,521
		<u>68,375,162</u>	<u>50,186,224</u>
<b>CREDITORS</b>			
Other creditors – including taxation, social security and investing branches	31	6,367,400	6,432,910
ACCRUALS AND DEFERRED INCOME	33	336,049	273,916
		<u>79,491,866</u>	<u>60,659,839</u>

These financial statements were approved and authorised for issue by the Committee of Management on 7 March 2014.

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

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

The notes on pages 34 to 55 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 2013

### 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 2013

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 122% AFC00 for ages 17 and above, 100% ELT for ages below 17 non CTF and 77% ELT for ages below 17 CTF
Morbidity	60% of the Manchester Unity AHJ (1893 – 97)
Investment returns	2.52% for tax exempt policies, 2.01% for taxable with profit policies and 3.02% 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 2013

2. Earned premiums

	2013 £	2012 £
Central health benefit contributions	2,233	2,656
Long term savings contributions	53,957	58,618
Insurance and endowment premiums	10,631,741	3,056,185
Child Trust Fund – stakeholder	386,279	2,430,160
Unit linked ISA	18,228	20,330
	<u>11,092,438</u>	<u>5,567,949</u>

3. Investment income

	2013		2012	
	Technical account £	Non-technical account £	Technical account £	Non-technical Account £
Income from listed investments	1,727,592	240,874	1,516,567	26,332
Income from land and buildings	734,195	55,092	664,753	60,168
Gains on the realisation of investments	17,599	1,319	27,503	2,489
Bank interest receivable	20,781	1,559	18,066	1,635
Mortgage interest receivable	51,213	3,843	27,065	2,450
Mortgage arrangement charges receivable	-	-	6,557	593
	<u>2,551,380</u>	<u>302,687</u>	<u>2,260,511</u>	<u>93,667</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

	2013		2012	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Shares and other variable yield securities	1,491,610	111,927	438,985	39,734
Debt securities and other fixed income securities	61,138	4,588	265,991	24,075
Assets held to cover linked liabilities	6,397,111	-	3,034,490	-
	<u>7,949,859</u>	<u>116,515</u>	<u>3,739,466</u>	<u>63,809</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

5. Other income

	2013		2012	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Management and other levies	45,486	31,036	15,534	25,755

6. Claims incurred

	2013		2012	
	Technical account £	Non-technical Account £	Technical account £	Non-technical account £
Funeral re-insurance fund	-	14,860	-	11,216
Central health fund	2,399	-	200	-
Long term savings fund	84,749	-	90,444	-
Insurance and endowment fund	794,623	-	680,272	-
Child Trust Fund – stakeholder:				
Claims	3,151	-	3,928	-
Transfers	22,406	-	37,068	-
Unit linked ISA fund	6,347	-	48,387	-
	913,675	14,860	860,299	11,216

7. Acquisition costs

	2013 £	2012 £
Salaries and national insurance	31,459	22,928
Pension costs	1,805	1,821
Commissions	518,818	192,349
Printing and stationery	812	2,196
Office repairs	793	664
Maintenance contracts	9,123	11,163
Computer software	3,416	1,517
Actuarial fees and valuation provisions	7,707	8,808
Compliance training	1,624	1,247
	575,557	242,693

## For the year ended 31 December 2013

	2013 £		2012 £
Salaries and national insurance	283,131		206,351
Staff recruitment	-		12,759
Pension costs	16,242		16,390
Board meeting costs:-			
Directors' attendance fees	34,895	34,574	
Directors' mileage allowance and travel	6,230	7,107	
Trustees' and Branch Secretaries attendance fees	4,119	4,331	
Trustees' and Branch Secretaries mileage allowance and travel	4,669	1,883	
Hotel expenses	2,981	2,724	
Other expenses	401	800	
	<hr/>	<hr/>	
	53,295		51,419
Association of Financial Mutuals costs	2,335		1,897
Rent, rates, light, heat and insurance	27,435		26,747
Printing and stationery	21,551		28,618
Postages	14,315		17,292
Telephone	4,976		3,089
Office cleaning	5,216		5,305
Depreciation of tangible assets	14,753		14,670
Auditors' remuneration- external	39,430	38,294	
- internal	9,819	11,700	
	<hr/>	<hr/>	
	49,249		49,994
Actuarial fees and valuation provisions	69,361		79,273
PR and marketing	20,297		3,715
Property valuation fees	9,884		8,181
Legal fees	-		2,269
Regulators fees and expenses	8,084		9,222
Compliance training	1,624		1,247
Officers' indemnity insurance	1,802		1,802
Staff travel and motor expenses	7,398		6,561
Motor vehicle leasing	7,816		7,816
Conference expenses	14,710		15,873
Branch insurance membership grant	612		1,104
Safe custody and bank charges	7,750		6,986
Sundries	1,843		1,501
Recoverable VAT	(9,686)		(8,227)
	<hr/>		<hr/>
	633,993		571,854

	2013		2012	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Conference expenses	-	14,710	-	15,873
Administration	557,355	61,928	444,785	111,196
	<u>557,355</u>	<u>76,638</u>	<u>444,785</u>	<u>127,069</u>



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

9. Investment management expenses

	2013		2012	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Investment adviser's charges	52,172	5,797	29,281	7,320
Property related charges:-				
Agent's management charges	32,172	3,575	28,095	7,024
Legal fees	17,053	1,895	25,925	6,481
Insurances	7,709	856	6,927	1,732
Rates and water	987	110	739	185
Heat and light	1,208	134	4,315	1,079
Repairs and renewals	35,138	3,904	17,528	4,382
Cleaning	2,228	248	1,917	479
	<u>148,667</u>	<u>16,519</u>	<u>114,727</u>	<u>28,682</u>

The investment management expenses are allocated 90% (2012: 80%) to the technical account and 10% (2012: 20%) to the non-technical account.

10. Losses on realisation of investments

	2013		2012	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Shares and other variable yield securities	34,489	2,588	8,725	790
Debt securities and other fixed income securities	20,264	1,521	13,981	1,266
	<u>54,753</u>	<u>4,109</u>	<u>22,706</u>	<u>2,056</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. Unrealised losses on investments

	2013		2012	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Land and buildings	148,653	11,155	436,534	39,512
Shares and other variable yield securities	118,981	8,928	94,858	8,586
Debt securities and other fixed income securities	322,859	24,227	13,723	1,243
	<u>590,493</u>	<u>44,310</u>	<u>545,115</u>	<u>49,341</u>

12. Divided among the member branches

	2013 £	2012 £
Interest on investing branch deposits at 4.15% (2012: 4.50%)	<u>257,061</u>	<u>274,826</u>

13. Excess of income over expenditure

The excess of income over expenditure is after charging:-

	2013 £	2012 £
Depreciation of owned assets	14,753	14,670
Operating lease charges – motor vehicles	7,816	7,816
External auditor's remuneration – audit services	39,430	37,994
– for other services	-	300
Internal auditor's remuneration	9,819	11,700
Actuary's remuneration	77,068	88,081
Commissions	<u>518,818</u>	<u>192,349</u>

# KINGSTON UNITY FRIENDLY SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 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.

	2013 £	2012 £
Corporation tax		
Current year	-	-
Adjustments for prior years	-	(20,000)
	<u>-</u>	<u>(20,000)</u>
Current tax credit	-	(20,000)
	<u>-</u>	<u>(20,000)</u>
Small profits rate	<u>20.0%</u>	<u>20.0%</u>

### 15. Staff costs

	2013 £	2012 £
Wages and salaries	281,819	205,540
Social security costs	32,771	23,739
Pension costs	18,047	18,211
Benefits in kind	10,812	5,277
	<u>343,449</u>	<u>252,767</u>
Average number of employees		
Chief executive	1	1
Administration	7	5
	<u>8</u>	<u>6</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

16. Board members' emoluments

	2013 £	2012 £
Remuneration	97,737	92,032
Pension contributions	10,200	9,863
Attendance fees	34,895	34,574
Other emoluments	37,359	15,858
Benefits in kind	9,777	4,166
	<u>189,968</u>	<u>156,493</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 board in the service of the society. No member of the board waived any rights to emoluments during the year.

Board 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 board of management were as follows:-

	2013 £	2012 £
Chairman – Peter Darragh	9,855	3,462
– Peter Dawson, appointed 1 January 2012 and retired 19 May 2012	-	4,395
	<u>9,855</u>	<u>7,857</u>

Highest paid board member

Remuneration	97,737	92,032
Pension	10,200	9,863
Benefits in kind	9,777	4,166
	<u>117,714</u>	<u>106,061</u>

Other board members

	No.	No.
Nil - £5,000	7	8
£5,001 - £10,000	1	1
	<u>8</u>	<u>9</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. Land and buildings

	Freehold land and buildings £	Long leasehold land and buildings £	2013 £	2012 £
Valuation				
At 1 January 2013	8,380,000	250,000	8,630,000	8,270,000
Addition	64,808	-	64,808	836,046
Deficit on revaluation	(159,808)	-	(159,808)	(476,046)
At 31 December 2013	<u>8,285,000</u>	<u>250,000</u>	<u>8,535,000</u>	<u>8,630,000</u>

The society's land and buildings were professionally valued on 31 December 2013 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 (2012: £250,000).

The historical costs of the revalued properties are as follows:

	2013 £	2012 £
Freehold land and buildings	6,208,576	6,143,768
Long leasehold land and buildings	399,884	399,884
	<u>6,608,460</u>	<u>6,543,652</u>

18. Shares and other variable yield securities

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

	2013 £	2012 £
Valuation at 1 January 2013	5,310,294	3,866,554
Additions	6,155,596	1,493,468
Disposals	(455,481)	(442,543)
Realised gains	17,340	27,055
Realised losses	(37,077)	(9,515)
Unrealised gains	1,603,537	478,719
Unrealised losses	(127,909)	(103,444)
Valuation at 31 December 2013	<u>12,466,300</u>	<u>5,310,294</u>

The historical cost of the shares and other variable yield securities is £10,450,061 (2012: £4,731,099).

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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.

	2013 £	2012 £
Valuation at 1 January 2013	4,761,331	4,009,813
Additions	5,036,461	1,776,943
Disposals	(937,447)	(1,288,215)
Realised gains	1,578	2,937
Realised losses	(21,785)	(15,247)
Unrealised gains	65,726	290,066
Unrealised losses	(347,086)	(14,966)
Valuation at 31 December 2013	<u>8,558,778</u>	<u>4,761,331</u>

The historical cost of the debt securities and other fixed income securities is £8,548,313 (2012: £4,429,881).

20. Loans secured by mortgages

	2013 £	2012 £
At 1 January 2013	1,118,997	417,308
Advances	-	715,000
Repayments	(293,579)	(42,826)
Charged interest	55,056	29,515
At 31 December 2013	<u>880,474</u>	<u>1,118,997</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.

	2013 £	2012 £
Valuation at 1 January 2013	38,809,521	32,565,595
Additions	1,016,705	3,209,436
Surplus on revaluation	6,397,111	3,034,490
Valuation at 31 December 2013	<u>46,223,337</u>	<u>38,809,521</u>

The historical cost of the units is £35,912,365 (2012: £34,895,660).

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

22. Debtors

	2013 £	2012 £
Tax refunds due	-	512
H M Revenue & Customs (tax credit on interest)	1,307	2,135
	<u>1,307</u>	<u>2,647</u>

23. Tangible assets

	Fixtures, fittings and equipment £	Computer equipment £	Motor vehicle £	Total £
Cost				
At 1 January 2013	25,606	77,834	9,415	112,855
Additions	1,638	10,855	-	12,493
At 31 December 2013	<u>27,244</u>	<u>88,689</u>	<u>9,415</u>	<u>125,348</u>
Depreciation				
At 1 January 2013	11,496	64,290	5,443	81,229
Charge	2,361	11,399	993	14,753
At 31 December 2013	<u>13,857</u>	<u>75,689</u>	<u>6,436</u>	<u>95,982</u>
Net book value				
At 1 January 2013	<u>14,110</u>	<u>13,544</u>	<u>3,972</u>	<u>31,626</u>
At 31 December 2013	<u>13,387</u>	<u>13,000</u>	<u>2,979</u>	<u>29,366</u>

24. Cash at banks, brokers and in hand

	2013 £	2012 £
Deposit accounts	1,267,885	1,184,793
Current account	763,966	578,302
Cash held by brokers	526,920	25,429
Cash	231	295
	<u>2,559,002</u>	<u>1,788,819</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

25. Reserves provided for by the rules and tables

	Funeral re-insurance fund £	Management fund £	Guarantee fund £	2013 £	As restated 2012 £
At 1 January 2013	190	945,576	50,000	995,766	863,680
Transfer to technical account – long term business	-	(511,869)	-	(511,869)	(407,740)
Allocation of income and expenditure Non-technical account	210	(60,672)	-	(60,462)	(112,530)
Management fund transfers	-	810,461	-	810,461	602,356
Accumulated income fund transfers Administration	-	75,000	-	75,000	50,000
At 31 December 2013	<u>400</u>	<u>1,258,496</u>	<u>50,000</u>	<u>1,308,896</u>	<u>995,766</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

	2013 £	2012 £
Accumulated income fund (note 27)	3,053,288	1,440,043
Reserve fund (note 28)	51,071	1,330,980
	<u>3,104,359</u>	<u>2,771,023</u>

27. Accumulated income fund

	2013 £	2012 £
At 1 January 2013	1,440,043	9,402
Transfer from technical account – long term business	2,347,960	2,123,078
Allocation of income and expenditure – Non-technical account	24,998	(211,897)
Allocation to other funds Interest and dividends	(684,713)	(430,540)
	<u>3,128,288</u>	<u>1,490,043</u>
Transfer to management fund (note 25)	(75,000)	(50,000)
At 31 December 2013	<u>3,053,288</u>	<u>1,440,043</u>



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

28. Reserve fund

	2013 £	2012 £
At 1 January 2013	1,330,980	2,852,574
Transfer to technical account – long term business	(1,352,114)	(1,536,062)
Allocation of income and expenditure Non-technical account	72,205	14,468
At 31 December 2013	<u>51,071</u>	<u>1,330,980</u>

29. Technical provisions – long term business provision

The actuarial valuation at 31 December 2013 highlighted the following technical liabilities:-

	Central health fund £	Long term savings fund £	Insurance and endowment fund £	Total 2013 £	As restated Total 2012 £
At 1 January 2013	-	1,537,264	9,839,439	11,376,703	8,598,586
Management fund transfers	-	-	(231,437)	(231,437)	(117,327)
Accumulated income fund transfers					
Interest and dividends	-	53,824	630,889	684,713	430,540
Change in long term business provision	-	(47,724)	10,369,570	10,321,846	2,464,904
At 31 December 2013	<u>-</u>	<u>1,543,364</u>	<u>20,608,461</u>	<u>22,151,825</u>	<u>11,376,703</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 2013

30. Technical provisions – linked liabilities long term business provision

The actuarial valuation at 31 December 2013 highlighted the following technical liabilities in respect of linked liabilities:-

	Child trust fund stakeholder fund £	Unit linked ISA fund £	Total 2013 £	As restated Total 2012 £
At 1 January 2013	38,739,417	70,104	38,809,521	32,565,595
Management fund transfers	(577,959)	(1,065)	(579,024)	(485,029)
Change in long term business provision	7,977,957	14,883	7,992,840	6,728,955
At 31 December 2013	<u>46,139,415</u>	<u>83,922</u>	<u>46,223,337</u>	<u>38,809,521</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

	2013 £	2012 £
VAT	21,610	17,460
Balances due to investing branches (note 32)	6,345,790	6,415,450
	<u>6,367,400</u>	<u>6,432,910</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

32. Balances due to investing branches at 31 December 2013

Branch number	Branch name	£	Total branch benefit membership
23	Inkerman	367,367	168
25	Trinity	2,208,493	935
30	Hearts of Oak	1,365,704	720
100	Head Office Branch	1,293,178	756
233	All Saints	880,808	606
272	Lord Nelson	230,240	194
		<u>6,345,790</u>	<u>3,379</u>

During the year further mergers of some of the Society's branches took place. On 1 January 2013, Admiral Nelson merged with Trinity and Rosebud merged with Hearts of Oak. On 1 February 2013, Philanthropic and St George's merged with Head Office Branch.

33. Accruals and deferred income

	2013 £	2012 £
Actuarial fees	4,290	7,231
Commission payable to agents	66,141	23,041
Auditor's remuneration	39,430	37,994
Property valuation	9,883	8,181
Sundry accruals	42,111	42,789
Deferred income	174,194	154,680
	<u>336,049</u>	<u>273,916</u>

34. Leasing commitments

At 31 December 2013 the society had operating lease commitments for the following year as set out below:-

	2013 £	Other 2012 £
Operating leases which expire:-		
Within one year	3,583	-
From one to five years	-	7,165
	<u>3,583</u>	<u>7,165</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 £4,316 (2012: £5,002). At the balance sheet date £102,435 (2012: £123,319) was owed to the society in respect of the mortgage.

During the year the society advanced healthcare costs to R A J Townsley totalling £2,393 (2012: £2,011). During the year he repaid to the society £2,393 (2012: £2,582). At the balance sheet date £nil (2012: £nil) 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 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 2013

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.

	2013 £	2012 £
<b>Assets</b>		
Freehold land and buildings	8,535,000	8,630,000
Mortgages on land and buildings	880,474	1,118,997
British government securities	5,531,011	1,889,816
Other investments – non-linked	15,494,067	8,181,809
Other investments – for linked benefits	46,223,337	38,809,521
	<u>76,663,889</u>	<u>58,630,143</u>
Debtors	1,948	2,650
Tangible assets	29,841	32,622
Deposits, cash at bank, brokers and in hand	2,582,398	1,816,438
Other prepayments and accrued income	238,302	206,604
	<u>2,850,541</u>	<u>2,055,664</u>
<b>Total assets</b>	<u><u>79,516,378</u></u>	<u><u>60,688,457</u></u>
<b>Liabilities</b>		
Technical provisions		
Branch insurances	5,498,082	5,453,538
Central insurances (non-linked)	22,155,867	11,419,699
Central linked insurances	46,223,337	38,766,524
	<u>73,877,286</u>	<u>55,639,761</u>
Non-technical liabilities		
Branch funds for management, distress and marketing	100,554	93,033
Central funds of management, distress and marketing	50,400	50,190
Creditors	25,324	20,145
Accruals and deferred income	336,049	273,916
	<u>512,327</u>	<u>437,284</u>
Consolidated fund for future appropriations	5,126,765	4,611,412
<b>Total liabilities</b>	<u><u>79,516,378</u></u>	<u><u>60,688,457</u></u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

	2013 £	2012 £
Fund for future appropriations	5,126,765	4,611,412
Less: Inadmissible assets	29,841	36,344
Expense reserve required	<u>410,000</u>	<u>205,000</u>
	<u>439,841</u>	<u>241,344</u>
Assets available for required minimum margin	<u>4,686,924</u>	<u>4,370,068</u>
Required minimum margin	<u>3,124,580</u>	<u>2,974,112</u>
Assets in excess of required minimum margin	<u>1,562,344</u>	<u>1,395,956</u>

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

	2013 £	2012 £
Starting available capital resource	4,370,000	3,509,000
Release of management fund reserve	-	813,000
Model change	(18,000)	(41,000)
Change in CTF policy fee	-	148,000
Branch distribution	(329,000)	-
Central sickness distribution	(4,000)	-
Expense overrun reserve	(205,000)	(205,000)
Change in valuation basis	(203,000)	(21,000)
Cost of bonus	(551,000)	(312,000)
Investment surplus	1,244,000	197,000
Expense loading	359,000	159,000
Economic factors	24,000	123,000
Available capital resources at end of year	<u>4,687,000</u>	<u>4,370,000</u>
% assets	<u>150%</u>	<u>147%</u>

The assets available for the required minimum margin are 150% of the required minimum margin.

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

Risks

Just over 27% 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.

Just over 27% of the assets (excluding the linked assets) is in UK bonds or bond related investment companies for which changing market conditions can affect values and future returns.

The largest holding of approximately 35% 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 fluctuations in future investment returns.

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 0.5%. 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% 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 0.69% or a fall in bond yields of 0.69%. 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 £1.5m.

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 £21.87p.a. for non premium paying policies (plus future increases) and 0.7% p.a. of funds under management.

The expense allowance within the valuation for the non-linked funds is 1.3% of CTF funds and 1.5% 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 £410,000 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 2013

36. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

A mortality and morbidity investigation was carried out during 2013. The investigation used data from the preceding 3 financial years. The morbidity tables 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 December 2013.