



## **Annual Report and Financial Statements 2014**

**KINGSTON UNITY FRIENDLY SOCIETY**

Brown Butler  
Chartered Accountants  
Leeds

KINGSTON UNITY FRIENDLY SOCIETY

ANNUAL REPORT AND FINANCIAL STATEMENTS 2014

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 – 30
Remuneration report	31 – 33
Income and expenditure – Technical account	34
Income and expenditure – Non-technical account	35
Balance sheet	36
Notes to the financial statements	37 – 59

# 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, I, N
Deputy Chairman	Ian David Prescott	R, I
Senior Independent Director	Tracy Jane Parker	A, N
Directors	Robert Charles Edwards (Co-opted July 2014) Tracy Jane Parker Timothy John Watson Kate Natalie Wright	A, I A, N N R
Sub-Committees	A = Audit and Risk Management chaired by Tracy Jane Parker R = Remuneration chaired by Ian David Prescott I = Investment chaired by Robert Charles Edwards N = Nomination chaired by Tracy Jane Parker	
Chief Executive, Director and Secretary	Richard Andrew John Townsley BA	
Compliance Officer	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	

# KINGSTON UNITY FRIENDLY SOCIETY

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

## OFFICERS AND PROFESSIONAL ADVISERS

Bankers	National Westminster Bank plc 8 Park Row Leeds LS1 5HD  Lloyds Bank plc PO Box 96 6-7 Park Row Leeds LS1 1NX
Chartered Surveyors	Ryden LLP 3 <sup>rd</sup> Floor Carlton Tower 34 St Paul's Street Leeds LS1 2QB
Investment Advisers	Investec Asset Management Limited 2 Gresham Street London EC2V 7QP
Internal Auditor	KPMG 1 The Embankment Neville Street Leeds LS1 4DW
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.

## KINGSTON UNITY FRIENDLY SOCIETY

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

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

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

Mr Dixon confirmed that neither he nor his family, nor any of the members or employees of Steve Dixon Associates LLP were members of the Society, nor have they any financial or pecuniary interest in the Society, with the exception of fees paid to, or incurred with, Steve Dixon Associates LLP for professional services, which amounted to £100,223 (including VAT) in 2014.

### 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

3 March 2015

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 2014 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 2014 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 its risk based. We undertook substantive testing on significant transactions, balances and disclosures, 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 both in planning and performing our audit and in evaluating the effect of misstatements on the financial statements and our audit. For the purpose of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person relying on the financial statements would be changed or influenced. We also determine a lower 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 determined materiality for the financial statements as a whole to be £1,000,000 which is 1% of the Society's net assets. We set the performance materiality level at £500,000 but, due to the significance of the Society's net assets compared to the amounts of revenue shown in the income and expenditure accounts, we set a lower performance materiality level for income and expenditure of £125,000.

We agreed the threshold at which we communicate misstatements to the Audit and Risk Management 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 and Risk Management 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 financial statements.

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 and Risk Management 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 are communicated to the Audit and Risk Management 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 by the Association of Financial Mutuals.

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

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

11 March 2015



BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**CHAIRMAN'S REPORT**

**Chairman's Introduction**

Welcome to the Annual Report and Financial Statements of Kingston Unity Friendly Society for 2014.

Looking forward to 2015 – our 175<sup>th</sup> anniversary – the Society continues to go from strength to strength. In last year's annual report I explained the Board's medium term strategy to grow the Society's With Profit Fund to £100m over 5 years in order to provide sufficient scale for the business to operate cost effectively for the long term interests of all members, and we believe that we are well on our way to achieving this goal.

The Directors' Report contains a more granular breakdown of the Society's performance in 2014, but headline figures from the period include:

- Over 600 new With Profits members (net)
- Investments under management reaching almost £100m
- Payment of bonuses which outperform money invested in most savings accounts

In recent years our regulatory framework has become increasingly complex, invasive and controlling to the point that we now have multiple regulators with much more wide-ranging powers, concerns and explicit interests in the affairs and Governance of even small organisations such as ourselves. This is evident from the increased direct engagement our regulators have had with us, including the selective request for us to submit our ORSA (Own Risk and Solvency Assessment) for their review to assess our preparedness for Solvency II. The ORSA is a 100+ page report that the Board are required to put together themselves outlining in detail our appetite for risk in all its different guises, and the systems and controls we have in place to mitigate and manage it.

With our preparations for Solvency II (coming into force on 1 January 2016) we had anticipated significant increases in expenses to meet the new reporting requirements under Solvency II. As more detail becomes clear about what these requirements are it appears that our expenses will rise even more than we had expected, for example, our annual actuarial fees (the lion's share of our professional fees) look as though they will double. This underscores our belief that the cornerstone of our strategy must remain steady growth to defray operating costs widely and fairly, whilst doing all we can reasonably do to keep a tight control on expenses.

Uppermost on our regulators' agenda in recent years has been the issue of 'governance'. Industry best practice in this regard is often difficult to reconcile with the resources of a small Society, and nowhere is this more evident than the constitution of our Board: 1 executive director to 6 non-executives directors (NEDs) (on most Boards these statistics would be reversed). This puts a very heavy burden not only on the Chief Executive who wears many more hats than he would were resources not a limiting factor, but requires all of the NEDs to roll their sleeves up and get stuck in to the extent that now rarely a day goes by when there isn't some important business that needs NEDs' attention. I do therefore want to express my appreciation for all the hard work that Andrew and the NEDs put in on behalf of members.

Balancing the financial strength of today's Society, investing for the future, and maximising bonuses each year is an incredibly difficult balance to strike: pulling the Society's finances in three competing directions. Very volatile investment markets, complex and constantly changing regulatory requirements, and the challenges of our limited resources make these decisions all the more difficult and, from time to time, unpopular with affected members. However, I do firmly believe that the Board continues to provide effective strategic and, (through the systems and controls we put in place), day-to-day challenge and oversight of the affairs of the Society, and unwaveringly have members' long-term interests at the heart of all the decisions we take.

During the year Philip Howcroft stood down as a NED due to other work commitments. We are grateful for his hard work and commitment during his time on the Board, and are confident that he will continue to hold a torch for the interests of financial mutuals in his future career.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**CHAIRMAN'S REPORT**

We are delighted to have appointed (through co-option) Rob Edwards to the Board in July. Rob was previously the Chief Operating Officer of a much larger Friendly Society in the South of England for many years, and brings with him a wealth of expertise and skills. Subject to Regulatory approval we have also provisionally co-opted Graeme Charters to the Board. Graeme will bring vital actuarial and risk expertise, having trained as an actuary. Both have history in the mutual life insurance sector, and believe in the vision that a smaller Society can offer something to members which larger Societies struggle to do. They have already made very significant contributions to the effective running of the Society, and we are grateful for their involvement.

You will all, no doubt, be particularly interested in the regulatory changes which necessitate significant changes to the 'shape' of the Branches within the Society. This will be the main topic of discussion at Conference on the 18<sup>th</sup> April, and we look forward to everyone's active participation in considering afresh the role of Branches. It is regrettable that the goalposts have moved as a result of regulatory change, but the Board's focus remains resolutely forward-looking in this regard: how can members continue to benefit from Branches, how can this be funded in a fair and equitable way to all members, and how can the Board support a healthy symbiotic relationship between Branch and central Society? We look forward to healthy dialogue with delegates on this topic at Conference.

A further issue for consideration at Conference and AGM will be the legal mechanism to give practical effect to the restructuring of Branch insurance funds. More information is provided in the Directors' Report as to the background to this issue if you have not had the opportunity to discuss it at Branch level yet, but the Board believes it is vital to the interests of members that it be resolved one way or another by the end of this calendar year. The Board will be making recommendations in this regard, but will also be discussing other options for you all to understand why we have come to the conclusions we have.

Having summarised the successes and headwinds we faced in 2014, I am acutely aware that continued success cannot happen in a vacuum. It requires the continued support and hard work of Branch Committees, Branch Secretaries, Head Office staff, agents/introducers, and you, the members.

In 1840, the year which marked the birth of the Society, the world's first postage stamp (the 'Penny Black') was issued, Queen Victoria married Prince Albert, and Britain colonised New Zealand. Times have obviously changed hugely over the intervening 175 years, but the Society's mission has remained sure and steadfast throughout: *'helping members secure their financial future'*. Thank you all for standing with us to continue to cleave to these values and to help shape the Society's next 175 years.

*Peter Darragh*

*Chairman*

*11 March 2015*

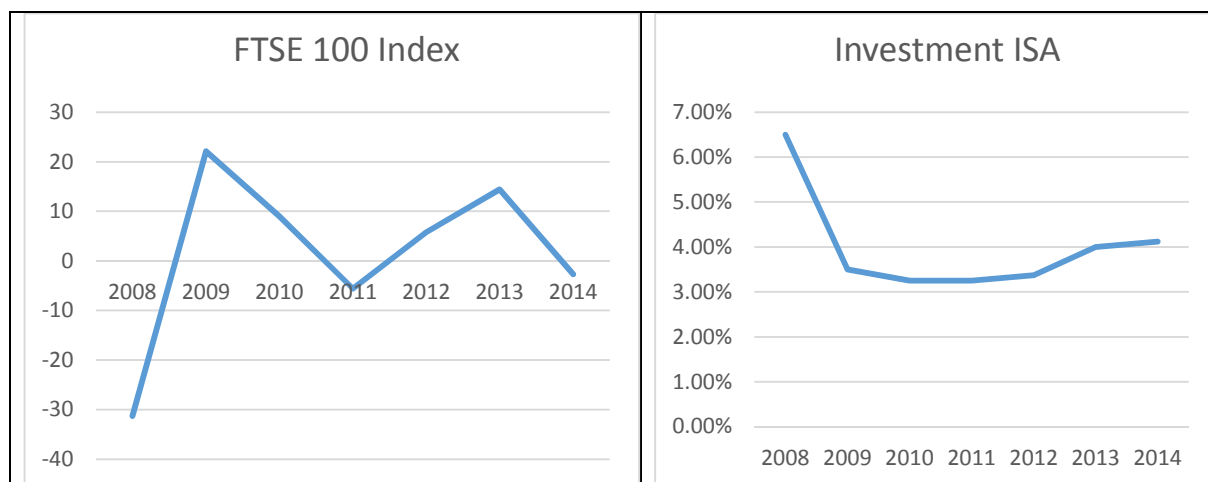
**BOARD OF MANAGEMENT'S ANNUAL REPORT**  
For the year ended 31 December 2014

**CHIEF EXECUTIVE'S REPORT**

### Membership

It is a pleasure to be able to welcome over 600 new members to the Society during 2014, a positive sign that we continue to offer a range of products that meet the savings and investment needs of our membership. We are very mindful of the trust that our members place in us in allowing us to look after their savings and we work hard to ensure that we provide competitive returns with low levels of risk.

After a good period for equities in 2013 there was some optimism at the start of this year that, whilst not anticipating the same level of gains, there would be further growth in global markets in 2014. In reality there has been considerable volatility throughout the year and the FTSE 100 has fallen slightly over the 12 months from its opening position in January. In addition there is little expectation of significant interest rate rises for the foreseeable future with UK Government Fixed Interest Gilts being predicted to achieve an average return over the next seven years of 2% per annum. Against this backdrop we have had to make an adjustment to the bonus rates that we are able to declare for the year in order to protect our solvency and maintain security for our members. Despite these changes we are still providing real returns when compared to inflation and retain a competitive position within our market place. The charts below plot the solid performance of our ISA since the financial crisis of 2008 against the volatile FTSE 100:



### New Business

Over the last few years we have adopted a policy to build our traditional With Profits business and grow our assets whilst containing operating expenses in order to provide further protection to members' funds. It is pleasing therefore to report that our With Profits premium income increased from £10.6m to £17.7m and our assets from £79.5m to £97.8m. It is anticipated that we will reach the £100m assets milestone during the first quarter of 2015. We have also seen the Society's With Profits Fund once again exceed those in our Child Trust Fund for the first time in several years.

We have continued to broaden our connections in the Independent Financial Adviser (IFA) market and I would like to thank all of them for their support during the year. In addition we have confirmed our links with some important IFA networks and we will be working hard to ensure that we build on the potential that they provide. It is important that we cement long term relationships with our partners as we go forward by providing excellent service with a trusted proposition that can be confidently recommended to clients.

We also recognise that for our continued prosperity we need to improve awareness of the Society particularly within our traditional heartland and during the year we embarked on our first direct mailing campaign and attended some local shows in addition to other initiatives. The knowledge that we have gained from these will allow us to refine activity for 2015 with the objective of continuing to grow this sector of our market over the next 5 years.

Our first employee affinity scheme started in 2014 with an organisation based where the Society was founded, in Hull, and we are looking to promote similar schemes to other employers as a benefit to their staff.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**CHIEF EXECUTIVE'S REPORT**

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 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.

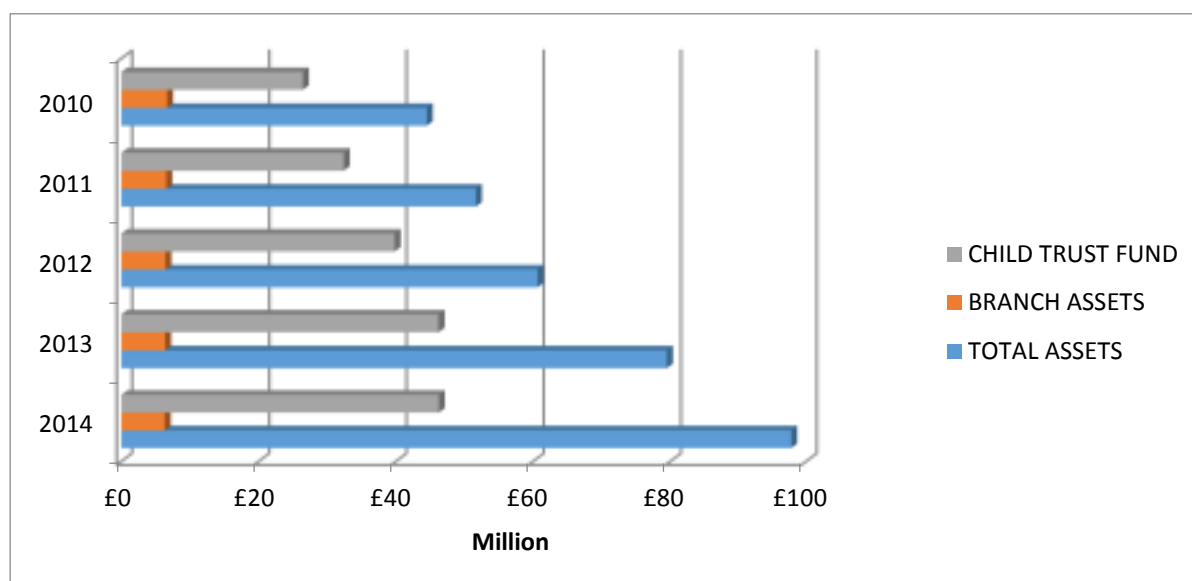
You will see later in the report that there is likely to be a major change to the operation of our Branches during 2015 as a result of a reassessment of their operating parameters with the advent of Solvency II in 2016.

The implementation of Solvency II will take place on the 1 January 2016 and we have continued with our preparation to meet the new requirements including the development of our initial Own Risk Solvency Assessment (ORSA) document. This is a significant change to the present Solvency I regime and includes enhanced reporting requirements that may well see our Actuarial costs double from their present position in order for us to comply.

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 following chart highlights some of the key figures with comparisons for previous years.

**Child Trust Fund, Branch and Total assets since 2010**



BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**CHIEF EXECUTIVE'S REPORT**

**Key figures at a glance**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Assets £000's	97,795	79,493	60,660
Insurance and Endowment Premium Income £000's	17,697	10,632	3,056
Unit Linked Child Trust Fund Contributions £000's	408	386	2,430
Unit Linked ISA Contributions £000's	5	18	20
Members (excluding CTF)	5,657	5,056	4,753
Branch CIF balances £000's	6,297	6,346	6,415
Administration Expenses £000's	648	526	572

*Andrew  
Townsley*

*Chief Executive  
11 March 2015*

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

The directors are pleased to present their 174th annual report and financial statements for the year ended 31 December 2014.

**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 issues that have shaped the decisions we have taken and our strategy for the future.

**Background**

Due to a number of factors the Society's membership (excluding Child Trust Fund ("CTF") members) had been in steep decline. This position was not sustainable because of the Society's increasing expense overrun, the possible loss of CTF members when their policies reach maturity at age 18, and the increasing pressures and cost of meeting regulatory requirements. The choices were to develop and implement a strategy to grow the Society, closing the Society to new business entirely running off the business, winding up the Society, or seeking to transfer undertakings to a larger Society. After due consideration we believed that only the first of these options was in the best long term interest of members.

We therefore developed a strategy to achieve new business growth within our traditional With Profits Fund. This involved adding a small number of new products, developing new business channels, supporting existing introducer/agent new business, and starting a programme to build awareness of the Society for the sale of direct business - initially within Yorkshire.

With the support of our staff and members we have been very successful in delivering this strategy over the last 4 years, and this growth will enable us to ensure that members' interests over the long term are protected by spreading charges over a wider base and in turn preserve the Society's future.

As we pointed out in our last annual report there is an immediate cost to such investment in future growth in the form of initial commission and associated overheads, (known as 'new business strain'), and it will take time for the resultant policy charges to offset the investment. This has been particularly the case in 2013 and 2014 with the step change in premium income, and will be less marked in future years when we plan for the annual growth of the With Profits Fund to become proportionately much more modest and the increased revenue from previous years new business continue to emerge strongly. Although it is a very healthy challenge to have, we have had to build new systems, processes and controls to manage this influx of new business in the context of what remains very challenging financial markets and regulatory challenges. By way of example, in 2010 we were sending £20,000 to our investment managers to place in the market for us once or twice a year. In 2014 we were having to place £1,500,000 in the markets monthly.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

**2014 Performance**

Our business plan remained ostensibly unchanged throughout 2014 from that set out in last year's annual report. We considerably exceeded our targets for new premium income and new members. We also managed to keep a tight control on costs keeping expenditure (excluding new business acquisition costs) well under budget.

As can be seen in more detail from the Chief Executive's Report our With Profits Fund value has risen from £17.4m at the end of 2009 to over £51m at the end of 2014. Membership (excluding Child Trust Fund) has increased to 5,657.

In terms of performance against our business plan 2014 was a very positive year. The only irony is that we perhaps did too well, too soon in writing new business – overachieving against budget in 2014. As a result we have reduced our new business targets for 2015 against our medium term plan.

**Business Plan**

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

- (i) **IFAs and 'professional' introducers** – this is an important source of new business for the Society and we have been successful in adding new networks to our contacts over 2014 which in turn will help us to build relationships with individual firms and advisers. Within this sector we are keen to generate a higher proportion of our business from 'advised' relationships rather than through introducers.
- (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. If this is of interest to you please get in touch with your Branch Secretary or Head Office who will talk to you about how you can get involved.
- (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 incrementally increasing investment in this channel.

**Products**

Our focus as a Society is to provide our members with consistent returns and low exposure to risk, particularly with regard to capital, and our product range reflects this ethos. We have not introduced any new products this year, nor do we have any immediate plans to do so in the short term.

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 to encourage business from other parts of the country, particularly when there are Branches and IFA connections.

**Target Demographics**

The under 40s age range is our main market for regular savings plans whilst the over 40s is the main lump-sum investment target market. We are also committed to continuing to offer products with relatively small minimum 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.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

**Operational Strategy**

We have started work on a project to replace our ageing IT system by setting high level objectives and reviewing two potential solution providers. However, further work on this has been put on hold pending the outcome of a review of the manner in which Branch insurance funds are managed. We also have a programme of activity, commencing in Q1 2015, to support the Society's preparedness for Solvency II and review its systems and controls to manage risk.

**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 and remains open to opportunities as they arise.

**Branches**

Recognising the important role that Branches play in the Society past and present we have put considerable time and effort in recent years in working to include them in our growth plans. Recent regulatory developments will have a significant influence on how this can be achieved, but we remain committed to their role in (without limitation) member engagement, maintaining and cultivating affinity groups, and sales and distribution of products.

Branches have carried out insurance business under the Friendly Societies Act 1974 for many years with the tacit approval of our regulators and the oversight of the Society's Head Office.

As a Society with Branches, each continuing to undertake insurance business in their own right, we believe ourselves to be almost unique in the United Kingdom which has made interpretation of a regulatory framework which has 'moved on' particularly difficult.

The Financial Conduct Authority recently issued a statement relating to the operation of Insurance funds when Solvency II is introduced in 2016 and the conditions that have to be met in order for them to continue to operate. This has caused the Society's Board to seek the legal advice of 2 leading experts in the United Kingdom in Friendly Societies legislation and regulatory practice to help the Society and its Branches understand their obligations and options going forward. Whilst there is no significant impact on the position of the Society as a whole it does present a very serious challenge to the continuing operation of Branches in their current form.

The Board has reviewed the experts' opinions, and believe that they are unequivocal leading it to conclude that Branches are unlikely to meet the regulatory requirements to continue to undertake insurance business after the advent of Solvency II (1 January 2016). Serious concerns were also raised in these opinions about the basis upon which individual Branch funds have been operating and as a result the writing of new business into Branch insurance funds has been suspended for the time-being. To be clear: the sale of central Society products is not impacted by this suspension.

It is important to note that the changes required to meet regulation centre on the operation of the individual Branch insurance funds, not those of the Society, but each Branch can continue to function, just with different roles, responsibilities and authorisation going forwards. Branches will continue to be able to introduce Society products to members' friends and family, and continue to welcome members' active participation in the Branches and the Society. For the avoidance of doubt these decisions have been necessitated by legislation, and are not being mandated as a result of any concerns over the solvency or financial stability of either the Branches or the Society.



BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

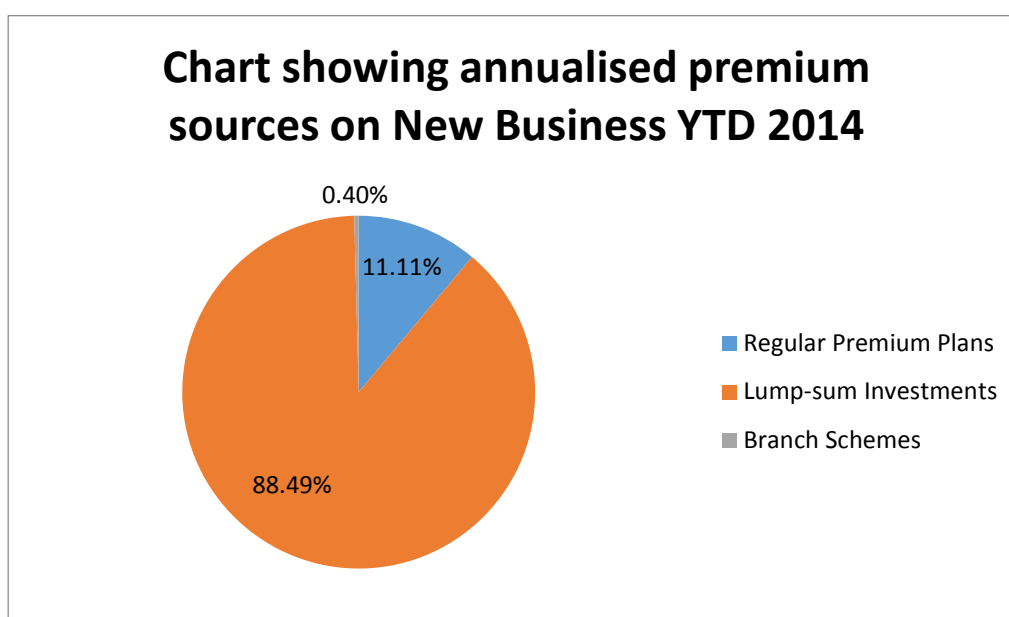
**DIRECTORS' REPORT**

This will not effect in any way the contractual benefits that members have under their Branch policies. All members impacted will receive more information about the changes occurring in due course.

Discussions will be taking place within each of our Branches to determine the way forward but where it is appropriate existing Branch Insurance funds will be transferred to the Society by the end of 2015 and we can then concentrate on developing the ongoing benefits of Branch membership.

**Current Sources of Business**

The following chart identifies the breakdown of premium income for new business during 2014. Lump sum investments are accounted for prudently using the Annual Premium Equivalent (APE) of 10% of the initial investment.



**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.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

**Investment Committee**

The Board established an Investment Committee in 2014 to consider the Society's investment strategy and make recommendations to the Society Board. The role of this committee is becoming increasingly important as the level of new premium income grows and it is meeting at least quarterly to consider our position in volatile financial market. At the beginning of February 2015 the Committee carried out a planned review of its Investment Advisers inviting competitive tenders for the role from other providers, but at the time of writing a final decision has not been made.

The Committee has the following terms of reference:

It 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.

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 Profits Fund has been reduced during 2014 and now stands at 21.25% 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.

**BOARD OF MANAGEMENT'S ANNUAL REPORT**  
For the year ended 31 December 2014

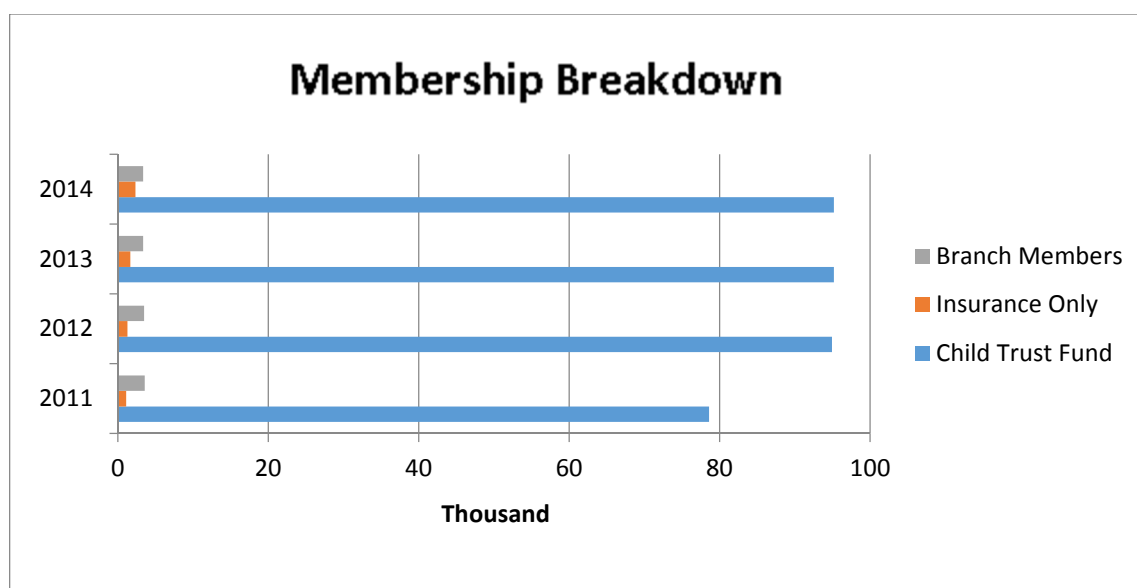
**DIRECTORS' REPORT**

**2. CHIEF EXECUTIVE**

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

**3. REVIEW OF 2014 BUSINESS**

The following tables summarise activity within the Society and Branches as at 31 December 2014 with comparisons for earlier years.



<b>Membership</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>% Change from 2013 to 2014</b>
Branch Members	3,300	3,379	3,488	-2.34
Insurance Only	2,357	1,677	1,265	40.55
Child Trust Fund	95,169	95,202	94,922	-0.03
<b>Total</b>	<b>100,826</b>	<b>100,258</b>	<b>99,675</b>	<b>0.57</b>

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

**Membership change during 2014**

	<b>2014</b>	<b>2013</b>	<b>% Change</b>
New Branch members	19	28	-32.14
Branch members left	98	137	-28.47
Branch member change	<u>(79)</u>	<u>(109)</u>	<u>-27.52</u>
 New Insurance Only members	 749	 478	 56.69
Insurance Only members left	69	66	4.55
Insurance member change	<u>680</u>	<u>412</u>	<u>65.05</u>

	<b>2014</b>	<b>2013</b>	<b>% Change</b>
Tax Exempt savings Policies	<u>2,403</u>	<u>2,331</u>	<u>3.09</u>
 Investment Bonds	 <u>602</u>	 <u>536</u>	 <u>12.31</u>

**Premium Income**

	<b>2014 £</b>	<b>2013 £</b>	<b>% Change</b>
Branches	253,215	261,425	-3.14
Insurance and Endowment	17,696,579	10,631,741	66.45
Unit Linked ISA	4,652	18,228	-74.48
Unit Linked CTF	408,208	386,279	5.68
Total Assets	97,795,456	79,492,684	23.02

As can be seen, the Society has continued to see net growth of membership (excluding CTF) maintaining the improving position established in 2013.

**Investment Report**

**Commercial Property**

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 LLP, to retain tenants.

We had one vacant property at the start of the year following Greggs' decision not to renew their lease at premises in Salford, and whilst this still remains unoccupied a new tenant, William Hill, are in the process of completing alterations to allow them to open in March. We have also lost one of our tenants within 25a Park Square, Leeds and the space is being marketed.

Following a period of downward pressure on property capital values we have seen a small improvement during the year with a like for like increase of just over 2%. There are lease negotiations taking place during 2015 which may have an important bearing on potential capital gains for 2015, and we will update you on any material developments next year.

**BOARD OF MANAGEMENT'S ANNUAL REPORT**  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

During 2014 we made two new property acquisitions, acquiring a three tenant block of retail premises in Guisborough, and an industrial unit within a popular development adjacent to the M62 motorway near Castleford. A further purchase was concluded in January 2015 of a multi let group of trade counter units on the outskirts of Scunthorpe.

Our three largest direct property holdings by value are now:

<b>Property</b>	<b>Value £m</b>
6-12 Parkway Business Park, Normandy Road, Scunthorpe	£1.360
31-35 Westgate, Guisborough	£1.325
78 Low Petergate & 82 Goodramgate, York	£0.970

Over the course of the year we also invested in commercial property funds to diversify our property holdings outside the North and the smaller unit-size of our existing investments, and to attain more liquid commercial property interests. These have yielded very positive returns over the period.

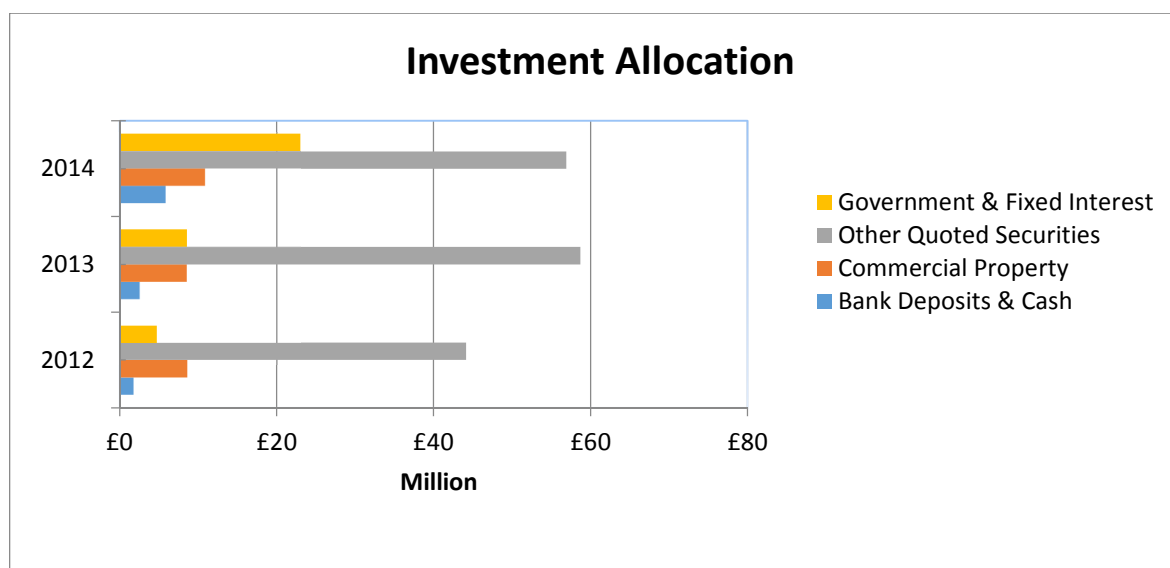
**Equity and Fixed Interest**

Equity markets have demonstrated considerable volatility during the year with the FTSE displaying a 12% variance between its high and low value. The closing position of the FTSE 100 at the end of the year was below its opening level leaving those expecting a healthy return from their FTSE tracker funds feeling very sorry for themselves.

Total return from gilts in 2014 exceeded most commentators' wildest predictions with the FTSE UK Government Gilts TR index showing a 13.86% return over the period (2013: -3.94%). When one considers that UK gilts are treated as the closest one can get to a 'risk free' asset it is easy to see how difficult it is to achieve a stable return whilst ever we are in the live experiment of quantitative easing that central banks are conducting in world economies. We feel that this reinforces our view that a well-diversified portfolio (including some illiquid assets such as direct property) is most likely to deliver steady returns to the fund and ultimately to members.

Due to the volatile equity market and increase in technical liabilities over the year we have increased substantially our fixed interest holdings when investing new premium income to protect solvency.

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



BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

31 December	2014 £	2013 £	2012 £
British Government & Fixed Interest Stocks	23,014,503	8,558,778	4,761,331
Other Quoted Securities	56,899,629	58,689,637	44,119,815
Commercial Property	10,865,000	8,535,000	8,630,000
Bank Deposits & Cash	5,859,100	2,559,820	1,788,819
	<hr/> 96,638,232 <hr/>	<hr/> 78,343,235 <hr/>	<hr/> 59,299,965 <hr/>

The 10 largest equity positions in our With Profit Fund at the year-end were:

<b>Holding</b>	<b>Value £</b>
F & C Commercial Property Trust	682,000
Shire Ord	339,975
JP Morgan AM UK Ltd US Equity Income	330,639
Custodian REIT Plc	324,065
Schroder Real Estate	297,500
Royal London Utm Property	295,260
Prudential	261,100
Halma Ord	240,625
Whitbread Ord	238,500
Smith & Nephew Ord	237,600

**Outlook for 2015**

For 2015 our investment advisers are predicting some limited growth overall in equity values but with 10 year gilt yields now at a level below 2% the fixed income returns will be much lower than those achieved in 2014. These expectations have been factored in to the interim bonus rates that we have put in place for 2015, but we will be monitoring the position carefully and adjust them as and when it is prudent to do so.

We continue to press our investment advisers to recommend assets and asset classes which deliver a solid yield with low volatility and low correlation to our other assets such as infrastructure funds and absolute return funds, and expect to see these forming a larger proportion of our portfolio in 2015.

Total investment income rose during the year from £2,854,067 in 2013 to £3,604,482 in 2014 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 £48,984 from £6,345,790 to £6,296,806.

Premium income to our Insurance and Endowment Fund saw a substantial increase from £10.63m to £17.70m reflecting the benefit of a wider distribution network. Claims on the Insurance and Endowment Fund amounted to £1,844,198, an increase from the figure of £794,623 in 2013. This reflects the increase in the value of Investment Bond and ISA holdings with subsequent pay-outs on death or early surrender. The Insurance and Endowment Fund at the end of the year stood at £38,854,203 compared to £20,608,461 in 2013 and £9,839,439 in 2012, after allowing for the addition of interest and transfers.

Operating expenses, excluding costs relating to acquisition of new business, rose by 23.2% during the year, primarily due to the investment made in an additional staff member to assist with Branch development, increasing Actuarial input and legal and Consultancy fees. However, the ratio of management expenses as a ratio of mean assets fell from 0.75% at the end of 2013 to 0.73% at the end of 2014. Acquisition costs increased again due to 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.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

**4. MARGIN OF SOLVENCY**

At 31 December 2014, 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>2014</b>	<b>2013</b>	<b>2012</b>
Number of complaints received during the year	4	2	1
Number of complaints resolved during the year	4	2	1
Number of complaints 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.

**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.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

**8. OTHER MATTERS**

The Board 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 2014.

**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 Nomination 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.

During 2014 the Board commissioned an external review of its composition and structure which was carried out by Oxford Actuaries and Consultants (OAC). This involved individual interviews with all Board members along with attendance at one of the Board meetings. The outcome of this review, amongst other items, was confirmation of the Board's view that additional skills were required and suggested changes to the structure and frequency of Board and Committee meetings.

A Business Plan, Budget and key objectives are set each year, and progress against these is monitored during the course of the year through detailed management information and regular agenda items at Board meetings and Committee meetings.

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



BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

The following members of the Society served on the Board during 2014:-

Peter Darragh  
Robert Edwards (co-opted July 2014)  
Philip Howcroft (resigned July 2014)  
Tracy Parker  
Ian Prescott  
Andrew Townsley  
Timothy Watson  
Kate Wright

The Board considers that Peter Darragh, Ian Prescott, Tracy Parker and Robert Edwards are independent in accordance with the criteria outlined in the Board's independence statement and the Annotated UK Corporate Governance Code.

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

During 2014 Philip Howcroft retired from the Board and we would like to extend our thanks and appreciation to him for his contribution during his period of office.

In February 2015 the Nomination sub-committee interviewed for candidates for the position of Non-Executive Director in order to fill identified skills gaps in the areas of Actuarial, Risk and Investment. It is hoped at least one appointment will be made as a result of these interviews to cover Actuarial and Risk. We will continue to look for other candidates in future to cover identified skills gaps.

**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.*

- Does the Board have a policy on diversity, including gender, and measurable objectives for implementing the policy?

*The Board does have a diversity policy but because of its size it is very apparent whether this is being followed and therefore no measurable objectives are considered necessary.*

- Are the terms and conditions of appointment of non-executive directors made available for inspection by any person at the Society's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting)?

*Terms and conditions of appointment are available for inspection but have not historically been provided at the AGM*

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

- Has the Chairman ensured that all new directors meet with members, either via member forums or panels or individually, as part of their induction?

*New directors are either elected from the membership or are introduced to delegates at the AGM, not as part of the induction process. The Board feels that this represents an effective opportunity for members to engage with new directors.*

- Does the Chairman regularly review and agree with each director his or her training and development needs?

*There is an annual process in place for Board members to engage with the Chairman to identify their own training needs after which a solution is agreed. Directors attend seminars & conferences appropriate to their role to develop skills & understanding. Regular reviews were not held during this reporting period by the Chairman due to the directors being engaged in a formal external governance review which included review and identification of training and development needs.*

- Do the Society Secretary's responsibilities include facilitating (under the direction of the chairman) induction and assisting with professional development as required?

*Induction and assistance with professional development is carried out by the Chairman though the Secretary would be involved where required.*

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

*There is a small element of performance related remuneration but not significant at this stage. It is, however, linked to agreed objectives which reward corporate and individual performance.*

- Do performance-related elements of remuneration form a significant proportion of the total remuneration package of executive directors?

*No. Performance-related element is small as the Society's current structure does not facilitate a significant proportion to be paid.*

- Is the Remuneration Committee responsible for appointing any consultants in respect of executive director remuneration?

*This is not in the current terms of reference of the Remuneration sub-committee as no new executives have been appointed for over 6 years and there is no intention to do so in the near future. Any such responsibility would currently lie with the Board but may be delegated to the Remuneration sub-committee should the need arise.*

- Were proxy appointments provided to members for each resolution?

*Delegate voting system so proxy votes not used.*

- Did the proxy forms provide members with the option to direct their proxy to vote either for or against the resolution or to withhold their vote?

*Delegate voting system therefore proxy votes not used. Alternate delegates may be appointed to replace those not able to attend.*

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**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 non-executives' 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 adjustments will be required.*

- Does the board (or where permitted by the constitution of the Society, 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.*

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 Board 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 and all its Branches updating their Risk Registers.

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 2014

**DIRECTORS' REPORT**

**10. BOARD COMMITTEES**

The Board has established committees to consider certain specialist areas in more detail than would be possible at Board meetings. Each Committee operates within defined terms of reference. Minutes of meetings are formally recorded and reported to the Board by each Committee Chair. In addition to the Investment Committee made reference to above, the following Committees also meet:

The **Remuneration 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 **Nomination 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.

**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 Management Committee**

The Society's Board has established an Audit and Risk Management Committee, which consists of elected Non-Executive Directors of the Society. Committee membership consisted of 4 Non-Executive Directors during 2014 and throughout the year Tracy Parker chaired the Audit and Risk Management Committee. The Committee requested through invitation only Executive Director attendance when deemed appropriate. The Audit and Risk Management Committee met twice during the year ended 31 December 2014.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**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 Auditor and to approve their remuneration and terms of engagement.
- Review the External Auditor 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 Auditor 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 Auditor 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 Auditor the key accounting considerations and judgments reflected in the Society's Financial Statements for the year ended 31 December 2014.
- Reviewed and agreed the External Auditor's Audit Strategy memorandum in advance of their audit for the year ending 31 December 2014.
- Discussed the report received from the External Auditor regarding their audit in respect of the year ended 31 December 2014, 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 2014.
- 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.
- Appointed new Internal Auditor, KPMG, for the year ending 31 December 2015.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

**Significant Areas**

The primary areas of judgment considered by the Committee in relation to the 2014 financial statements and discussed with the External Auditor during the year were:

- **Property valuations**  
The Society's Board received reports from Ryden LLP, property management consultants for the Society, on the valuation of the Society's property assets for the year ended 31 December 2014. In considering the valuation proposals provided by the external valuer 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 information**  
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.
- **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 Auditor and that the External Auditor 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 Auditor each year. In addition, each year the Audit and Risk Management Committee reviews the independence and objectivity of the External Auditor. The External Auditor also report to the Board and the Audit and Risk Management Committee each year, confirming their independence in accordance with Auditing Standards and outline the safeguards that they have put in place. The Audit and Risk Management Committee concluded the External Auditor, Brown Butler, Chartered Accountants, are independent of the Society and recommended to the Board a resolution to re-appoint them as External Auditor.

Rob Edwards chairs the **Investment Committee**. It 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. More detailed terms of reference are set out earlier in this report.

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**DIRECTORS' REPORT**

The **Treating Customers Fairly (TCF) 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. This Committee did meet once during the year but it has now been closed with its responsibilities being taken by the whole Board. Treating customers (members) fairly is part of our DNA and we are certain that it is embedded in both the Board's decision making and the culture of the Society.

Other Board Committees are set up on an ad hoc basis to meet particular needs, and full terms of reference for all of the above Committees are available on the Society's website.

Below are the details of the Directors' attendance record at Board meetings and relevant Board Committee meetings during 2014.

Attendance	Board	Sub-Committees
Peter Darragh	11/11	7/7
Robert Edwards	5/5	4/4
Philip Howcroft	6/7	2/2
Tracy Parker	8/11	2/2
Ian Prescott	10/11	7/8
Andrew Townsley	11/11	5/5
Timothy Watson	11/11	4/4
Kate Wright	10/11	4/4

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

**Other directorships and business interests**

Andrew Townsley	Director:	Carr House Court Management Company Limited (resigned April 2014)
Robert Edwards	Director:	RCE Transformations Limited
Ian Prescott	Director:	Bond House Systems Limited Target Components Limited European Property UK Limited Mood Developments Limited

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

*Peter Darragh*

**Chairman**

11 March 2015

*Andrew Townsley*

**Chief Executive**

BOARD OF MANAGEMENT'S ANNUAL REPORT  
For the year ended 31 December 2014

**REMUNERATION REPORT**

This report is submitted in respect of the year ended 31 December 2014. A vote to approve the report will be put to the 2015 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 Chairs 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 2014 Annual General Meeting, the Society Board is recommending an increase of 1.75% for fees in 2015 and will be seeking approval at the Annual General Meeting.

**Fees, Salaries and other benefits in 2014 amounted to:**

	<u>Fees</u>	<u>Salary</u>	<u>Taxable</u> <u>Benefits</u>	<u>Commission</u>	<u>Pension</u>	<u>2014</u>	<u>2013</u>
	£	£	£	£	£	£	£
Peter Darragh	10,245					10,245	10,224
Robert Edwards	4,011					4,011	0
Philip Howcroft	2,802					2,802	4,605
Tracy Parker	4,035					4,035	4,635
Ian Prescott	5,290					5,290	4,815
Andrew Townsley		97,268	9,332		10,800	117,400	117,714
Timothy Watson	4,965			2,792		7,757	8,791
Kate Wright	4,847			5,259		10,106	26,605
Neil Morrison						0	1,505
David Hawkes						0	11,074
<b>Total</b>	<b>36,195</b>	<b>97,268</b>	<b>9,332</b>	<b>8,051</b>	<b>10,800</b>	<b>161,646</b>	<b>189,968</b>

Included in the above salary for Andrew Townsley is a provisional amount of £2,700 (2013: £6,500) in respect of a bonus paid after the year end.

General expenses such as travel and parking are not included in the above figures. During the year these totalled £7,251 (2013: £6,230).

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 2014

**REMUNERATION REPORT**

**Non-Executive Directors**

The Board considers that Peter Darragh, Ian Prescott, Tracy Parker, Robert Edwards 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**

Tracy Parker acted as the Society's Senior Independent Director during the period. 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. 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 2014

**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**

11 March 2015

KINGSTON UNITY FRIENDLY SOCIETY

INCOME AND EXPENDITURE ACCOUNT

TECHNICAL ACCOUNT – LONG TERM BUSINESS

For the year ended 31 December 2014

	Note	2014 £	As restated 2013 £
<b>INCOME</b>			
Earned premiums	3	18,160,690	11,092,438
Investment income	4	3,479,923	2,551,380
Unrealised gains on investments	5	2,267,620	7,949,859
Other income	6	61,235	45,486
<b>TOTAL INCOME</b>		<b>23,969,468</b>	<b>21,639,163</b>
<b>EXPENDITURE</b>			
Claims incurred	7	1,957,439	913,675
Change in long term business provision	30 & 31	18,157,423	18,314,686
Net operating expenses			
Acquisition costs	8	746,559	683,514
Administration	9	574,079	460,193
		1,320,638	1,143,707
Investment expenses and charges			
Investment management expenses	10	219,227	148,667
Losses on realisation of investments	11	273,714	54,753
		492,941	203,420
Unrealised losses on investments	12	1,763,052	590,493
		23,691,493	21,165,981
Tax attributable to the long term business	15	-	-
		23,691,493	21,165,981
Transfer to funds for future appropriations	28 & 29	790,819	887,889
Transfer from reserves provided for by the rules and tables	26	(512,844)	(414,707)
		23,969,468	21,639,163
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 37 to 59 form part of these financial statements.

KINGSTON UNITY FRIENDLY SOCIETY

INCOME AND EXPENDITURE ACCOUNT

NON-TECHNICAL ACCOUNT

For the year ended 31 December 2014

	Note	2014 £	As restated 2013 £
<b>INCOME</b>			
Investment income	4	124,559	302,687
Unrealised gains on investments	5	146,282	116,515
Other income	6	25,407	31,036
<b>TOTAL INCOME</b>		<u>296,248</u>	<u>450,238</u>
<b>EXPENDITURE</b>			
Claims incurred	7	10,446	14,860
Administration	9	74,087	65,843
Investment expenses and charges			
Investment management expenses	10	24,358	16,519
Losses on realisation of investments	11	17,657	4,109
		<u>42,015</u>	<u>20,628</u>
		126,548	101,331
Unrealised losses on investments	12	<u>34,449</u>	<u>44,310</u>
<b>EXPENDITURE BEFORE INTEREST AND ALLOCATION TO INVESTING BRANCHES</b>		160,997	145,641
Divided among the member branches	13	<u>234,498</u>	<u>257,061</u>
<b>TOTAL EXPENDITURE</b>		<u>395,495</u>	<u>402,702</u>
<b>EXCESS OF (EXPENDITURE OVER INCOME)/INCOME OVER EXPENDITURE FOR THE FINANCIAL YEAR</b>		<u>(99,247)</u>	<u>47,536</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 37 to 59 form part of these financial statements.

KINGSTON UNITY FRIENDLY SOCIETY

BALANCE SHEET

As at 31 December 2014

	Note	2014 £	As restated 2013 £
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Land and buildings	18	10,865,000	8,535,000
Other financial investments			
Shares and other variable yield			
Securities	19	10,620,587	12,466,300
Debt securities and other fixed income			
Securities	20	23,014,503	8,558,778
Loans secured by mortgages	21	772,288	880,474
		<u>45,272,378</u>	<u>30,440,552</u>
Assets held to cover linked liabilities	22	46,279,042	46,223,337
<b>DEBTORS</b>			
Other debtors	23	4,174	1,307
<b>OTHER ASSETS</b>			
Tangible assets	24	43,738	29,366
Cash at banks, brokers and in hand	25	5,859,100	2,559,820
		<u>5,902,838</u>	<u>2,589,186</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		281,844	180,082
Other prepayments and accrued income		55,180	58,220
		<u>337,024</u>	<u>238,302</u>
		<u>97,795,456</u>	<u>79,492,684</u>
<b>LIABILITIES</b>			
<b>RESERVES</b>			
Reserves provided for by the rules and tables	26	1,941,290	1,426,150
Fund for future appropriations	27	2,481,864	2,987,105
		<u>4,423,154</u>	<u>4,413,255</u>
<b>TECHNICAL PROVISIONS</b>			
Long term business provision	30	40,422,372	22,151,825
Technical provisions for linked liabilities	31	46,279,042	46,223,337
		<u>86,701,414</u>	<u>68,375,162</u>
<b>CREDITORS</b>			
Other creditors – including taxation, social security and investing branches	32	6,317,307	6,368,218
ACCRUALS AND DEFERRED INCOME	34	353,581	336,049
		<u>97,795,456</u>	<u>79,492,684</u>

These financial statements were approved and authorised for issue by the Board of Management on 11 March 2015.

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

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

The notes on pages 37 to 59 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 Board 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 2014

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	123% AMC00 and 116% AFC00 for ages 17 and above, 100% ELT for ages below 17 non CTF and 50% ELT for ages below 17 CTF
Morbidity	60% of the Manchester Unity AHJ (1893 – 97)
Investment returns	0.93% for tax exempt policies, 0.74% for taxable With Profits policies and 1.43% 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.

2. Prior year adjustments

The prior year adjustment has arisen as a result of a change in the allocation of Administration expenditure.

In previous years 10% of salaries, national insurance and pension costs were shown as acquisition costs.

In the current year specific salaries, national insurance and pension costs have been allocated to acquisition costs as appropriate, together with PR and marketing expenditure. This has resulted in a prior year adjustment and, where necessary, the comparative figures have been restated.



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. Earned premiums	2014 £	2013 £
Central health benefit contributions	3,177	2,233
Long term savings contributions	48,074	53,957
Insurance and endowment premiums	17,696,579	10,631,741
Child Trust Fund – stakeholder	408,208	386,279
Unit linked ISA	4,652	18,228
	<u>18,160,690</u>	<u>11,092,438</u>

4. Investment income	2014		2013	
	Technical account £	Non-technical account £	Technical account £	Non-technical Account £
Income from listed investments	2,306,977	48,891	1,727,592	240,874
Income from land and buildings	829,845	53,533	734,195	55,092
Gains on the realisation of investments	273,270	17,631	17,599	1,319
Bank interest receivable	22,494	1,451	20,781	1,559
Mortgage interest receivable	47,337	3,053	51,213	3,843
	<u>3,479,923</u>	<u>124,559</u>	<u>2,551,380</u>	<u>302,687</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.

5. Unrealised gains on investments	2014		2013	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Land and buildings	92,861	5,990	-	-
Shares and other variable yield securities	882,665	56,940	1,491,610	111,927
Debt securities and other fixed income securities	1,292,094	83,352	61,138	4,588
Assets held to cover linked liabilities	-	-	6,397,111	-
	<u>2,267,620</u>	<u>146,282</u>	<u>7,949,859</u>	<u>116,515</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. Other income

	2014		2013	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Management and other levies	61,235	25,407	45,486	31,036

7. Claims incurred

	2014		2013	
	Technical account £	Non-technical Account £	Technical account £	Non-technical account £
Funeral re-insurance fund	-	10,446	-	14,860
Central health fund	550	-	2,399	-
Long term savings fund	84,222	-	84,749	-
Insurance and endowment fund	1,844,198	-	794,623	-
Child Trust Fund – stakeholder:				
Claims	861	-	3,151	-
Transfers	27,608	-	22,406	-
Unit linked ISA fund	-	-	6,347	-
	1,957,439	10,446	913,675	14,860

8. Acquisition costs

	2014 £	As restated 2013 £
Salaries and national insurance	141,071	117,853
Pension costs	8,296	3,071
Commissions	510,749	518,818
PR and marketing	51,008	20,297
Printing and stationery	1,253	812
Office repairs	1,589	793
Maintenance contracts	11,722	9,123
Computer software	9,170	3,416
Actuarial fees and valuation provisions	10,022	7,707
Compliance training	1,679	1,624
	746,559	683,514

## For the year ended 31 December 2014

With the exception of the conference expenses which are charged directly to the non-technical account, the administration expenses are allocated 90% (2013: 90%) to the technical account and 10% (2013: 10%) to the non-technical account. These can be summarised below:-

42

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

10. Investment management expenses

	2014		2013	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Investment adviser's charges	86,681	9,631	52,172	5,797
Property related charges:-				
Agent's management charges	38,794	4,310	32,172	3,575
Legal fees	12,806	1,423	17,053	1,895
Insurances	11,552	1,284	7,709	856
Rates and water	8,472	941	987	110
Heat and light	14,787	1,643	1,208	134
Repairs and renewals	44,152	4,906	35,138	3,904
Cleaning	1,983	220	2,228	248
	<u>219,227</u>	<u>24,358</u>	<u>148,667</u>	<u>16,519</u>

The investment management expenses are allocated 90% (2013: 90%) to the technical account and 10% (2013: 10%) to the non-technical account.

11. Losses on realisation of investments

	2014		2013	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Shares and other variable yield securities	271,196	17,495	34,489	2,588
Debt securities and other fixed income Securities	2,518	162	20,264	1,521
	<u>273,714</u>	<u>17,657</u>	<u>54,753</u>	<u>4,109</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

12. Unrealised losses on investments

	2014		2013	
	Technical account £	Non-technical account £	Technical account £	Non-technical account £
Land and buildings	-	-	148,653	11,155
Shares and other variable yield securities	504,299	31,961	118,981	8,928
Debt securities and other fixed income securities	38,566	2,488	322,859	24,227
Assets held to cover linked liabilities	1,220,187	-	-	-
	<u>1,763,052</u>	<u>34,449</u>	<u>590,493</u>	<u>44,310</u>

13. Divided among the member branches

	2014 £	2013 £
Interest on investing branch deposits at 3.70% (2013: 4.15%)	230,456	257,061
Central health fund distribution	4,042	-
	<u>234,498</u>	<u>257,061</u>

14. Excess of income over expenditure

The excess of income over expenditure is after charging:-

	2014 £	2013 £
Depreciation of owned assets	21,238	14,753
Operating lease charges – motor vehicles	9,136	7,816
External auditor's remuneration – audit services	45,062	39,430
Internal auditor's remuneration	3,807	9,819
Actuary's remuneration	100,223	77,068
Commissions	<u>510,749</u>	<u>518,818</u>

# KINGSTON UNITY FRIENDLY SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 15. Taxation

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

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

	2014 £	2013 £
Corporation tax		
Current year	-	-
Current tax credit	-	-
Small profits rate	20.0%	20.0%

No provision for corporation tax has been made as interest and capital gains arising during the year are not expected to exceed allowable management charges. No deferred tax asset has been recognised as the directors have assessed that it is unlikely that sufficient taxable profits will arise to utilise these excess management charges.

### 16. Staff costs

	2014 £	2013 £
Wages and salaries	330,370	281,819
Social security costs	35,122	32,771
Pension costs	24,888	18,047
Benefits in kind	10,461	10,812
	<u>400,841</u>	<u>343,449</u>
Average number of employees		
Chief executive	1	1
Administration	8	7
	<u>9</u>	<u>8</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

17. Board members' emoluments

	2014 £	2013 £
Remuneration	97,268	97,737
Pension contributions	10,800	10,200
Attendance fees	36,195	34,895
Other emoluments	8,051	37,359
Benefits in kind	9,332	9,777
	<u>161,646</u>	<u>189,968</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:-

	2014 £	2013 £
Chairman – Peter Darragh	<u>10,245</u>	<u>9,855</u>
Highest paid board member		
Remuneration	97,268	97,737
Pension	10,800	10,200
Benefits in kind	9,332	9,777
	<u>117,400</u>	<u>117,714</u>

Other board members – fees

	No.	No.
Nil - £5,000	5	7
£5,001 - £10,000	1	1
£10,001 - £15,000	1	-
	<u>7</u>	<u>8</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

18. Land and buildings

	Freehold land and buildings £	Long leasehold land and buildings £	2014 £	2013 £
Valuation				
At 1 January 2014	8,285,000	250,000	8,535,000	8,630,000
Additions	2,231,149	-	2,231,149	64,808
Surplus/(deficit) on revaluation	98,851	-	98,851	(159,808)
At 31 December 2014	<u>10,615,000</u>	<u>250,000</u>	<u>10,865,000</u>	<u>8,535,000</u>

The Society's land and buildings were professionally valued on 31 December 2014 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 (2013: £250,000).

The historical costs of the revalued properties are as follows:

	2014 £	2013 £
Freehold land and buildings	8,439,725	6,208,576
Long leasehold land and buildings	399,884	399,884
	<u>8,839,609</u>	<u>6,608,460</u>

19. Shares and other variable yield securities

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

	2014 £	2013 £
Valuation at 1 January 2014	12,466,300	5,310,294
Additions	2,980,587	6,155,596
Disposals	(5,225,458)	(455,481)
Realised gains	284,504	17,340
Realised losses	(288,691)	(37,077)
Unrealised gains	939,605	1,603,537
Unrealised losses	(536,260)	(127,909)
Valuation at 31 December 2014	<u>10,620,587</u>	<u>12,466,300</u>

The historical cost of the shares and other variable yield securities is £8,519,188 (2013: £10,450,061).



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

20. Debt securities and other fixed income securities

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

	2014 £	2013 £
Valuation at 1 January 2014	8,558,778	4,761,331
Additions	13,879,417	5,036,461
Disposals	(761,801)	(937,447)
Realised gains	6,397	1,578
Realised losses	(2,680)	(21,785)
Unrealised gains	1,375,446	65,726
Unrealised losses	(41,054)	(347,086)
Valuation at 31 December 2014	<u>23,014,503</u>	<u>8,558,778</u>

The historical cost of the debt securities and other fixed income securities is £21,693,996 (2013: £8,548,313).

21. Loans secured by mortgages

	2014 £	2013 £
At 1 January 2014	880,474	1,118,997
Advances	99,000	-
Repayments	(257,576)	(293,579)
Charged interest	50,390	55,056
At 31 December 2014	<u>772,288</u>	<u>880,474</u>

22. Assets held to cover linked liabilities

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

	2014 £	2013 £
Valuation at 1 January 2014	46,223,337	38,809,521
Additions	1,275,892	1,016,705
Unrealised gains	-	6,397,111
Unrealised losses	(1,220,187)	-
Valuation at 31 December 2014	<u>46,279,042</u>	<u>46,223,337</u>

The historical cost of the units is £37,188,257 (2013: £35,912,365).

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

23.	Debtors				
			2014 £	2013 £	
	H M Revenue & Customs (tax credit on interest)		<u>4,174</u>	<u>1,307</u>	
24.	Tangible assets				
		Fixtures, fittings and equipment £	Computer equipment £	Motor vehicle £	Total £
	Cost				
	At 1 January 2014	27,244	88,689	9,415	125,348
	Additions	15,756	19,854	-	35,610
	Disposals	(169)	(14,527)	-	(14,696)
	At 31 December 2014	<u>42,831</u>	<u>94,016</u>	<u>9,415</u>	<u>146,262</u>
	Depreciation				
	At 1 January 2014	13,857	75,689	6,436	95,982
	Charge	4,494	15,999	745	21,238
	Eliminated on disposal	(169)	(14,527)	-	(14,696)
	At 31 December 2014	<u>18,182</u>	<u>77,161</u>	<u>7,181</u>	<u>102,524</u>
	Net book value				
	At 1 January 2014	<u>13,387</u>	<u>13,000</u>	<u>2,979</u>	<u>29,366</u>
	At 31 December 2014	<u>24,649</u>	<u>16,855</u>	<u>2,234</u>	<u>43,738</u>
25.	Cash at banks, brokers and in hand				As restated
			2014 £	2013 £	
	Deposit accounts		5,640,120	1,267,885	
	Current account		211,937	764,784	
	Cash held by brokers		6,921	526,920	
	Cash in hand		122	231	
			<u>5,859,100</u>	<u>2,559,820</u>	

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

26. Reserves provided for by the rules and tables

	Funeral re-insurance fund £	Management fund £	Guarantee fund £	2014 £	As restated 2013 £
At 1 January 2014					
as previously reported	400	1,258,496	50,000	1,308,896	995,766
Prior year adjustment (note 2)	-	117,254	-	117,254	9,297
	<u>400</u>	<u>1,375,750</u>	<u>50,000</u>	<u>1,426,150</u>	<u>1,005,063</u>
Transfer to technical account – long term business	-	(512,844)	-	(512,844)	(414,707)
Allocation of income and expenditure					
Non-technical account	22	(59,148)	-	(59,126)	(49,667)
Management fund transfers					
Long term business provision (note 30)	-	466,416	-	466,416	231,437
Linked liabilities long term business provision (note 31)	-	620,694	-	620,694	579,024
Accumulated income fund transfers					
Administration	-	-	-	-	75,000
At 31 December 2014	<u>422</u>	<u>1,890,868</u>	<u>50,000</u>	<u>1,941,290</u>	<u>1,426,150</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.

27. Fund for future appropriations

	2014 £	As restated 2013 £
Accumulated income fund (note 28)	4,632,377	3,053,288
Reserve fund (note 29)	(2,150,513)	(66,183)
	<u>2,481,864</u>	<u>2,987,105</u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

28.	Accumulated income fund	2014 £	2013 £
	At 1 January 2014	3,053,288	1,440,043
	Transfer from technical account – long term business	2,986,982	2,347,960
	Allocation of income and expenditure – Non-technical account	(151,954)	24,998
	Allocation to other funds Interest and dividends	(1,255,939)	(684,713)
		<u>4,632,377</u>	<u>3,128,288</u>
	Transfer to management fund (note 26)	-	(75,000)
	At 31 December 2014	<u><u>4,632,377</u></u>	<u><u>3,053,288</u></u>
29.	Reserve fund	2014 £	As restated 2013 £
	At 1 January 2014 as previously reported	51,071	1,330,980
	Prior year adjustment (note 2)	(117,254)	(9,297)
	At 1 January 2014 as restated	<u>(66,183)</u>	<u>1,321,683</u>
	Transfer to technical account – long term business	(2,196,163)	(1,460,071)
	Allocation of income and expenditure Non-technical account	111,833	72,205
	At 31 December 2014	<u><u>(2,150,513)</u></u>	<u><u>(66,183)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 30. Technical provisions – long term business provision

The actuarial valuation at 31 December 2014 highlighted the following technical liabilities:-

	Central health fund £	Long term savings fund £	Insurance and endowment fund £	Total 2014 £	Total 2013 £
At 1 January 2014	-	1,543,364	20,608,461	22,151,825	11,376,703
Management fund transfers	-	-	(466,416)	(466,416)	(231,437)
Accumulated income fund transfers					
Interest and dividends	23	47,793	1,208,123	1,255,939	684,713
Change in long term business provision	(23)	(22,988)	17,504,035	17,481,024	10,321,846
At 31 December 2014	-	1,568,169	38,854,203	40,422,372	22,151,825

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. Technical provisions – linked liabilities long term business provision

The actuarial valuation at 31 December 2014 highlighted the following technical liabilities in respect of linked liabilities:-

	Child trust fund stakeholder fund £	Unit linked ISA fund £	Total 2014 £	Total 2013 £
At 1 January 2014	46,139,415	83,922	46,223,337	38,809,521
Management fund transfers	(619,567)	(1,127)	(620,694)	(579,024)
Change in long term business provision	679,067	(2,668)	676,399	7,992,840
At 31 December 2014	46,198,915	80,127	46,279,042	46,223,337

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 2014

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

	2014 £	As restated 2013 £
VAT	14,742	21,610
Balances due to investing branches (note 33)	6,296,806	6,345,790
Money held on behalf of Head Office Branch	5,759	818
	<u>6,317,307</u>	<u>6,368,218</u>

33. Balances due to investing branches at 31 December 2014

Branch number	Branch name	£	Total branch benefit membership
23	Inkerman	371,700	164
25	Trinity	2,213,296	923
30	Hearts of Oak	1,355,838	709
100	Head Office Branch	1,254,490	715
233	All Saints	871,567	597
272	Lord Nelson	229,915	192
		<u>6,296,806</u>	<u>3,300</u>

34. Accruals and deferred income

	2014 £	2013 £
Actuarial fees	12,422	4,290
Commission payable to agents	47,235	66,141
Auditor's remuneration	45,062	39,430
Property valuation	11,446	9,883
Sundry accruals	46,965	42,111
Deferred income	190,451	174,194
	<u>353,581</u>	<u>336,049</u>

# KINGSTON UNITY FRIENDLY SOCIETY

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 35. Leasing commitments

At 31 December 2014 the Society had operating lease commitments for the following year as set out below:-

	2014 £	Other 2013 £
Operating leases which expire:-		
Within one year	-	3,583
From one to five years	7,200	-
	<u>7,200</u>	<u>3,583</u>

### 36. Related party transactions and controlling party

During the year the Society has conducted business with Board members as disclosed in note 17.

During the year R A J Townsley had a repayment mortgage with the Society. The Society charged R A J Townsley interest of £3,496 (2013: £4,316). At the balance sheet date £86,543 (2013: £102,435) was owed to the Society by R A J Townsley.

During the year the Society advanced healthcare costs to R A J Townsley totalling £2,844 (2013: £2,393). During the year he repaid to the Society £2,844 (2013: £2,393). At the balance sheet date £nil (2013: £nil) was owed to the Society in respect of these costs.

No controlling party can be identified.

### 37. Events after the balance sheet date

Since the year end the Society has purchased a freehold property in Scunthorpe at a cost of £1,360,000.

The property was acquired to enhance the property investment portfolio.

### Branches

Recognising the important role that Branches play in the Society past and present we have put considerable time and effort in recent years in working to include them in our growth plans. Recent regulatory developments will have a significant influence on how this can be achieved, but we remain committed to their role in (without limitation) member engagement, maintaining and cultivating affinity groups, and sales and distribution of products.

Branches have carried out insurance business under the Friendly Societies Act 1974 for many years with the tacit approval of our regulators and the oversight of the Society's Head Office.

As a Society with Branches, each continuing to undertake insurance business in their own right, we believe ourselves to be almost unique in the United Kingdom which has made interpretation of a regulatory framework which has 'moved on' particularly difficult.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

37. Events after the balance sheet date - continued

The Financial Conduct Authority recently issued a statement relating to the operation of Insurance funds when Solvency II is introduced in 2016 and the conditions that have to be met in order for them to continue to operate. This has caused the Society's Board to seek the legal advice of 2 leading experts in the United Kingdom in Friendly Societies legislation and regulatory practice to help the Society and its Branches understand their obligations and options going forward. Whilst there is no significant impact on the position of the Society as a whole it does present a very serious challenge to the continuing operation of Branches in their current form.

The Board has reviewed the experts' opinions, and believe that they are unequivocal leading it to conclude that Branches are unlikely to meet the regulatory requirements to continue to undertake insurance business after the advent of Solvency II (1 January 2016). Serious concerns were also raised in these opinions about the basis upon which individual Branch funds have been operating and as a result the writing of new business into Branch insurance funds has been suspended for the time-being. To be clear: the sale of central Society products is not impacted by this suspension.

It is important to note that the changes required to meet regulation centre on the operation of the individual Branch insurance funds, not those of the Society, but each Branch can continue to function, just with different roles, responsibilities and authorisation going forwards. Branches will continue to be able to introduce Society products to members' friends and family, and continue to welcome members' active participation in the Branches and the Society. For the avoidance of doubt these decisions have been necessitated by legislation, and are not being mandated as a result of any concerns over the solvency or financial stability of either the Branches or the Society.

This will not effect in any way the contractual benefits that members have under their Branch policies. All members impacted will receive more information about the changes occurring in due course.

Discussions will be taking place with each of our Branches to determine the way forward but where it is appropriate existing Branch Insurance funds will be transferred to the Society by the end of 2015 and we can then concentrate on developing the ongoing benefits of Branch membership.

38. 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 38(b).

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

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

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

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

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



KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

38. Liabilities analysed in accordance with FRS 27 - continued

(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 PRA therefore the capital statement reflects the solvency position of the Society and its Branches.

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

	2014 £	2013 £
<b>Assets</b>		
Freehold land and buildings	10,865,000	8,535,000
Mortgages on land and buildings	772,288	880,474
British government securities	17,971,174	5,531,011
Other investments – non-linked	15,663,916	15,494,067
Other investments – for linked benefits	46,279,042	46,223,337
	<u>91,551,420</u>	<u>76,663,889</u>
Debtors	5,248	1,948
Tangible assets	44,049	29,841
Deposits, cash at bank, brokers and in hand	5,880,922	2,582,398
Other prepayments and accrued income	337,024	238,302
	<u>6,261,995</u>	<u>2,850,541</u>
<b>Total assets</b>	<u><u>97,818,663</u></u>	<u><u>79,516,378</u></u>
<b>Liabilities</b>		
Technical provisions		
Branch insurances	5,477,770	5,498,082
Central insurances (non-linked)	40,422,372	22,155,867
Central linked insurances	46,279,042	46,223,337
	<u>92,179,184</u>	<u>73,877,286</u>
Non-technical liabilities		
Branch funds for management, distress and marketing	85,463	100,554
Central funds of management, distress and marketing	50,422	50,400
Creditors	25,567	25,324
Accruals and deferred income	353,581	336,049
	<u>515,033</u>	<u>512,327</u>
Consolidated fund for future appropriations	5,124,446	5,126,765
<b>Total liabilities</b>	<u><u>97,818,663</u></u>	<u><u>79,516,378</u></u>

KINGSTON UNITY FRIENDLY SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

38. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

	2014 £	2013 £
Fund for future appropriations	5,124,446	5,126,765
Less: Inadmissible assets	44,049	29,841
Expense reserve required	550,000	410,000
	<u>594,049</u>	<u>439,841</u>
Assets available for required minimum margin	<u>4,530,397</u>	<u>4,686,924</u>
Required minimum margin	<u>3,333,425</u>	<u>3,124,580</u>
Assets in excess of required minimum margin	<u>1,196,972</u>	<u>1,562,344</u>

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

	2014 £	2013 £
Starting available capital resource	4,687,000	4,370,000
New business strain	(283,000)	-
Model change	-	(18,000)
Branch distribution	-	(329,000)
Central sickness distribution	-	(4,000)
Expense overrun reserve	(140,000)	(205,000)
Change in valuation basis	(1,212,000)	(203,000)
Cost of bonus	(855,000)	(551,000)
Investment surplus	2,786,000	1,244,000
Expense loading	(91,000)	359,000
Economic factors	(362,000)	24,000
Available capital resources at end of year	<u>4,530,000</u>	<u>4,687,000</u>
% assets	<u>136%</u>	<u>150%</u>

The assets available for the required minimum margin are 136% of the required minimum margin.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

38. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

Risks

22% 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 counter party risks with the tenant and the ability to lease the property.

The largest holding of approximately 46% 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.

Approximately 20% 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 counter party 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 two 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 0.44% or a fall in bond yields of 0.44%. 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 £1.0m.

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 £22.64p.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% of CTF funds and 1% 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 £550,000 expense over-run calculated for next year after allowing for the cost of closure.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

38. Liabilities analysed in accordance with FRS 27 - continued

(b) continued

A mortality and morbidity investigation was carried out during 2014. The investigation used data from the preceding three 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 2014.