

# **151<sup>st</sup> Annual Report**

**and**

## **Financial Accounts**

**for the Year Ended**

**31<sup>st</sup> December 2014**

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## Society Information

### Year Ended 31<sup>st</sup> December 2014

Committee of Management	Anthony N Totham FCA, CTA James H Geddes JP, MA - resigned 30 <sup>th</sup> September 2014 Colin G Silcock John B Haworth LLB - died 4 <sup>th</sup> January 2014 Anthony M Hedley FCA, Chartered FCSI Alan Guest CITP, MBCS Mark C Sedgley ACII - co-opted 1 <sup>st</sup> June 2014 Timothy Williams - co-opted 1 <sup>st</sup> November 2014
Chief Executive	James H Geddes JP, MA
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	Mr Steven Dixon Steve Dixon Associates LLP Oaks House 12-22 West Street Epsom KT18 7RG
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 31<sup>st</sup> December 2014**

The Committee of Management have pleasure in submitting the 151<sup>st</sup> Annual Report and Financial Accounts for the year ended 31<sup>st</sup> December 2014.

#### **CHAIRMAN'S STATEMENT**

The committee of management welcomes you to the Annual Report and Financial statements of The Red Rose Friendly Society Limited for the year ended December 2014.

2014 saw for the most part of the year both our non CTF fund and the CTF fund showing steady growth. However a dip in the investment market just prior to the year end means that this growth is not reflected in these accounts. Since the year end the portfolio has more than recovered from the dip and at the end of February 2015 both the non CTF fund and the CTF stood up by over 2.3% on the year-end figures.

#### **Board Changes**

In last year's report we indicated that we were seeking a new member on the board to fill the vacancy that had arisen.

We identified the skill sets that the board felt where required for this role, these were designed to complement the existing skills of the board. We then advertised nationally and the role was open to all suitable candidates irrespective of race, gender, disability and age.

I was very pleased with the quality of candidates who applied and from which a shortlist was prepared. The fact that we can attract such quality of applicants is a testament to the Society.

Eventually Mark Sedgley was co-opted onto the board in June 2014 and will stand for election at the AGM. Mark has considerable experience within both the Friendly Society movement and the Financial Services Industry. He had previously been a chief executive at a Friendly Society.

In September 2014 our chief executive Jim Geddes stood down from the board and at that stage Tim Williams was co-opted to the board, he had been one of the candidates during the original selection procedure. Tim has worked in the Financial Services industry for a significant number of years holding various roles including marketing and running sales teams.

We feel that both Mark and Tim have a lot to offer the Society and that their knowledge and experience will be valuable to the future of the Society, I look forward to their continued input and involvement in the society.

## **Report of the Committee of Management to the Members**

### **Year Ended 31<sup>st</sup> December 2014**

Also earlier in the year our Chief Executive, Jim Geddes, indicated to the Society that he will be retiring in May 2015 by which stage he will have been

With the society for 40 years. During this time he has served the society in various roles, including being a board member, Chairman and Chief Executive. He has been totally dedicated to the society. I personally owe a debt of gratitude to him for the help that he has given me, both as a board member and more recently working with him in our respective roles.

There is no doubt that the society would not be as strong as it is now without his hard work and dedication and all our best wishes go to him on his retirement.

In the last quarter of the year we then advertised nationally for a new Chief Executive and we are pleased to have secured the services of Mark Sedgley who will join us on 1 April 2015 and take over when Jim Geddes retires at the end of May 2015. Mark has previously been a chief executive with another society and we are sure that he will be a strong asset to the society and continue to build upon the good work done by Jim Geddes.

### **CHALLENGES AHEAD**

During 2014 we faced the challenge of replacing our sales to IFAs following the introduction of the retail distribution review. We made a decision not to pay commission by another name as we feel that this complies with the spirit of the legislation.

We have been developing new paths to market but it is fair to say that these are taking longer to develop than we hoped. We have been working with outside advisors in order to improve our web site and to develop its presence on the web. This will continue in 2015 and we are already seeing the benefits in sales from this. We have been developing a network of introducers and despite some false starts we see this as a way to expand the business.

Our most important source of new business are our existing members, we are most grateful for all their support and for their recommendations. Since the retail distribution review came in a lot of banks and advisors have stopped giving advice to a large amount of the population, we feel that in these days we have an important role in being able to offer such products to these people.

The other challenge facing us is the introduction of the Solvency II regulations arising from European legislation. Because of the success of our CTF fund linked together with the decline of the Euro it appears that we will be subject to this earlier than we had initially predicted. We are developing a plan to ensure that we continue the work that has already been done in our move to Solvency II.

Following the retirement of Ted Ashcroft whom we all give our best wishes to, we have recently appointed a new Compliance officer and we will be working closely with him to develop the society's procedures so that we comply with Solvency II.

## **Report of the Committee of Management to the Members**

**Year Ended 31<sup>st</sup> December 2014**

### **PROGRESS MADE**

The financial accounts show that our premium income for the year was very similar to the previous year, our claims were lower than in 2013 and with expenses being well under control we have reduced the level of operating expenses. This has meant that despite the movement in the markets late in 2014 we still had a net increase in funds.

The main movement in our technical reserves is due to the declining yields on bonds which has increased our mathematical reserves by some £306,000.

Also, because of the reduction in yields our investment manager has increased the level of equities that we hold, this has meant an increase in our resilience reserve of £135,000.

With the increase in these reserves we are in a technically stronger position at the end of the year compared to the start.

Since the year end the investment market has improved and we hope that there will be some stability in the market during the year. However with a General Election in May as well as the positions in Greece and the Ukraine we have no doubt that our investment manager will be busy during the year.

Like other societies the general economic position is important as this affects our membership and their ability to save. We hope that the economy continues to recover and improves as the effect of lower oil prices eventually filters through to the membership.

### **OUTLOOK**

We enter 2015 with many challenges ahead which we will work hard to overcome and to develop the society. We will do this in a way that we don't move away from both the core values and the membership that have been so important for the society over the years.

We are committed to offering savings and investment plans that have stable results and also aim to outperform the results from monies invested in a bank account. In the era of post retail distribution review we feel that it is important that we can offer such products to all members of society.

### **ACKNOWLEDGEMENT**

I would like to thank all our professional advisors for their assistance to the society over the last year, we now have a new appointed actuary and we look forward to working with him going forward.

**Anthony N Totham**  
**Chairman**

**17 March 2015**

## Report of the Committee of Management to the Members

Year Ended 31<sup>st</sup> December 2014

### 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**

**Year Ended 31<sup>st</sup> December 2014**

### **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

Year Ended 31<sup>st</sup> December 2014

### 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 2<sup>nd</sup> April 2015

**Chief Executive – James H Geddes:** Experienced in accountancy, financial services and management. Has been involved with the Society for 38 years and was first appointed Chief Executive Officer in 1994. Has served 30 years as a Justice of the Peace in the Duchy of Lancaster. Resigned from the Board on the 30<sup>th</sup> September 2014 and is to step down as Chief Executive on the 31<sup>st</sup> May 2015 after 40 years of service to the Society in various roles.

### 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 2<sup>nd</sup> April 2015

**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 2<sup>nd</sup> April 2015

**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 he is 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 2<sup>nd</sup> April 2015

**Mark C Sedgley:** Mark has 30 years experience in the financial services industry and has worked for several successful mutuals as well as 2 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. Married with 2 sons, Mark is relocating to the Blackburn area and enjoys playing cricket and table tennis. He also enjoys watching many sports, listening to music and making models. He will be offering himself for election at the Annual General Meeting on the 2<sup>nd</sup> April 2015.

## Report of the Committee of Management to the Members

### Year Ended 31<sup>st</sup> December 2014

**Timothy A Williams:** For the last 25 years has lived in East Lancashire. Since leaving school 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, started from scratch a successful Financial Services business that now employs over 15 people. Will be offering himself for Election at the Annual General Meeting on 2<sup>nd</sup> April 2015.

### Attendance at Committee of Management meetings during 2014

	Possible	Actual	
Anthony N Totham	12	12	Chairman
James H Geddes	9	9	Chief Executive
Colin G Silcock	12	12	Non – Executive Director
Anthony M Hedley	12	10	Non – Executive Director
Alan Guest	12	11	Non – Executive Director
Mark C Sedgley	8	8	Non – Executive Director *
Timothy A Williams	2	2	Non – Executive Director *

\* Both Mark Sedgley and Timothy Williams attended board meetings as observers whilst awaiting registration as approved persons with the FCA.

### 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.

## Report of the Committee of Management to the Members

### Year Ended 31<sup>st</sup> December 2014

During the year the audit committee considered and revised the Risk Assessment document and the internal controls relating to this. 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 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  
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 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 Board at the next meeting following appraisal.

## **Report of the Committee of Management to the Members**

**Year Ended 31<sup>st</sup> December 2014**

### **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.

### **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 Corporate Governance Code for Mutual Insurers was issued under the aegis of the FSA (now FCA) 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.

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 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. It does not use the services of an external recruitment agency due to the high costs involved but does ensure that the vacancy is open to all people with the necessary skills regardless of sex, religions, age or ethnic background.

## Report of the Committee of Management to the Members

### Year Ended 31<sup>st</sup> December 2014

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 Boards 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 phone. The Chief Executive Officer, 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 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. 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 all three members are independent both in their judgment and actions. All Board members are subject to annual re- election.

## Report of the Committee of Management to the Members

Year Ended 31<sup>st</sup> December 2014

### 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 £22,123,425 in 2013 to £22,291,621 in 2014, an increase of £168,196

Earned premiums, excluding CTF, were £883,153 against a total of £943,120 in 2013. a reduction of £59,967

Earned premiums for CTF were £89,776 against a total of £65,155 in 2013, an increase of £24,621

Unrealised gains on investments were £56,476 in 2014 against a total of £2,438,330 in 2013 , a reduction of £2,381,854

Investment income, including profits/losses on the realisation of investments, showed an decrease of £67,320 in the year.

Claims paid out totalled £775,917 against a total in 2013 of £841,148 . This downward trend has now finished and claims will commence to rise in 2015 due to maturities

Net operating costs decreased from £507,072 to £429,929 , a decrease of £77,143

#### Who is Red Rose and how is it managed?

The Society was founded on the 3<sup>rd</sup> September 1863 under the name of Blackburn Philanthropic Mutual Assurance Society and became incorporated on the 1<sup>st</sup> January 2001 when its name was changed to the Red Rose Friendly Society Limited. In 2013 it celebrated its 150<sup>th</sup> 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.

## Report of the Committee of Management to the Members

Year Ended 31<sup>st</sup> December 2014

### Management:

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

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

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 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

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 increases year on year,
- controlling expenditure within strict guidelines,

## Report of the Committee of Management to the Members

### Year Ended 31<sup>st</sup> December 2014

- 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

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.

## Report of the Committee of Management to the Members

### Year Ended 31<sup>st</sup> December 2014

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 levels to 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 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 and Solvency II being imposed on the Society which will mean that the Society will face increased costs for actuarial and audit fees as well as having to ensure that its reserves meet the level required under current legislation.

#### **How will these challenges be met?**

- Increasing free assets would be assisted by maintaining a high level of investment in equities in our portfolio of investments.
- 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. We have however changed our actuaries this year to try to reduce these costs.

## Report of the Committee of Management to the Members

### Year Ended 31<sup>st</sup> December 2014

- 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 2014 did fall drastically and this is likely to continue to be at a low level in the years to come due to the use of introducers and direct sales rather than the high costs of employing advisers. This does mean that our acquisition expense ratio has also declined which reduces the use of with-profits funds to gain new business.
- During the year and into 2015 several staff members have retired or have resigned, These include the Compliance Officer, Office Manager and two customer service administrators , The Chief Executive will leave at the end of May 2015. All these staff have now been, or will be replaced.
- The office building, as already stated, is costly to maintain and therefore will probably be placed back on the market in 2016 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 maintain the equity percentage of our portfolio to between 30% and 36%.
- 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 members 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**

**Year Ended 31<sup>st</sup> December 2014**

### **Valuation Statement**

An actuarial valuation of the Society's long term business was made as at 31<sup>st</sup> December 2014 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 Steven Dixon, 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 31<sup>st</sup> December 2014

Our appointed actuary, Mr Steven Dixon (Steve Dixon Associates LLP) 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, Mrs Jackie Wright of OAC plc, 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 her 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 complaints and are fully aware of when enquiries or complaints 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**

### **Year Ended 31<sup>st</sup> December 2014**

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 made a donation of £500 to the British Heart Foundation during the year. No further donations exceeding £200 in total were made 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 2015 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**

**Year Ended 31<sup>st</sup> December 2014**

### **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 2014 but the Board decided to appoint Mr Steven Dixon of Steve Dixon Associates LLP as the Society's appointed actuary from the 1<sup>st</sup> January 2015. Mr Dixon has carried out the valuation at the end of 2014 and OAC plc have been appointed as reviewing actuaries.

### **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 2014.

By order of the Committee of Management

**Anthony N Totham**  
**Chairman**

**17 March 2015**

## 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 2014 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 2014 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

### EMPHASIS OF MATTER

We draw attention to the Going Concern Accounting Policy Note 1(b) on Page 29 of the Accounts. This describes the potential impact of the European Union Solvency II Directive. Our opinion is not qualified in respect of this matter.

### 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.

### 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.

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

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the 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  
Statutory Auditors

Greenbank Technology Park  
Challenge Way  
Blackburn  
Lancashire  
BB1 5QB

**17 March 2015**

## Report of the Actuary

### Year Ended 31<sup>st</sup> December 2014

A valuation of the liabilities and assets of the Society was made at 31<sup>st</sup> December 2014 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 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 31<sup>st</sup> December 2014 as follows:

#### 1. REVERSIONARY AND INTERIM BONUS

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

	<b>2014</b>	<b>2013</b>
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

Year Ended 31<sup>st</sup> December 2014

### 2 TERMINAL BONUS - Continued

<b>Year of entry</b>	<b>Ordinary Branch terminal bonus %</b>	<b>Industrial Branch terminal bonus %</b>
1993	31.0%	n/a
1994	30.0%	n/a
1995	29.0%	n/a
1996	28.0%	n/a
1997	27.0%	n/a
1998	26.0%	18.0%
1999	25.0%	17.0%
2000	24.0%	16.0%
2001	23.0%	15.0%
2002	22.0%	14.0%
2003	22.0%	13.0%
2004	22.0%	12.0%

Terminal bonus rates may be changed at any time.

**Stephen Dixon**

**Actuarial Function Holder & With Profits Actuary  
Steve Dixon Associates LLP**

**26 February 2015**

**Income and Expenditure  
Technical Account – Long Term Business****Year Ended 31<sup>st</sup> December 2014**

	<b>Note</b>	<b>2014 £</b>	<b>2013 £</b>
Earned Premiums	2	972,929	1,008,275
Investment Income	3	340,044	407,364
Unrealised gains on investments		56,476	2,438,330
Unrealised deficit on revaluation of land and buildings		(14,600)	(7,300)
		<hr/>	<hr/>
		1,354,849	3,846,669
		<hr/>	<hr/>
Claims incurred	4	775,917	841,148
Change in other technical provisions	12	221,788	2,226,279
Net operating costs			
Acquisition costs	5	66,926	127,647
Administrative expenses		357,603	357,808
Depreciation of building		5,400	5,900
Investment expenses and charges		-	15,717
Tax attributable to long term business	9	-	-
Transfers to the fund for future appropriations	12	(72,785)	272,170
		<hr/>	<hr/>
		1,354,849	3,846,669
		<hr/>	<hr/>
Balance on the technical account long term business		-	-
		<hr/>	<hr/>

**Balance Sheet****Year Ended 31<sup>st</sup> December 2014**

<b>ASSETS</b>	<b>Note</b>	<b>2014 £</b>	<b>2013 £</b>
Investments	10	21,830,062	21,602,384
Debtors			
Other Debtors		15,961	13,872
Amount due from group undertakings		1,310	1,310
Other Assets			
Tangible assets	11	256,244	278,698
Cash at bank and in hand		90,194	101,831
Prepayments and accrued income			
Accrued income		40,850	57,330
Deferred acquisition costs		57,000	68,000
		<hr/>	<hr/>
		22,291,621	22,123,425
		<hr/>	<hr/>
<b>LIABILITIES</b>			
Fund for future appropriations	12	1,450,522	1,523,307
Technical Provisions	12		
Long term business provision		20,621,920	20,400,132
Claims outstanding		131,186	113,648
Creditors			
Other creditors including taxation and Social Security		87,993	86,338
		<hr/>	<hr/>
		22,291,621	22,123,425
		<hr/>	<hr/>

These financial statements were approved by the Committee of Management on 17 March 2015 and signed on their behalf by:

**A N TOTHAM****A M HEDLEY**

## Notes to Accounts

### Year Ended 31<sup>st</sup> December 2014

#### 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 and long leasehold property. 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) Going Concern

The accounts have been prepared on a going concern basis as the Committee of Management believe that the society will continue in business without significant curtailment of its activities for the foreseeable future.

With effect from 1<sup>st</sup> January 2016 the Society is likely to become subject to the European Union Solvency 11 Directive. The Directive primarily relates to the governance of insurance companies throughout the EU and the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. If the rules coming into effect on 1<sup>st</sup> January, 2016 had been applied to the current position of the Society it's capital position would have been a little below the de-minimis Minimum Capital Requirement. The Committee of Management are, however, actively engaged in ensuring that prior to the effective date of introduction the Society is compliant.

The Society was fully compliant with the applicable capital requirements at 31<sup>st</sup> December 2014.

Under these circumstances the Committee of Management consider that it is appropriate to prepare the accounts on a going concern basis.

##### (c) Premiums

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

##### (d) 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.

## Notes to Accounts

### Year Ended 31<sup>st</sup> December 2014

(e) 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.

(f) 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.

(g) Acquisition costs

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

(h) 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.

(i) 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.

(j) Pensions

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

(k) 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.

## Notes to Accounts

### Year Ended 31<sup>st</sup> December 2014

(l) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less depreciation. Provision is made for depreciation, on all tangible assets, at rates calculated to write off the cost or valuation 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

(m) 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.

(n) Long term business provision

The long term business provision is calculated by the Society's actuarial function holder and with profits actuary initially to comply with the reporting requirements under the Friendly Societies (Accounts and Related Provisions) Regulations 1994, principally using the net premium valuation method. Accordingly, it includes explicit provision for vested bonuses, including those relating to the current declaration. No such explicit provision is made for future reversionary bonuses; the net premium valuation method makes implicit provision for these bonuses by reducing the valuation rate of interest appropriately. The statutory solvency basis of valuation is then adjusted by eliminating the undistributed surplus determined by that valuation, general contingency reserves, certain reserves required under the Friendly Societies Regulations and deferred acquisition costs allowed for in the valuation.

(o) Bonuses

Explicit provision has been 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.

(p) Operating leases

Payments under operating leases are charged to the income and expenditure account as they fall due.

## Notes to Accounts

### Year Ended 31<sup>st</sup> December 2014

#### 2 EARNED PREMIUMS

Earned premiums, all of which relate to direct insurance on individual participating contracts, can be analysed as follows:

	Ordinary Assurance		Industrial Assurance		Total	
	2014	2013	2014	2013	2014	2013
	£	£	£	£	£	£
Gross premiums written:						
Periodic	860,582	869,880	8,041	9,258	868,623	879,138
Single	4,560	6,787	-	-	4,560	6,787
Child Trust Fund	89,776	65,155	-	-	89,776	65,155
ISA	9,970	57,145	-	-	9,970	57,145
FGFP	-	50	-	-	-	50
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	964,888	999,017	8,041	9,258	972,929	1,008,275
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

#### 3 INVESTMENT INCOME

	2014	2013
	£	£
Income from land and buildings	184	184
Income from other investments:		
Listed	274,450	285,667
Other	65	127
Gains/(Losses) on realisation of investments	65,161	121,271
Other interest received	184	115
	<hr/>	<hr/>
	340,044	407,364
	<hr/>	<hr/>

## Notes to Accounts

### Year Ended 31<sup>st</sup> December 2014

#### 4 CLAIMS INCURRED

	Ordinary Assurance		Industrial Assurance		Total	
	2014	2013	2014	2013	2014	2013
	£	£	£	£	£	£
Free policy claims	-	-	25,748	31,464	25,748	31,464
Deaths	78,648	55,309	69	7,250	78,717	62,559
Maturities	489,188	583,504	11,726	15,125	500,914	598,629
Surrenders	74,821	84,095	2,042	5,231	76,863	89,326
Bonds	76,572	23,605	-	-	76,572	23,605
Quinquennial bonus	-	-	1,215	2,825	1,215	2,825
Income option bonds	8,050	8,050	-	-	8,050	8,050
Child Trust Fund deaths and transfers	7,838	7,690	-	-	7,838	7,690
ISAs	-	17,000	-	-	-	17,000
	<u>735,117</u>	<u>779,253</u>	<u>40,800</u>	<u>61,895</u>	<u>775,917</u>	<u>841,148</u>

Total claims incurred of £775,917 (2013 : £841,148) comprise:

Claims paid	758,379	867,635
Change in the provision for claims	17,538	(26,487)
	<u>775,917</u>	<u>841,148</u>

#### 5 ACQUISITION COSTS

	2014	2013
	£	£
Acquisition costs incurred	55,926	64,647
Change in deferred acquisition costs	11,000	(63,000)
	<u>66,926</u>	<u>127,647</u>
Net charge included in technical account		

**Notes to Accounts****Year Ended 31<sup>st</sup> December 2014****6 EXPENSES**

<i>Remuneration of the Committee of Management</i>	2014	2013
	£	£
Emoluments in respect of qualifying services	120,096	118,772

The emoluments include those of the Chief Executive for the year including the period after resignation from the Committee; in addition fees paid to members co-opted onto the Committee are included prior to formal appointment

The emoluments of the Chairman were £12,990 (2013 - £12,132).

The emoluments of the highest paid Committee member were £71,448 (2013 : £66,420).

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

£0 - £5,000 : 3 (2013 : 0)

£5,001 - £10,000 : 3 (2013 : 4)

*Operating leases*

	2014	2013
	£	£
Payments under operating leases	11,493	11,493

**7 AUDITORS' REMUNERATION**

	2014	2013
	£	£
Audit	8,900	8,750
Non Audit	12,656	12,565
	<hr/>	<hr/>
	21,556	21,315
	<hr/>	<hr/>

**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 (2013 : £61,514). The appointed actuary received no other pecuniary benefit from the Society.

## Notes to Accounts

### Year Ended 31<sup>st</sup> December 2014

#### 9 TAXATION

There is no tax charge for the current or preceding year due to the availability of tax losses.

A deferred tax asset arising from the taxable losses has not been recognised due to uncertainty as to when taxable profits will arise. The full potential deferred tax asset would be approximately £70,000 measured at the standard rate of 20%.

#### 10 INVESTMENTS

	Carrying Value		Historical Cost	
	2014	2013	2014	2013
	£	£	£	£
UK government securities	985,130	639,319	757,082	478,238
UK debenture and loan stocks	3,629,448	4,189,141	3,468,674	4,044,614
Equities	2,513,844	2,272,623	2,227,161	1,847,110
Child Trust Fund investment	14,636,099	14,429,965	10,803,166	10,709,127
Society loans	768	1,842	768	1,842
Investment in subsidiary undertakings	3,000	3,000	3,000	3,000
Cash deposit	61,773	66,494	61,773	66,494
	<hr/>	<hr/>	<hr/>	<hr/>
	21,830,062	21,602,384	17,321,624	17,150,425
	<hr/>	<hr/>	<hr/>	<hr/>

Of the above £21,764,521 is ascribable to listed investments all of which have been granted a listing on a recognised investment exchange in Great Britain.

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 31<sup>st</sup> December 2014 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 31<sup>st</sup> December 2014 its capital and reserves were £208.

##### *Red Rose Independent Financial Advisors Limited*

The company has not yet commenced trading. At 31<sup>st</sup> December 2014 its capital and reserves were £1,000.

## Notes to Accounts

### Year Ended 31<sup>st</sup> December 2014

#### 11 TANGIBLE ASSETS

	Long Leasehold Land & Buildings £	Office Equipment £	Total £
<i>Cost or valuation</i>			
At 1 <sup>st</sup> January 2014	270,000	49,146	319,146
Additions	-	-	-
Disposals	-	-	-
Adjustment on revaluation	(20,000)	-	(20,000)
	<hr/>	<hr/>	<hr/>
At 31 <sup>st</sup> December 2014	250,000	49,146	299,146
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 1 <sup>st</sup> January 2014	-	40,448	40,448
Charge for year	5,400	2,454	7,854
Disposals	-	-	-
Adjustment on revaluation	(5,400)	-	(5,400)
	<hr/>	<hr/>	<hr/>
At 31 <sup>st</sup> December 2014	-	42,902	42,902
	<hr/>	<hr/>	<hr/>
<i>Net Book Value</i>			
At 31 <sup>st</sup> December 2014	250,000	6,244	256,244
	<hr/>	<hr/>	<hr/>
At 31 <sup>st</sup> December 2013	270,000	8,698	278,698
	<hr/>	<hr/>	<hr/>

The leasehold land and buildings were valued, by the Committee of Management after taking appropriate professional advice, at £250,000 at the balance sheet date, based on an open market 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

### Year Ended 31<sup>st</sup> December 2014

#### 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 <sup>st</sup> January 2014	20,400,132	113,648	1,523,307
Change in other technical provisions	221,788		
Movement in provision for outstanding claims		17,358	
Transfer to technical account			(72,785)
	_____	_____	_____
At 31 <sup>st</sup> December 2014	20,621,920	131,186	1,450,522
	_____	_____	_____

#### *Long Term Business Provision*

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

		Mortality	Interest Rate
Industrial Branch	-Taxable business	100% ELT16M Ult	1.40% pa
	-Tax exempt business	100% ELT16M Ult	1.85% pa
Ordinary Branch (issued before 1 <sup>st</sup> January 2002)	-Taxable business	100% AM00Ult	1.45% pa
	-Tax exempt business	100% AM00Ult	1.85% pa
Ordinary Branch (issued after 1 <sup>st</sup> January 2002)	-Taxable business	100% AM00Ult	1.45% pa
	-Tax exempt business	100% AM00Ult	1.85% 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:

	2014 £	2013 £
Cost of reversionary bonus	52,203	50,962
	_____	_____

## Notes to Accounts

### Year Ended 31<sup>st</sup> December 2014

#### 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 31<sup>st</sup> December 2013 the Society had annual commitments under non-cancellable operating leases as follows:

	Office Equipment	
	2014	2013
	£	£
Expiry Date		
Within 1 year	11,493	-
Between 2 and 5 years	-	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.

	2014	2013
	£	£
Fund for future appropriations	1,450,522	1,523,307
Adjustments for valuation differences	(204,611)	(11,356)
Inadmissible assets	(70,769)	(81,006)
	<hr/>	<hr/>
Available capital resources	1,175,142	1,430,945
	<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

### Year Ended 31<sup>st</sup> December 2014

#### 17 CAPITAL STATEMENT (continued)

The Society is a mutual organisation and there are no shareholders. As at 31 December 2014 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).

	2014 £	2013 £
Total	20,453,531	20,206,488

The capital statement shows an increase in available capital resources of £255,803 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
<b>Available capital resource as at 1 January 2014</b>	<b>1,431</b>
Model change	(23)
Change in valuation basis	(468)
Expense overrun reserve	27
Cost of bonus	(52)
Investment surplus	300
Expense loading	(3)
Change in resilience reserve	(135)
Economic factors	<u>98</u>
<b>Available capital resource as at 31 December 2014</b>	<b><u>1,175</u></b>

## Notes to Accounts

Year Ended 31<sup>st</sup> December 2014

### 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 £450,000. This would be accompanied by a corresponding fall in the value of long term business provision of around £125,000.