

# REPORTS & **FINANCIAL STATEMENTS 2011**

For the Year Ended  
31 December 2011



*O*the SINCE 1810  
**DDFELLOWS**  
*making friends, helping people*

# Board of Directors and Advisors

## **INDEPENDENT ORDER OF ODD FELLOWS**

## **MANCHESTER UNITY FRIENDLY SOCIETY**

**Registered under the Friendly Societies Act 1974**

**Register No. 223 F**

### **REGISTERED OFFICE:**

First Floor  
Abbey House  
32 Booth Street  
Manchester  
M2 4QP

### **BOARD OF DIRECTORS:**

#### **CHAIRMAN:**

C E Vaughan, Grand Master  
K M Stuart, Deputy Grand Master  
A R Cole, Immediate Past Grand Master  
R Burley, P.G.M. (Trustee)  
S P Doulton Smith, P.G.M. (Trustee)  
D A Porter, P.G.M. (Trustee)  
G J Lickess, P.P.G.M.  
C Tayler, P.P.G.M.  
M Winter, P.P.G.M.  
W S Connolly (External Non Executive Director)  
M Jackson (External Non Executive Director)

#### **CHIEF EXECUTIVE:**

P J Howcroft, BSc, F.C.C.A., DiploD

#### **SECRETARY OF THE ORDER AND FINANCE DIRECTOR:**

C J Nelson, F.C.C.A., F.C.M.A. DiploD

#### **INSURANCE DIRECTOR:**

S Code, MBA

#### **APPROPRIATE ACTUARY:**

S A Robinson, FIA, (Towers Watson Limited)

#### **SOLICITOR:**

Hill Dickinson LLP

#### **AUDITOR:**

Deloitte LLP

#### **BANKER:**

Lloyds Banking Group PLC

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# ■ Chief Executive's Operational Report

## **Overview**

The last 12 months proved to be another challenging year for the Order particularly with regard to our Branches. All Lodges and Districts experienced a year of low earnings on their assets and we as a Society continue to find it difficult to replace lost members both in terms of general numbers and on our Committees of Management.

Whilst in 2011 significantly more resource was directed towards our marketing activities we still fail to attract members in the numbers required. Overall Branch membership of the Society increased slightly but this is in the main due to the allocation of Schoolteachers policyholders to Lodges. Whilst we went to great lengths in our Lodges to welcome policyholders into the Society our experience would indicate that this particular recruitment initiative may have failed to convert many policyholders into active Lodge members. Drilling down, the reality is that the actual numbers recruited in 2011 were down on the numbers recruited in 2010 which whilst up on 2009 was still a long way off covering deaths and lapses.

Accordingly as we enter 2012 we will have to continue to test various marketing initiatives viz., the use of social media for recruitment and the striking up of partnerships with other like-minded organisations. Whilst such initiatives are embryonic and although certain partnerships offer the first year's membership of the Society for free, our relationship with Life Academy for example has now become our second best mode of recruitment behind Member Get Member, so there is hope.

The Board of Directors have also been considering a different approach to the delivery of mutual support and the provision of social events for our members. To this end we will be working closely with Branches to change the manner in which we organise and promote our various events and to avail members of new benefits and services.

The Society's Insurance Business has also faced a challenging year embedding the former Schoolteachers Friendly Society into our Society whilst also dealing with the FSA's project of Treating With Profits Policyholders fairly (Project Chrysalis) and incoming Solvency II legislation. Our new Insurance Director Brother Code has certainly been busy since joining us in March.

The next 12 months should therefore be a pivotal year for the Society, a year in which we open our doors a little to other organisations by incorporating. We seek incorporation as the Branches can and will continue and the Society needs to be able to attract other new sources of income.

## **Summary**

We expect 2012 to present just as many challenges as 2011, but we hope that the changes we make today will start to re-develop our Lodges. It will be difficult and the needed change will happen slowly but if we all stay committed to providing for the needs of our members then Oddfellowship should, really sell itself. Our future success is largely in our own hands.

Finally, I would like to offer my thanks to Branch Secretaries, Committees of Management, volunteers, staff of Unity Office and the Board and Sub Committees for their hard work and enthusiasm during the year.

P J Howcroft  
CHIEF EXECUTIVE OFFICER

# ■ Board of Directors Report

The Directors present their Annual Report together with the financial statements for the year ended 31 December 2011. In producing this report, the Directors have considered the Annotated UK Corporate Governance Code ('the Code') and reference is duly made on those areas where the Directors feel that compliance is not appropriate for the Society.

## **Statement of Directors' Responsibilities**

The Friendly Societies Act 1992 ("the Act") requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Society at the end of the year and of its income and expenditure for that year. In preparing these Financial Statements the Directors are required to:

- ➔ select suitable accounting policies and then apply them consistently;
- ➔ make judgements and estimates that are reasonable and prudent;
- ➔ state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- ➔ prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Society will continue in business.

The Directors are responsible for keeping proper accounting records which must show and explain the transactions of the Society and disclose the financial position of the Society with reasonable accuracy at any time, and enable them to ensure that the financial statements comply with the Act and the regulations under it. They are also responsible for the systems of internal control, for safeguarding the assets of the Society and hence taking reasonable steps for the prevention and the detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society website. The Directors responsibility also extends to the ongoing integrity of the financial statements contained therein. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that the Society did not carry out any activities outside its powers during the year.

## **Business objectives and activities**

The Society is a registered unincorporated non directive society whose aim is to improve the quality of life of its members by meeting their social and welfare needs through a mutual national Branch network.

In order to achieve this aim, the Society's main objectives are:

- ➔ To ensure that the Branch delivery of our core product is of a high standard throughout the UK.
- ➔ To expand the Branch Network, ensuring that there are sufficient Branches within the UK meeting members' expectations providing them with access to our core product.
- ➔ To proactively seek incoming Transfers of Engagements from other Friendly Societies with closed Insurance Books thus giving those policyholders access to the range of supportive benefits we offer.
- ➔ To focus recruitment of new members via local promotion of Branches and the services and facilities they offer.
- ➔ To ensure that the necessary schemes are in place to assist Branches to retain their membership.
- ➔ To increase the number of active members within the Society via Social events and then encouragement to involve them in more local participation.
- ➔ To ensure that benefits and services remain attractive to both existing and prospective members, the Society will monitor other schemes and benefits with affinity partners.
- ➔ To investigate the Corporate Market with a view to opening up more geographical areas of the country.
- ➔ To ensure the Society has in place effective Compliance and Governance arrangements.
- ➔ To ensure that payments are made to policyholders at the appropriate time and that free assets in the long term business funds are distributed in a manner that is fair across policy types and over generations of policyholders.

Throughout 2011 the Society's Board of Directors continued to demonstrate that it has in place the appropriate systems and controls to comply with the needs and requirements of the FSA's Treating Customers Fairly (TCF) regime, this continued to be evidenced by:-

- The Society has continued to utilise the systems for evidence based recording of the integration of TCF principles into the business culture and working practices.
- Appropriate Management Information (MI) is in place to test whether the Society is treating customers fairly by delivering the relevant TCF outcomes applicable to the Society.
- The MI indicates that the Society continues consistently to treat customers fairly and maintains delivery of the required consumer outcomes. Processes are in place which monitor the MI, this enables the right people to take appropriate action as part of "business as usual."
- The TCF Champion undertakes sample reviews of customer claims, queries and complaint files and policyholder feedback.

# ■ Board of Directors Report

In addition the Society will also support the provision of convalescent homes and housing associations, and support the less advantaged members of society by charitable donations to projects perceived to benefit society as a whole. The Society does not have any jointly controlled bodies or subsidiaries.

## **Current Activities**

New technology has been a significant feature of work undertaken during 2011. With the rising use of mobile phones and social media by our prospective members, it has been important for the Society to adapt to use these new communication channels.

Market research was conducted during the first quarter of 2011 with three distinct profiles being identified – this enabled the Society to devise and test marketing campaigns for a number of Branches. As a large proportion of these prospective members are active in online social networking, recruitment campaigns were carried out using Oddfellows social media to engage this large group.

The Society is also developing its online International Membership proposition as well as continuing to develop relationships with affinity partners who will have a positive influence on our proposition.

In addition to this, marketing and recruitment support was given to:

- Local campaigns in 20 Branches
- Launch seven new social Branches
- Trial membership aimed at ages 18-30 year olds.

Facebook, Twitter, SMS and live film footage are all new channels of communication being used to help promote events, build online communities, recruit new members and generally publicise the Society's products and services. Developing and refining strategies for the effective use of social media will continue into 2012 and beyond.

Dedicated Officers have been working with Branches to improve accessibility and attractiveness of events to stimulate growth and help retention. During 2011, an average of 30 more events a month were being organised in Branches across the country with 58,823 attendances being recorded during the year, an increase of 3,236 on the previous year.

Training also continues to be one of the cornerstones of change, development and growth within the Society and to this end regular training days have been established twice a year. These workshops aim to expand the skills and knowledge of key workers in the Society. Eighteen workshops were organised in 2011 with over 100 members attending from across the country.

## **Activities outside scope of powers**

The Board of Directors considers neither the Society nor its Branches have carried out activities during the year outside the scope of their powers.

## **Financial Review of the Year**

The financial outcome for the year is detailed in the Income and Expenditure Accounts shown on page 23, with the Statement of Total Recognised Gains and Losses on page 24, and the Assets and Liabilities as at 31 December 2011 shown in the Balance Sheet on pages 25 and 26.

The Technical Account for Long Term Business on page 23 shows a transfer (to)/from the Fund for Future Appropriations of £(0.5m) (2010: (£1.0m)), a fluctuation of £0.5m.

The significant movements which have had a positive impact are as follows:

- £9.7m increase in earned premiums which is due to the full effect of the transfer of engagements of the Schoolteachers Friendly Society on 31 March 2011, the majority of this premium income being Child Trust Fund premiums invested under the Revenue Allocation Scheme;
- £1.1m increase in other technical provisions which has a direct relation to the increase in premium income; and
- £6.7m decrease in the total investment return when compared to 2010, due to market conditions.

The Non Technical Account shows the income and expenditure arising from the Society's business objectives as outlined on page 23 and produces an excess of expenditure over income of £0.7m (2010: £0.3m surplus).

The total investment return was a surplus of £3.7m (2010: £10.7m) of which £3.1m (2010: £9.4m) was attributed to Branches in the various internally operated unitised funds. The investment income attributable to Branches in 2011 fell slightly from 88% in 2010 to just under 84% in 2011.

# ■ Board of Directors Report

The Balance Sheet gross asset value has increased to £266.7m from £198.9m in 2010 which is an overall increase of £67.8m (34.1%), which of course in the main is due to the Transfer of Engagements of the Schoolteachers Friendly Society. Since the year end investment markets have continued to be volatile. The expectation for 2012 is for continued volatility. The Society continues to monitor its investments on a regular basis in order to assess the impact on the Society of the markets. Although the equity markets have seen some increase in value the movements demonstrate how uncertain the markets continue to be.

## **Liquidity Strategy**

The current economic climate shows no sign of improving throughout the next few years and even if it does then there will still be a long haul to more stable times. It is important therefore that we continue to monitor our investments including cash and maintain our balanced portfolio approach to all our areas of business ensuring that no area is left exposed to changes in any market movements in any one class of asset. This approach includes reviewing the spread of such assets, to maximise long-term investment returns whilst meeting forecast liquidity needs in the short term. The maturing profile of our assets are matched with our liabilities and in conjunction with Actuaries advice we adopt our investment model according to the needs of our insurance book. For our non insurance activities we are diversified into a number of funds which enable us to spread our risk.

## **Going concern**

The Board of Directors discussed the issue of the Society being a going concern at the January 2012 Board meeting. After due discussion the Board of Directors consider that the Society has adequate resources to continue in business for the foreseeable future and that for this reason it has continued to adopt the going concern basis in preparing the financial statements. As part of this discussion, future liquidity and cashflow requirements were considered as well as the Society's capital needs.

## **Supervision of Branches**

The Board of Directors has overall responsibility for the supervision of all Branches in addition to the direct responsibilities of the Branch Committees of Management themselves. The central and local systems of reporting continue to identify areas that require improvements to systems and these are rectified within appropriate time scales.

## **Member Relations**

The Board of Director's communication strategy for the whole Society aims to fulfil the following objectives:

1. To ensure that relevant information is given to all our \*key stakeholders in a timely and appropriate manner. This means our communications:
  - a) are clear, fair and not misleading;
  - b) use plain English;
  - c) aim to keep members informed;
  - d) provide sufficient information at the right time for key stakeholders to make informed decisions; and
  - e) fully utilise all available communication channels (eg email, fax, letter, telephone, website, member magazines).
2. To support open communication between the Society and its key stakeholders a range of publications and information will be made available on a regular basis – these will include annual statements, circulars, newsletters and other documents on the intranet and website (eg claims, complaints and enquiries).
3. To continuously monitor our communications to ensure best practice and to undertake an annual review to get feedback from members and policyholders. This will include distribution and analysis of customer surveys.
4. To review staff skills and experience on an annual basis to ensure adequate training is provided. This will mean the Society can continue to achieve its communications objectives.

Underpinning the Insurance Department's ongoing communications strategy (as outlined above) are the FSA's current rules and guidance (see Principles 6, 7 and 8) also E.1 of the Annotated UK Corporate Governance Code – see notes below:

\*1 Principle 6, 7 & 8: 'A firm must pay due regard to the interests of its customers and treat them fairly'. 'A firm must pay due regard to the information needs of its customers, and communicate information to them in a way which is clear, fair and not misleading'. 'A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client'.

\*2 Main Principle: 'There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place'.

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\*Key stakeholders include Branch Officers, members, policyholders, Board of Directors, Standing Committee members, staff and FSA.

# Board of Directors Report

## Complaints by Members

The Society aims to deliver the highest possible level of service to our members. If any member believes that we have failed this aim, they have recourse to our complaints procedure.

We have documented procedures for the handling and recording of complaints and deal with complaints with due care, ensure that they are fully investigated promptly and fairly. The Society's philosophy is that effective management of complaints is a key part of treating members fairly.

The following values are embedded in our culture and procedures:

- The provision of excellent member service;
- Treating all our members fairly and ensuring that all complaints receive fair consistent and prompt investigation and resolution;
- Valuing member feedback; and
- Gathering management information to ensure effective analysis to determine the cause of the complaint, with a commitment to continually review our working practices and procedures, thereby improving the services we offer.

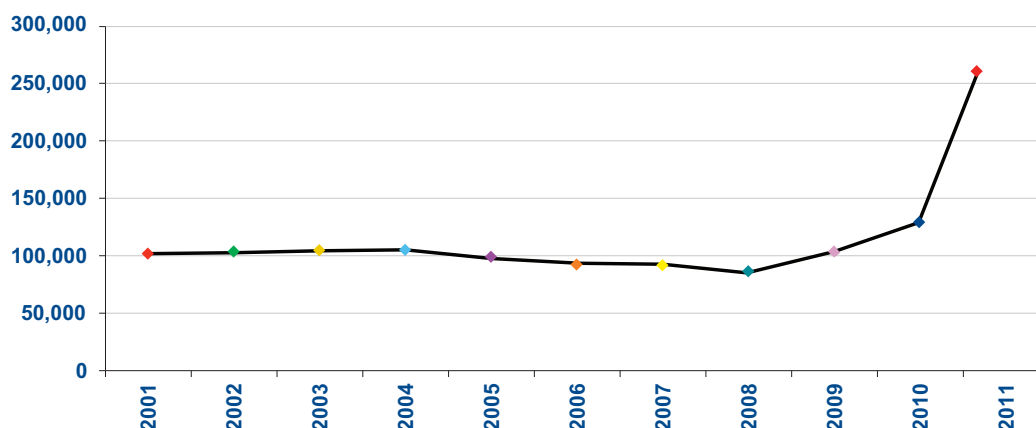
The Compliance Function, the Board of Director's Treating Customers Fairly Champion and the Insurance Committee regularly review the number and type of complaints received to monitor that complaints are properly dealt with and that corrective action has been taken to prevent recurrence.

In the unlikely event that a complaint cannot be resolved to the member's satisfaction, the member is always made aware of the option to appeal to the Financial Ombudsman Service (FOS).

## Number of Members

The Society had 257,935 members on 31 December 2011, of which 164,165 were junior members (160,674 being Child Trust Fund members).

**Total membership (including Policyholders)**



## Corporate Governance

The Board is accountable to the Society's members for the operation of the Society and good governance is fundamental to this responsibility. Its principal role is to focus on the Society's strategy and ensure that the necessary resources are in place for the Society to meet its objectives and that financial control and risk management procedures are robust. In particular, its role is to provide general direction to the organisation and to safeguard the interests of the members.

It is our policy to observe the provisions of the Annotated UK Corporate Governance Code for mutuals where appropriate for an organisation of our size, status and aspiration or to clearly explain why we feel any deviation from the Code is acceptable and necessary.

Board members have access to independent professional advice at the Society's expense, where they judge it necessary to discharge their responsibilities as Directors. The roles of the Chairman and Chief Executive are held by different people and are distinct in their purpose. The Chairman is responsible for leadership of the Board and ensuring the Board acts effectively. The Chief Executive Officer has overall responsibility for managing the Society and for implementing strategies and policies agreed by the Board.



# ■ Board of Directors Report

All Directors have access to the advice and services of the Secretary of the Order who is responsible for ensuring the Board Procedures are complied with. The Governance Committee advise the Board on governance matters. The Society operates a deputy system of voting, and its Rules do not allow for proxy voting at General Meetings.

As the Society is not an institutional shareholder, the sections of the Code relating to this do not apply.

The Executive Directors are permitted to serve as non Executive Directors elsewhere.

The level and structure of senior management remuneration is decided by the Chief Executive Officer and not the Remuneration Committee.

## **Nomination of Directors**

The Board of Directors nominate Executive Directors and the external Non Executive Directors, the Branches nominate member Non Executive Directors and the Governance Committee act as the Nomination Committee interviewing all new nominees.

Of the five Non Executive Directors on the Governance Committee which acts as the Nominations Committee, four are independent. This is chaired by a Non Executive Director who is not independent as per the definition.

As the Chairman is elected for a one year term, it is not felt appropriate to prepare job specifications. Appropriate training is however given in advance.

A resolution is put to members at each Annual General Meeting to appoint the whole Board. The Rules of the Society specifically prohibit canvassing by individuals with a view to them being elected onto the Board of Directors. The Curriculum Vitae (CV) of each member of the Board of Directors is printed on the following pages and also in the Agenda Book for the Annual General Meeting (AGM) sent to each Deputy at least 20 working days before the start of each AGM.

## **Your Board of Directors**

### **Charles Vaughan**

Chairman (Age 64)

Charles was elected to the Board of Directors at the 2008 AMC. After joining the Society in 1971 he became secretary of the Duke of Norfolk Lodge in the Wigan & Standish District. In 1988 he became Financial Secretary of the Heritage District Lodge, the newly created financial lodge. In 2000 he was appointed Provincial Corresponding Secretary of the East Lancashire District Lodge and in 2005 became Prov. CS of the newly created South East Lancashire District Lodge after the merger of the Wigan & Standish District and the East Lancashire District. In 1999 he became President of the Lancashire & Associate Districts Group Conference.

Charles retired from HJ Heinz after 34 years' service as a Production Planner after his election to the Board and served on the Audit Committee for the first year. The following two years he was appointed to serve on the Insurance Committee and also the Management Committee of the Manchester Unity Housing Association, a position he still holds. In 2010 Charles was appointed Deputy Grand Master and is currently serving as Grand Master of the Order.

### **Karen Stuart**

Deputy Chairman (Age 46)

Karen joined the Society in 1995 and has served her District Lodge as a member of the Management Committee for 14 years, being elected as Chairman of her Branch in 2001, and currently holding the post of Branch Trustee. She has served her Group Conference, being its President in 2004/05, and was elected to the Unity Benevolence Committee in 2005 serving as Chair for two years before being elected to the Board in May 2008. She has served as the Society's Treating Customers Fairly Champion for three years.

Karen is educated to degree level, and is undertaking post graduate study. Her interests include research into the history and traditions of the Society. She worked in sports entertainment, taking both participative and senior administrative roles.

# ■ Board of Directors Report

## **Alan Cole BSc Hons**

Immediate Past Chairman (Age 71)

Alan joined the Board as a Member elected Director in 2007, having previously served on the Unity Benevolence Committee. He is a second-generation member and was enrolled at birth. He first became active in a Juvenile Lodge in 1952 and after moving to the adult Lodge at age 16, he has progressed through the various offices of both his parent Lodge and other Lodges within his own District and is the longest serving Lodge Trustee in his own Lodge. He still holds the position of District Secretary and is also a secretary of a Social Lodge. Whilst at University, through his contacts with the local District, he enrolled in their CAMU course, passing both papers of the exam in the spring of 1960.

In his professional life he was an electronic design engineer and served for most of his 46 years of employment in the marine application field, which exhibits very stringent requirements for safety and reliability and also has a great deal of regulations to comply with. This attention to detail is equally applicable to his work on the Board. Now retired from this full-time employment he runs a small family investment company with his two daughters.

Alan has also been an active sportsman over the years, having represented his School, University, and the local Oddfellows team at football. He now contents himself to merely being a spectator whilst his grandsons play the game.

## **Philip J Howcroft BSc Hons FCCA, Dip IoD**

Chief Executive Officer of the Society (Age 50)

Philip joined the Oddfellows in 1988 taking up a role in the then General Office. Philip was then promoted to Branch Support Manager with responsibility for supporting Districts and Lodges. In 1998 Philip embarked upon concluding the Society's Strategic Review and implementing the Pathfinder concept.

In the year 2000 Philip was promoted to Chief Executive joining the Board of Directors in June 2000, representing the Society on its trade body for a number of years. Philip is a Director of other Oddfellows companies such as the Manchester Unity Housing Association, Friends of the Housing Association etc. As Chief Executive he has recently been instrumental in the transfers of engagements of other Friendly Societies and with the addition of the incoming Insurance Director, Philip is looking forward to being able to again work closely with the Lodges and Districts.

Philip has a BSc in Chemistry and Bio-chemistry from Salford University, is a member of the FCCA and during 2010 passed two IOD exams.

## **Jane Nelson FCCA FCMA, Dip IoD**

Secretary of the Order/Finance Director (Age 46)

Jane joined the Society in 1995 as Financial Controller and joined the Board of Directors in May 2000 after being appointed as Secretary of the Order. In October 2007 she was made Finance Director. Qualifying as an Accountant in 1991 she is a Fellow of both the Association of Chartered Certified Accountants as well as the Chartered Institute of Management Accountants. Prior to joining the Society, Jane worked in a variety of Finance roles in the industrial sector thus gaining a wide range of experiences. She has been a member of the Institute of Directors for 2 years and during 2011, studied for and took the exams for the Certificate level and Diploma level of the Chartered Director examinations, both of which she passed with distinction.

She has been involved with the Manchester Unity Housing Association and the MU Pension Scheme since 1995 and has served as Company Secretary to both these organisations since 1998. She served on the Board and as Treasurer of the Manchester Unity Credit Union from 2000 – 2008 now only retaining the post of Treasurer. Within the Society, Jane is an active member of the Stockport District serving as Prov GM in 2003 and again in 2010, and has served as Trustee of the District since November 2003.

# ■ Board of Directors Report

## **Roger Burley**

Trustee and Director (Age 67)

Following his initial training in the City of London, Roger gained extensive experience in management for both service and manufacturing industries. A second generation Oddfellow who was joined as a child, he became socially involved in his local Branch as a teenager and qualified as a Society auditor (CAMU honours) in 1964. Steady progress through all Branch offices followed, including twenty four years as a full time Prov CS (District Secretary).

After serving as Chairman of the Unity Investigation Committee he joined the Board in 1990. He was elected Trustee in 1996, the same year he became Grand Master (Chairman), presiding at the 1997 Brighton AMC (Annual General Meeting). Outside of the Oddfellows he is a keen sailor and served as an officer of the Frobisher Cruising Club for ten years, during which time he qualified as a Yachtmaster Instructor with the Royal Yachting Association, the national governing body for recreational boating.

## **Susan Doulton Smith**

Trustee and Director (Age 63)

Susan entered local government employment after 'A' levels and took the ONC in Public Administration working in the Welfare Department which subsequently became Social Services. She was a Cub Scout Leader, a member of the District Service Team and Education Secretary on the local Nalگو Branch as well as serving on the District Education Committee. She is the part-time Secretary of the Bedford Lodge.

Having joined the Bedford Lodge in 1962, Susan became involved in the Lodge and District from the mid 60's and has served on Lodge and District Management Committees, been Chairman of both Lodge and District as well as the Minor Degree Lodge and Provincial Lodge of Past Grands. District Meeting, Group Conference and AMC Deputy she also served on the Group Conference Executive for nine years and was President for one year and Secretary for one year. Elected to the Benevolence Committee for four years, followed by four years on the Investigation Committee, she was Chairman of the latter for one year. Elected to the Board of Directors in 1991, she was Grand Master in 1997/8 and has been a Unity Trustee for 13 years.

Susan is married with one grown up daughter and enjoys watching sport, seeing friends, reading and local history.

## **Andrew Porter**

Trustee and Director (Age 58)

Andrew joined the Board of Directors in 2000 and was appointed chairman in 2004. He has a wealth of experience with the Oddfellows at Branch level, having served as a Lodge Secretary for nine years and a District Secretary for 17 years, in addition to his experience as a Branch Chairman, Committee of Management member and Trustee, he has also had experience at Group Conference level and served on the Unity Benevolence Committee for five years.

Andrew has been a Unity Trustee since 2003, is currently Chairman of the Audit Committee and serves on the Commercial Board and the Remuneration Committee. In that time he has built up a wide knowledge with regards to investments and the Society Rules and Procedures having been part of the Sub Committee that re wrote the rule book and successfully presented our present Conformity Rules to the 2003 AMC.

## **George Lickess B Tech (Hons)**

Director (Age 63)

George joined the Board in 2009. He has extensive knowledge and experience of the Society's structure and operation. Since joining the Society in 1975 he has served in the highest positions in Lodge, District, and Group Conference. He is currently a Lodge and a District Trustee, for which he has served 12 years and 20 years respectively.

George served two years as Unity Special Arbitrator, then 2 years on the Benevolence Committee. As a Director he also serves on the Fraternal Board, Audit Committee, Governance Committee, Membership Working Group and the International Membership Working Group.

# ■ Board of Directors Report

Outside of the Society he worked, until 2009, as a Textile Technologist, with the last 26 years for Burberry Ltd. The work in a fast moving and changing environment required an investigating mind, application of knowledge, and positive decision making. Also relevant is his 13 years serving as Hon Treasurer with the Yorkshire Section of the Textile Institute (the Industry's Professional Body). He is now self-employed as a PAT (Portable Appliance Testing) tester to fit in with his Board duties.

## **Clive Tayler, FFA, FFTA, FIPFM, FIAB**

Director (Age 66)

Clive was enrolled into the Society by his grandfather as a junior member and after transferring to the adult Lodge, has held all the Lodge Officer positions on more than one occasion and is currently a Lodge and District Trustee, having been District Chairman in 1966. He holds both Lodge and District Merit Jewels. He has served on the Executive Committee of the Southern Group Conference for ten years and was President in 2008/9.

Clive spent a year on the Investigation Committee prior to joining the Board in 2010. Now semi-retired, he has had his own Accountancy practice for over 35 years. He is a member of both the Chartered Management Institute and institute of Directors and has been a member of Mensa for many years.

## **Maggi Winter**

Director (Age 67)

Maggi was joined by her Dad at the age of 5 and has been an "active" Oddfellow since the age of 13 when the local Juvenile Ritual Lodge was opened. She has just completing her third term as Prov GM having served 30 plus years on the District Management Committee, 10 of which as a Trustee. She is a Past President of the East Anglian Group Conference and served as Assistant Secretary for several years.

Maggi served on the Unity Benevolence Committee for 6 years also the Investigation Committee for a similar length of time and was an Arbitrator for two terms. She has also represented the Society at the NCFS and the AFS before being elected to the Board last year. In private life, she attended a private grammar school prior to going to Norwich School of Art which she left able to teach had she wanted to.

Instead she choose to run her own small but successful business in Bespoke Bridal and Evening wear for over 40 years and she also turned her husband's "hobby" of die cast models into a business saying 'if you can't beat them join them'. During this time, she served on the Committees of both the Guild of Professional Wedding Services (as Treasurer and Vice Chair) and the Federation of Small Businesses.

## **Stephen Code, M.B.A.**

Insurance Director (Age 51)

Steve joined the Board of Directors of the Society in March 2011 as Insurance Director having previously been Chief Executive and Secretary of the Schoolteachers Friendly Society. He has worked in the financial services industry and Friendly Societies Movement for over 34 years, half of which have been spent in various senior management positions.

He has worked both in the UK and Ireland and his management experience stretches across general management, strategic change, operations, programme management, sales and marketing. Steve achieved a Masters in Business Administration in 1998.

# ■ Board of Directors Report

## **Bill Connolly, ACII**

External Non-Executive Director (Age 55)

Bill joined the Board in May, 2007 as an external Non-Executive Director. He is the current Chairman of the Remuneration Committee and serves on the Insurance and Governance Committees. Bill spent all of his working life at Royal Liver Assurance. He was appointed Assistant Secretary in 1999 and was invited to join the Society's Executive Team at that time.

In 2003, he was appointed as Group Secretary and he also occupied the post of Secretary to all of Royal Liver's Subsidiary Companies and the Pension Trustee Companies. Bill became Royal Liver's Chief Executive in January, 2010 until he retired on 30 September, 2011 following Royal Liver's transfer of engagements to Royal London.

Bill is a former President of the Insurance Institute of Liverpool and is a member of its Management Council. He has also been involved at a senior level in the Association of Friendly Societies, the Association of Mutual Insurers and the Association of Financial Mutuals.

## **Martin Jackson, BA Econ**

External Non Executive Director (Age 55)

Martin has a Marketing, Commercial and Operations background in industries as diverse as Brewing, Retail, Media, Sports and Finance both in the UK and abroad. He has held senior and Board positions with companies that include Diageo, Allied Domecq, ITV, Talksport and UKCA. Currently running his own Sales and Marketing Consultancy (MRJ Media) he also holds NED positions with BUNAC, SCGB and Stretcheer as well as being a Member of the Institute of Directors.

Still an active Lacrosse player he represents England at 'Super Grand Masters' level and is 'offensive coach' for the Welsh National Mens squad.

# Board of Directors Report

## Board of Directors

During the year to 31 December 2011, eight Board meetings were held. The Board at 31 December 2011 consisted of three Executive Directors, nine member elected (Non Executive) Directors and two External Non Executive Directors. The size and composition of the Board is kept under review to ensure that there are sufficient skills and experience represented on the Board for the direction of the Society's activities. The Board is of the opinion that its composition is appropriate to the business.

The members of the Board of Directors during the financial year were:

### Non Executive

Charles Vaughan (Chairman)  
 Karen Stuart  
 Alan Cole  
 Roger Burley (Trustee)  
 Sue Doulton Smith (Trustee)  
 Andrew Porter (Trustee)  
 George Lickess  
 Clive Tayler  
 Maggi Winter (Appointed May 2011)  
 Dorothy Deacon (Retired May 2011)  
 Bill Connolly (External Non Executive Director)  
 Martin Jackson (External Non Executive Director)

### Executive

Philip Howcroft (Chief Executive Officer)  
 Jane Nelson (Secretary of the Order/Finance Director)  
 Steve Code (Insurance Director) (Appointed April 2011)

## Board Attendance

Attendance at 2011 Board Meetings and Committees:

	Main Board		Commercial Board		Fraternal Board		Audit Committee		Governance Committee		Insurance Committee		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Charles Vaughan	8	8		1	7	3>					9	5>		
Karen Stuart	8	8		1	7	7			7	7		1		
Alan Cole	8	8		1	7	3^*							4	3*
Philip Howcroft	8	8		3	7	7			7	5#	9	7		
Jane Nelson	8	8	8	8	7	7						5		
Roger Burley	8	8	8	8			5	3>			9	9		
Sue Doulton Smith	8	8	8	8					7	7	9	8~		
Andrew Porter	8	8	8	8			5	5					4	4
George Lickess	8	8		1	7	7	5	5	7	7				
Clive Tayler	8	8		1	7	7	5	5	7	3*	9	4*		
Maggi Winter	8	3#*			7	3#*	5	2*	7	3*				
Bill Connolly	8	5.5^							7	3^#	9	5^	4	4
Martin Jackson	8	7.5^												
Steve Code	8	5*		1				1		1	9	6*		
Dorothy Deacon	8	4>			7	3>							4	1>

^ Business # Hol ~ Funeral

\* Newly appointed Director to the Board and/or Committee

> Retired from Board or Committee May/June 2011

NB The Grand Master and Chief Executive Officer are ex-officio on all Committees and meetings attended have been included in the numbers

The Board has a number of Sub Committees and Working Groups that are formed to deal with specialist areas in more detail than would be possible at a Board meeting. Each Committee operates with defined Standing Orders and Terms of Reference. All Standing Orders and Terms of Reference are reviewed annually by the Board.

# ■ Board of Directors Report

## **Independence**

The Society defines that a Non Executive Director is independent provided that the individual:

- has not been on the Board of Directors for more than nine years and/or
- is not a member of the pension scheme.

As at 31 December 2011 there were eight Directors including the Chairman classed as independent.

Three Non Executive Directors have served longer than nine years and remain on the Board of Directors for their skill and experience.

The Senior Independent Director who was available to members for unresolved concerns during the year 2011 was Director Karen Stuart. In January 2012, Director George Lickess was appointed the Senior Independent Director for the calendar year 2012.

Determining whether or not there are relationships or circumstances that are likely to affect a Director's judgement or independence is delegated to the Secretary of the Order, who reviews the contents of the Related Party Transactions declarations as required by the Financial Reporting Standard No 8 (FRS8) completed by each Director. In addition, Directors are required to declare any interests they may have when discussions take place.

## **Induction Training and Evaluation of Directors**

In accordance with the Society's Training and Development Scheme for the Board, each member of the Board was evaluated by their peers on an individual basis before the end of 2011. During 2011, each member of the Board has undertaken continuing professional development appropriate for themselves. Full records are kept of the progress of the individual's training which is updated as appropriate. This therefore enables the Executive Directors to ensure that the Directors continually update their skills and knowledge that is required for them to fulfil their roles both on the Board and on Sub Committees.

Election is followed by a formalised tailored induction process on the Society's business and regulatory environment. All Non Executive Directors are required to update their skills and knowledge through meetings with the Executive of the Society, its Senior Management and relevant external courses, all of which is fully documented in the Training and Development plan. Any individual training requirements resulting from the evaluation process are documented and the necessary arrangements made. During their time as a Director each incumbent is assessed annually by all Directors by way of "Peer Evaluation" which highlights strengths and areas for development which can be appropriately addressed. In the months preceding Chairmanship each incumbent attends a Chairmanship course at the Institute of Directors to hone the skills they have developed during their time on the Board and prepare them for their year as Chairman of the Board.

The Training and Development Framework ensures that the training, development and knowledge standards are appropriate not only to demonstrate a level equal to the regulatory requirements and obligations, but also appropriate and suitable to meet the needs of Directors.

A key element of the Training and Development Framework is the requirement for all Directors to undertake the following e-learning modules on an annual basis:

- Senior Management Arrangements
- Approved Persons
- TCF & Complaints Handling
- Money Laundering and Fighting Financial Crime
- Fraud Prevention
- Data Protection Act
- Information Security
- Health and Safety

The evaluations of the members of the Board of Directors included team evaluations as well as the individual evaluation by peers. The team evaluation process included the Main Board, Commercial Board, Fraternal Board, Audit Committee and Insurance Committee, whilst the individual assessments were designed to ensure that each member was evaluated across all their duties and responsibilities as a Director of the Society. The results of the evaluations are taken into account when assessing the overall balance, effectiveness, appropriateness and competence of the Board.



# ■ Board of Directors Report

The Chairman meets each Non Executive Director after each evaluation to discuss the development needs of each individual. The evaluation of the Chairman is carried out by the Senior Independent Director. Given that the Chairman of the Board is elected for a one year term only, it is not thought necessary for the Non Executive Directors to meet annually without the Chairman being present in order to evaluate the Chairman's performance.

There were no occasions during 2011 where the non Executive Directors met without the presence of the Chairman.

## **Sub Boards, committees and working groups**

Sub Boards, committees and working groups are appointed where necessary with specific delegated responsibilities including the ability to pass resolutions of a non policy nature. The Chairman and Chief Executive are members of the Commercial Board, Fraternal Board and Insurance Committee by virtue of their office and ex-officio on all other Committees. Those appointed in 2011 were:

<b>Audit Committee:</b>	Andrew Porter	Trustee (Chairman)
	Roger Burley	Trustee (Retired June 2011)
	George Lickess	
	Clive Tayler	
	Maggi Winter	(Appointed June 2011)

In addition, John Farmer is a member of the Audit Committee based on his professional experience.

The Audit Committee is appointed annually by the Committee of Management and consists of at least three persons which may include Non Executive Directors who are members of the Society, or persons with relevant financial and audit experience.

The Chairman of the Committee of Management (Grand Master) may not be a member of the Audit Committee.

The Audit Committee appoints its own Chairman. In the absence of the Chairman at a quorate meeting, the members present should appoint one of their number to chair the meeting. No person may serve on the Audit Committee for more than nine years. Only members of the Committee have the right to attend meetings. However, other individuals (eg Chairman of the Committee of Management, Chief Executive, Finance Director, managers, Branch Auditor, Finance Department staff) may be invited to attend all or part of any meeting as and when appropriate. The external auditor will be invited to attend meetings on a regular basis.

The Audit Committee meets quarterly and otherwise as required.

The Audit Committee has responsibilities in the following areas:

### *Financial Reporting*

The Audit Committee monitors the integrity of the financial statements of the Society, including its Annual Report, reviewing significant financial reporting issues and judgements which they contain. The Committee also reviews the significant financial returns to regulators and any financial information contained in other documents.

The Committee reviews and challenges where necessary:

- the consistency of, and any changes to, accounting policies both on a year on year basis and across the Society;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Society has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- the clarity of disclosure in the Society's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as the operating and financial review and the corporate governance statements (insofar as they relate to the audit and risk management).
- The Committee reviews the annual financial statements of the pension funds where not reviewed by the Committee of Management.

Internal controls and risk management systems

The Audit Committee:

- keeps under review the effectiveness of the Society's internal controls and risk management systems; and
- reviews and approves the statements to be included in the annual report concerning internal controls and risk management (Rule 3.1 Report).



# ■ Board of Directors Report

## *Internal audit function*

The Audit Committee monitors and reviews the effectiveness of the Internal Audit function in the context of the Society's overall risk management system.

- It approves the appointment and removal of the Head of Internal Audit.
- It considers and approves the remit of the Internal Audit function. In its review of the work of the function:
- it ensures that the Head of Internal Audit has direct access to the Audit Committee and is accountable to that committee; it also ensures that the Head of Internal Audit has direct access to the Chairman of the Committee of Management;
- it reviews and assesses the annual internal audit work plans for Unity Office and the Branches;
- it reviews and monitors Branches' and management's responsiveness to the findings and recommendations of the internal auditor;
- it meets with the Head of Internal Audit, at least once a year, without the presence of management, to discuss their remit and any issues arising from the internal audits carried out;
- it ensures the function has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; the Committee also ensures the function has adequate standing and is free from management or other restrictions; and
- it reviews promptly all reports on the Society from the internal auditors.

## *External audit*

The Audit Committee considers and makes recommendations to the Committee of Management for subsequent approval at the AMC, in relation to the appointment, re-appointment and removal of the Society's external auditor.

The Committee oversees the relationship with the external auditor including but not limited to:

- assessing the role and effectiveness of the external auditor (qualification, expertise, resources, independence);
- overseeing the selection process of a new external auditor and if an auditor resigns, investigating the issues leading to this and determining any subsequent action;
- approving terms of engagement and remuneration;
- ensuring independence for both audit and non audit work;
- The Committee meets regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee meets the external auditor at least once a year, without management being present to discuss their remit and any issues arising from the audit.

The Committee reviews and approves the annual audit plan and reviews the findings of the audit with the external auditor. It also reviews the effectiveness of the audit.

## *Risk*

Taking into account the Society's current business model, scale and complexity the FSA has indicated that the society would not be required to set up a separate Risk Committee or appoint a Chief Risk Officer, these responsibilities are included within a firm's existing corporate governance model with the responsibilities for the Society's risk management framework being incorporated into the terms of reference for the Audit Committee. Therefore the Audit Committee has taken on responsibility for oversight of the Society's risk register and framework and the Chair of the Audit Committee takes on the role of Risk Champion.

## *Whistle blowing*

The Audit Committee reviews arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. It ensures that the arrangements provide for the proportionate and independent investigation of such matters and for appropriate follow-up action.

Five meetings of the Audit Committee were held during the year. Karen Hain, representing the Internal Auditors, was present at each meeting and representatives of the External Auditor attended as required at three of those meetings. In addition, the Finance Director and Branch Auditor attended as required.

The Unity Office Internal Audit service is provided by Moore and Smalley LLP. A Branch Auditor is employed to undertake the internal audit work at Branches. The Internal Audit Department is responsible for reviewing the Society's systems and controls in addition to monitoring the Society's exposure to risk. The Audit Committee continually monitor the work and results of the Internal Audit Department.

The internal audit needs assessment has been reviewed and amended for changes in risk factors, and following an assessment of the results of the audit work already undertaken. The audit need has been taken into account when developing the internal audit strategy, strategic plan and annual plan of work. All work follows a risk based systems audit approach. A similar process has been followed for planning the work of the Branch Auditor.

# Board of Directors Report

The Audit Committee have performed an annual review of the work of the Internal Audit Department, and a recommendation for the continued appointment of Moore and Smalley LLP will be made to the Board.

In addition to reviewing and monitoring the External Auditor's independence, objectivity and the effectiveness of the audit process, the Audit Committee has undertaken a review of Auditor effectiveness in line with the requirements of the Code. The Committee is satisfied that their non-audit service provision is work that they are best suited to perform, does not involve the audit of their own firm's work and will not involve them making management decisions for, or acting as advocate for the Society.

During the year six departments in Unity office were audited and each department, where recommendations to changes in their procedure were made, were revisited. There was one issues of a high grade recommendation covering one department, which arose in October and at the end of the year was in the process of being dealt with.

There were thirty three new Branch audits in 2011, plus six re visits, of the thirty three new audits seven require a re-visit due to the nature of the recommendations made and to ensure that the original recommendations had been complied with.

In general the top five issues from all the Branch audits were:

- health and safety issues – PAT testing of electrical equipment;
- bank reconciliations not being countersigned;
- original payment documents not countersigned by cheque signatory;
- outstanding national members contributions over six months old; and
- copy of bank mandate not on file.

The Audit Committee is in a position to take action at any time if it believes that it is necessary, including reporting to the Board and the Annual Movable Conference. There were no exceptions that the Committee consider should have been reported.

## **Branch Remuneration Working Group:**

Karen Stuart	Deputy Grand Master (Chairman)
Alan Cole	IPGM (Appointed June 2011)
Jane Nelson	Secretary of the Order/Finance Director
Roger Burley	Trustee
Charles Vaughan	(Retired June 2011)

## **Commercial Board:**

Sue Doulton Smith	Trustee (Chairman)
Roger Burley	Trustee
Andrew Porter	Trustee
Jane Nelson	Finance Director
Ian Ditchfield	Property Manager

The responsibility of the Commercial Board is to pass resolutions of a non-policy nature to ensure that:

- Unity Office delivers a high quality customer service to Branches, members and prospective members.
- Unity Office and Branches plan development and budget accordingly for investment in the future, spending capital when appropriate.
- Our structure and culture encourage member and staff involvement in the running and development of the Society.

In achieving this, the Commercial Board is responsible for the tactical application of strategy and implementation of policy with respect to:

- Finance
- Investments
- Legislation
- Office Administration
- Society Rules and Procedures

The Commercial Board are also responsible for the investments of the Society and as such appoint Investment Managers and meet with them on a quarterly basis to challenge and discuss their performance. The Strategy for the investments of the Society is determined in conjunction with advice from the Actuaries as and when appropriate and for the Long Term Business investments this also includes consultation with the Insurance Committee. The role of the Commercial Board is therefore to act as the Investment Committee.

# ■ Board of Directors Report

<b>Fraternal Board:</b>	Karen Stuart	Deputy Grand Master (Chairman)
	Jane Nelson	Secretary of the Order
	Alan Cole	(Appointed June 2011)
	George Lickess	
	Clive Tayler	
	Maggi Winter	(Appointed June 2011)
	Charles Vaughan	(Retired June 2011)
Dorothy Deacon	(Retired June 2011)	

The Fraternal Board is appointed annually by the Committee of Management and consists of a minimum of four Non Executive Directors and one Executive Director. A senior manager may be appointed if required. Its Chairman is nominated by the Chairman of the Committee of Management (usually the Grand Master) and approved by the Committee.

The Chief Executive and Grand Master are members by virtue of their office and have voting rights. A quorum consists of three Non Executive Directors and one Executive Director.

The Fraternal Board has access to the Actuary, Auditor, Solicitors and any other advisors approved by the Committee of Management as appropriate.

The Fraternal Board is responsible for the tactical application of strategy and implementation of policy with respect to matters listed below:

- Administration of goods
- Administration and supervision of Branches including Branch financial statements, Branch special rules, probationary reports on newly appointed Branch Secretaries, amalgamations of Branches and transfers of engagements, transfers of funds, variations of Lodge Additional Benefits.
- Benevolence – including Distress Grants, Educational Awards, H A Andrews Memorial Fund, Legal Aid Scheme, Convalescent Home Benefit
- Recruitment and retention
- Branch delivery of social and care
- Branch training
- Public Relations
- Group Conferences
- Society's Magazine
- Traditions of the Society
- Oddfellows Brass

The Fraternal Board is also responsible for the passing of resolutions in furtherance of the aims and directives of the Society's strategy and in accordance with the policy of the Committee of Management which will receive and approve its minutes.

<b>Governance Committee:</b>	Sue Doulton Smith	Trustee (Chairman)
	Karen Stuart	Deputy Grand Master
	George Lickess	Director
	Maggi Winter	Director (Appointed June 2011)
	Bill Connolly	External Non Exec Director

It is the Society's policy to follow the principles of the Annotated UK Corporate Governance Code for Mutual Insurers. It is the intention to observe the Code wherever appropriate for an organisation of our size and status or to clearly explain why we feel any deviation from the Code is acceptable or necessary.

The Code places emphasis on the independence of Directors but the Board believe that the member Directors from within the Society who have specialist knowledge of our culture, Rules and Branches provide added value and a wealth of experience, and represents an appropriate cross-section of the Society's membership.

# Board of Directors Report

<b>Insurance Committee:</b>	Roger Burley	Trustee (Chairman)
	Steve Code	Insurance Director
	Sue Doulton Smith	Trustee
	Clive Taylor	Non Executive Director
	Bill Connolly	External Non Executive Director
	Richard Gough	FCIS MBCS
	Colin Nugent	ACII
	Andrew Spencer	Cert Ed DASE

The members of the Insurance Committee as at the 31 December 2011 are as stated above.

The Insurance Committee is accountable to the Board of Directors for monitoring, controlling and directing the business affairs of the Society in relation to each of the Society's Long Term Business Funds, subject to matters reserved to the Board of Directors or delegated to the Commercial Board by the Board of Directors. The Insurance Committee reviews and reports back on the following matters:

- Strategy and Management of the Society's Long Term Business Funds including:
  - Actuarial Valuation
  - Reserves and Allocation
  - Free Assets
  - Bonus Recommendations
- Operational Management of the Long Term Business Funds including:
  - Treating Customers Fairly (TCF)
  - Investment Performance
  - Risk Management relating to the conduct of the Society's Insurance Business
  - Compliance and Prevention of Financial Crime

The Committee receives written and/or verbal reports from the following:

- Audit Committee
- Commercial Board
- Compliance Function
- Insurance Director
- Finance Director
- Insurance Manager and/or other Senior Management
- Society's Actuaries

In March 2011 the Society accepted the transfer of engagements of the Schoolteachers Friendly Society. As part of the transfer, the Chief Executive of the Schoolteachers was appointed to the executive role of Insurance Director. Work to prepare for the Solvency II directive has continued throughout 2011 although full implementation is now expected to be deferred until 1 January 2014. The Society has participated in the FSA's industry wide With-Profits review and the Committee will consider the FSA's findings which are expected to be published in the first quarter of 2012. All recommendations for financial provisions, appropriation of surplus and bonus rates were accepted by the Board of Directors.

<b>Membership Working Group:</b>	Alan Cole	IPGM (Chairman) (Appointed June 2011)
	Philip Howcroft	Chief Executive Officer
	Andrew Porter	Trustee
	George Lickess	
	Charles Vaughan	(Retired June 2011)

<b>Meritorious Service Award Working Group:</b>	Jane Nelson	Secretary of the Order/Finance Director
	Andrew Porter	Trustee

<b>Remuneration Committee:</b>	Bill Connolly	External Non Executive Director (Chairman)
	Andrew Porter	Trustee
	Alan Cole	(Appointed June 2011)
	Dorothy Deacon	(Retired June 2011)

# Board of Directors Report

The Remuneration Committee is responsible for:

- Determining and agreeing with the Board the framework or broad policy for remuneration of Executive Directors.
- Determining targets for any performance-related pay schemes operated by the Society.
- Fulfilling duties as laid down by the Directors' Remuneration Report Regulations 2002.

The Committee takes advice from independent consultants and the Chief Executive Officer.

The Chief Executive Officer is invited to attend meetings to participate in the consideration of Executives' remuneration and associated matters but he is excluded from detailed discussions relating to his own remuneration. The Committee then makes recommendations to the Board of Directors regarding the basis of the Executive Directors' remuneration.

This is not required for Member Elected Non Executive Directors and the External Non Executive Directors as they receive no remuneration.

As has become the customary practice, an independent external consultancy was engaged to benchmark the remuneration of the Executive Directors. The Remuneration Committee reported last year that, in the light of the increasing focus (both internally and externally) on the Society's long term insurance business, it was considered that benchmarking solely against the Charities Sector was no longer appropriate. Consequently, it was decided to adopt a hybrid solution derived from a combination of the Croner Reward Charities Salary Survey and a Private Sector Survey for small organisations, split 60% and 40% respectively. The 60% - 40% split has been maintained for 2011. However, the Remuneration Committee continues to keep this matter under review and it may be appropriate to make further changes in this regard in the future.

Following the completion of the transfer of engagements of the Schoolteachers Friendly Society on 31st March, 2011 Steve Code was appointed as the Society's Insurance Director. His Terms and Conditions of employment are protected under Transfer of Undertakings Protection of Employment (TUPE) Regulations and the details shown in the tables later in this Report reflect the remuneration arrangements and pension entitlements that were in place for Steve at Schoolteachers Friendly Society. These have been carried forward for his employment with our Society under the terms of the TUPE Regulations.

The Remuneration Committee is undertaking a review of Steve Code's performance and remuneration arrangements in conjunction with him and the Chief Executive Officer. We will report the outcome to the Board of Directors in the early part of 2012 and details will, of course, be made available in the Annual Report for the year ending 31 December, 2012.

Annual performance reviews of the Executive Directors are undertaken by the Remuneration Committee who are assisted by the Chief Executive Officer for those Directors who report to him, based on the Executive Directors' objectives derived from the Society's Strategic Plan.

Benefits currently offered are private medical insurance and a company car or car allowance.

The Executive Directors have the following notice periods:

Chief Executive Officer	13 weeks
Secretary of the Order/Finance Director	13 weeks
Insurance Director	52 weeks (under TUPE regulations)

The Remuneration Committee reviews Executive Directors' remuneration annually. It considers it is in the Members' interests for remuneration packages to be competitive in order to attract, retain and motivate people of the required calibre. A mixture of the two Surveys mentioned above has been used to benchmark the total remuneration for the Executive Directors. The details of the Executive Directors' remuneration are set out below.

	Salary	Pension Costs	Taxable Benefits	Total
Chief Executive Officer	£86,272	£30,583	£9,822	£126,677
Secretary of the Order/Finance Director	£76,514	£27,490	£8,270	£112,274
Insurance Director*	£64,162	£11,754	£5,599	£81,515
Total	£226,948	£69,827	£23,691	£320,466

\*Insurance Director covers the period 1 April to 31 December 2011

# ■ Board of Directors Report

## Pension entitlements

The Executive Directors are members of the Society's Pension Scheme which is a defined benefit scheme. The table below sets out the disclosures of these benefits in accordance with the Directors' Remuneration Report Regulations 2002.

Position	Accrued pension 31.12.11	Increase in accrued pension during the year	Increase in accrued pension during the year (net of inflation)	Transfer value of accrued pension at 31.12.10	Change in transfer value over the year net of directors' contributions	Transfer value of accrued pension at 31.12.11
Chief Executive Officer	£43,619	£4,868	£3,008	£472,883	£156,723	£638,304
Secretary of the Order/Finance Director	£30,684	£3,365	£2,054	£299,848	£87,209	£395,203
Insurance Director	£289	£289	£289	-	£1,212	£3,053

### Notes:

1. All transfer values include the value of directors' AVC benefits.
2. The change in the transfer values over the year includes an element attributable to the change in market conditions over the period. For Mr P Howcroft, of the £156,723 change in transfer value over the year net of directors' contributions £78,670 was attributable to the change in market conditions. For Mrs C J Nelson the change attributable to market conditions was £42,801, compared with an overall change net of directors' contributions of £87,209.
3. The accrued pensions are the deferred pension amounts which the directors would be entitled to from normal retirement age if they left service at 31 December 2011.
4. The transfer values have been calculated in accordance with the Pensions Regulator's 'Transfer Values' guidance.
5. The Insurance Director joined the Pension Scheme on 1 October 2011.

### Solvency II

#### Working Group:

Jane Nelson	(Finance Director)
Steve Code	(Insurance Director)
Colin Nugent	(Specialist Advisor - Insurance Committee)

### Statement of Solvency

The Board of Directors considers that the value of the assets of the Society and its Branches at the end of the year together with future income significantly exceeds future liabilities and operating expenses and is capable of providing adequate income to sustain the reasonable expectations of the members.

The Board of Directors confirms that the Society had, at the end of the financial year, the required margin of solvency as prescribed in Chapter 4 of the Interim Prudential Sourcebook for Friendly Societies made by the Financial Services Markets Act 2000 for each class of relevant business.

#### Solvency II

The Solvency II regulations were initiated by the European Commission in 2000 to implement change to the current European insurance solvency framework. Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. The Directive was ratified by the European Parliament during 2009. Compliance with the Regulations is required during 2013 with full implementation being effective from 1 January 2014. Solvency II is intended to produce a more consistent standard for measuring the solvency of insurers across the European region. It is based on a three pillar approach which should result in capital requirements that are more reflective of the risks being run by insurers.



# ■ Board of Directors Report

The legislation is far reaching in that it does not just look at the financial numbers but also looks at the business model - its risk processes, its approach to governance across the organisation, data quality, management information and documentation of policies and procedures.

To address this new directive, the Society has initiated a project aimed at understanding the requirements, how they may impact on the organisation, as it shapes its vision, and then identify any gaps in our current operations and processes, resulting in an implementation plan to close those gaps.

In preparing for Solvency II implementation the Society has undertaken the following steps:

- 1) *Introduction of a Solvency II Working Group consisting of:*
  - Insurance Director
  - Finance Director
  - A Representative from the Insurance Committee
- 2) *Terms of Reference:*
  - This has been agreed with the Board of Directors and the Insurance Committee and identifies the objectives, scope, resources, roles and responsibilities and key milestones within the project.
- 3) *Gap Analysis:*

This identifies what work needs to be done to ensure compliance with the Solvency II requirements and splits the business functions into the following categories:

  - Administrative/Management Body, Actuarial, Finance/Investment, Risk management, Tax, Legal, Compliance, Internal audit, Internal control and Outsourcing
- 4) *Project Plans:*
  - This has been produced for each of the workstreams and sets out the work and timescales needed to be able to meet the Solvency II requirements.
- 5) *QIS5 (Fifth Quantitative Impact Study)*

This was undertaken for the Society in October 2010 to enable an assessment of the practicability, implications and possible impact of specified approaches to the Society's capital position using the parameters set out under Solvency II. QIS5 was a key milestone in the road towards Solvency II. The results from QIS5 provided the Society with valuable input to help refine the calibration of the Society's Solvency Capital Requirement under the standard formula, as well as the requirements for technical provisions.
- 6) *Communication with the Financial Services Authority (FSA)*

As part of their supervisory responsibilities the FSA are in periodic communication with all firms to assess their progress towards achieving the Solvency II requirements within the required timescales. The Society has an open dialogue with the FSA on the progress that is being made as we work towards full implementation by the 1 January 2014.

## **Conflicts of Interest**

The Society's code of conduct requires any member to declare any potential or actual conflict of interest. In the event of a conflict of interest the member must disclose to the Society any benefit they receive from the transaction.

This applies whether or not the Society sets aside the transaction. But the member does not have to account for the benefit if he is allowed to have an interest or duty by the rules of the Society and the interest or duty has been disclosed to and approved by the Board of Directors.

## **Transfers of Engagements**

During 2011 there was one transfer of engagements within the Society whereby a District Lodge transferred to another District Lodge.

The Society's current strategy is to grow its Long Term Business (LTB) by continuing to seek transfer of engagements of unincorporated friendly societies of a similar or smaller size. The Society remains open to positive consideration for inward transfer of assets and liabilities from other suitable societies and resources in terms of Insurance personnel will continue to be reviewed accordingly.

# ■ Board of Directors Report

On 31 March 2011, the Schoolteachers Friendly Society transferred its engagements into the Society. This transfer of business increased the gross assets of the Society by £61m and increased the membership by 91,541 of whom 88,919 are CTF policyholders. As at 31 December 2011, the equivalent numbers were 107,094 members of whom 104,659 were CTF policyholders.

## **Charitable and Political Donations**

The H A Andrews Memorial Fund continues to demonstrate its support for medical research projects with support for Spinal Research UK. In 2011 the Oddfellows donated £30,075 which is the second of three agreed annual donations totaling £91,024. The funds are helping the charity to undertake pioneering research into a phenomenon called plasticity. It is hoped that this research will lead to therapies that will restore movement and feeling and transform the lives of paralysed people.

Two other donations were made in support of two members who undertook a phenomenal challenge in 2011 where Past Grand Master Peter Needham and his daughter Claire from the Vale of York District took part in the Clipper Round the World Yacht race to raise money for charity. The race was split into 10 legs with Peter completing his 3,390 mile leg from Rio de Janeiro to Cape Town and Claire finishing the third leg of 4,750 miles from Cape Town to Western Australia. The Oddfellows donated £500 each to their charities which were Barnardo's and Sailability.

The Society does not make any political donations or sponsor any political activities.

## **Liability Insurance**

The Board of Directors continues to effect Directors and Officers liability insurance on the Directors and executive management as permitted by the Friendly Societies Act 1992.

## **Independence of External Auditor**

During the prior year Deloitte LLP were appointed auditors following a competitive tendering process. The audit committee is responsible for monitoring the relationship between the Society and the external auditor, and as part of this process the committee considers the external auditor effectiveness. Where the audit partner has been auditing the Society for more than 10 years the Auditor considers whether there are any independence issues surrounding long association. There are no contractual obligations restricting the Society's choice of external auditor.

Deloitte LLP and its associates have provided some non-audit services during the year, primarily in the provision of taxation, advice and in the prior year this also included due diligence on transfers of engagements. In order to ensure that auditor objectivity and independence are safeguarded, the following procedures are in place:

### *Audit related services*

This is work that the external Auditor performs in its capacity as Auditor, where the nature of the work is closely allied to that on the audit of the annual financial statements. Accordingly, this work will be undertaken by the external Auditor unless unusual circumstances apply.

### *Tax advice*

The tax department of Deloitte LLP will be used on all tax matters relating to the Society, unless unusual circumstances apply when advice will be put out to tender.

### *General advice*

The external Auditor will be invited to tender, provided that both parties are satisfied that the nature of the contract will not present a threat to the independence of the Auditor.

These safeguards have been approved by the Audit Committee and it is intended that they will be reviewed when required in the light of internal developments or of changes in the external circumstances of the Society.

The Auditor reports to both the Directors and the Audit Committee with regard to compliance with professional and regulatory requirements and best practice.

Details of the fees paid to the external Auditor, and its associates, for both audit and non-audit services during the year are provided in Note 18 to the financial statements (on page 37).

The above report was approved by the Board of Directors and signed on its behalf by:

C J Nelson  
(Secretary of the Order)

27 March 2012



# Independent Auditor Report

We have audited the financial statements of the Independent Order of Order of Odd Fellows Manchester Unity Society for the year ended 31 December 2011 which comprise the Income and Expenditure Accounts, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 24. 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 or 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 Directors and auditor**

As explained more fully in the Responsibilities Statement, the Board of Directors is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards 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 Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:

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

## **Opinion on other matters prescribed by the Friendly Societies Act 1992**

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

Matters on which we are required to report by exception

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

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

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the 8 provisions of the Annotated UK Corporate Governance Code issued by the Association of Financial Mutuals.

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Manchester, United Kingdom  
27 March 2012

# Income and Expenditure Accounts

<b>TECHNICAL ACCOUNT: Long Term Business</b>	<b>Note</b>	<b>Years ended</b>	
		<b>31/12/2011 £'000</b>	<b>31/12/2010 £'000</b>
Earned premiums, net of reinsurance	<b>1</b>	16,725	7,039
Investment income	<b>14</b>	4,993	3,128
Gains on realisation of investments		41	230
Movement in unrealised (losses) and gains on linked investments		( 4,399 )	583
Movement in unrealised (losses) and gains on non linked investments		( 393 )	3,005
Claims incurred		( 6,537 )	( 6,240 )
Distributions to Policyholders		( 628 )	-
Change in other technical provisions	<b>15</b>	( 6,669 )	( 5,533 )
New declared bonuses	<b>20c</b>	( 680 )	( 218 )
Net operating expenses		( 1,784 )	( 1,026 )
Investment expenses and charges		( 185 )	( 116 )
Other technical income		43	100
Transfer (to)/from Funds for Future Appropriations		( 527 )	( 952 )
Balance on Long Term Business Technical Account		<u>-</u>	<u>-</u>
<b>NON TECHNICAL ACCOUNT</b>			
Investment income	<b>14</b>	4,987	4,608
Gains on realisation of investments		92	2,006
Movement in unrealised (losses) and gains on investments		( 1,424 )	4,090
Annual lodge levy		1,943	2,138
Investment expenses and charges		( 154 )	( 137 )
Other income		483	402
Investment return to investing branches	<b>16</b>	( 3,064 )	( 9,382 )
Net operating expenses		( 3,317 )	( 3,644 )
Non-contractual benefits		( 442 )	( 465 )
Pension scheme benefits	<b>23</b>	237	191
Transfer to the reserves provided for by the rules and other specific purposes	<b>12</b>	( 61 )	531
(Deficit)/Excess of Income over expenditure	<b>13</b>	<u>( 720 )</u>	<u>338</u>

All the amounts above are in respect of continuing operations.

# Statement of Total Recognised Gains and Losses

	Note	Years ended	
		31/12/2011 £'000	31/12/2010 £'000
(Deficit)/Surplus on Non technical account		( 720 )	338
Reserves provided for, by the rules and other specific purposes	<b>12</b>	61	( 531 )
Pension scheme actuarial (losses)/gains	<b>23</b>	( 965 )	99
Total recognised losses for the year		<u>( 1,624 )</u>	<u>( 94 )</u>

# Balance Sheet

		As at	
	Note	31/12/2011 £'000	31/12/2010 £'000
<b>ASSETS</b>			
<b>Investments</b>			
Land and buildings	<b>5</b>	32,784	32,109
Other financial investments			
Shares and other variable yield securities	<b>6</b>	43,071	45,339
Debt and other fixed income securities	<b>7</b>	66,251	59,749
Loans secured by mortgage	<b>8</b>	382	410
<b>Assets held to cover linked liabilities</b>	<b>9</b>	98,451	42,239
<b>Reinsurers share of technical provisions</b>			
Long term business provision	<b>20c</b>	30	25
<b>Debtors due within one year</b>			
Debtors arising out of direct insurance operations			-
Other debtors	<b>10</b>	984	770
<b>Other assets</b>			
Tangible assets	<b>11</b>	289	442
Stocks		40	83
Other cash at banks, building societies and in hand		23,320	16,024
<b>Prepayments and accrued income</b>			
Accrued income		509	598
Deferred acquisition costs		243	300
Prepayments		359	288
Pension scheme asset	<b>23</b>	-	469
		266,713	198,845

## ■ Balance Sheet

		<b>As at</b>	
	<b>Note</b>	<b>31/12/2011</b>	<b>31/12/2010</b>
		<b>£'000</b>	<b>£'000</b>
<b>LIABILITIES</b>			
<b>Reserves</b>			
Reserves provided for, by the rules and other specific purposes	<b>12</b>	2,368	2,307
<b>Fund for future appropriations</b>	<b>13</b>	10,620	11,778
<b>Technical provisions</b>			
Long term business provision	<b>20c</b>	54,949	43,038
Claims outstanding		494	525
Provision for unearned premiums		75	76
<b>Technical provisions for linked liabilities</b>	<b>20c</b>	95,979	40,268
<b>Liabilities to investing branches</b>		99,644	99,179
<b>Creditors and accruals due within one year</b>		1,701	1,073
<b>Deferred income</b>		624	601
<b>Pension Scheme Liability</b>	<b>23</b>	259	-
		266,713	198,845

These financial statements were approved by the Board of Directors on 27 March 2012 and were signed on its behalf by:-

**C J Nelson (Secretary of the Order)**

# ■ Notes to the Financial Statements

## 1 ACCOUNTING POLICIES

These financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies which have been applied consistently in the current and preceding year are as follows:-

### **Basis of accounting**

The financial statements have been prepared on the current value basis of accounting under the rules set out in Schedule 6, Part III of The Friendly Societies (Accounts and Related Provisions) Regulations 1994 No. 1983, and with the Association of British Insurers' Revised Statement of Recommended Practice: "Accounting for Insurance Business" issued in December 2005 and revised in December 2006.

### **Earned premiums**

Premiums earned are accounted for on an accruals basis. All premiums arise from Long Term Business in the UK. Revenue from Child Trust Fund (CTF) is recognised on a gross basis, equal to the premiums received. A corresponding expense is recognised reflecting the movement in the unit-linked liabilities owed to policyholders. Commission attributable to the management of funds is recognised on an accruals basis.

### **Claims incurred and claims outstanding**

All valid claims and benefits notified in respect of 2011 are included in the financial statements whether or not they have been settled. All claims notified but not settled as at 31 December 2011 are included within claims outstanding on the Balance Sheet. In addition the costs of administering the claims paid have been included in the claims incurred figure in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 No. 1983 Schedule 1, Part III.

### **Investment income**

Investment income is included on an accruals basis. Dividends are included by reference to ex dividend dates. Income on fixed interest investments is adjusted for purchased accrued interest.

### **Realised gains and losses on investments**

Realised gains and losses on investments, other than unit trusts held in the long term business fund, are calculated as the difference between net sales proceeds and the original cost and the previous balance sheet valuation. Realised gains and losses on unit trusts held in the long term business fund are calculated as the difference between net sales proceeds and the aggregate of additions at cost and the previous balance sheet valuation.

### **Unrealised gains and losses on investments**

Unrealised gains and losses on investments, other than unit trusts held in the long term business fund, are calculated as the difference between the valuation of investments at the balance sheet date and the original cost. Unrealised gains and losses on unit trusts held in the long term business fund are calculated as the difference between the valuation at the balance sheet date and the aggregate of additions at cost and the previous balance sheet valuation. All movements in unrealised gains and losses on investments arising in the year are shown in the respective income and expenditure accounts.

### **Leases**

Payments under operating leases are charged to the income and expenditure accounts equally over the lease term.

### **Investments**

Investments are stated in the financial statements at market value (bid price). Information on all valuations is given in notes 5, 6, 7 and 9.

# ■ Notes to the Financial Statements

## **Fixed assets and depreciation**

Tangible fixed assets are depreciated by equal annual instalments over their expected useful economic lives as follows:

Leasehold property improvements	5 years
Motor vehicles	4 years (after residual value allowance)
Office equipment	4 years
Central office computer equipment	3 years
Branch computer equipment	1 year

## **Taxation**

As a registered Friendly Society only part of the long term business is subject to corporation tax.

No provision in this respect is included for 2011 as interest and capital gains arising during the year are not expected to exceed allowable management expenses.

## **Deferred tax**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are only recognised when it is considered they are more than likely to be recovered.

## **Fund valuation**

The assets and liabilities of the Society were last valued as part of the long term business annual investigation as at 31 December 2011 pursuant to the requirements of the Financial Services Authority's Interim Prudential sourcebook for Friendly Societies and a copy of the valuation may be inspected at the Registered Office of the Society.

Actuaries reports on the appropriate assets and liabilities of all long term insurance funds of the Society were last made on 31 December 2011, and copies of these reports may also be inspected at the Registered Office.

## **Long term business provision**

The long term business provision is determined by the Society's Appropriate Actuary following the actuarial valuation. It is calculated on a basis to comply with the reporting requirements of the FSA Handbook (under IPRU-FSOC) and the Friendly Societies Act 1992. In broad terms the calculation uses a net premium valuation method to assess the amount of mathematical reserves. As such it includes explicit provision for regular bonuses declared at 31 December 2011, and regular bonuses declared as a result of the valuation. Wherever possible, implicit allowance is made for future bonuses by a margin in the valuation rate of interest. No provision is made for terminal bonuses as these are declared at the discretion of the Board.

The cost of any new bonus (declared as a result of the valuation) is shown separately in the revenue account. This value has been assessed using the same methodology and assumptions as the calculation of the long term business provision.

For unit-linked business, the provision is calculated as the unit value of the individual accounts held by the Society for each member, plus any additional reserves considered necessary.

## **Deferred Aquisitions Costs**

Deferred acquisition costs comprise all direct and indirect costs arising from the acquiring of policies of assurance. Deferred acquisition costs comprise the costs of acquiring policies of assurance which are incurred during a financial year, but relate to a subsequent financial year. Deferred acquisition costs are amortised over the term of the policies written.

## **Stocks**

These are included at the lower of cost or net realisable value.

# ■ Notes to the Financial Statements

## **Pension Scheme**

The Society operates a pension scheme providing defined benefits based on final pensionable pay.

Although the funds of the scheme are held separately from those of the Society the net liability or asset to the Society in respect of the scheme deficit or surplus at 31 December 2011 has been included in the balance sheet. The comparative position as at 31 December 2010 has also been included together with the movements as appropriate. Full details are shown in note 23.

## **Going concern**

As reflected on page 4, the Board of Directors has adopted the going concern basis in preparing the Financial Statements.

## **Cash Flow Statement**

The Society has taken advantage of the exemption for mutual life assurance organisations under Financial Reporting Standard 1 (revised 1996) and has not prepared a cash flow statement for the year.

## **Fund for Future Appropriations accounting policy**

The Fund for Future Appropriations represents all funds, the allocation of which has not yet been determined by the end of the financial year. Any surplus or deficit arising on the Technical Account – Long-Term Business is transferred to or from the Fund on an annual basis.

## **Transfer of engagements accounting policy**

The assets and liabilities of the Schoolteacher's Friendly Society (Schoolteacher's) have been included within the accounts at fair value at the date the transfer was effected. The combination of the two societies did not involve the transfer of any cash consideration. The value of the consideration has been calculated by measuring the fair value of the business of the Schoolteacher's Friendly Society. The calculation was made with reference to discounted future cash flow projections. This resulted in £1,790,000, being imputed as the consideration.

## **Related party disclosure**

Total income during the year received from Branches in respect of the levy was £1,914k (2010: £2,138k). Amounts due from Branches at 31 December 2011 in respect of goods and services was £131,001 (2010: £87,982). Balances are settled within normal credit terms and there is no provision for doubtful debts related to these amounts. In respect of investments, these are disclosed on the balance sheet on page 25.



# Notes to the Financial Statements

## 2 SUMS DENOMINATED IN FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling at 31 December 2011. Revenue transactions and those relating to the acquisition and realisation of investments including foreign fixed rate short term cash deposits have been translated at rates of exchange ruling at the time of the respective transactions.

## 3 STAFF COSTS

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Gross contracted service salaries	1,490	1,382
Social security costs	137	123
Pension costs	290	225
Non-contracted service salaries	6	1
	<u>1,923</u>	<u>1,731</u>

The average monthly number of employees during the year was as follows:-

	<b>2011</b>	<b>2010</b>
Board members	3	2
Clerical	50	52
Printing, production and despatch	3	3
	<u>56</u>	<u>57</u>

## 4 AGGREGATE AMOUNT OF BOARD MEMBERS' EMOLUMENTS

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Gross salaries	227	152
Pension costs	70	47
Benefits and allowances	24	17
	<u>321</u>	<u>216</u>

Included in the above are emoluments (including benefits and allowances but excluding pension costs) of:-

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Highest paid member	<u>96</u>	<u>89</u>
Members emoluments:		
£65,001 to £70,000	1	-
£80,001 to £85,000	1	1
£85,001 to £90,000	-	1
£95,001 to £100,000	1	-

# Notes to the Financial Statements

## 5 LAND AND BUILDINGS

	Owned by the Society £'000	Investment Properties £'000	2011 £'000	2010 £'000
Valuation as at 1 January	80	32,029	32,109	30,301
Additions at cost	-	2,712	2,712	5,589
Transfer of engagements	230	-	230	-
Disposal proceeds	-	( 665 )	( 665 )	( 6,314 )
Realised gain	( 50 )	-	( 50 )	1,631
Movement in unrealised gains and losses	( 10 )	( 1,542 )	( 1,552 )	902
Valuation as at 31 December	<u>250</u>	<u>32,534</u>	<u>32,784</u>	<u>32,109</u>

Property owned by the Society for sponsorship activities was valued at 31 December 2011 by Keningtons LLP, Chartered Surveyors of 9-13 George Street, London, W1U 3QH.

Freehold and leasehold investment properties with the exception of transfer of engagements, were valued at 31 December 2011 by CB Richard Ellis Limited, Chartered Surveyors of The Chancery, Spring Gardens, Manchester, M2 1EW.

Valuation on property transferred in from the Schoolteachers Friendly Society was valued at 31 December 2011 by Chris Johnson FRICS of Smith & Sons, Hamilton Square, Birkenhead, Wirral CH4 15BN.

The valuations are based on open market value in accordance with the provisions of the RICS Appraisal and Valuation Manual. No allowances have been made for the costs of realisation. In order for the accounts to show a true and fair view it is appropriate not to provide for depreciation on land and buildings.

## 6 SHARES AND OTHER VARIABLE YIELD SECURITIES

	Listed Equities	
	2011 £'000	2010 £'000
Valuation as at 1 January	45,339	39,817
Additions at cost	4,450	9,887
Transfer of engagements	-	-
Disposal proceeds	( 4,453 )	( 8,020 )
Realised gain/(loss)	68	220
Movement in unrealised gains and losses	( 2,333 )	3,435
Valuation as at 31 December	<u>43,071</u>	<u>45,339</u>

Listed equities, (quoted on the London Stock Exchange) were valued at 31 December 2011 by Aberdeen Fund Management Limited of Bow Bells House, 1 Bread Street, London EC2M 9HH, Brewin Dolphin Limited of 12 Smithfield Street, London EC1A 9BD, Williams de Broë Limited, 100 Wood Street, London, EC2V 7AN and Legal & General Investment Management of 1 Coleman Street, London, EC2R 5AA.

# ■ Notes to the Financial Statements

## 7 DEBT AND OTHER FIXED INCOME SECURITIES

	<b>United Kingdom Government Bonds £'000</b>	<b>Non Government Bonds £'000</b>	<b>2011 £'000</b>	<b>2010 £'000</b>
Valuation as at 1 January	21,508	38,241	59,749	56,478
Additions at cost	9,957	5,685	15,642	16,906
Disposal proceeds	( 10,780 )	( 1,940 )	( 12,720 )	( 15,382 )
Realised gains	138	152	290	517
Movement in unrealised gains/(losses)	1,248	2,042	3,290	1,230
Valuation as at 31 December	<u>22,071</u>	<u>44,180</u>	<u>66,251</u>	<u>59,749</u>

Listed bonds were valued as at 31 December 2011 by Aberdeen Fund Management Limited of Bow Bells House, 1 Bread Street, London EC2M 9HH and Williams de Broë Limited, 100 Wood Street, London, EC2V 7AN.

## 8 LOANS SECURED BY MORTGAGE

	<b>2011 £'000</b>	<b>2010 £'000</b>
Outstanding as at 1 January	410	490
Repayments	( 28 )	( 80 )
Outstanding as at 31 December	<u>382</u>	<u>410</u>

# Notes to the Financial Statements

## 9 ASSETS HELD TO COVER LINKED LIABILITIES

	<b>Cash at Bank &amp; Building Society £'000</b>	<b>Unit Trusts £'000</b>	<b>Equities £'000</b>	<b>Total £'000</b>
Ideal Fund	1,264	-	5,098	6,362
Nottingham Fund	-	22,129	-	22,129
Schoolteacher's Fund	-	49,667	-	49,667
Ordinary Assurance Fund	15,584	-	-	15,584
Equity Fund	-	578	-	578
Fixed Interest Fund	-	603	-	603
Money Fund	459	-	-	459
Pension Deposit Fund	773	-	-	773
UK Index Fund	-	890	-	890
Growth Fund	-	1,406	-	1,406
Valuation as at 31 December 2011	18,080	75,273	5,098	98,451
Valuation as at 31 December 2010	17,638	19,103	5,498	42,239

Linked business investments were valued as at 31 December 2011 in accordance with the provisions of the Financial Services Authority's Interim Prudential sourcebook for Friendly Societies, Appendix 4 (2)(2).

Unrealised gains and losses on linked business investments are dealt with in the Long Term Business Technical Account.

Assets invested exceed the technical provision for linked liabilities by £2,472k (2010 £1,971k).

## 10 OTHER DEBTORS

	<b>2011 £'000</b>	<b>2010 £'000</b>
Trade debtors	951	726
Tax to be recovered	33	44
	984	770

# ■ Notes to the Financial Statements

## 11 TANGIBLE ASSETS

	<b>Office and Computer Equipment £'000</b>	<b>Motor Vehicles £'000</b>	<b>Total £'000</b>
Cost:			
01/01/11	1,005	146	1,151
Additions	94	-	94
Transfer of Engagements	26	-	26
Disposals	( 57 )	-	( 57 )
	<hr/>	<hr/>	<hr/>
31/12/11	1,068	146	1,214
Depreciation:			
01/01/11	645	64	709
Charge	242	31	273
Disposals	( 57 )	-	( 57 )
	<hr/>	<hr/>	<hr/>
31/12/11	830	95	925
Net Book Value:			
31/12/11	<hr/> <hr/> 238	<hr/> <hr/> 51	<hr/> <hr/> 289
31/12/10	<hr/> <hr/> 360	<hr/> <hr/> 82	<hr/> <hr/> 442

## 12 RESERVES PROVIDED FOR, BY THE RULES AND OTHER SPECIFIC PURPOSES

The reserves comprise those funds with specific purposes as laid down in the rules of the Society.

Movement in the year:	<b>2011 £'000</b>	<b>2010 £'000</b>
Balance at 1 January	2,307	2,838
Transfer non-technical account	62	( 531 )
	<hr/>	<hr/>
Balance at 31 December	2,369	2,307

# ■ Notes to the Financial Statements

## 13 FUND FOR FUTURE APPROPRIATIONS

The fund for future appropriations comprises all funds, the allocation of which had not been determined by 31 December 2011

Movement in year:

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Balance at 1 January	11,778	10,389
Transfer to/(from) Long term business technical account	527	952
Surplus/(Deficit) on Non technical account	( 720 )	338
Net pension scheme actuarial (loss)/gain	( 965 )	99
	<hr/>	<hr/>
Balance at 31 December	10,620	11,778

The balance at the accounting date arises as follows:

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Technical account: Long term business	5,311	4,785
Non technical account	5,309	6,993
	<hr/>	<hr/>
	10,620	11,778

## 14 INVESTMENT INCOME

Technical account: Long term business:

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Land and buildings		
Shares and other variable yield securities	14	1
Debt and other fixed income securities	2,655	961
Bank and building society interest	1,235	1,260
Mortgages	1,062	902
Other	3	4
	24	-
	<hr/>	<hr/>
	4,993	3,128

Non technical account:

Land and buildings		
Shares and other variable yield securities	2,338	2,092
Debt and other fixed income securities	948	851
Bank and building society interest	1,467	1,509
Branch loan interest (net)	232	155
	1	1
	<hr/>	<hr/>
	4,986	4,608

# Notes to the Financial Statements

## 15 LONG TERM BUSINESS - CHANGE IN OTHER TECHNICAL PROVISIONS

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Continuing long term business (Note 20c)	6,699	5,533
	<u>6,699</u>	<u>5,533</u>

## 16 INVESTMENT RETURN TO INVESTING BRANCHES

<b>Allocation of:</b>	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Investment income	4,263	3,955
Gains/(losses) on realisation of investments	( 35 )	1,449
Movement in unrealised gains on investments	( 1,164 )	3,978
	<u>3,064</u>	<u>9,382</u>

## 17 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Operating lease commitments payable within one year of the balance sheet date were in respect of leases expiring:

	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
Land and buildings: within one year	10	10
after five years	203	203
Other: within one year	51	-
between two to five years	-	51
	<u>264</u>	<u>264</u>

Other financial commitments payable within one year not provided for in the accounts amounted to £NIL (2010 - £NIL).

# ■ Notes to the Financial Statements

## 18 AUDITOR REMUNERATION

	2011 £'000	2010 £'000
Audit services	137	115
Non-audit services - Taxation	23	18
Non-audit services - Corporate Finance	-	22
Total (exclusive of value added tax)	160	155

Auditor's fees for 2011 include £17,500 in respect of Schoolteacher's Friendly Society and £5,000 in respect of tax compliance.

## 19 APPROPRIATE ACTUARY

The following statement has been provided in accordance with Section 77 of the Friendly Societies Act 1992:

- (a) The appropriate actuary of the Society for 2011 was Mr S Robinson, FIA, of Towers Watson Limited. He is not a member of the Society however various colleagues at Towers Watson Limited held policies with the Society on normal commercial terms.
- (b) The appropriate actuary had no other pecuniary interest in any transaction between the actuary and the Society subsisting at any time during the year save his interests in respect of the amounts disclosed in (c). below.
- (c) The only remuneration were the fees for professional services paid to Towers Watson Limited for the services provided by the firm, and the amount payable in this respect amounted to £514k (2010:£761k) exclusive of Value Added Tax. No other benefits were paid.
- (d) The appropriate actuary did not receive, nor will receive, any other pecuniary benefit.

## 20 LONG TERM BUSINESS

### (a) Capital Statement

The following summarises the capital resources and requirements of the Independent Order of Oddfellows Manchester Unity Friendly Society as determined for UK regulatory purposes.

#### Available capital resources

The life insurance business is made up of three funds, the MU Long Term Business Fund ("MU Fund"), the Ideal Fund and the Nottingham Fund. The Nottingham Fund was acquired by the Society from Nottingham Friendly Society on 30 December 2009. The figures shown reflect the capital resources within the combined life insurance business.

	Total life insurance £'000	Other activities £'000	Total £'000
31 December 2011	5,311	5,309	10,620
31 December 2010	4,785	6,993	11,778



# ■ Notes to the Financial Statements

## Movement in capital resources

For life insurance business there has been an increase in the total available capital resources over the year. This movement has been largely driven by changes in reserving assumptions (reflecting the current yield on assets held), investment experience over 2011 and allowance for expense reserves and the additional business transferred from Nottingham.

	<b>Total Life insurance £'000</b>
Total available capital resources at 1 January 2011	4,785
<i>Change in assets</i>	
Premiums less claims and expenses	7,635
Investment income	4,993
Realised and unrealised losses on investments	( 4,752 )
Transfer of Engagements	60,268
<b>Total change in assets</b>	<u>68,144</u>
<i>Change in liabilities</i>	
Change in provision for linked liabilities	55,710
Change in long term business provision	11,228
Cost of 2011 bonus	680
<b>Total change in liabilities</b>	<u>67,618</u>
<b>Total available capital resources at 31 December 2011</b>	<u>5,311</u>

## Analysis of liabilities

### Analysis of liabilities at 31 December 2011

	<b>Total Life insurance £'000</b>
With-profit liabilities	41,956
Non-profit business	12,750
Unit-linked	95,979
Deferred acquisition costs	243
<b>Total provisions included in the Balance Sheet</b>	<u>150,928</u>

Reinsurers' share of technical provisions ( 30 )

### Analysis of liabilities at 31 December 2010

	<b>Total Life insurance £'000</b>
With-profit liabilities	30,859
Non-profit business	11,879
Unit-linked	40,268
Deferred acquisition costs	300
<b>Total provisions included in the Balance Sheet</b>	<u>83,306</u>

Reinsurers' share of technical provisions ( 25 )

The basis for setting the technical provisions is included in note 20b to the financial statements.

# Notes to the Financial Statements

## Management of risks in the life insurance business

The Society will ensure that management of the long term business is appropriate and proportionate for a friendly society.

To accomplish this, the Society will ensure that:

- Sufficient assets are set aside to meet liabilities;
- The strategy for the distribution of any free assets within the long term business is monitored and re-assessed regularly, and in particular the discretionary allocation of bonuses is decided by the Board;
- Liquid investments are sufficient to meet benefit payments;
- Workflow and resources are planned to ensure that business can be administered in a proper manner; and
- Due regard is paid to risks that might impact on how the long term business is managed.

In implementing these measures, the Society will adhere to the FSA principles, rules and guidance applicable to long term business to ensure that the requirement and expectations of customers are met and that they are treated fairly.

## Sensitivities of the capital position

The capital position is sensitive to changes in market conditions, which may affect the value of assets and / or liabilities. It is also sensitive to assumptions and experience relating to mortality, expenses and persistency, and to a lesser extent morbidity.

The key risks to the Society's life insurance business are market risks, insurance risks and expense risks, particularly the inflation of expenses. The investment performance, expenses and other risks to the life insurance business are monitored regularly by the Main Board, or delegated to the Commercial Board or Insurance Committee as appropriate.

In the event of an adverse situation arising, the Society would take action to reduce the impact. These actions may include:

- Reducing the rates of terminal bonus and/or reversionary bonuses;
- Immediate sale of higher risk assets; and
- Reducing overheads (to the extent possible without affecting the operation of the life assurance business).

## (b) Provision

The principal assumptions used in the calculation of the long term business provision in 2011 were as follows:-

Class of Business		Mortality	Rate of Interest %
<b>UIEF, Ex-UIRF and MSA</b>			
<b>UIEF</b>			
WP annuities		IMA92C10/IFA92C10 - 3	0.86
Annuities in payment		IMA92C10/IFA92C10 - 3	2.35
PHI		A67/70 and MU 1893 - 96	2.35
Ex - Philanthropic	Non profit	ELT13(M)	2.35
	With profit		0.86
Other UIEF	Non profit	A67/70	2.35
	With profit		0.86
<b>Ex-UIRF</b>			
Fifty Plus		MU 1970	
Other UIRF		Value of payment offered	2.35
<b>MSA</b>			
All		70% PMA92 / 100% PFA92 with medium cohort improvement factors	0.86
<b>Ideal Fund:</b>			
<b>Life and Pensions (non - linked)</b>			
Tax exempt	Non profit	100% A67/70 ultimate	2.15
	With profit		1.07
Taxable	Non profit	100% A67/70 ultimate	2.15
	With profit		1.07
Pensions annuities		90% PML92/PFL92 (U=2010)mc	2.15 2.15
Pensions term assurance		100% A67/70 ultimate	
<b>Life and Pensions (unit - linked)</b>			
Life plans		100% A67/70 ultimate	2.15
Sovereign bonds		100% A67/70 ultimate	2.15
Pension plans		100% A67/70 ultimate	2.15
<b>Sickness</b>			
All		75% A67/70 ultimate	1.07

# ■ Notes to the Financial Statements

<b>Nottingham Fund: Life and Pensions (non - linked)</b>		<b>Rate of Interest %</b>
With Profit Tax Exempt	80% AM92/AF92 ultimate	2.47
With Profit Taxable	80% AM92/AF92 ultimate	2.47
Non Profit Tax Exempt	80% AM92/AF92 ultimate	2.47
Non Profit Taxable	80% AM92/AF92 ultimate	2.47
ISA Bonds and Accumulating With Profit policies	80% AM92/AF92 ultimate	2.47
5 Year Bond	80% AM92/AF92 ultimate	2.47
Annuities	IML92/IFL92 Rated down 3 yrs	2.47
Cremation	80% AM/F92 ultimate	( 1.25 )
50 plus plan	115% AM/F92 ultimate	2.47
Funeral plans	125% AM/F92 ultimate	2.47
Term assurance / Mortgage protection	100% TM/F92 ultimate	2.47

The method of the calculation of the long term business provision is described in the accounting policy note.

## **(c) Movements in the technical provision (Net of Reinsurance)**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Balance at 01/01/11		
Long term business provision	43,038	44,910
Reinsurer's share of long term business provision	( 25 )	( 163 )
Provisions for linked liabilities	40,268	32,783
	<u>83,281</u>	<u>77,530</u>
Transfer of engagements	60,268	-
Changes in technical provisions	6,669	5,533
Bonuses	680	218
	<u>150,898</u>	<u>83,281</u>
Balance at 31/12/11		
Long term business provision	54,949	43,038
Reinsurer's share of long term business provision	( 30 )	( 25 )
Provisions for linked liabilities	95,979	40,268
	<u>150,898</u>	<u>83,281</u>

The balance at 31 December 2011 includes an estimated provision in respect of deferred tax amounting to £NIL (2010 : £NIL).

## **(d) Assets**

The total amount of assets representing the long term fund valued in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 at 31 December 2011 were £157.3m (2010:£89.3m).

## **21 RELATED PARTY DISCLOSURES**

The Society is controlled by its members through an Annual Moveable Conference of Deputies. The Board of Directors governs the affairs of the Society between each conference.

The Society is a related party to the following:-

- MU Pension Scheme
- MU Pension Trustees Limited
- MU Housing Association Limited
- Friends of the Manchester Unity Housing Association Limited
- Manchester Unity Credit Union Limited
- Ideal Insurance (Holdings) Limited
- Ideal Insurance Company Limited

In every case members of the Society's Board of Directors including the Chief Executive and/or the Finance Director, have substantial control or influence by their involvement in the management structure of each organisation.

The Society operates disbursement accounts with the concerns as appropriate. In addition the Society provides financial support and sponsorship to the Manchester Unity Credit Union Limited in respect of direct overhead costs, which in 2011 totalled £18k (2010 £22k).

## **22 CONTINGENT LIABILITIES**

The Society's General Rule 66F contains provisions to underwrite liabilities and guarantee performance of all Branches.

The Board of Directors is not aware of any such potential liabilities arising at 31 December 2011 (2010 : £Nil).

## 23 PENSION SCHEME BENEFITS

The funds of the Scheme are actuarially valued by Towers Watson Limited every three years. The most recent full valuation was carried out at 31 March 2009.

Total employer contributions in the accounting period ended 31 December 2011 were £411k (2010 : £314k). The employer contribution rate was increased with effect from 1 April 2010 to 32.7% for all contributing members of the Scheme. Prior to this date the employer contribution rate was 15% for existing members and 17.3% for new joiners after 1 April 2007.

### Commentary on results

The actuarial loss due to demographic experience, including any assumption changes and investment return different from assumed during the prior period was £(729k) and £(576k) respectively.

The results are particularly sensitive to the key assumptions, such as the discount rate, level of pensionable salary growth, level of price inflation and mortality. The decrease in discount has led to an increase in the end of year liability figures. These effects are partially offset by the decrease in the salary increase, post 97 pension increase in payment assumption and in-deferment increases.

The Net Benefit Expense charge is slightly higher than last year (£174k compared with £134k in 2010). This is mainly because of a fall in the expected return on assets and increase in the service cost (due to assumption changes).

### Society provisions and assumptions

The benefits have been valued in accordance with the provisions of the Scheme's Trust Deed and Rules dated 26 February 1998, and subsequent deeds of amendment. It is our understanding that there were no significant changes in benefit structure of the Scheme, or the method by which these are valued over the last year.

The Society revalues most of members' deferred pensions between their date of leaving and date of retirement in line with inflation in accordance with statutory requirements.

To date, the measure of inflation used to increase such deferred pensions was the Retail Prices Index ("RPI"). However the UK Government has announced that from 2011 such increases will be measured using the Consumer Prices Index ("CPI").

CPI will now be the effective indexation for deferred pension increases in the Scheme going forward. In light of this, CPI has been used as the basis for the pension increases in deferment in producing these FRS17 disclosures. The change from an RPI based measure to a CPI based measure has been recognised in the disclosures as a gain on assumptions.

### Mortality

The mortality table is the SAPS tables projected to calendar year 2009 with allowance for the medium cohort improvement and a 1% floor from 2009.

### Expected Lifetime

The expected lifetime of a participant who is age 65 and the expected lifetime (from age 65) of a participant who will be age 65 in 15 years are shown in years below based on the above mortality tables.

Age	Males	Females
65	21.4	24.1
65 in 15 years	22.8	25.5

# Notes to the Financial Statements

## Assumptions Used to Determine Expenses

	2011	2010
Discount rate	5.45%	5.65%
Price inflation (RPI)	3.50%	3.60%
Price Inflation (CPI)	3.00%	-
Long-term rate of return on assets	6.15%	6.84%
Rate of salary increase	5.00%	5.10%
Pension increases for in-payment benefits in respect of pensions accrued prior to 1 April 2006 and after 5 April 1997	3.50%	3.60%
Pension increases for in-payment benefits in respect of pensions accrued after 1 March 2006	2.40%	2.40%
Pension increases for deferred benefits	3.00%	3.60%

## Disclosed Expense

	2011 £'000	2010 £'000
Expected return on assets	937	956
Employer service cost	( 334 )	( 327 )
Interest cost	( 777 )	( 763 )
Disclosed Expense	( 174 )	( 134 )
Contributions Paid	411	325
	<u>237</u>	<u>191</u>

Of the charge for the year £291k (2010 : £228k) has been included in the Unity Accounts.

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS17 is £1,884k (2010 : £579k).

## Assumptions and Dates Used at Disclosure

	2011	2010
Discount rate	4.85%	5.45%
Price inflation (RPI)	3.10%	3.50%
Price Inflation (CPI)	2.10%	3.00%
Rate of salary increase	4.60%	5.00%
Pension increases for in-payment benefits in respect of excess pensions accrued prior to 6 April 1997 (in excess of GMP)	0.00%	0.00%
Pension increases for in-payment benefits in respect of pensions accrued prior to 1 April 2006 and after 5 April 1997	3.10%	3.50%
Pension increases for in-payment benefits in respect of pensions accrued after 31 March 2006	2.40%	2.40%
Pension increases for deferred benefits	2.10%	3.00%
Society membership census date	31/12/11	31/12/10

# Notes to the Financial Statements

## Development of Net Balance Sheet Position

	2011 £'000	2010 £'000
Defined benefit obligation (DBO)	( 15,953 )	( 14,495 )
Fair value of assets (FVA)	15,607	15,217
Defined benefit (liability)/asset	( 346 )	722
Deferred tax asset/(liability)	87	( 253 )
Net pension (liability)/asset after taxation	( 259 )	469

## Reconciliation to the Balance Sheet

Defined benefit asset at end of prior period	469	179
Net benefit expense for period	( 174 )	( 134 )
Employer contributions	411	325
Gain/(loss) recognised via the STRGL	( 1,305 )	( 256 )
Reduction/(Increase) in deferred tax asset/(liability)	( 340 )	( 157 )
Defined benefit asset/(liability) at end of current period	( 259 )	469

## Statement of Total Recognised Gains & Losses

Actuarial gain/(loss):		
Assets	( 576 )	440
Experience gain on liabilities	38	39
Change of assumption	( 767 )	( 223 )
Movement in deferred tax asset/(liability)	( 1,305 )	256
Net gains/(losses)	340	( 157 )
	( 965 )	99

## Change in Defined Benefit Obligation (DBO)

DBO at prior period end	14,495	13,864
Employer service cost	334	327
Interest cost	777	763
Society participants' contributions	95	80
Actuarial loss	729	184
Benefits paid from scheme assets	( 477 )	( 723 )
DBO at current period end	15,953	14,495

## Change in Scheme Assets

Fair value of assets at prior period end	15,217	14,139
Actual return on assets	361	1,396
Employer contributions	411	325
Society participants' contributions	95	80
Benefits paid	( 477 )	( 723 )
Fair value of assets at current period end	15,607	15,217

## Scheme Asset Information

	Target Allocation Range	Allocation Percentage 31/12/11	Allocation Percentage 31/12/10
Equity securities	50.0%	48.3%	50.8%
Debt securities	40.0%	40.7%	39.2%
Real estate/property	10.0%	9.3%	3.1%
Other	0.0%	1.7%	6.9%
Total	100.0%	100.0%	100.0%
Fair value of Society assets		15,607	15,217

# Notes to the Financial Statements

## Asset Method

The fair value of assets is used to determine the expected investment return during the year.

## Historical disclosure information

Period Ending	All monetary amounts shown in £ thousands				
	31/12/11 £'000	31/12/10 £'000	31/12/09 £'000	31/12/08 £'000	31/12/07 £'000
<b>A Asset experience</b>					
1 Asset (gain)/loss during period	576	( 440 )	( 1,016 )	3,010	284
2 Asset (gain)/loss expressed as percentage of Society assets	3.691%	( 2.892% )	( 7.188% )	24.153%	1.923%
<b>B Liability experience</b>					
1 Liability (gain)/loss during period	( 38 )	( 39 )	( 343 )	( 250 )	304
2 Liability (gain)/loss expressed as percentage of DBO	( 0.244% )	( 0.269% )	( 2.474% )	( 2.176% )	2.375%
<b>C Liability assumptions</b>					
1 Liability loss/(gain) over period	767	223	2,170	( 1,712 )	( 413 )
2 Liability loss/(gain) expressed as percentage of DBO	4.808%	1.538%	15.652%	( 14.901% )	( 3.227% )
<b>D Funded status</b>					
1 Defined benefit obligation (DBO)	( 15,953 )	( 14,495 )	( 13,864 )	( 11,489 )	( 12,798 )
2 Fair value of assets (FVA)	15,607	15,217	14,139	12,462	14,765
3 Funded status	( 346 )	722	275	973	1,967

## 24 TRANSFER OF ENGAGEMENTS

With effect from 31 March 2011, the Schoolteachers Friendly Society transferred its engagements into the Society. This transfer of business has increased the gross assets of the Society by £60m and bring over 90,000 members into the Society of whom 87,747 are CTF policyholders. The assets and liabilities transferred are below:

	Book value and take on balances £'000
<b>Fixed assets</b>	
Land and Buildings	230
Investments	60,161
Other fixed assets	15
<b>Current assets</b>	
Cash at bank and in hand	117
Other current assets	4
<b>Total assets</b>	<u>60,527</u>
<b>Creditors</b>	
Current liabilities	( 24 )
Long-term liabilities	( 58,713 )
<b>Total liabilities</b>	<u>( 58,737 )</u>
<b>Net assets acquired</b>	<u>1,790</u>
Deemed consideration	<u>( 1,790 )</u>
Goodwill recognised	<u>-</u>



## ■ Notes to the Financial Statements

The combination of the two Societies did not involve any consideration paid. The deemed consideration has been calculated by measuring the fair value of the Schoolteachers business. This calculation has been based on a forward calculation of the cashflows associated with the policies transferred. No fair value adjustments were identified and no adjustments were required to align the accounting policies of the Societies.

Schoolteachers generated £84,000 in profit for the period between 1 January 2011 and the transfer on 31 March 2011. This is provided for information purposes and these amounts have not been included in the financial statements of the Society. Following the transfer of engagements, Schoolteachers ceased to exist separately.