The Red Rose Friendly Society Limited

153rd Annual Report and Accounts for the Year Ended 31 December 2016

The Red Rose Friendly Society Limited

Contents

Society Information

Committee of Management (Board)	Anthony Totham FCA, CTA Mark Sedgley ACII Alan Guest CITP, MBCS Anthony M Hedley FCA, Chartered FCSI Timothy Williams
Officers	Chairman: Anthony Totham FCA, CTA Chief Executive: Mark Sedgley ACII
Registered Office	Parkgates 52a Preston New Road Blackburn Lancashire BB2 6AH
Independent Advisers and Consultants	
Actuaries	Stephen Dixon Steve Dixon Associates LLP Oaks House 12-22 West Street Epsom Surrey KT18 7RG
Auditor	Royce Peeling Green Ltd The Copper Room Deva Centre Trinity Way Manchester M3 7BG
Internal Auditor	Hayes and Co St Andrews House 11 Dalton Court Commercial Road Darwen BB3 0DG
Bankers	Royal Bank of Scotland Plc 58-62 King William Street Blackburn BB1 7HU
Fund Managers	Quilter Cheviot 73 King Street Manchester M2 4NG

The Society is:
Registered under the Friendly Societies Act 1992, number 43 coll.

Authorised by the Prudential Regulation Authority and Regulated by the Financial Conduct Authority and Prudential Regulation Authority number 110097.

Strategic report

The Committee of Management (Board) welcomes you to the Annual Reports and Accounts for the year ended 31 December 2016.

The aim is to provide a breakdown of both the financial and non financial information that helps the reader understand the progress the Society has made to the major risks and challenges it faces, the way the Society is governed and the outlook for the future.

Business review
As we suggested in the 2015 accounts 2016 has turned out to be a challenging year for the Society in many ways. However a number of benefits resulted from decisions made and the direction the Board chose for the Society.

Having discussed the various options with our regulators, the Board decided that of the options available it was in the best interest of the members that the Society reduced the size of the funds under management to remain under the threshold of Solvency II and remain as a non directive Society.

The main rationale of this at that time was that we would not incur the significant increase in professional and regulatory costs that we were advised that Solvency II firms would have. It is now evident that the true costs of complying with the new Solvency II regime are significantly greater than had been originally estimated. Had we not reduced the size of the Society then these additional costs would have been very significant and would have affected the returns to members going forward. We believe that the Society is now in a stronger position than at the last year end.

We are pleased to confirm that during 2016 the transaction was completed and part of the Child Trust Fund was transferred to another provider.

We thank the supervisory teams at the Prudential Regulation Authority and the Financial Conduct Authority for their assistance and support throughout the process. We also thank our members for their overwhelming support of the transfer and to our actuarial advisors and legal team for their support and guidance during the transaction.

The Board would also like to thank all staff members for their dedication during the year in what has been an uncertain and challenging time for everyone. In particular our thanks go to our Chief Executive, Mark Sedgley, who worked tirelessly throughout the process to ensure that the transaction was completed successfully on time and within budget.

We would like to thank all our professional advisors for their assistance to the Society over the last year, in particular Royce Peeling Green Ltd for becoming our auditors and we look forward to working with them going forward.

Finally, we would like to offer special thanks to Colin Silcock who retired from the Board during the year. Colin served the Society as Chairman, Chief Executive and Board member for over 25 years. We thank Colin for all his work for the Society and wish him a long and happy retirement.

Future Developments
The Board continued to explore ways to promote the Society and sales opportunities. The existing website has been totally renewed and modernised. This was launched in early 2017 and will be used to complement the self-employed Introducers, as well as giving enquirers the opportunity to enquire online for the Society's products. In addition to applications received via IFAs, the Society took on several new self-employed Introducers during the year and more will be appointed. This has considerably strengthened the core route to market of the Society and helps to service the many referrals we receive from existing members.

Customer service
The Society's Board and all staff members recognise the importance of exemplary customer service and we are constantly looking for ways of reducing overheads and improving customer service. The new website will be easier to use for existing and potential new members, our money laundering and customer verification processes now use an online system to make applying for policies easier and reducing the risk to the Society. We continue to make significant improvements to our claims processing.

Results and Performance
The results of the Society during 2016 have been affected by the transfer of part of the Child Trust Fund to another provider. During this period we did not accept new business to the Society and only started to accept new policies in October 2016 when the final confirmation of the transfer had been received.

As expected this had an effect and our net premium income reduced from £986,257 to £923,941.

Investment income also reduced from £236,733 to £226,813 as the effect of lower interest rates in the gilts/bond market is felt.

However, the gains both realised and unrealised on the Society's portfolio has been £2,708,847 compared to a loss of £73,045 last year. The gains have been mainly on the CTF linked fund which is mainly an equity based fund. The other funds have also performed well.

We received, net of costs, £248,656 for the transfer of part of the Child Trust Fund. The total transfer value was £6,444,068.

Our administrative costs, excluding acquisition costs, have reduced from £359,273 to £331,138.

The result of all of these is that our capital in excess of regulatory capital requirements has increased from £420,070 to £1,009,860.

This has allowed the Society to increase some of the reversionary bonus rates in particular on the ISA, JISA and Bond. In addition terminal bonus rates for most policies that mature have been increased.

Principal risks and uncertainties facing the Society:
Note 4 to the accounts details the principal risks that face the Society and the policies and procedures that are in place to minimise these risks.

The Board feels that as the Society's major risk was being caught in the Solvency II regime this risk has been confronted and dealt with.

With that our long term strategy of organic growth can continue.

Approval of the strategic report
The Strategic Report was approved by the Committee of Management on 20 March 2017 and signed on its behalf by Anthony Totham, Chairman.

Anthony Totham

Anthony Totham
Chairman
20 March 2017

Corporate Governance Report

The Combined Code on Corporate Governance
The Corporate Governance Code for Mutual Insurers was issued with the support of the FSA (now FCA) and annotated 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 detailed 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 where it is not cost prohibitive for a small Society.
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, information technology and marketing and all round business activities serves the Society well and so, in the next recruitment process we will be seeking a new director who has the necessary skills to meet any vacancy when it occurs.
All vacancies for appointment to the Committee of Management are advertised locally and on the AFM website so that nationwide coverage is achieved. We do not use the services of an external recruitment agency due to the high costs involved but do ensure that the vacancy is open to all people with the necessary skills regardless of sex, religion, age or ethnic background.
Three 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 Board's responsibilities towards the Society.
The Chief Executive also holds the role of Company Secretary as the Board do not consider it appropriate from a cost point of view to employ another person in this role.

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

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 telephone calls. The Chief Executive in his monthly report to the Board details all relevant correspondence from any member who has a concern.

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 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. However, it is worth noting that at the last recruitment process we did not receive any applications from females or from any ethnic background applicants.

Independence: Three of the Board members have served over nine years but the Board believes that three members are independent both in their judgment and actions. These Board members are subject to annual re- election.

Remuneration report

Chairman	£13,114 (2015: £13,392)
Chief Executive	£84,406 (2015: £91,462)
A Guest	£7,980 (2015: £8,238)
A M Hedley	£7,980 (2015: £8,238)
T Williams	£7,980 (2015: £8,100)
C Silcock	£3,325 (2015: £8,238)

The Chairman is a partner in Hayes & Co, the society's internal auditor, which received fees of £4,920 (2015: £6,000) for internal audit services during the year. The internal audit is managed by another partner in Hayes & Co and the reports are dealt with by the audit committee on which the Chairman does not sit.

Attendance at Committee of Management meetings during 2016

	Possible	Actual	
Anthony Totham	12	12	Chairman
Mark Sedgley	12	12	Chief Executive
Alan Guest	12	11	Senior Director – Non-executive Director
Anthony M Hedley	12	10	Non-executive Director
Colin G Silcock	4	4	Non-executive Director
Timothy Williams	12	11	Non-executive Director

Directors:

Chairman - Anthony 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 6th April 2017.

Chief Executive - Mark Sedgley: Mark has 30 years experience in the financial services industry and has worked for several successful mutual societies as well as two of the largest financial services firms in the UK. He has held many senior roles including Chief Executive and he brings a wealth of very relevant experience to the Board. Mark was voted onto the Committee for an initial 3 year term at the 2015 AGM.

Non-executive Directors:

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 and is a Director and Company Secretary for the Quality Assurance Ombudsman, Queens Chambers Manchester. He will be offering himself for re-election at the Annual General Meeting on the 6th April 2017.

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 6th April 2017.

Timothy A Williams: For the last 25 years he has lived in East Lancashire. Since leaving school he has worked at Junior and Senior levels within a variety of large multi-national UK Financial Services companies using and adapting the Technical, Marketing and Sales skills he has acquired. In 2005, with a colleague, he started from scratch a successful Financial Services business that now employs 17 people. Tim was voted onto the Committee for an initial 3 year term at the 2015 AGM.

Sub Committees

Meetings are also held of the Audit Sub Committee and Resources, Recruitment and 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,
- to review significant financial reporting judgements contained in them,
- to review 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.

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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.

Resources, Remuneration & Nominations Committee

Members: Anthony M Hedley (Chairman)
Alan Guest

The role of this Committee is:

- to monitor the resources available within the Society,
- 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 assists with the appointment of senior members of the team.

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 makes recommendations as to how these could be achieved.

Appraisals

The Chairman is appraised annually by the Senior and Non-Executive Directors without the Chairman being present 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 Committee at the next meeting following appraisal.

The Corporate Governance Report was approved by the Committee of Management on 20 March 2017 and signed on its behalf by Anthony Totham Chairman.

Anthony Totham

Anthony Totham
Chairman

Committee of Management Report for the year ended 31 December 2016

Committee of Management

Chairman	Anthony Totham FCA, CTA
Non-executive Directors	Alan Guest CITP, MBCS Anthony M Hedley FCA, Chartered FCSI Timothy Williams
Chief Executive	Mark Sedgley ACII
Secretary	Mark Sedgley ACII

Responsibilities of the Committee of Management

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 information can be extracted 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 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 actions needed to achieve those aims.
iv) Major resource implications of the strategic aims including information technology, senior management and staff, and financial implications.
v) Financial implications for the Society based on several different assumptions.
vi) Corporate planning including the strategic aims and how 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.
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 ensure the Society remains fully compliant with the FCA, PRA and the Code of Corporate Governance.
xvi) Complying with the Code of Corporate Governance where possible.

Responsibilities of the Chairman

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

- that all directors receive accurate, timely and clear information,
- that constructive relations between executive and non-executive directors exist,
- the effective contribution of non-executive directors, and
- the Committee of Management's effectiveness on all aspects of its role,

To lead the Committee of Management effectively 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,
- Risk control, monitoring and identification, and
- 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.

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.

Meetings

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. A minimum of two meetings are held annually with the investment consultants 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:

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 Society aims to;
- provide low cost life and investment policies to the less well-off at premiums which are affordable to the Society's identifiable market place,
- remain below the Solvency II technical provision threshold (25m Euro of technical provisions)
- provide and maintain a high level of service to members,
- manage investments to the satisfaction of its members,
- ensure that the Society follows all regulations and conforms to the Code of Corporate Governance,
- 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 increases 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, the following objectives have been set;
- To increase new business sales of existing products whilst remaining below the Solvency II technical provisions threshold of 25m Euro
- 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.

Whilst carrying out these activities, the Society will constantly review its range of products to ensure that they meet the requirements of its identified priorities and will
- Continue to monitor budgets of all of the Society's fixed and variable costs.
- Continue the risk management processes.
- 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;

- Maintaining the free assets at its current level of 15% of non CTF Funds.
- 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.
- A significant fall in the value of its equity investments would reduce the level of solvency.
- Ensuring that policyholder's expectations are met.

How will these challenges be met?
- Maintaining free assets will be assisted by maintaining a high level of investment in equities in our portfolio of investments.
- Tight control of the budget will continue, and there is a constant search for opportunities to reduce fixed and variable expenses wherever possible.
- 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 above average investment returns (over 4% a year). A major investment strategy review was undertaken during the year and ongoing close monitoring of investment markets takes place by both the investment consultants and Committee members. 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 policyholders' 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 members are treated with respect and consideration at all times by the staff and management.
- The Society will seek to build on its relationships 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.

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.

Donations

No donations to any political parties or charities were made during the financial year.

Sponsorship

No sponsorships were entered into in 2016.

Appointment and provision of information to auditors

Due to a change in their strategic direction our previous statutory auditor was unable to continue as our independent auditor. We are pleased that Royce Peeling Green Ltd agreed to take over as independent auditors and we look forward to working with them in the future.

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.

The Committee of Management Report was approved by the Committee of Management on 20 March 2017 and signed on its behalf by Anthony Totham, Chairman.

Anthony Totham

Anthony Totham
Chairman
20 March 2017

INDEPENDENT AUDITOR'S 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 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

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 that we are required to state to them in an auditor's report. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Society and the Society's members as a body, for this report, or for the opinions that we have formed.

Respective responsibilities of the Committee of Management and auditor

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 9, the Committee of Management is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of.

- whether the accounting policies are appropriate to the 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 Annual Report to the Members to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

To help direct audit testing we set thresholds for materiality. Auditing standards describe a misstatement or an omission as "material" if it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The auditor has to apply judgement in identifying where a misstatement or omission is material and to do so the auditor identifies a monetary amount as "materiality for the financial statements as a whole".

The materiality level set helps us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole to be £88,000.

We have planned the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. We have reported to the Committee of Management all misstatements identified during our audit above £4,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

In our audit, we tested and examined information, using sampling and other audit techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. Due to the lack of segregation of duties within the Society it was not possible to rely on testing of controls; instead substantive procedures were performed using sampling, analytical review, or a combination of both.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE RED ROSE FRIENDLY SOCIETY LIMITED (continued)

We considered the following areas to be those that required particular focus in the current year.

Risk	How the scope of our audit responded to the risk
Revenue recognition is inaccurate or incomplete within the accounts.	Documented systems and performed testing to confirm the systems appear to be operating as documented. Validated a sample of transactions. Checked investment income received to third party data to test completeness.
The financial statements are misstated due to the effects of management override	Reviewed a sample of transactions. Scrutinised entries for any unusual items, retrospective review carried out for any evidence of management bias in the figures.
Related party transactions are not disclosed.	We have substantively tested evidence relating to costs of attending meetings, services provided outside of this and director emoluments. The directors have confirmed that there are no further undeclared related parties or transactions with those parties.
The future viability of the society is threatened by non-compliance with the requirements arising from regulation.	Documents submitted during the year and compliance with requirements checked. Correspondence with the PRA/FCA and Board minutes reviewed.
Technical provisions are materially misstated	We assessed the competence of the actuary engaged by the Society and reviewed his work.
Investments are materially misstated	We obtained valuation reports and checked these against third party data.
Deficiencies in the systems and controls operated by investment managers in respect of assets where the Society has delegated authority to the investment manager	We have obtained directly from Quilter Cheviot its Assurance Report on Internal Controls (AAF 01/06) for the year ended 30 September 2015 dated 7 December 2015, independently verified by Deloitte LLP. The investment manager has also provided written assurance that at 20 March 2017 there had been no significant changes to the internal controls and procedures operated by Quilter Cheviot since 30 September 2015 and it had identified no reasons to expect any significant failings in those internal controls and procedures as at that time.. We have obtained directly from Legal & General its Assurance Report on Internal Controls (AAF 01/06) in respect of pooled funds for the year ended 31 December 2015 dated 26 February 2016, independently verified by PricewaterhouseCoopers LLP. The investment manager also provided written assurance that at 9 January 2017 there had been no significant changes to its internal controls and procedures since 31 December 2015 and it had identified no reasons to expect any significant failings in those internal controls and procedures at that time.

Opinion of 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 2016 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 Annual Reports have 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 AUDITOR'S 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:

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the course of our audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

The Friendly Societies Act 1992 requires us to report to you if, in our opinion:

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

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

Royce Peeling Green Ltd

Martin Chatten (Senior Statutory Auditor)
For and on behalf of
Royce Peeling Green Ltd
Chartered Accountants & Statutory Auditor

The Copper Room
Deva Centre
Trinity Way
Manchester M3 7BG 20 March 2017

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

Technical account: Long-Term Business	Notes	**2016**	2015
		£	£
Net Earned Premium Income	5	923,941	986,257
Investment Income	6	226,813	236,733
Unrealised gains on Investments	7	1,570,090	0
Realised gains on Investments	6, 7	1,138,757	58,172
Other income	8	248,656	0
Total technical income		**4,108,257**	1,281,162
Gross benefits and claims	9	1,005,989	894,246
Claims ceded to reinsurers	9	0	0
Net benefits and claims		1,005,989	894,246
Change in Long Term Business liabilities	19, 20	2,052,515	15,958
Bonuses and rebates	10	54,593	50,209
Net operating expenses	11	390,491	414,739
Investment expenses and charges	12	5,840	942
Unrealised losses on investments	7	0	131,217
Unrealised deficit on revaluation of tangible assets		0	0
Tax attributable to the long-term business		0	0
Transfer to/(from) the Fund for Future Appropriations	18	598,829	(226,149)
		3,102,268	**386,916**
Balance on the Technical account: Long-Term Business		**0**	**0**

STATEMENT OF FINANCIAL POSITION
at 31 December 2016

	Notes	2016	2015
		£	£
Assets			
Investments			
- Investment in subsidiary undertakings	14	**3,000**	3,000
- Other financial investments	14	**8,345,516**	7,542,644
		8,348,516	7,545,644
Assets held to cover linked liabilities	14	**9,594,048**	14,115,821
Debtors			
- Other debtors	15	**9,280**	25,101
Other assets			
- Tangible assets	16	**247,460**	254,894
- Other financial assets		**350,968**	
- Cash at bank and in hand		**55,286**	39,867
Prepayments and accrued income			
- Deferred acquisition costs	17	**25,000**	60,000
- Other prepayments & accrued income		**56,710**	38,653
Total assets		**18,687,268**	22,079,980
Liabilities			
Fund for future appropriations	18	**1,798,075**	1,199,246
Technical provisions			
- Long term business	20	**6,737,075**	6,572,266
- Claims outstanding		**127,679**	103,029
Technical provision for linked liabilities	21	**9,594,048**	14,115,821
- Claims outstanding		**350,968**	0
Creditors			
- Other creditors		**79,423**	89,618
Total liabilities		**18,687,268**	22,079,980

The financial statements on pages 16 to 39 were approved by the Board of Directors on 20 March 2017 and signed on its behalf by:

Anthony Totham *Mark Sedgley*

Anthony Totham
Chairman
20 March 2017

Mark Sedgley
Chief Executive

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 102 and Financial Reporting Standard 103 as issued by the Financial Reporting Council and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations').

In accordance with FRS 103 on Insurance Contracts, the Society has applied existing accounting practices for insurance contracts, modified as appropriate to comply with applicable standards.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies that have been applied consistently by all Society companies to all periods presented in these financial statements are set out below.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies selected for use by the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

Consolidated accounts have not been prepared for the group on the grounds that the results and balances of the subsidiaries, which are dormant, are not material.

1.2 Going Concern

After making enquiries, the directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements. As set out in note 3 the Society has capital in excess of the regulatory capital requirement for a non-directive society and therefore the board believes it is appropriate to prepare the financial statements on a going concern basis.

1.3 Accounting for net earned premiums

Regular premiums on long-term insurance and participating investment contracts are recognised as income over the time of the contract. For single premium business, recognition occurs on the date from which the policy is effective. Reinsurance premiums payable are accounted for when due for payment.

1.4 Accounting for investment income

Investment income includes dividends and interest from investments at fair value. Dividend income is recognised when the right to receive payment is established. Other investment income is included on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

1. Significant accounting policies (continued)

1.5 Accounting for net gains/(losses) on investments
Realised gains and losses on investments are calculated as the difference between net sales proceeds and their valuation at the last Statement of Financial Position date or, where purchased during the year, the purchase price.

Unrealised gains and losses on investments represent the difference between the valuation of fair value assets at the Statement of Financial Position date and their valuation at the last Statement of Financial Position date or, where purchased during the year, the purchase price.

1.6 Accounting for other income
Other income primarily relates to interest receivable and unit linked income.

1.7 Accounting for claims and benefits
Maturity claims and regular annuity payments are accounted for when due for payment. Surrenders are accounted for on the earlier of the date when paid or when the policy ceases to be included within the long-term insurance contract liability.

Death claims are accounted for when the Society is notified. The value of claims on participating contracts includes bonuses paid or payable. Reinsurance recoveries are accounted for in the same period as the related claim.

1.8 Accounting for long term insurance liabilities
The long-term business provision is determined by the Board on the advice of the Actuarial Function Holder as part of the annual actuarial valuation of the Society's long-term business. The provision is initially determined in accordance with the requirements of the Prudential Sourcebook for Insurers. In accordance with normal insurance practice, certain reserves required for the statutory valuation returns are not required to be included in these accounts that are designed to present a true and fair view. This adjusted basis is referred to as the modified statutory solvency basis. This makes sufficient provision for future expenses of fulfilling the long-term contracts and includes a provision for existing reversionary bonuses and current reversionary bonuses declared as a result of the valuation. Future reversionary bonuses are implicitly provided for by use of valuation rates of interest below those expected. No provision is made for terminal bonuses, which can be varied at any time depending on investment conditions. These liabilities are calculated using historic Society experience.

1.9 Accounting for mutual bonuses and interest
Bonuses to policyholders are recognised in the Technical Account Long-Term Business when declared and Terminal Bonuses when paid.

1.10Accounting for Financial Investment
Financial Assets are designated upon initial recognition at fair value through profit and loss on the statement of financial position.

The fair value is based upon quoted bid prices on the balance sheet date.

Net gains or loss arising from charges in the fair value are presented in the Statement of Comprehensive Income within 'unrealised gain on investments' or 'unrealised losses on investments' in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

1. Significant accounting policies (continued)

1.11 Accounting for property, plant and equipment
Plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Society and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The residual values and useful lives of plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period if there are indicators of change. The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is assessed as greater than its estimated recoverable amount.

Land and buildings are measured at fair value, where deemed necessary full valuations are made by independent, professionally qualified Valuers. Any surplus or deficit at valuation is taken to the Statement of Comprehensive Income.

Depreciation is charged on other assets so as to write off the cost or valuation of assets, over their estimated useful lives, less estimated residual value, using the straight-line method on the following bases:

Long Leasehold Property	2%
Fixtures, Fittings and Furniture	12.5%
Computer Equipment	33.3%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease

1.12 Accounting for impairments of non financial assets
At each reporting date, the Society reviews the carrying amounts of its tangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Society estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

1. Significant accounting policies (continued)

1.13 Accounting for cash and cash equivalents
Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments which are readily convertible, being those with original maturities of three months or less.

Cash and cash equivalents are measured at market value.

1.14 Accounting for leases
Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

1.15 Accounting for retirement benefits
The Society does not operate an employee pension scheme. The Society has opened an Auto Enrolment Pension Scheme during 2016.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Society's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

1.16 Accounting for deferred acquisition costs
In respect of insurance contracts, acquisition costs comprise all direct and indirect costs incurred in writing new contracts. Deferred acquisition costs for insurance contracts are amortised over a period which is consistent with the assessment of the expected pattern of receipt of future revenue margins for each product type. All deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the Statement of Comprehensive Income.

1.17 Accounting for foreign currencies
Investment assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the dates of the transactions. Exchange gains and losses are dealt with in that part of the Statement of Comprehensive Income in which the underlying transaction is reported.

Currently all assets are denominated in Sterling.

1.18 Accounting for the Fund for Future Appropriations
The Fund for Future Appropriations represents the excess of assets over and above the long-term insurance contract liabilities and other liabilities. It represents amounts that have yet to be formally declared as bonuses for the participating contract policyholders together with the free assets of the Society. Any profit or loss for the year arising through the Statement of Comprehensive Income is transferred to or from the unallocated divisible surplus.

1.19 Statement of Cash Flows
As a Mutual Life Assurance Society, under FRS102 the Society is exempt from the requirements to prepare a cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

1. Significant accounting policies (continued)

1.20 Accounting for Taxation

Taxation expenses for the period comprise asset deferment tax recognised in the reporting period. The charge is based on the result of the application of the rules for the taxation of Friendly Societies. 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 crystalize.

2. Critical accounting judgements and estimates

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Fair value of financial assets

Market observable inputs are used wherever possible. In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's length transactions, discounted cash flow analysis and option pricing models. For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. This valuation will also take into account the marketability of the assets being valued.

Long term business provision

The valuation of participating contract liabilities is based on assumptions reflecting the best estimate at the time. The valuation of non-participating insurance contracts is based on prudent assumptions; a separate calculation is also performed to assess the non-participating value of in-force business which is based on best estimate assumptions allowing for a margin of risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows.

The assumptions used for mortality are based on standard industry tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for investment returns, expenses and mortality are based on current market yields, product characteristics, and relevant claims experience.

The assumptions used for discount rates are based on current market risk rates, adjusted for the Society's own risk exposure. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

3. Capital and Risk Management

This section details the capital and risk management approach of the Society. The Society seeks to create value for its members by investing in the development of the business while maintaining an appropriate level of capital available.

The risk appetite for each type of principal risk is set based on the amount necessary to meet the PRA's capital requirements.

3. Capital management (continued)

Policies and objectives

The Society's objectives in managing capital are:

(i) The Society will always have sufficient funds available to meet its contractual obligations to policyholders

(ii) 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

(iii) To give confidence to policyholders and other stakeholders who have relationships with the Society and

(iv) The Society will have sufficient capital resources available to fund its growth expectations

These objectives are reviewed at least annually, and benchmarks are set by which to judge the adequacy of the Society's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Society.

The assessment depends on various actuarial and other assumptions about potential changes in market prices, future operating experience and the actions management would take in the event of particular adverse changes in market conditions.

The capital requirement is the statutory minimum capital requirement as required in the PRA Rulebook.

Management intends to maintain surplus capital in excess of the PRA's total requirements and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

The Society complied with all externally imposed capital requirements to which it was subject throughout the reporting period.

Capital Statement

The following table sets out the capital available:

	2016 £		2015 £	
Fund for future appropriations	1,798,075		1,199,246	
Less: Inadmissible assets	(28,000)		(69,825)	
Adjustments for valuation differences	(200,215)		(206,611)	
		1,569,860		922,810
Capital available to meet regulatory capital requirements		1,569,860		922,810
Regulatory capital requirements		560,000		502,740
Capital in excess of regulatory capital requirements		**1,009,860**		**420,070**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

3. Capital management (continued)

The movement in capital resources is as follows

	Amount £000s
Capital available as at 1 January 2016	923
CTF transfer price	249
Change in valuation basis	-209
Change in expense overrun reserve	-47
Cost of reversionary bonus	-55
Investment surplus	675
Expense loading	152
Change in resilience reserve	90
CTF reserve	-20
Demographic factors	26
Valuation surplus	-214
Available capital resource as at 31 December 2016	**1,570**

Measurement and monitoring of capital

The capital position of the Society is monitored on a regular basis and reviewed quarterly by the Board.

In the event that sufficient capital is not available, action would be taken to reduce the amount of risk accepted thereby reducing the capital requirement through, for example, reinsurance, reducing business volumes or a change in investment strategy.

Available capital – Long term insurance contracts

The liabilities in respect of the Society's participating (with-profits) business are determined in accordance with the regulations of the PRA. The Society does not write sufficient business nor have sufficient reserves to be included in the EU Directive on Solvency (Directive 2009/138/EC) requirements. The Society is a non-directive friendly society.

The assets are taken at market value. The whole of the available capital resources is available to meet the regulatory and other solvency requirements of the fund.

Sensitivity of long-term insurance contract liabilities

The value of the long term insurance contract liabilities is sensitive to changes in market conditions and to the demographic assumptions used in the calculations, such as mortality.

3. Capital management (continued)

Market conditions
Assumptions are made about future investment returns and interest rates when valuing the liabilities, based on current market conditions. These also have an effect on the value placed on the assets held to support the liabilities. An adverse change in market conditions may therefore reduce the level of the available capital resources.

Demographic assumptions
Changes in mortality, lapse or expense experience by the Society may result in the need to change the assumptions used to value the liabilities. This may increase or reduce the value placed on liabilities. The sensitivity of the liabilities to changes in the assumptions varies according to the type of business. For example, a change in mortality rates has a greater impact on whole life liabilities than ISAs.

4. Risk management and control

The table below sets out the exposure to life insurance risk using the regulatory value of liabilities after allowing for the cost of the declared reversionary bonus:

	2016 **£**	**2015** **£**
Ordinary Business	6,020,960	5,819,688
Industrial Business	584,331	584,189
CTF	9,594,048	14,115,821
Total policyholder liabilities	**16,199,339**	**20,519,698**

The fall in the CTF liabilities is due to the CTF transfer.

FRS 103 requires a Society which issues insurance contracts to make certain disclosures regarding their insurance risk. The required information is summarised below.

a) Objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks;

The Society is principally exposed to risks in relation to lapses, expenses, market, credit and liquidity.

The objective of the Society is to minimise those risks (such as expenses) which are seen as primarily negative in their impact on the Society or policyholders and to carefully monitor and balance those risks (such as market risk) where a positive outcome is of benefit to the members and policyholders.

The principal methods involve:

i. Holding reserves to meet the obligations of the Society
ii. Monitoring and managing internal and externally generated reports that provide information about the performance or level of key indicators,
iii. Closely matching investments to policy liabilities where those liabilities are tightly defined,
iv. Actively managing the investment portfolio after taking advice from the appropriate Actuary about the nature and term of the liabilities and the parameters appropriate to limit downside risks

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

4. Risk management and control (continued)

b) Nature and extent of risks arising from insurance contracts

Insurance risk

Insurance risk is risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses.

The Society sells insurance and financial investment products. The types of products include life, participating and non-participating insurance. A variety of assumptions are made when a product is designed and priced. The assumptions are based on Society and industry past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

These assumptions are used to develop the initial measurement of insurance contract liabilities and form the insurance risk. The setting of these assumptions requires a significant amount of professional judgment and therefore, actual experience may be materially different from assumed experience which results in the nature of the insurance risk exposure.

To the extent that emerging experience is more favourable than assumed in the measurement of insurance contract liabilities, surpluses will emerge. If emerging experience is less favourable, losses will result. The Society’s objective is to ensure that sufficient insurance contract reserves have been set up to cover these obligations.

The following risk factors are components of insurance risk:

Mortality risk

This is the risk that death claims are different than those assumed in pricing or the most recent valuation of actuarial liabilities, adversely impacting income. This risk includes both mis-estimation in pricing, and adverse experience resulting from any combination of weak underwriting, anti-selection by policyholders, or improper claims assessment.

Lapse risk

This is the risk that withdrawals and lapse rates are different than those assumed. This risk can occur on both insurance and investment contracts. Lapses that are higher than assumed are usually detrimental, especially if they occur prior to recovering costs to issue a policy, or at a time when the guarantees underlying the with-profits contracts are onerous.

Expense risk

This is the risk that maintenance expense levels will be higher than those assumed. This can arise from an increase in the unit costs or an increase in expense inflation relating to economic conditions. This risk can occur on insurance and investment contracts.

The Society manages insurance risk by establishing Board approved policies and guidelines for product development and product pricing which require that all material risks be provided for at the time of product design and pricing of new products and expenses are closely monitored.

4. Risk management and control (continued)

The actual assumptions used in the measurement of insurance contract liabilities take insurance risk factors into account as discussed above. Sensitivities to changes in actuarial assumptions are provided in note 3.

The table below sets out the impact on the long term contract liabilities for movement in key assumptions:

	Increase in policyholder liabilities £000s
Increase in mortality rates by 15%	56
Increase in expenses by 10%	15
Decrease in Valuation Interest by 0.5%	172

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to fulfil its payment obligations. Worsening or continued poor economic conditions could result in borrower or counterparty defaults or downgrades, and could lead to increased provisions or impairments related to the Society's invested assets and an increase in provisions for future credit impairments to be included in insurance contract liabilities. The Board approved Investment Policy sets out the policies and procedures to manage these risks.

Asset portfolios are monitored and reviewed regularly by the Board.

i) Maximum exposure to credit risk

The Society's maximum exposure to credit risk related to financial instruments and other assets is the carrying value of those assets, net of any allowances for losses. The Society's maximum credit exposure is as follows:

Assets	2016 £	2015 £
Bonds	4,630,088	4,446,527
Equities	2,481,687	1,958,201
Deposits & Debts	68,068	417,962
Other investments – non linked benefits	1,220,961	759,244
Other investments – for linked benefits	9,594,048	14,115,821
Total	17,994,852	21,697,755

The fall in linked investments is due to the CTF transfer.

ii) Concentration of credit risk

Concentration of credit risk arises from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics.

The Society has investment targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

4. Risk management and control (continued)

Total exposure includes the sum of the Society's investment in bonds, equities, money market instruments and financial instruments.

Bonds and other fixed-term securities

Other than constraints imposed by liquidity requirements, there is no upper limit to the amount of the Society's total assets that can be invested in bonds.

The following table provides details of the carrying value of bonds by type.

	2016
	£
Government Bonds	1,548,291
Corporate Bonds	1,370,463
Fixed Interest Collectives	1,711,334
	4,630,088

Equities

Investments in equities are limited to 35% of total assets.

Equities held by sector are shown below:

	2016
	£
Oil & gas	271,801
Basic materials	174,567
Industrials	118,698
Consumer goods	312,567
Health care	140,378
Consumer services	106,951
Telecommunications	98,877
Utilities	51,700
Financials	389,007
Overseas	553,089
Emerging markets	41,345
Property funds	222,707
	2,481,687

Investment land and buildings

The Society currently does not invest directly in land and buildings for investment purposes.

4. Risk management and control (continued)

Liquidity risk

Liquidity risk is the risk that the Society cannot meet its obligations associated with financial liabilities as they fall due. The Society has adopted an appropriate liquidity risk management framework for the management of the Society's liquidity requirements. The Society manages liquidity risk by maintaining a proportion of its assets in cash and investing in marketable securities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. Liquidity management ensures that the Society has sufficient access to funds necessary to cover insurance claims, surrenders, withdrawals and maturing liabilities.

There were no changes in the Society's liquidity risk exposure in the financial year nor to the objectives, policies and processes for managing liquidity risk.

Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the Society in managing its market risk is to ensure risk is managed in line with the Society's risk appetite.

The Society has established policies and procedures in order to manage market risk and methods to measure it.

There were no significant changes in the Society's market risk exposure in the financial year nor to the objectives, policies and processes for managing market risk.

Below are the key factors that underlie market risk:-

i) Currency risk

The Society denominates all of its insurance and investment contracts in Sterling.

As part of its investment diversification policy, the Society can hold certain investments denominated in foreign currencies. As a result, foreign exchange risk arises from assets denominated in these currencies.

Currently all assets are denominated in Sterling.

ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Society is exposed to interest rate risk as the Society invests in long term securities at both fixed and floating interest rates. The risk is managed by the Society by maintaining an appropriate mix between fixed and floating rate borrowings.

Interest rate risk also exists in products sold by the Society. The Society has no significant concentration of interest rate risk. The Society manages this risk by adopting close asset/liability matching criteria, to minimise the impact of mismatches between asset and liability values arising from interest rate movements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

4. Risk management and control (continued)

iii) Equity market risk

The Society is exposed to price risk arising from fluctuations in the value of equities as a result of changes in the market prices.

This is a significant risk for the Society. Assets held to provide returns on with profit policies comprise a substantial portion of equity assets. The positive return on these assets is used to provide part of the addition of bonuses to the with profit policies. The risk is managed by the Society by maintaining an appropriate mix of investment instruments, actively monitoring the level of prices in the stock markets and having the right to apply a market value reduction if policies are surrendered at a time when equity markets are stressed.

Summary of market risk sensitivities

	Change in surplus assets (£000s)
Equity values fall by 10%	(223)
Equity values rise by 10%	222
Fixed interest yields rise by 1%	(16)
Fixed interest yields fall by 1%	(95)

5. Earned Premium Income

	2016	2015
	£	£
Gross premiums written	923,941	986,257
Outward reinsurance premiums	0	0
Net Earned Premium Income	**923,941**	986,257

All contracts are written in the UK.

6. Investment Income

	2016	2015
	£	£
Income from investments at fair value through income:		
- Interest income	143,887	91,684
- Dividend income	82,926	145,049
Gains on the realisation of investment assets	1,138,757	58,172
Investment Income	**1,365,570**	294,905

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

7. Net unrealised gain/(loss) on investments

	2016	2015
	£	£
Investments at fair value through income:		
- Non linked Investments	213,308	(314,077)
Linked Investments	1,356,782	182,860
Investments in Society undertakings	0	0
Net gain/(loss) on investments	**1,570,090**	**(131,217)**

Net Realised gain/(loss) on investments

	2016	2015
	£	£
Investments at fair value through income:		
- Non linked Investments	323,744	0
Linked Investments	815,013	58,172
Net gain/(loss) on investments	**1,138,757**	**58,172**

8. Other Income

	2016	2015
	£	£
Income from transfer of CTF Fund	289,376	0
Costs of the transfer	(40,720)	0
	248,656	**0**

9. Claims Incurred

	2016	2015
	£	£
Long-term insurance		
Benefits and claims paid	1,005,989	894,246
	1,005,989	894,246
Claims ceded to reinsurers	0	0
Total Claims Incurred	**1,005,989**	**894,246**

10. Bonuses and rebates

The Board declared a mutual bonus of £54,593 (2015: £50,209) in respect of the year ended 31 December 2016, for those participating policies.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

11. Net operating expenses

	2016	2015
	£	£
Long-term insurance		
Acquisition costs	24,353	58,466
Change in deferred acquisition costs	35,000	(3,000)
Administrative expenses	331,138	359,273
Net operating expenses	**390,491**	**414,739**

Net operating expenses include the following:

	2016	2015
	£	£
Long-term insurance		
Fees payable to the Society's auditor for the audit of the annual accounts		
- Audit	16,200	12,900
- In respect of the reviewing actuary	0	7,560
- Other services	0	0
Depreciation on tangible fixed assets	7,434	9,174
Operating lease rental charges	3,020	2,541

12. Investment expenses and charges

	2016	2015
	£	£
Investment management expenses	5,840	942
Investment expenses and charges	**5,840**	**942**

13. Employee benefits expense

	2016	2015
	£	£
Wages and salaries	187,505	210,518
Social security costs	12,027	12,573
Pension costs	7,058	3,500
Employee benefits expense	**206,590**	**226,591**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

The number of employees during the year, including executive directors, calculated on a monthly average basis was as follows:

	2016	2015
Board and senior management	5	6
Administration	3	4
	8	**10**

The aggregate remuneration of key management personnel, being the Executive Directors and members of the management team, was as follows:

	2016	2015
	£	£
Wages and salaries (including Social Security)	97,520	104,854
Pension costs	4,310	3,500
Key management remuneration	**101,830**	**108,354**

Full details of directors' emoluments are contained in the Directors' Remuneration report on page 6.

14. Investments

a) Investments in Society undertakings

	2016	2015
	£	£
Cost less provisions at 1 January	3,000	3,000
Additions	0	0
Reduction in carrying value including write offs	0	0
	3,000	**3,000**

The Society has examined the carrying value of its subsidiary and concluded that a provision for impairment was not necessary in regard to these investments in 2016.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

b) Other financial investments

	2016 £	2015 £
Financial assets – Fair value through income		
Shares, other variable yield securities and units in unit trusts		
- UK listed	2,481,686	1,958,198
- UK unlisted	1,220,960	759,244
- Overseas listed	0	0
- Overseas unlisted	0	0
Bond and other fixed income securities		
- UK listed	4,630,088	4,446,526
UK unlisted	0	581
	8,332,734	7,164,549
Financial assets – at amortised cost		
Deposits with credit institutions	12,782	378,095
	8,345,516	**7,542,644**

c) Assets held to cover linked liabilities

	2016 £	2015 £
Financial assets – Fair value through income		
Shares, other variable yield securities and units in unit trusts		
- UK listed	0	0
- UK unlisted	9,594,048	14,115,821
- Overseas listed	0	0
- Overseas unlisted	0	0
Bonds and other fixed income securities		
- UK listed	0	0
	9,594,048	**14,115,821**

15. Debtors

	2016 £	2015 £
Due from members	0	5,222
Loans to subsidiaries	1,310	1,310
Prepayments	7,970	18,569
Arising out of direct insurance operations	**9,280**	**25,101**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

16. Tangible assets

	Long Leasehold Properties	Computers and Office Equipment	Total
	£	£	£
Cost or Valuation			
At 1 January 2016	250,000	56,970	306,970
Additions	0	0	0
Disposals	0	0	0
At 31 December 2016	**250,000**	**56,970**	**306,970**
Accumulated Depreciation			
At 1 January 2016	5,000	47,076	52,076
Provided in the year	5,000	2,434	7,434
Disposals	0	0	0
As 31 December 2016	**10,000**	**49,510**	**59,510**
Net Book Value			
At 31 Dec 2016	**240,000**	**7,460**	**247,460**
At 31 Dec 2015	245,000	9,894	254,894

The leasehold land and buildings included above were recognised using a previous valuation by the Committee of Management after taking appropriate advice, based upon an open market existing use value, as a deemed cost on transition to FRS 102. These assets are being depreciated from their valuation date of 31 December 2014. The historic cost equivalent of these assets is £203,455 (2015 - £203,455).

17. Deferred acquisition costs

	2016	2015
	£	£
At 1 January	60,000	57,000
Acquisition costs deferred	0	3,000
Amortisation	35,000	0
	25,000	**60,000**

Acquisition costs are costs of acquiring new business and include commissions, underwriting expenses and policy issue expenses.

At 31 December 2016 the amount of acquisition costs due in greater than one year was nil (2015: nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

18. Fund for Future Appropriations

	2016	2015
	£	£
Long-term business		
Original balance at 1 January	1,199,246	1,450,522
Prior year adjustment (note 19)	0	(25,127)
At 1 January	1,199,246	1,425,395
Transfer included within comprehensive income for the year	598,829	(226,149)
	1,798,075	**1,199,246**

19. Prior Year Adjustment

The 2015 accounts were restated to correct previously understated cost accruals and overstated premiums received in advance balances.

Summary of the prior year accounting impact

	£
Increase in other creditors	(25,127)
Prior year adjustment – decrease in fund for future appropriations	**(25,127)**

20. Long-term business provision

a) Analysis of insurance contract liabilities

	2016	2015
	£	£
Participating insurance contract liabilities	6,161,630	6,092,946
Non-participating insurance contract liabilities	575,445	479,320
Total insurance contract liabilities	**6,737,075**	**6,572,266**

b) Movement in long-term insurance contract liabilities

	2016	2015
	£	£
Balance at 1 January	**6,572,266**	**6,579,040**
Model change	**-**	-
Mortality assumption change	55,963	45,366
Valuation interest rate change	153,341	(66,198)
Policy movements	(99,088)	(36,151)
Cost of bonus	54,593	50,209
Balance at 31 December	**6,737,075**	**6,572,266**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

21. Technical provision for linked liabilities

	2016	2015
Linked fund	**£**	**£**
At 1 January	**14,115,821**	**14,042,879**
Premiums received	102,043	116,877
Death, maturity, surrenders and transfers	(76,291)	(43,398)
CTF transfer	(6,444,068)	-
Investment Income and growth	1,896,543	(537)
	9,594,048	**14,115,821**

22. Long term insurance liabilities valuation assumptions

Interest rates

The gross interest rate without any adjustments for tax or bonus is calculated by allocating appropriate assets to the policy groups shown below. The weighted average yield for that group is then calculated. For fixed interest stocks, the yield is reduced by an appropriate factor based on the perceived risk of each individual bond. A reduction is made to the yield on equities of 0.5%p.a. The weighted is further reduced by 2.5% to allow for risk as specified by the regulations.

The weighted average yields based on the appropriate asset mix are then compared to the maximum yield allowed by the regulations. Where the weighted average yield is greater than the maximum the yield is reduced to the maximum. The maximum yield allowed by the regulations was 1.67% after allowing for the 2.5% risk adjustment.

An allowance for bonus is made for with profits policies equal to 0.25% and a deduction of 20% for taxable policies.

The resultant interest rates were:

	Interest rate
Industrial Branch with profits tax exempt	1.41%
Ordinary Branch Series I, II & III with profits tax-exempt	1.41%
Non-profit tax-exempt	1.60%
Industrial Branch with profits taxable	1.09%
Ordinary Branch Series I, II & III with profits taxable	1.09%
Non-profit taxable	1.30%

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

Mortality assumptions

A mortality investigation was carried out during 2016 on the Society's policies. The mortality investigation used data from the preceding 3 financial years. The mortality assumptions used in the statutory valuation were:

Business	Assumption
Ordinary Branch (Ages 0-16)	135% ELT 16
Ordinary Branch (Ages 17+)	135% AMC00
Industrial Branch	100% ELT 16
CTF	23% ELT 16

AMC00 is the assured lives tables generated by the actuarial profession based on experience between 1999-2002 for males, collected from UK insurance companies and published in CMI Working papers 21 and 22, 2006 and CMI report 23, 2009.

English Life Table No. 16 is a decennial life table for males and females based on the mortality experience of the population of England and Wales during the three years from 2000-2002.

Expenses

The net premium method is used to value the liabilities.

For with-profit policies, the net premium is restricted to a proportion of the office premium to give a margin for future expenses and for future bonuses. Non-profit policies are valued on the same assumptions but do not allow for future bonuses in the level of restriction applied.

There is an acquisition cost adjustment to the pure net premium. The adjustment increases the net premium assumed to be received by a sufficient amount to cover 3.5% of sum assured (a limit stated in the regulations).

The restriction is 70% of the premium collected for Industrial Branch products, 80% of premiums collected for Ordinary Branch policies with pre 1999 entry dates and 90% for Ordinary Branch policies with post 1999 entry dates.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2016

For the Child Trust Fund (CTF) a sterling or non-unit reserve is calculated by projecting the annual management charge after the resilience drop versus the expenses and other costs in the basis. The expenses allowed for in this calculation are:

Charge by investment managers of 0.1% plus £0.52pa administration and £5.16 maturity expense plus future RPI (taken to be 3.75%).

The total expenses incurred by the Society were analysed between those that would occur if the Society closed to new business twelve months after the valuation date and those that would not. The closed fund expenses were not covered by the expense margins above and a reserve of £72,000 made.

Persistency – lapses and surrenders

No allowance for lapses and surrenders has been included.

23. With-Profit's actuary

The Society has made a request to the With-Profits Actuary to furnish it with the particulars specified in Rule 9.36 of the Accounts and Statements Rules. The With-Profits Actuary has confirmed that he does not have any pecuniary interest in the Society nor any of its investments. Fees payable to the firm in which the With-Profits Actuary is a director amounts to £39,615 including value added tax (2015 £59,551). The With-Profits Actuary received no other pecuniary benefit from the Society.