

150th Annual Report

and

Financial Accounts

for the Year Ended

31st December 2013

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Society Information

Year Ended 31st December 2013

Committee of Management	Anthony N Totham FCA, CTA James H Geddes JP, MA Colin G Silcock John B Haworth LLB (died 4 th January 2014) Anthony M Hedley FCA, Chartered FCSI Alan Guest CITP, MBCS
Secretary	James H Geddes JP, MA
Registered Office	Parkgates 52a Preston New Road Blackburn Lancashire BB2 6AH
Bankers	Royal Bank of Scotland plc 58-62 King William Street Blackburn Lancashire BB1 7HU
Auditors	PM+M Solutions for Business LLP Greenbank Technology Park Challenge Way Blackburn Lancashire BB1 5QB
Actuary	OAC plc Portsoken House Minores London EC3N 1LJ
Investment Brokers	QuilterCheviot Queens Quay 33-35 Queen Street Bristol BS1 4LU
Solicitors	Hill Dickinson 2 Fountains Court Manchester M2 2AS
FSA Mutual number	11097

Report of the Committee of Management to the Members

Year Ended 31st December 2013

The Committee of Management have pleasure in submitting the 150th Annual Report and Financial Accounts for the year ended 31st December 2013.

CHAIRMAN'S STATEMENT

It is with great sadness that I start my statement with the sad news that shortly after the year end we learned that John Haworth, one of our committee of management, had died unexpectedly. It was a great shock to his family and all of us. John had served on the committee for nearly 50 years and was very committed to the society and its continuing development.

John had recently served as the Society's senior director, a role that he undertook with his usual kindness and professionalism. In the era of corporate governance it is unlikely that anyone will serve on the board for as long as John, however he was always questioning and challenging the board and working for the best interests of the Society.

We will all miss John but the Society has been the better for having John on the board over all those years.

This year has also seen the Society celebrate its 150th year and the board and staff are very proud of this milestone. This has been achieved by the hard work of current and former staff and members of the committee and we thank all those people for this. I would also like to thank all our professional advisors who work with us for the benefit of the society.

Challenges Ahead

As we moved into our 150th year we knew that there would be a lot of challenges, including the change in our regulation authority moving to the twin regulation of the Prudential Regulation Authority and the Financial Conduct Authority. The Society welcomes improvements in the regulatory environment, but the dual approach does increase the costs of compliance for all Friendly Societies and the industry needs to look at the challenges presented as the dual approach develops.

The start of the year saw the introduction of the Retail Distribution Review which stopped financial advisers from receiving commissions, instead charging a fee to clients. This has fundamentally changed the landscape and has seen a drastic reduction in our sales via independent financial advisers.

The challenge during the year has been to develop ways to serve those people who want to buy directly from us, rather than through an advisor. We see e commerce being an important part of this and we have worked on our web site to make it easier for new members to join us this way.

We are also looking at expanding our network of introducers as we see that as an important part of our growth going forward. We are however committed to ensuring that we do not breach the rules on advice, as this is a challenge for the industry and the regulator as a whole.

As the consequences of the Retail Distribution Review take effect we are starting to see large sections of our client base being unable to obtain financial advice. We look forward to seeing how the regulators approach this in the future. As a Society we need to be flexible to react to changes in the future for the benefit of our members.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Our strategy going forward is to generate long term growth for our members in a cost efficient manner. We will look at new opportunities and developments as they arise during the coming year.

Progress made during 2013

As with other Friendly Societies we have over the past few years reduced the level of risk in our investment portfolio and we work closely with our professional advisors to review this strategy on a continuing basis. During 2013 the investment market has improved and consequently we have continued to see a significant improvement in our capital position, which will benefit the Society in the future.

Although it is too early to say that the investment market has recovered and there may be further ups and downs ahead, we hope that we have a period of stability over the rest of the year. This would allow the society's capital position to improve further. We also hope for stability in the general economy as that affects our members and their ability to save, however further local government cuts and the possible increases in interest rates will create challenges in the future.

The Financial accounts show how the premiums from non-child trust funds investments are only slightly lower than last year and at the same time our level of claims has reduced significantly. These factors combined with the careful management of costs have meant that the Society finishes 2013 in a stronger position than at the start of the year.

Board changes

During 2014 there will be some changes to the board, having lost John Haworth we need to replace him. In addition Alan Guest has indicated that in 2014 he will be stepping down from the board; however during the early part of the year we are missing Tony Hedley due to ill health and Alan will stay with us until we recruit or Tony Hedley is able to return. We wish Tony Hedley a speedy recovery and thank Alan Guest for his work whilst on the board.

We look forward to welcoming a new member on the board.

With all the changes in regulation more is expected from board members and I thank all the members for their work during 2013.

Outlook

We enter 2014 in a stronger financial position and are looking forward to continuing this.

We are committed to growing the society, looking at ways of increasing sales whilst ensuring that costs are strictly monitored. However as a Society we do not want to move away from the core values which are important to us, nor do we want to move away from the members whom we have served over the last 150 years.

We look forward to meeting the challenges that will arise during the year and also to look at opportunities which present themselves.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Acknowledgement

I would like to finish by thanking our Chief Executive, Jim Geddes and all his team for their hard work during the last year. We pride ourselves on the high level of service that we offer our members and that cannot be achieved without the hard work and dedication of the whole team.

**Anthony N Totham
Chairman**

17 March 2014

Report of the Committee of Management to the Members

Year Ended 31st December 2013

Statement of Committee of Management Responsibilities

The Committee of Management is responsible for safeguarding the assets of the Society and ensuring that the Society is able to discharge the duties imposed on it under the regulations governing Friendly Societies. They ensure that all accounting and other records are kept in a form which enables the Committee to have timely and accurate information to enable them to meet any obligations to their members or the FCA & PRA regulations and The Friendly Societies Act 1992 and that management are able to extract the information promptly so that the Committee can monitor and control the performance of the business and the risks to which it is exposed at any moment in time.

They are also required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period. In preparing those financial statements, the Committee of Management are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Society will continue in business.

The Committee is also responsible for long term and short term strategic planning which includes, amongst other responsibilities:

- i) Views on the markets in which the Society operates.
- ii) Identification of the Society's strengths and weaknesses.
- iii) Strategic aims and action needed to achieve those aims.
- iv) Major resource implications of the strategic aims– information technology, senior management and staff, and financial implications.
- v) Financial implications based on different assumptions.
- vi) Corporate planning including the strategic aims and the process by which these will be achieved.
- vii) Monitoring of the achievement of the Corporate Plan and Targets.
- viii) Annual budget and cash flow forecasting against actual performance.
- ix) Business Continuity Planning in case of disaster.
- x) Information Technology and access to information and data.
- xi) Human Resource planning. Staffing and appointment of new directors.
- xii) Risk identification, controls responsibility, delegation of certain responsibilities to the Chief Executive and Compliance Officer.
- xiii) Documentation of procedures and controls.
- xiv) To receive reports and recommendations of the sub committees.
- xv) To monitor, control and appraise the performance of the Chief Executive and Compliance Officer and ensure the Society remains fully compliant.
- xvi) Complying with the Code of Corporate Governance where possible.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Responsibilities of the Chairman

The Chairman is required to ensure that, in setting the agenda for meetings of the Committee of Management;

- all directors receive accurate, timely and clear information,
- to ensure that constructive relations between executive and non-executive directors exist,
- to ensure the effective contribution of non-executive directors,
- to ensure the Committee of Management's effectiveness on all aspects of its role,
- and to effectively lead the Committee of Management and to liaise with the Chief Executive in his day to day duties,

It is also the Chairman's responsibility;

- to ensure that all members of the Committee of Management continually update their skills and knowledge of the business, to enable them to fulfil their role on the Committee of Management,
- to ensure that they undertake a formal and rigorous evaluation of the Committee as a whole and its individual members and to use the results of this evaluation to recognise the strengths and weaknesses of the Committee of Management,
- and where appropriate to make recommendations to the Committee of Management that new members be appointed or that existing members are asked to resign.

Responsibilities of the Chief Executive

The Chief Executive is directly responsible to the Committee of Management and holds delegated powers for the day to day management of the Society. These include:

- Staff attendance, performance and training,
- Cost control of the budget agreed by the Committee of Management,
- Oversight of the sales target agreed by the Committee of Management,
- Day to day management of the Society.

Decisions on major capital expenditure, investments, new products, risk assessments, new ventures, recruitment of senior managers, non-executive directors and engagement of professional advisers are the responsibility of the Committee of Management.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Committee of Management

Chairman - Anthony N Totham: A fellow of the Institute of Chartered Accountants and a member of the Chartered Institute of Taxation. Trained with a multi-national firm of accountants and since 1991 has been a partner of a local practice in Blackburn having considerable experience in taxation and advising owner managed businesses. He will be offering himself for re-election at the Annual General Meeting on the 3rd April 2014.

Chief Executive – James H Geddes: Experienced in accountancy, financial services and management. Has been involved with the Society for over 35 years and was first appointed CEO in 1994. Has served 19 years as a magistrate in the Duchy of Lancashire. Will be offering himself for re-election at the Annual General meeting on 3rd April 2014.

Non-Executive Directors:

Colin G Silcock: A lifetime's experience in business, operating in the UK and abroad. The majority of these were spent as a Senior Executive or Board Director. He has a background in accountancy, sales and marketing, people management/development and running companies and is experienced in developing business from loss situations. Former Chairman of The Princes Trust (NW England). He will be offering himself for re-election at the AGM on the 3rd April 2014.

Anthony M Hedley: A Fellow of the Institute of Chartered Accountants in England and Wales and is a member of the Stock Exchange and a Chartered Fellow of the Chartered Securities and Investment Institute with a Statement of Professional Standing. He is a director in a local firm of stockbrokers where he has been for over 40 years. He will be offering himself for re-election at the Annual General Meeting on the 3rd April 2014.

Alan Guest: Chartered IT Practitioner and member of the British Computer Society. He spent 33 years in local government with Blackburn Borough Council and Lancashire County Council as a Project Manager. Currently Senior Independent Director he will be offering himself for re-election at the Annual General Meeting on the 3rd April 2014.

Attendance at Committee of Management meetings during 2013

	Possible	Actual	
Anthony N Totham	12	12	Chairman
James H Geddes	12	12	Chief Executive
John B Haworth	12	11	Senior Director
Colin G Silcock	12	12	Non – Executive Director
Anthony M Hedley	12	11	Non – Executive Director
Alan Guest	12	11	Non – Executive Director

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Sub Committees

Meetings were also held of the Audit Sub Committee and the Resources, Recruitment & Nominations Committee.

Audit Committee

Members: Anthony M Hedley (Chairman)
Alan Guest

In addition to the Audit Committee, which meets as required during the year, the Society also employs a local firm of Chartered Accountants to undertake a quarterly internal audit. This is separate from the firm of Chartered Accountants who undertake the external annual audit.

The role of this committee is;

- to monitor the integrity of the annual financial accounts,
- reviewing significant financial reporting judgements contained in them,
- reviewing the Society's internal financial controls and Risk Management and monitoring the formal announcements relating to the Society's performance,
- to review and monitor the effectiveness of the internal and external auditors' independence, objectivity and the effectiveness of the audit process.

During the year the audit committee considered the internal audit programme and made certain recommendations regarding the inclusion of the Code of Corporate Governance and the computer system into this programme. There were no significant issues found in any of the quarterly reports. They also looked at the current contract with the external auditors and concluded that the Society received excellent service and advice from the current auditors and so recommended that they should again be appointed at the forthcoming AGM.

The Risk Assessment document and the system of internal controls were also considered and amended where required.

The Audit Committee reports directly to the full board identifying any matters in respect of which it considers action or improvements are needed and making recommendations as to the steps to be taken.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Resources, Remuneration & Nominations Committee

Members: Anthony M Hedley (Chairman)
Alan Guest
Colin G Silcock

The role of this Committee is to;

- monitor the resources available within the Society,
- and to monitor and advise on board/staff recruitment,
- to recommend to the Committee of Management the appropriate level of salary paid to executive directors.

This Committee meets regularly as required to consider resources, recruitment and the organisational structure of the Society.

This Committee examines those skills and knowledge required for the Committee of Management both on an ongoing basis and also should there be a new appointment it also assists with the appointment of senior members of the team.

The Committee meets on two occasions in the year and as and when it is deemed necessary.

The Committee reports directly to the full board identifying any matters where it considers action or improvements within the structure of the Society are needed and making recommendations as to how these will be achieved.

Appraisals

The Chairman is appraised annually by the Senior and Non-Executive Directors and the result of this appraisal is communicated to the full Committee at their next meeting.

The Chairman undertakes the appraisal of the Chief Executive with the assistance of all the non-executive directors without the Chief Executive being present. He also conducts individual interviews with all non-executive members of the committee. At that interview the performance of each committee member is discussed, as well as their ability to commit sufficient time to discharge their duties to the Society correctly and their training and support needs where required. The results of these appraisals are communicated to the full Board at the next meeting following appraisal.

Remuneration of Committee of Management

The remuneration of the Committee of Management is not linked to performance. All Committee members, including the Chairman, receive the same annual cost of living increase as other members of staff.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Training for Committee of Management members

All new members of the Committee of Management undertake an induction course on joining the Society. Throughout the year all Committee members undertake further training at meetings with our actuaries and investment manager as well as being kept fully up to date throughout the year with the constant changes in legislation and regulations. Every effort is made by members of the committee to attend appropriate seminars and conferences and each member attending such functions reports on all items of interest at the next committee meeting.

The Combined Code on Corporate Governance

The Committee of Management has adopted the principles of UK Combined Code on Corporate Governance except in the areas shown below.

The Board constantly and regularly evaluates the performance and ability of each Director, and also the necessary balance of expertise and experience shown by the Board as a whole. The Board are confident that the present balance of knowledge and wide experience of each individual Director, covering accountancy, investments (and prior to the death of Mr John Haworth), legal, information technology and marketing and all round business activities serves the Society well and so will be seeking a new director with either legal or actuarial skills, preferably with financial services experience.

All vacancies for appointment to the Committee of Management are advertised locally and on the AFM website.

Most of the Directors have been members of the Board for more than nine years and their knowledge of the Society's business and its background and history provide a solid foundation to the Board's understanding of how it should be managed. The Board are committed to an orderly refreshment of the board but also recognise that it is necessary for the membership of the Board to be subject to review as and when appropriate and that new recruits to the Board do need a time to become acquainted with the way in which the Society operates and the Boards responsibilities towards the Society.

The Corporate Governance Code for Mutual Insurers was issued under the aegis of the FSA and annotated and supported by the AFM. It is a constantly evolving set of provisions and principles which provide guidance and direction to the management of Friendly Societies and Mutual Insurers. The aim is to promote an understanding amongst the members of the Society as to how the Society's business is managed and directed and to require compliance with the principles enunciated in the Code.

The Board acknowledges the importance of the Code and chooses to observe its requirements so far as possible. In some instances the Board does not comply fully with the Code, but is taking incremental steps to do so over a period of time.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

The Society does not fully comply with the following sections of the Code;

CP-B1.2. Small companies should have at least two non-executive directors determined by the board to be independent. At present only one director, Alan Guest meets the criteria laid down in the Code regarding length of service but this will be rectified when a new member of the Board is appointed in the Spring.

MP-D1 Remuneration. The committee do not feel it is appropriate that a significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

CP-E1.1. Member's Forum. The Society does not have a member's forum due to the size of the Society and the costs involved in having one. The Society does however have a day set aside each quarter when members of the Society who have concerns which they feel cannot be resolved by the staff or management, can meet with the Senior Director by appointment to discuss these concerns. The Society also keeps in constant touch with its members through letters, e-mails and phone.

Diversity: The Board have carefully considered the recommendations about diversity and have already agreed that, in view of the size of the Board, it is very difficult to set any targets for any one group. The Board is committed to ensuring that the Society is served by Board members who have both relevant experience and appropriate skills regardless of sex or ethnic background.

Strategic Review

Content of Strategic Report;

This strategic report has three main content related objectives:

- to provide context for the related financial statements.
- to provide members with an analysis of the Society's past performance; and
- to provide insight into the Society's main objectives and strategies, and the principal risks it faces and how they might affect future prospects.

Extracts of Financial Statistics

The assets of the Society increased from £19,665,086 in 2012 to £22,123,425 in 2013, an increase of £2,458,339.

Earned premiums, excluding CTF, were £943,120 against a total of £967,191 in 2012.

Unrealised gains on investments stood at £2,438,330 in 2013 against a total of £1,351,090 in 2012.

Investment income, including profits/losses on the realisation of investments, showed an increase of £57,741 in the year.

Claims paid out totalled £841,148 against a total in 2012 of £1,087,392 . This downward trend is expected to continue in 2014.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Net operating costs increased from £489,979 to £507,072, an increase of £17,093. The costs incurred actually decreased by £72,907 but this was offset by the movement in deferred acquisition costs.

Who is Red Rose and how is it managed?

The Society was founded on the 3rd September 1863 under the name of Blackburn Philanthropic Mutual Assurance Society and became incorporated on the 1st January 2001 when its name was changed to the Red Rose Friendly Society Limited. It has just celebrated its 150th birthday. Until the early 1980s it had a strong membership base, particularly with church and working men's club members in East Lancashire but following its incorporation and the decline of membership of these institutions in East Lancashire a decision was made to extend the area of membership recruitment to all parts of the UK through IFAS. During the past 20 years however, as the population of East Lancashire has become more diversified so has the membership of the Society and during this period significant numbers of all new members in East Lancashire have been recruited from the Asian heritage.

Management:

The office is staffed by a small dedicated and efficient staff comprising of;

- Five Board Members (M)
- A Chief Executive – (M)
- A part time Compliance/Money Laundering Officer (M)
- An Office Manager (F)
- A Supervisor (F)
- One Customer Service Advisors (F)
- One Customer Service Advisor - Vacancy

The Board meets regularly once a month and at such other times when necessary. Two meetings are held with the Society's actuaries to discuss the valuation results, the Financial Condition Report and the Asset Share Report, one meeting is held annually with the investment consultant to discuss and revise the investment strategy in light of market conditions and one meeting is held annually with the Society's auditors before each Annual General Meeting to discuss the year end results. All these professionals maintain constant contact with the Society throughout the year by phone, letter and e-mail to ensure any changes in regulations or market conditions which could affect the Society are dealt with immediately.

Society's main objectives and strategies:

The principal activity of the Society is the transaction of long term assurance within the United Kingdom through ordinary branch business and investments in the ISA, JISA and CTF funds.

The Board have prepared a three year Business Plan for the years 2014 -2016 and this fully explains the objectives and strategy the Board have agreed upon for the next three years in order to grow the Society.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

The Society aims to;

- provide low cost life and investment policies to the less well-off in our society at premiums which are affordable to the Society's identifiable market place,
- to provide and maintain a high level of service to members,
- manage investments to the satisfaction of its members,
- to ensure that the Society abides by all regulations and conforms to the Code of Corporate Governance,
- to ensure that the Board constantly reviews the effectiveness of the Society's risk management and internal controls.

Whilst at the same time;

- generating new policy sales at a level which will aim to ensure that the Society's premium income increased year on year,
- controlling expenditure within strict guidelines,
- utilising the Society's resources for the best benefit of members,
- maintaining a high quality and honest image of the Society,
- seeking to reflect the views of members in the products provided by the Society,
- providing good terms of employment for the Society's employees.

To ensure the financial viability and long term future of the Society, objectives have been set which will determine its direction over the next three years. These objectives can be divided into four specific areas;

- To increase new business sales of existing products by setting and monitoring tough but achievable targets, and establishing the following priorities.
- To maintain a strong position with existing members in areas where the Society is most active.
- To explore opportunities for increased sales in areas where the Society is most active.
- To examine the areas where the Society has a low level of activity and explore areas for expansion.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Whilst carrying out the activities, the Society will constantly review its range of products to ensure that they meet the requirements of its identifiable priorities.

- To continue to monitor budgets of all of the Society's fixed and variable costs.
- To implement a system of identifying and controlling all risks.

In the pursuance of these objectives, the Society will ensure that it is accountable for its activities by following the regulations and requirements of relevant Government regulators and agencies, the Code of Corporate Governance and the written rules of the Society.

The challenges facing the Society can be summarised as follows;

- Increasing its free assets from its present low level to 15%.
- Continued careful control of its budget.
- Ensuring sufficient volumes of new business are written to offset maturities and surrenders.
- The ability to increase bonus levels which are already at low rates is limited.
- A significant fall in the value of its equity investments would reduce the level of solvency.
- Ensuring that policyholder's expectations are met.
- The initiative which will allow CTF clients to change their investments to a JISA.
- An outflow of funds from the CTF once the child reaches 18 years of age.
- Directive status being imposed on the Society.

How will these challenges be met?

- Increasing free assets would be assisted by an increase in equity investments, but this increase can only be made when the markets are steady, on advice from our fund manager and with the approval of our actuary.
- Tight control of the budget will continue, but there are only certain areas in which the Board can achieve this, as they have very little control over professional fees, regulatory fees, AFM subscriptions, energy costs, business rates and postage.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

- Ensuring sufficient volumes of business are written to offset maturities deaths and surrenders has proved to be very difficult over many years. The advent of RDR has not assisted as this has left many of our local members unable to afford independent financial advice. The cost however of obtaining new business in 2013 did fall drastically and this is likely to continue to be at a low level in the years to come. This does mean that our acquisition expense ratio has also declined which reduces the use of with-profits funds to gain new business. The value of the individual premiums on policies being sold has also risen, so the Board believes that too much emphasis should not be placed on the number of policies in force, but rather on the potential profitability of each policy.
- The office building, as already stated, is costly to maintain and therefore will be placed back on the market in 2015 if the economic climate warrants it.
- It is one of the Board's priorities to increase the level of bonuses being paid to members, but any increase in bonus rates will need to be driven by improvements in solvency. The main mechanism by which this could be achieved is a reasonable period of sustained future of above average investment returns (over 4% a year). It is therefore essential that the Board endeavours to increase the equity percentage from 29% to around 36% as soon as trading conditions are right for such investments to be made. Our Investment consultant has therefore drawn up a re-investment strategy and he has assured the Board that the shares being purchased all have the potential for growth.
- The Board is very conscious that any significant fall in the value of its equity investments would impact on the level of solvency. In agreement with the fund manager and the appointed actuary, the Board has prepared an investment strategy plan for this event which involves disposal of equities at certain trigger points in the FTSE 100 index.
- The Board will continue to ensure that policyholder's expectations are met by keeping bonus levels at the highest level possible, ensuring that all Policyholders are treated fairly in the distribution of bonuses through the asset share distribution method, and efficient customer service. This will be achieved also by ensuring claims are processed and paid out when due without any delay and by ensuring that they are treated with respect and consideration at all times by the staff and management.
- The Society will seek to build on its relation with the local Asian heritage members as this now forms a significant proportion of all new business. The staff have built up an excellent relationship with these members and most of the Society's new business is achieved through recommendations from these new members.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Valuation Statement

An actuarial valuation of the Society's long term business was made as at 31st December 2013 in accordance with the Interim Prudential Sourcebook for Friendly Societies Instrument 2001. A copy of this valuation may be inspected at the Registered Office of the Society.

Statement of Solvency

In the opinion of our appointed actuary, Mr Guy Pentelow (OAC), the Society had the necessary margin of solvency as prescribed in the regulations made under Section 48 (2) of the Friendly Societies Act 1992 for each class of business as at 31st December 2013.

Our appointed actuary, Mr Guy Pentelow (OAC), has confirmed that the valuation reveals a surplus in the long term business funds after meeting statutory solvency requirements.

Treating Customers Fairly

The Society has always endeavoured to treat its customers fairly by ensuring that maturities, death claims, and other claims are paid out when due and without delay. The Committee of Management are always mindful that the Society belongs to the policyholders and takes this into consideration in controlling costs and setting targets for new business.

The Committee of Management maintains a high level of good business practice by ensuring that they receive, from the staff and Senior Management, good quality Management Information and verification that the staff are achieving a high level of client satisfaction in their dealings with members.

The Management does its utmost to ensure that all promotions and correspondence with clients are fair and not misleading and that all letters and reports are as easy to understand as is possible. All suitability letters for new business clearly explain the risks and potential downsides of any recommendation as well as the benefits.

The Society employs a Compliance Consultant, Mr Conolly Tunnard of OAC who carries out a half yearly review of all compliance, fairness issues and documentation to ensure that the Society and its staff fully comply with all regulations. It is also part of his remit to ensure that the Society fulfils its obligations in Treating Customers Fairly and is able to demonstrate this through documentation.

All staff are trained to deal with client enquiries and are fully aware of when enquiries should be passed to other colleagues.

The Society no longer gives financial advice and has a monitoring process in place to ensure that no advice given to any prospective or current member.

The Society operates an asset share and fund allocation policy to ensure that it matches risk and potential reward in an appropriate way.

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Where a client complains or raises any concerns regarding the service they have received the Chief Executive ensures that each case is investigated in a fair manner. On the rare occasions when a client feels the need to complain we use that opportunity to learn and to ensure that the complaint is used to improve our service to clients. At all times clients are kept fully aware of the progress made in resolving their complaint. The Committee is looking at ways in which some feed-back from clients can be received so that we can learn how we perform and if there is room to improve our service to clients.

Management adopts a rigorous approach to recruitment of staff and ensures that only staff with the right knowledge, skill and attitude are recruited. All staff have to maintain their competence by a planned training programme and are all actively encouraged to achieve higher qualifications. The majority of our current staff have all been with us for over two years and are all well qualified, competent and happy in their work.

The Society has a risk based approach to supervision to ensure full compliance with regulations in all areas.

Donations

The Society did not make donations exceeding £200 in total during the financial year nor did it make any donations to political organisations, nor has the Society any political affiliations.

Sponsorship

Following an appropriate review of previous sponsorships and, taking account of the economic climate, sponsorships were not entered into in this financial year.

Association of Financial Mutuals

The Society is an active member of the Association of Financial Mutuals and has adopted its Charter as a condition of membership. This Charter lays down strict practices and principles for its members and a copy is available to any of our members upon request.

The Future

We enter 2014 with the full confidence that the Society will continue to prosper during the year. The staff and Directors remain focused on what lies ahead so that we can continue to serve the interests of our members with high quality administration and dedication framed within the principle of "Treating Customers Fairly".

Report of the Committee of Management to the Members (continued)

Year Ended 31st December 2013

Provision of information to auditors

Each of the persons who are committee members at the time when this Report of the Committee of Management is approved has confirmed that:

- ❖ So far as the committee member is aware, there is no relevant audit information of which the Society's auditors are unaware, and
- ❖ Each committee member has taken all steps that ought to have been taken as a committee member in order to be aware of any information needed by the Society's auditors in connection with preparing their report and to establish that the Society's auditors are aware of that information.

Appointment of auditors

In accordance with Section 72 of the Friendly Societies Act 1992 a resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of PM+M Solutions for Business LLP as auditors for the Society.

Appointed actuary

OAC plc of Oxford continued to undertake and advise on all actuarial matters in 2013.

Appreciation

The Committee of Management wish to express their appreciation to all staff and members of the Society for their continued support and assistance throughout the year and to their professional advisers for the help and advice given during 2013.

By order of the Committee of Management

James H Geddes
Chief Executive

17 March 2014

Independent Auditors' Report to the Members of The Red Rose Friendly Society Limited

We have audited the financial statements of The Red Rose Friendly Society Limited for the year ended 31 December 2013 which comprise the Income and Expenditure Technical Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

RESPECTIVE RESPONSIBILITIES OF THE COMMITTEE OF MANAGEMENT AND AUDITORS

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 7, the Committee of Management is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Committee of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Committee of Management to identify any 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 United Kingdom Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2013 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Independent Auditors' Report to the Members of The Red Rose Friendly Society Limited (continued)

MATERIALITY

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit approach and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined an overall materiality for the financial statements as a whole of £20,000, which is approximately 2% of premium income.

We determined £5,000 to be the level over which we reported misstatements to the Committee of Management, as well as any misstatements below that which we felt required reporting dependant upon their nature.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The financial statements remain the responsibility of the Committee of Management. In establishing the risks of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment we considered the control environment within the Society and the work carried out by the Internal audit process. Following this assessment we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

In our audit we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reliable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures and analytical review techniques or a combination of these.

OPINION ON OTHER MATTER 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.

Independent Auditors' Report to the Members of The Red Rose Friendly Society Limited (continued)

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 the 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 nine provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.

Richard Ainscough (Senior Statutory auditor)

For and on behalf of PM+M Solutions for Business LLP

Chartered Accountants
Registered Auditors

Greenbank Technology Park
Challenge Way
Blackburn
Lancashire
BB1 5QB

17 March 2014

Report of the Actuary

Year Ended 31st December 2013

A valuation of the liabilities and assets of the Society was made at 31st December 2013 in accordance with the Interim Prudential Sourcebook for Friendly Societies.

- (i) the computation of the long term business provision has been performed on the basis of the recognised actuarial methods and assumptions.
- (ii) the long term business provision is sufficient to enable the Society to meet any liabilities arising out of insurance contracts as far as they can reasonably be foreseen.

The valuation reveals a surplus in the long term business funds after meeting statutory solvency requirements. I have recommended and the Committee of Management has agreed that part of this surplus be distributed to members as at 31st December 2013 as follows:

1. REVERSIONARY AND INTERIM BONUS

The current rates of reversionary bonus have been agreed by the Society's Committee of Management:

	2013	2012
Industrial Branch	0.00%	0.00%
Ordinary Branch – Series I	0.25%	0.25%
Ordinary Branch – Series II	0.375%	0.375%
Ordinary Branch - Series III	0.625%	0.625%
With-Profits Bonds	0.75%	0.75%
With-Profits ISA	3.00%	3.00%

2. TERMINAL BONUS

Terminal bonus rates for regular premium with-profit policies becoming claims, by death or maturity, are expressed as a percentage of sum assured, plus attaching reversionary bonus and are dependent on the number of policy years completed. The following terminal bonus rates continue until further notice.

Report of the Actuary (continued)

Year Ended 31st December 2013

2 TERMINAL BONUS Continued

Year of entry	Ordinary Branch terminal bonus %	Industrial Branch terminal bonus %
1993	30.0%	n/a
1994	29.0%	n/a
1995	28.0%	n/a
1996	27.0%	n/a
1997	26.0%	18.0%
1998	25.0%	17.0%
1999	24.0%	16.0%
2000	23.0%	15.0%
2001	22.0%	14.0%
2002	21.0%	13.0%
2003	20.0%	12.0%

Terminal bonus rates may be changed at any time.

Guy Pentelow BSc FIA

**Actuarial Function Holder & With Profits Actuary
OAC Actuaries and Consultants**

3 March 2014

Income and Expenditure Technical Account – Long Term Business

Year Ended 31st December 2013

	Note	2013 £	2012 £
Earned Premiums	2	1,008,275	1,999,351
Investment Income	3	407,364	349,623
Unrealised gains on investments		2,438,330	1,351,090
Unrealised deficit on revaluation of land and buildings		(7,300)	-
		<hr/>	<hr/>
		3,846,669	3,700,064
		<hr/>	<hr/>
Claims incurred	4	841,148	1,087,392
Change in other technical provisions	12	2,226,279	1,971,650
Net operating costs			
Acquisition costs	5	127,647	103,225
Administrative expenses		357,808	377,257
Depreciation of building		5,900	5,900
Investment expenses and charges		15,717	3,597
Tax attributable to long term business	9	-	-
Transfers to the fund for future appropriations	12	272,170	151,043
		<hr/>	<hr/>
		3,846,669	3,700,064
		<hr/>	<hr/>
Balance on the technical account long term business		-	-
		<hr/>	<hr/>

Balance Sheet**Year Ended 31st December 2013**

ASSETS	Note	2013 £	2012 £
Investments	10	21,602,384	19,145,290
Debtors			
Other Debtors		13,872	18,426
Amount due from group undertakings		1,310	1,310
Other Assets			
Tangible assets	11	278,698	291,950
Cash at bank and in hand		101,831	9,840
Prepayments and accrued income			
Accrued income		57,330	57,270
Deferred acquisition costs		68,000	131,000
		<hr/>	<hr/>
		22,123,425	19,655,086
		<hr/>	<hr/>
LIABILITIES			
Fund for future appropriations	12	1,523,307	1,251,137
Technical Provisions	12		
Long term business provision		20,400,132	18,173,853
Claims outstanding		113,648	140,135
Creditors			
Other creditors including taxation and Social Security		86,338	89,961
		<hr/>	<hr/>
		22,123,425	19,655,086
		<hr/>	<hr/>

These financial statements were approved by the Committee of Management on 17 March 2014 and signed on their behalf by:

A N TOTHAM**J H GEDDES****A GUEST**

Notes to Accounts

Year Ended 31st December 2013

1 ACCOUNTING POLICIES

(a) Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments. They have also been prepared in accordance with the Friendly Societies Act 1992 and the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

As a mutual life assurance society, under Financial Reporting Standard No: 1, the Society is exempt from the requirement to prepare a cash flow statement.

Consolidated accounts of the Society are not presented on the basis that the results and balances of the subsidiaries are not material.

(b) Premiums

Premiums are accounted for when the policy liability is set up and the premiums become due for payment.

(c) Investment income and expenses

Investment income and expenses includes dividends, rents, gains and losses on the realisation of investments and related expenses. Dividends are included as investment income on the date on which the shares are quoted "ex-dividend" and are grossed up for applicable tax credits. Interest, rents and expenses are accounted for on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and their book value.

(d) Unrealised investments gains and losses

Unrealised gains and losses on investments are calculated as the movement over the year in the difference between valuation and cost. All unrealised gains and losses are included in the long term business technical account.

(e) Claims

Claims incurred, which include related claims handling expenses, are accounted for, in the case of death claims, at the date of death, in the case of surrenders, when they are notified to the Society and, in the case of maturities and annuities, when they become due. Claims include bonuses payable.

(f) Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts.

Notes to Accounts (continued)

Year Ended 31st December 2013

(g) Deferred acquisition costs

Acquisition costs incurred during a financial year, but which relate to a subsequent financial year, are deferred to the extent to which they are recoverable out of future margins and amortised.

(h) Taxation

The charge for taxation is based on the result of the application of the rules for the taxation of friendly societies to the items included in the long term business technical account for the year. It also takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is material and that it is probable that a liability will crystallise.

(i) Pensions

The Society operates a defined contribution stakeholder pension scheme. Contributions payable for the year are charged in the income and expenditure account.

(j) Valuation of investments

Investments, including those held to cover linked liabilities, are stated at their current value as described below.

Loans and investments in subsidiary undertakings are shown in the balance sheet at cost less provisions for permanent impairment.

Listed investments are shown in the balance sheet at mid-market value at the balance sheet date.

(k) Depreciation of tangible assets

Provision is made for depreciation, on all tangible assets, at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following basis:

Office Furniture	10% per annum on reducing balance and straight line
Computer Equipment	33.33% per annum straight line
Long leasehold Buildings	2% per annum straight line

(l) Fund for future appropriations

The balance on this account represents funds which have not been allocated to specific policyholders. Transfers to and from the fund reflect the excess or deficiency of income over outgoings in each accounting period arising from participating business.

Notes to Accounts (continued)

Year Ended 31st December 2013

3 INVESTMENT INCOME	2013	2012
	£	£
Income from land and buildings	184	184
Income from other investments:		
Listed	285,667	287,195
Other	127	214
Gains/(Losses) on realisation of investments	121,271	59,716
Other interest received	115	2,314
	<hr/>	<hr/>
	407,364	349,623
	<hr/>	<hr/>

4 CLAIMS INCURRED

	Ordinary Assurance		Industrial Assurance		Total	
	2013	2012	2013	2012	2013	2012
	£	£	£	£	£	£
Free policy claims	-	-	31,464	18,852	31,464	18,852
Deaths	55,309	37,153	7,250	8,476	62,559	45,629
Maturities	583,504	758,350	15,125	65,181	598,629	823,531
Surrenders	84,095	109,576	5,231	8,040	89,326	117,616
Bonds	23,605	52,789	-	-	23,605	52,789
Quinquennial bonus	-	-	2,825	355	2,825	355
Income option bonds	8,050	8,384	-	-	8,050	8,384
Child Trust Fund deaths and transfers	7,690	16,136	-	-	7,690	16,136
ISAs	17,000	4,100	-	-	17,000	4,100
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	779,253	986,488	61,895	100,904	841,148	1,087,392
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Total claims incurred of £841,148 (2012 : £1,087,392) comprise:

Claims paid	867,635	1,077,706
Change in the provision for claims	(26,487)	9,686
	<hr/>	<hr/>
	841,148	1,087,392
	<hr/>	<hr/>

Notes to Accounts (continued)

Year Ended 31st December 2013

5 ACQUISITION COSTS	2013	2012
	£	£
Acquisition costs incurred	64,647	130,225
Change in deferred acquisition costs	63,000	(27,000)
	<hr/>	<hr/>
Net charge included in technical account	127,647	103,225
	<hr/>	<hr/>

6 EXPENSES

<i>Remuneration of the Committee of Management</i>	2013	2012
	£	£
Emoluments in respect of qualifying services	118,772	114,464
	<hr/>	<hr/>

The emoluments of the Chairman were £12,132 (2012 - £11,840).

The emoluments of the highest paid Committee member were £66,420 (2012 : £69,606).

The emoluments of the other Committee members, not holding office, fell into the following band;

£ 5,001 - £10,000 : 4 (2012 : 4)

<i>Operating leases</i>	2013	2012
	£	£
Payments under operating leases	11,493	11,493
	<hr/>	<hr/>

7 AUDITORS' REMUNERATION

	2013	2012
	£	£
Audit	8,750	8,750
Non Audit	12,565	13,192
	<hr/>	<hr/>
	21,315	21,942
	<hr/>	<hr/>

Notes to Accounts (continued)**Year Ended 31st December 2013****8 APPOINTED ACTUARY**

The appointed actuary was not a member of the Society and did not have any pecuniary interest in the Society at any time during the year. Fees payable to the firm in which the appointed actuary is a director amounted to £61,514 including Value Added Tax (2012 : £70,473). The appointed actuary received no other pecuniary benefit from the Society.

9 TAXATION

There was no Corporation Tax charge for the current or preceding year.

10 INVESTMENTS

	Carrying Value		Historical Cost	
	2013	2012	2013	2012
	£	£	£	£
UK government securities	639,319	663,655	478,238	478,238
UK debenture and loan stocks	4,189,141	4,606,690	4,044,614	4,287,534
Equities	2,272,623	1,815,835	1,847,109	1,563,469
Child Trust Fund investment	14,429,965	11,966,522	10,709,127	10,709,831
Society loans	1,842	2,401	1,843	2,401
Investment in subsidiary undertakings	3,000	3,000	3,000	3,000
Cash deposit	66,494	87,187	66,494	87,187
	<hr/>	<hr/>	<hr/>	<hr/>
	21,602,384	19,145,290	17,150,425	17,131,660
	<hr/>	<hr/>	<hr/>	<hr/>

Of the above £21,531,048 is ascribable to listed investments all of which have been granted a listing on a recognised investment exchange.

The investments in subsidiary undertakings comprises the whole of the ordinary share capital of three companies, all of which were incorporated within the UK. Details of these are as follows:

Red Rose Insurance Services Limited

The principal activity of the company was that of agent for the transaction of general insurance business. The company has not traded in the year. At 31st December 2013 its capital and reserves were £3,317

Red Rose Mortgage Services Limited

The principal activity of the company was that of agent for mortgage business. The company has not traded in the year. At 31st December 2013 its capital and reserves were £208.

Notes to Accounts (continued)

Year Ended 31st December 2013

10 INVESTMENTS - continued

Red Rose Independent Financial Advisors Limited

The company has not yet commenced trading. At 31st December 2013 its capital and reserves were £1,000.

11 TANGIBLE ASSETS

	Long Leasehold Land & Buildings £	Office Equipment £	Total £
<i>Cost or valuation</i>			
At 1 st January 2013	295,000	46,473	341,473
Additions	-	2,673	2,673
Disposals	-	-	-
Adjustment on revaluation	(25,000)	-	(25,000)
	<hr/>	<hr/>	<hr/>
At 31 st December 2013	270,000	49,146	319,146
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 1 st January 2013	11,800	37,723	49,523
Charge for year	5,900	2,725	8,625
Disposals	-	-	-
Adjustment on revaluation	(17,700)	-	(17,700)
	<hr/>	<hr/>	<hr/>
At 31 st December 2013	-	40,448	40,448
	<hr/>	<hr/>	<hr/>
<i>Net Book Value</i>			
At 31 st December 2013	270,000	8,698	278,698
	<hr/>	<hr/>	<hr/>
At 31 st December 2012	283,200	8,750	291,950
	<hr/>	<hr/>	<hr/>

The leasehold land and buildings were valued by the Committee of Management after taking appropriate professional advice at £270,000 at the balance sheet date, based on an existing use value. The land and buildings are held for the residue of a term of 125 years commencing March 1996 subject to a peppercorn (i.e. nominal) ground rent.

Notes to Accounts (continued)

Year Ended 31st December 2013

12 FUNDS AND TECHNICAL PROVISIONS

The movement on funds and technical provisions during the year are as follows:

	Long term business provision £	Provision for outstanding claims £	Fund for future appropriations £
At 1 st January 2013	18,173,853	140,135	1,251,137
Change in other technical provisions	2,226,279		
Movement in provision for outstanding claims		(26,487)	
Transfer to technical account			272,170
	_____	_____	_____
At 31 st December 2013	20,400,132	113,648	1,523,307
	_____	_____	_____

Long Term Business Provision

The long term business provision has been calculated using a net premium method with the following principal assumptions:

		Mortality	Interest Rate
Industrial Branch	-Taxable business	ELT 16 M Ult	1.80% pa
	-Tax exempt business	ELT 16 M Ult	2.20% pa
Ordinary Branch (issued before 1 st January 2002)	-Taxable business	AM00 Ult	1.80% pa
	-Tax exempt business	AM00 Ult	2.20% pa
Ordinary Branch (issued after 1 st January 2002)	-Taxable business	AM00 Ult	1.90% pa
	-Tax exempt business	AM00 Ult	2.40% pa

Explicit provision is made for declared reversionary bonuses, including those declared as a result of the current valuation. No explicit provision is made for future reversionary bonus or terminal bonus.

13 BONUSES

The cost of any reversionary bonus awards is included within the long term business provision as follows:

	2013 £	2012 £
Cost of reversionary bonus	50,962	49,272
	_____	_____

Notes to Accounts (continued)**Year Ended 31st December 2013****14 PENSIONS**

The Society operates a defined contribution stakeholder pension scheme. The assets of the scheme are held separately from those of the Society in an independently administered scheme. There was no pension cost incurred by the Society.

15 OPERATING LEASE COMMITMENT

At 31st December 2013 the Society had annual commitments under non-cancellable operating leases as follows:

	Office Equipment	
	2013	2012
	£	£
Expiry Date		
Between 2 and 5 years	11,493	11,493
	<hr/>	<hr/>

16 CAPITAL STATEMENT

The following table sets out a reconciliation of the Society's fund for future appropriations with its available capital resources as disclosed in FSC1 Form 9 line 34.

	2013	2012
	£	£
Fund for future appropriations	1,523,307	1,251,137
Adjustments for valuation differences	(11,356)	(5,577)
Inadmissible assets	(81,006)	(144,001)
	<hr/>	<hr/>
Available capital resources	1,430,945	1,101,559
	<hr/>	<hr/>

The Society's capital resources have been determined by reference to regulations prescribed by the Prudential Regulation Authority (PRA). These regulatory capital tests are based upon solvency capital and a series of prudent assumptions in respect of the type of business written.

Notes to Accounts (continued)

Year Ended 31st December 2013

17 CAPITAL STATEMENT (continued)

The Society is a mutual organisation and there are no shareholders. As at 31 December 2013 the available capital resources were made up by the Fund for Future Appropriations (FFA). The FFA is the surplus accumulated that has not yet been allocated to policies. It forms the Society's working capital and is available to meet risk and capital requirements, as well as any uncertain additional liabilities that may arise in the future.

The Society's objectives in managing capital are that:

- The Society will always have sufficient funds available to meet its contractual obligations to its policyholders.
- The Society's exposure to risk is managed to ensure that the capital resources available always meet the minimum capital requirements set out by the PRA.
- The Society will have sufficient capital resources available to fund its growth expectations.

Within these constraints the Society aims to maximise returns to policyholders.

Analysis of policyholders' liabilities

The following table analyses the regulatory value of liabilities (after allowing for the cost of the declared reversionary bonus).

	2013 £	2012 £
Total	20,206,488	17,969,430

The capital statement shows an increase in available capital resources of £329,386 during the year which is analysed in the table below. As the Society is not required to report results on a "realistic" basis, the policyholder liabilities do not include allowance for future final bonuses.

	Amount £'000s
Available capital resource as at 1 January 2013	1,102
Costs of changes to assumed valuation rates of interest	(530)
Costs of writing new business	(22)
Impact of lapses and surrenders	556
Investment gains	247
Costs of paying reversionary bonuses	(2)
Changes in expense and closure reserves	60
Changes in resilience reserves	5
Other	15
Available capital resource as at 31 December 2013	<u>1,431</u>

Notes to Accounts (continued)

Year Ended 31st December 2013

17 CAPITAL STATEMENT (continued)

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets as well as the effect these changes in market conditions would have on the value of the liabilities. It is also sensitive to the expense and persistency experience and, to a lesser extent, variations in mortality.

The most significant sensitivities arise from changes to the value of assets and liabilities in variable market conditions. If fixed interest yields were to increase by 0.5% and this were accompanied by a 10% fall in the value of equities, it is estimated that the value of assets would fall by approximately £250,000. This would be accompanied by a corresponding fall in the value of long term business provision of around £115,000.