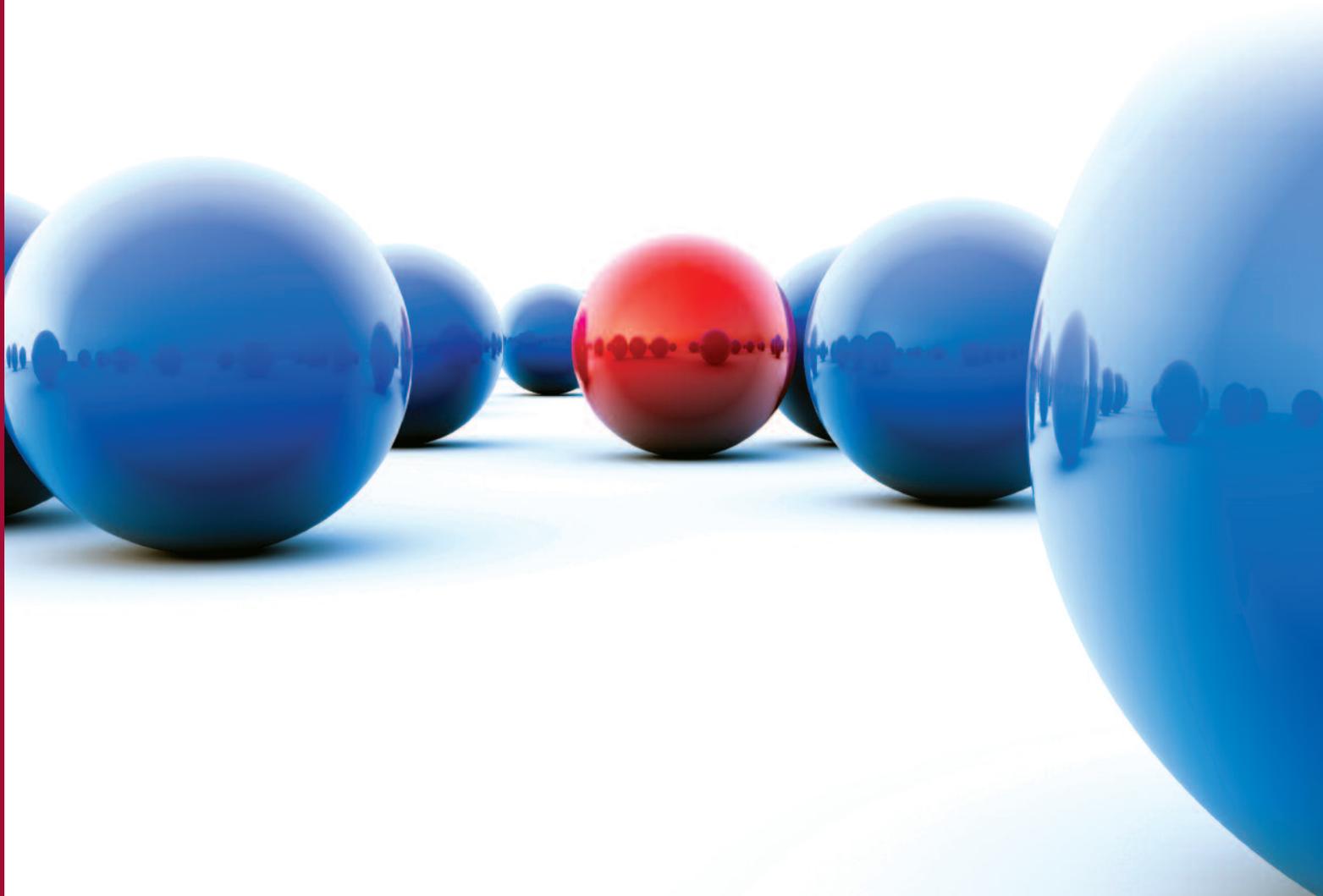


Report

& Financial Statements

for the year ended 31 December 2013



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BRITISH FRIENDLY SOCIETY LIMITED

Registered Office: 1 Trevor Street, Bedford, MK40 2AB
Telephone: 01234 358344
Fax: 01234 327879
E-mail: enquiries@britishfriendly.com
Website: www.britishfriendly.com

Board of Directors 2013

Fiona Gregory	- Chairman – until 24 May and retired from the Board 8 October
Nick Bayley	- Chairman – from 24 May
Tony Dormer	
Mike Harding	- Company Secretary
Jeff Hayes	
Mark Myers	- Chief Executive
Chris Radford	- Senior Independent Director
Julie Remington	- From 8 October
Lee Schopp	- Finance Director

Professional Advisers 2013

Actuarial Function Holder and With-Profits Actuary

Christopher Critchlow, OAC Actuaries & Consultants, Portsoken House, Minories, London, EC3N 1LJ

Auditors – External

Moore Stephens, Chartered Accountants, 30 Gay Street, Bath, BA1 2PA.

Auditors – Internal

TIAA Ltd, 53–55 Gosport Business Centre, Aerodrome Road, Gosport, PO13 0FQ.

Investment Managers

Vestra Wealth LLP, 14 Cornhill, London, EC3V 3NR

Bankers

NatWest Bank plc, 81 High Street, Bedford, MK40 1NE

Solicitors

Hogan Lovells, Atlantic House, Holborn Viaduct, London, EC1A 2FG.
Taylor Walton, 28-44 Alma Street, Luton, LU1 2PL.

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No.110013.
Incorporated under the Friendly Societies Act 1992.
Registered No.392F.

Your Board of Directors

**Nick Bayley**

Nick joined the Board in January 2008. With 26 years of Sales and Marketing experience in the Financial Services and Banking sectors, Nick has held a number of roles - from Independent Financial Adviser [IFA] to National Sales Manager of a large bank - responsible for generating £30m in annual revenue. He has worked for Barclays and The Woolwich, where he managed teams of up to 150 IFAs and set up the UK's first IFA Training Academy. Nick is now working as a Senior Business Development Consultant with St James Place Wealth Management in the City, working with over 20 small and medium size businesses to develop their strategic and marketing plans and business generation. He is married with two children and his hobbies include mountaineering, skiing, running and golf.

**Tony Dormer** BA ACMA CGMA

Born in 1948, Tony joined the Board in January 2006. After studying economics at Newcastle University, he joined British Airways as a management trainee after which he held a number of senior positions in the finance and commercial departments. He left BA in 2004 to become Chief Executive of Airways Sports & Leisure Ltd, a position from which he retired in 2013. Tony is a qualified management accountant and is married, with 2 grown-up children. His interests outside work include football (he is a director of Marlow FC), steam railways and real ale.

**Michael Harding**

Born in 1950, Michael joined the staff of the Society in 1970 as an Accounts Clerk. He progressed through various departments, becoming involved with matters at Board level in 1976. He was appointed as Assistant to the General Secretary in the 1980's and, subsequently, General Secretary. In 1997, Michael was appointed as the Society's Compliance Officer. He was appointed Chief Executive in 1999 and continued until 2010 when he stepped down from that role. He is now Company Secretary and also has responsibility for Governance and Compliance. He is married to Yvette, has three grown up children and his interests include cricket, football and music.

**Jeff Hayes**

Born in 1953, Jeff joined the Board in April 2010. Jeff retired from the City of London in January 2010, having worked in the Fund Management industry for over 40 years. During his period in the City he was a dealer on the London Stock Exchange, managed Fixed Income portfolios for a range of institutional clients, including Pension Funds, Friendly Societies and Charities, and took responsibility for delivering client service to clients in both the UK and Internationally. For three years' prior to his retirement, Jeff was one of our Investment Managers, which gave him an insight into British Friendly, and he now has a limited number of non-executive roles, including Chairman of a UK Defined Benefit Pension Scheme and as a Trustee for three UK based Charities. Jeff has been married to Rene for 40 years and has two children. He enjoys running, golf and photography.

**Mark Myers**

Mark was appointed Chief Executive in July 2010, at which time he joined the Board. Mark is also a Director of the Association of Financial Mutuals and chairs the Small and Medium Sized Societies' Forum. He has 30 years' experience in Financial Services, the first 22 being in Sales and Marketing roles with Lloyds TSB, latterly as Sales Director for the Retail Bank. His time at Lloyds also included attachments to the DTI and the FSA, providing valuable governmental and regulatory experience. His most recent previous position was with Britain's largest Friendly Society – Liverpool Victoria – initially as Distribution Director and then Partnership Director. Mark is married with a daughter of 26 and a son of 23 and his interests include National Hunt Racing, bird watching, theatre and music.

**Chris Radford**

Chris joined the Board in June 2010 and has over 35 years of experience in the financial services sector and currently owns a property lettings and management business. Prior to this he was Group Chief Executive of the TIS Group and the Lambeth Building Society and Managing Director of Legal & General's unit trust business. He has worked in a wide variety of business environments - major global and small local, plc and mutual, banking and insurance, retail and telesales. Chris has considerable experience in helping organisations to develop new strategies and achieve wide scale changes. He is married, has twin boys aged 23, and is an experienced alpine skier, a keen sailor, enjoys golf, and plays in a blues band.

**Julie Remmington**

Julie joined the board in September 2013 and has over 20 years of experience in the insurance sector specialising in travel and private health. Presently she works as a consultant to the industry and also owns an underwriting agency that includes a direct sale travel insurance offering. Prior to working for herself, Julie worked for Lloyds of London and AXA Insurance which enabled her to travel the world extensively and undertake 3 foreign work assignments. Julie is the Chairman of the Travel Insurance Claims Committee and sits on the Association of British Insurers (ABI) travel committee. In her spare time she enjoys playing netball and coaches a youth hockey team.

**Lee Schopp** BSc ACA

Lee was appointed Finance Director and joined the Board in July 2010. Lee is a Chartered Accountant who has operated at Board level for both AIM listed and private companies. He brings more than 17 years' of strategic planning and execution experience to the Society. Prior to joining the Society, Lee was with an engineering services firm for 10 years where he was instrumental in growing it from a small UK based business to one listed on AIM with operations in seven countries. Lee lives in Toddington with his wife, Eilish and two boys Ben and Oscar where he has just finished building a new house for himself and his family.

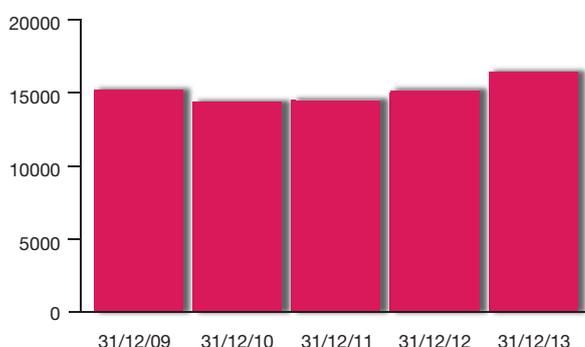
Chairman's Report for 2013

In my first year as Chair of the British Friendly Society I am pleased to report a strong performance from the Society in what has been an improving but still very challenging set of market conditions.

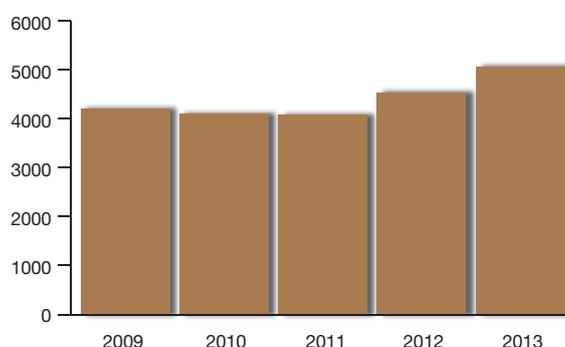
In addition to the improving but still turbulent financial markets, we have seen a change in our regulator from FSA to FCA and PRA and also huge technological innovation. All of this is forming part of our strategic thinking so that we stay safe and competitive, now and in the future.

Growth in our membership numbers are up substantially and stood at 16,373 at the end of 2013, our premium income is now in excess of £5M p.a. and importantly claims are being well managed and controlled. We continue to work hard to increase our solvency and this has a positive impact on the underlying strength of the Society.

Membership:



Premiums £'000's:



I am also pleased to be able to report gains in our investment portfolio which means that we have been able to pay an interest rate of 1.75% and increase our terminal bonus to 5%. This has been achieved against a financial backdrop that has shown signs of improving but is still extremely challenging. Although equities showed steady gains, the Bond markets were very volatile and debt around the world is still a cause for concern. The investment committee has been proactive in setting the investment criteria for the Society and for our third party investment managers. The active and intrusive work of the committee is leading to greater clarity, leadership and management in this area of the business.

Regulation

At the beginning of 2013 we saw the change of regulator from the FSA to the FCA and PRA. We also saw the introduction of the changes driven by the Retail Distribution Review (RDR).

Martin Wheatley, the chief executive of the FCA, said, "regulation has to strike the right balance between allowing the industry to thrive and ensuring firms deliver a fair deal to customers".

In line with these sentiments we have spent time this year engaging with members and asking them about the services we provide and the product offerings. We will continue to seek feedback from our members and strive to provide business excellence in these areas.

Solvency II

In last year's Report and Financial Statements we mentioned Solvency II (an EU directive which harmonises regulations concerning how insurance firms are governed and the amount of capital they must hold to reduce risk of insolvency). We continue to make excellent progress towards being ready for this new regime and have as recently as February this year had our work reviewed by an external and independent source. However delays in Europe have meant that implementation has once again been postponed with the new proposed implementation date being January 2016. Regardless of the delay, our work in this area is already well advanced and is adding value to our proposition.

Corporate Governance

The Board has undergone a number of changes this year.

Fiona Gregory, having served on the Board since 2001, decided to step down as Chair and then from the Board during 2013. Fiona has had links with the Society for over 25 years. She started her association with British Friendly as the Society's solicitor and then joined the Board. In her term as Chair she has lead and directed the Society through a period of significant change, modernisation and regeneration. On behalf of the Board and Society I would like to thank Fiona for her hard work and commitment in all the roles in which she has served.

We are therefore delighted to welcome Julie Remington to the British Friendly Board. Julie brings with her a wealth of industry experience specialising in travel and private health insurance. Julie will also bring a depth of knowledge of service delivery to the team and we look forward to working with her.

One of my responsibilities as Chairman is to ensure the ongoing effectiveness of the Board. As such, a skills assessment has been undertaken and an annual review of each Board Member was performed in 2013. This ensures that we are demonstrating continuing and effective commitment to the success and appropriate control of the Society.

In addition to this and in service of always seeking continuous improvement the Board has also undergone an external assessment in February 2014.

In summary, 2013 was a challenging year and one where BFS continued to grow its membership and expand the products and services offered. I would like to thank all our staff who have worked so hard during the year to deliver the very best service to members. I would also like to thank Mark and his executive team and his managers for their commitment to move the Society forward and to you our members for your continued loyalty and engagement with your Society.

Nick Bayley
Chairman
21 March 2014

Chief Executive's Report for 2013

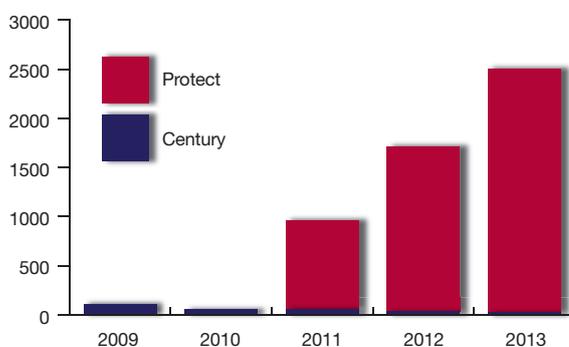
I am pleased to report that the strategy which we embarked upon in 2010 is now really producing results and that your Society is in the healthiest position it has been in for many years with the prospect of further progress.

This report will focus more on our future strategy and the risks that we are managing, but I will share some financial and non-financial highlights of the past year.

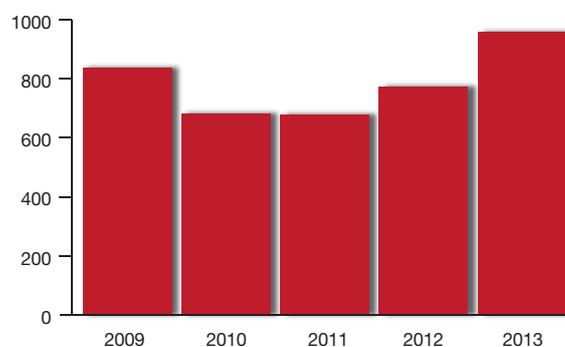
After the 10% rise in premium income in 2012, we made further progress in 2013 increasing premiums by 11.7 % and for the first time in our history they crossed the £5m threshold.

New business was particularly strong with new policy numbers 36% up on 2012 and the Premium income from Protect has now increased to nearly 30% of the total.

New Members:



Claims Paid £'000's:



This has translated into further growth in our membership numbers and we exceeded our aim of having 16,000 members by the end of 2013 by finishing the year on 16,376.

This was assisted by a reduction in the number of Holloway and Century members leaving us in 2013. This was despite the re-introduction of a modest terminal bonus and that has given us the confidence to increase it this year to 5% and we fervently hope to go further in 2014 and beyond. I hope that this continuing loyalty from our traditional members is a sign that you can see the success we are having and share in our optimism for the future.

As anticipated we saw increases in both our operating costs and claims as our business volumes continued to rise. Operating costs were managed well within the agreed budgets and the significant rise in administration costs, shown in the Income and Expenditure Account, is due to a re-allocation of IT and depreciation from acquisition costs as our systems are now mature and maintenance of them considered "business as usual". The rate of increase in future years will be lower. Claims experience of both our historic portfolio and the new Protect book are operating in line with our expectations and as a result of a full actuarial review we have in fact been able to reduce our sickness reserves which has contributed to the improvement in our solvency.

Our investment performance overall was satisfactory with good gains made on our limited equity portfolio offsetting the fall in capital values following the rise in Bond yields over the year. This was an inevitable correction as Bonds had been at historic lows and have now returned to closer to their "normal" trend return rate. We believe the yields will rise further and this, together with the substantial cash deposits that we are obliged to hold to protect Members' capital, will continue to suppress the likely earnings from our investment portfolio in the coming year.

We have been very keen to see our capital position strengthen and have made good progress this year ending the year with a free asset ratio of 7%. We intend to increase this further in the next two to three years and are aiming to reach a capital corridor of 10 to 15%. Until we reach this corridor we are conscious that we need to be more cautious on the amount of risk assets (equities and property) that we can hold within our portfolio, which in turn will mean lower returns than other riskier portfolios might achieve. It will also constrain the pace of growth and innovation in our strategy until this has been achieved.

I have already commented on the terminal bonus increase for 2013, and this was counterbalanced by a small reduction in the annual bonus to 1.75% from the 2% paid for 2012. Although our investments have performed in line with expectations in 2013, we remain very conservative in our asset allocation and cautious in our outlook for both the economy and in particular the prospects for earning reasonable returns on cash and bonds. Our aim is to set the annual bonus at a level which is both affordable in the short-term but also sustainable in the medium term to create a smooth pattern of income for our members. We therefore are aiming to maintain this level for 2014.

I can also confirm that in view of our continuing improvement in trading, our actuary is satisfied that we can confidently retain the apportionment for Holloway and Century members at existing levels of £1.80 for commuted members and £1.20 for non-commuted members.

Strategy

Every year the Board conducts a strategic review to assess whether our existing strategy continues to address the key risks the Society faces and exploits the opportunities available to us.

This has been a process of evolution over the last few years and this year, for the first time, the Board has reconfirmed the strategy in its current form.

“To maintain and enhance member benefit through growing membership in order to drive down overhead costs per member by truly becoming the “Income Protection Specialists” at a pace consistent with our capital constraints and risk appetite.”

The Board monitors the successful implementation of the strategy with specific targets for:

- Growth in membership
- Overhead costs per member
- Annual Surplus

Executive remuneration is specifically linked to achieving these objectives.

The business model remains to be a manufacturer of Income Protection products only and for these to be available via independent financial advisers only.

Although the strategy at a headline level and the business model has not changed this year, the environment in which we operate has seen significant development and the strategy therefore, has a number of key themes to address the risks and opportunities the Society faces.

Business Excellence

We recognise that before you seek to do new things you should be sure that you have looked at all areas of the existing business to ensure that “excellence” underpins your activities in all areas. The service that we offer to members and advisers is paramount and failure to maintain this, and indeed keep pace with developments in the market, will lead to losing our hard won position as “Income Protection Provider of the Year” in 2013.

In this area the key risks we face are:

1. Higher than budgeted claims experience requiring additional reserves which will reduce or threaten our solvency. We address this by operating to a clearly defined underwriting policy and our observance of this is audited every year by an independent external expert.

We also operate a sympathetic but robust claims process aimed at maintaining our proud payment record for legitimate claims (96% in 2013), but also aimed at rooting out and pursuing cases of suspected fraud which would otherwise be a significant drain on the fund.

These risks are monitored using key risk indicators by the Board on a monthly basis and there is no adverse experience to date.

2. Worse than planned investment performance leading to a reduction in the value of assets which will reduce or threaten our solvency.

We mitigate this risk by employing professional investment managers (Vestra Wealth), and defining a conservative approach which balances the need for capital preservation, as a pre-requisite, with the aim of delivering sustainable returns to the members in excess of what is available in the cash market. An asset allocation model is agreed, Vestra manage to this and their performance, along with the risk of significant capital losses, is monitored by the Board on a monthly basis.

The total return made on an investment in 2013 was 4.3% which enabled an annual distribution of 1.75% and the final bonus to be increased to 5%. The Board believe that against a Bank of England Base Rate, stuck stubbornly at 0.5%, this is a creditable performance.

New Channels

We recognise that the focus we have had on working with advisers has been the cornerstone of our success in the last few years. There continues to be a significant opportunity to increase both our market share and to contribute to shared industry initiatives aimed at growing the market by increasing the take-up of this vital product from its current levels. We should, however, recognise that the business model for advisers has increasing challenges in the post RDR world and that our continuing sole reliance on this channel is a long term strategic weakness for the business.

The risk that we are seeking to address is that either we will lose market share to our competitors or that the market for advised distribution will shrink. The impact of this will be that our ability to continue to grow will reduce, and our plans to reduce the overhead cost per member will be compromised.

To mitigate this risk we have plans to continue to improve our product range and processes to secure a larger share of our key partners' business and to make ourselves attractive to new advisers who do not currently deal with us. At present more than 97% of all Income Protection is sold in this way by advisers. This will change over time and we, therefore, intend to be alive to these changes and develop options to address these new opportunities as they emerge.

Surfing the Wave

The pace of technological change is breath-taking and accelerating all the time. From being something of a gimmick five years ago, tablets are now ubiquitous, and unknown concepts such as cloud computing and "big data" are now commonplace. Customer and adviser behaviour is changing rapidly and permanently. Those organisations which learn fastest and implement change with speed and flexibility will be the winners.

The risk is that if we wait until we fully understand what is happening to respond, it will be too late. The consequences will be a devastating loss of new business and we will lose our relevance to advisers and customers. We are, therefore, undertaking a full forward-looking technology review to plan our response and have embarked upon a test and learn approach to the opportunities in social media and application development. We do this in the knowledge that we will make mistakes but that we will learn from them and use them to drive the Society forward.

The Right Team

In support of the Strategy it is critical that we continue to look at the make-up of the Board and Management to ensure we have the range of skills to take the Society forward. We undertake a rigorous annual appraisal process and skills analysis of the Board to ensure we have the right balance to address the risks and opportunities we face. In February 2014, for the first time, we have undertaken a full external evaluation of the Board, both individually and collectively, to test our internal view of the Board's performance.

In support of this we have formal diversity, gender and recruitment policies aimed at ensuring we have access to the widest possible talent pool. Gender diversity is just one aspect of this and we are committed to finding the right person for the role rather than fulfilling a quota. As of 31 December 2013 the non-executive board was 80% male and 20% female and the executive and senior management team was 75% male and 25% female.

This report has set out the progress we have made but also the substantial challenges that lie ahead. We have confidence in the plans we have set out, but are not complacent, and will take early action if the monitoring systems we have in place indicate that we are off track.

Mark Myers
Chief Executive
21 March 2014

REPORT OF THE BOARD OF DIRECTORS for the year ended 31 December 2013

Principal Activity

The principal activity of the Society continued to be the provision of sickness cover for its members in times of illness or accident and, for those members with a Century, Holloway or a BA In Work Plan, a capital sum on retirement. The Society launched a pure income protection product (BFS Protect) in April 2011 with sales being made via financial advisers. During 2013 the Society launched Breathing Space, a pure income protection product which provides for benefit to be paid for a period of one, two or five years.

The Society does not offer new mortgages to members and the portfolio now consists of a very small number of accounts due to existing mortgages being redeemed. The provision of loan facilities to members continued, with loans being provided through the subsidiary company, BFS Member Services Limited.

The Board is of the opinion that all activities performed during the year by the Society and its subsidiary have been carried out within their respective powers.

Subsidiary Company

The results of the subsidiary company are disclosed in Note 6 to the full Financial Statements. As at 31 December 2013 the directors were Nick Bayley, Mike Harding and Lee Schopp. The Company has no employees and no remuneration was paid to the directors.

Solvency

The Society has maintained the required margin of solvency throughout 2013 in accordance with PRA regulations.

Treating Customers Fairly

The Society is committed to maintaining high standards of integrity and fairness in its dealings with members and ensures that all documentation and literature is clear, fair and not misleading.

Systems and documented procedures are in place to ensure that, if any member is dissatisfied, such problems will be handled with due care and sensitivity and will be thoroughly and impartially investigated. A member who feels dissatisfied with the result of such investigation has the right to refer the complaint to the Financial Ombudsman Service.

In 2013 we received 16 complaints. If members are unhappy with the outcome contained in the Society's final decision letter they are entitled to refer the matter to the Financial Ombudsman Service (FOS) within six months. At the end of 2013 none of the 16 complainants had referred the matter to FOS. During the year we received 54 unsolicited letters of praise.

Responsibilities of the Board of Directors

Under the Friendly Societies Act 1992, the Board is 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 income and expenditure of the Society for that period. In preparing those financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The members of the Board of Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable them to ensure that the financial statements comply with the Friendly Societies Act 1992. They are responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and protection of fraud and other irregularities.

BOARD OF DIRECTORS' CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2013

The main principles in the annotated Corporate Governance Code for Mutual Insurers are:

1. LEADERSHIP

The Board of Directors seeks to comply with best practice in corporate governance and aims to adhere to the principles and provisions of the UK Corporate Governance Code annotated by the Association of Financial Mutuals to cover mutual insurers (the Code).

It is our policy to fully comply with all the requirements of the Code apart from where, on an exceptional basis, it would not be appropriate for an organisation of our size and nature to comply.

During 2013 the Board of Directors met nine times. Its main responsibilities and decision taking areas are:

- Setting the strategic direction
- Monitoring performance of the business and the executive
- Establishing the framework of systems and controls
- Monitoring risk via the framework of systems and controls
- Agreeing the appointment and remuneration levels of executive members of the Board of Directors

Direction of the day to day management of the Society is delegated to the Executive, who operate within defined authority limits. The names of the individuals who served on the Board of Directors in 2013 are listed on page 4. Short CV's are shown on pages 5 and 6. The Board of Directors comprises the Chairman, who is a non-executive, four other non-executives and three executive members, being the Chief Executive, Finance Director and Company Secretary.

2. EFFECTIVENESS

The Society is satisfied that the range of skills the Board of Directors possess is appropriate to the ever changing world of financial services and the changes faced by smaller mutual insurers. With five non-executives and three executive members we believe this is a good balance in terms of strong corporate governance standards.

Sub-Committees of the Board of Directors

There are four sub-committees and each has specific terms of reference, which are reviewed periodically and are published on the Society's web site. Their reports are on pages 16 to 18.

Chairman and Chief Executive

There is a clear division of responsibilities between the roles of Chairman and Chief Executive and they are conducted by different individuals. Each has a specific role and responsibilities which are set out in job descriptions which have been agreed by the Board. The Chairman is primarily responsible for the effective running of the Board and for ensuring a full and constructive participation of all Board members in discussions and the decision making processes within the remit of the Board. The Chief Executive is responsible for the executive management of the Society within specific guidelines established by the Board.

Independence of Members of the Board of Directors

The Code sets out certain requirements in determining whether a non-executive member of the Board is independent. Having regard to this the Board is of the opinion that all non-executive members of the Board were independent in character, judgement and relationships throughout the year with the exception of Fiona Gregory who is not deemed independent, due only to her length of service on the Board which exceeds nine years. Fiona retired from the Board on 8 October 2013.

All members of the Board submit themselves for re-election annually.

3. ACCOUNTABILITY

The Board presents a balanced and understandable assessment of the Society's position in its reports to regulators and to members of the Society. The responsibilities of the Board of Directors are reported in this report on page 12. The Board is, through independent internal auditors, able to confirm that it has in place a sound system of internal controls that safeguard members' interests and the Society's assets.

4. REMUNERATION

This section is covered in full under the Board's Remuneration Report on page 19.

5. RELATIONS WITH MEMBERS

The Board is committed to the fair treatment of all members of the Society. The Society communicates with its members by letters, website, telephone, various questionnaires, annual apportionment statements, annual renewal notices, newsletters, AGM notices, and the Annual Report and Summary Financial Statements. A full copy of the Annual Report & Financial Statements is available online or by request to the Society.

An invitation to attend the Society's AGM is issued to every member who is aged 18 or over, together with a proxy voting form for members unable to attend the AGM. Members are encouraged to vote on all resolutions and for 2013, electronic voting was available for the first time for all eligible members to vote.

Non-Compliance with the Annotated Corporate Governance Code for Mutual Insurers

Items that we have complied with, for the first time, in the Annual Report for 2013:

The Annual Report for 2012 issued in April 2013, although containing a description of the work of the Nomination Committee, did not contain a description of the Board's policy on diversity. This has been included in this document on page 19.

The Annual Report for 2012 did not contain details regarding the length of tenure of Moore Stephens or to the approach taken to their re-appointment. This has been included in this document on page 16.

The Annual Report for 2012 did not state the steps the Board has taken to ensure that the Members of the Board, and in particular the non-executive directors develop an understanding of the views of members about the Society. This item has been included at the bottom of this page.

Other Items:

Q. On such other occasions as deemed appropriate, did the non-executive directors, led by the senior independent director, meet without the chairman present?

A. There were no other occasions when the Board deemed it necessary to meet without the Chairman being present.

Q. Are members invited specifically to approve all new long-term incentive schemes and significant changes to existing schemes?

A. All members aged 18 and over are entitled to vote in an advisory capacity in the Remuneration Report which appears on the AGM agenda.

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

A. All eligible members are able to cast their vote themselves on each resolution by post, online or at the AGM and not by just providing an option to appoint a proxy.

Q. Does the Chairman maintain contact, in relation to remuneration, with any forums (such as member forums or panels and/or delegate systems) and /or members with significant membership rights that may be in place for facilitating member dialogue?

A. Specific contact is not made with any group of members but all members over the age of 18 have the opportunity to vote on the remuneration report at the AGM.

Q. Does the company have a forum or forums where discussion with members about member and company issues can take place (this might be via a member relations function or via member forums or panels and/or delegate systems and/or any members with significant membership rights)?

A. The Society does not have a member panel/forum but instead communicates via newsletters to all members over the age of 18.

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

Q. Does the Chairman discuss governance and strategy with such a forum or forums?

Q. Are non-executive directors offered the opportunity to attend scheduled meetings with such a forum or forums?

Q. Are non-executive directors expected to attend scheduled meetings with such a forum or forums if requested by the forum or forums?

Q. Can the Board confirm that where a senior independent director has been appointed this director attended sufficient meetings with a range of members in order to help develop a balanced understanding of the issues and concerns of members, or where no senior independent director has been appointed another independent director(s) has fulfilled the same role?

A. In answer to the previous five questions, the Society does not have any member panels or forums. Member feedback received is always passed to the Senior Independent Director, who in turn passes it to the Board which keeps him and the Board aware of any issues and concerns of members.

Attendance at scheduled meetings during 2013

Name	AGM	Board of Directors	Audit and Compliance	Risk	Investment	Remuneration and Nomination
Nick Bayley (Chairman from 24 May)	1/1	7/9	0/1	2/2	1/2	
Tony Dormer	1/1	8/9	2/2		2/3	1/1
Fiona Gregory (Chairman until 24 May and retired from the Board 8 October 2013)	1/1	7/7			1/1	
Michael Harding (Company Secretary)	1/1	9/9	2/2			
Jeff Hayes	1/1	8/9	1/1	2/2	3/3	1/1
Mark Myers (Chief Executive)	1/1	9/9	2/2	2/2	3/3	1/1
Chris Radford (Senior Independent Director)	1/1	9/9	2/2	2/2		1/1
Julie Remington (from 8 October 2013)		2/2			0/1	
Lee Schopp (Finance Director)	1/1	9/9	2/2	2/2	3/3	

Nick Bayley was unable to attend the February and March Board meetings, which were both prior to his appointment as Chairman.

Audit and Compliance Committee Report for the year ended 31 December 2013

The members who served on the Committee during the year were:

Tony Dormer (Chairman)
Jeff Hayes
Chris Radford

Also in attendance at meetings were the Chief Executive, Finance Director and Company Secretary.

The key objectives of the committee are:

- Monitoring the performance and effectiveness of the internal and external audit functions
- Reviewing the annual accounts and recommending to the Board whether or not to approve them
- Ensuring effective governance of the Society's systems of internal controls
- Providing oversight and guidance to the Society on matters of compliance

The Committee members have been selected with the aim of providing a wide range of financial and commercial expertise necessary to fulfil the Committee's duties.

Committee meetings are held at least twice a year and are attended by the non-executive members and, by invitation, the Chief Executive, Finance Director and Compliance Officer.

The key areas of risk which the Committee considered this year and how they were addressed were as follows:

• Membership Systems

The membership systems control collection of premiums, payment of claims and hold all the relevant personal data of our members. Both internal and external audit functions test the controls in place each year to ensure they are robust and also that the balances reconcile to the numbers reported in the financial statements.

• Investments

The ownership and valuation of our investment portfolio is a key risk due to the size of the investment we hold. External confirmation of both ownership and valuation is sought by the external auditors.

• Regulatory matters and solvency

The Society operates in a regulated industry and must comply with the regulations issued by the PRA and FCA. It also has minimum solvency criteria it must meet. A review of all correspondence with the regulators is carried out along with a review of both the current and projected solvency positions in the future. The Committee is satisfied that the work carried out by both internal and external audits was sufficient to address these key areas of risk.

The Committee is further satisfied that the materiality levels used in the external audit were adequate to ensure that the accounts give a true and fair view of the position of the Society at the year end.

Moore Stephens have been the Society's external auditor since 2004 (10 years). Whilst the Society still considers them fully independent as any non-audit transactions with them are insignificant, it has chosen to adopt guidance in the annotated code early and formally put the audit out to tender. Following a rigorous process the decision was made to re-appoint Moore Stephens.

Risk Committee Report for the year ended 31 December 2013

The members who served on the Committee during the year were:

Nick Bayley (Chairman until 8 October)
Julie Remington (Chairman from 8 October)
Jeff Hayes
Chris Radford

Also in attendance at meetings were the Chief Executive and Finance Director.

During 2013 the Committee met on two occasions and considered the effectiveness of the risk management process and reporting to the Board of Directors on the systems governing the management of key risks.

The risk identification and management process ensures all key risks are centrally collated within the risk register. The register identifies the risk owners with the status of the risks being reviewed on a comprehensive and regular basis. A reporting process is in place to communicate key risk indicators and other relevant information to the Risk Committee and the Board of Directors.

The key areas of risk facing the Society include insurance, credit, liquidity, market and operational risks.

Insurance Risk

The primary aim of the Society is to provide sickness benefit and income protection to its members. Actuarial models are used to determine the pricing of our products. This is carried out by the Actuarial Function Holder.

The Society has an underwriting policy in place and this is used in the day to day decisions of applications for membership.

Our claims rates continue to be in line with expectations and we could withstand any reasonable foreseeable insurance risk without compromising the solvency of the Society. In using the Annual Valuation prepared by the Actuarial Function Holder we take a very prudent view of future sickness rates, mortality and investment performance before declaring apportionment rates, interest rates and a terminal bonus rate.

Credit Risk

Credit Risk is the risk of loss if another party fails to meet its financial obligations in a timely manner. The Society's exposure to Credit Risk results from financial transactions with investment counterparties.

The Society seeks to minimise Credit Risk by ensuring that all counterparties have strong credit ratings, hold investments in segregated client funds and maintain a diversified portfolio of investments, thereby reducing the potential impact of any one credit event.

Liquidity Risk

This is the risk that the Society, although solvent, has insufficient liquid assets to meet payments as they fall due.

The Society's cash flows are generally predictable with the primary source of cash inflows being premium income from members. The outflows are to members in the form of benefit claims and capital account withdrawals. As the Society holds a minimum of 25% of its assets in cash, liquidity is not considered a significant area of risk.

Market Risk

This includes the risks that arise from fluctuations in the values of, or income from, assets or interest rates. Market Risk for investments is managed by use of detailed investment guidelines which cover risk/reward relationships, limits on exposure by markets and asset classes and maturity profiles.

The investment objectives are to achieve medium term stability in bonus rates and to not put the members' capital at risk.

The Society does not match its assets and liabilities precisely. Average duration benchmarks are set instead, which approximate the maturity profile of the liabilities but with a degree of mismatch to allow the Society some flexibility to enhance returns.

Operational Risk

This refers to the risk of loss resulting from weak internal processes, people and systems or from external events. It also includes such areas as product development, information technology, legal and regulatory risks.

The Society has embedded robust control systems, processes and management actions which significantly mitigates the risks. These cover the risks of data protection, financial crime, money laundering, whistleblowing and disaster recovery.

Investment Committee Report for the year ended 31 December 2013

The members who served on the Committee during the year were:

Jeff Hayes (Chairman)
Nick Bayley (until 8 October)
Tony Dormer
Julie Remington (from 8 October)
Mark Myers
Lee Schopp

During 2013 the Committee met on three occasions and considered:

- The Society's investment strategy
- The performance of the investment managers
- The Society's property portfolio
- Relative weighting of assets within strategic ranges depending on internal and external factors

The Committee did not alter the overall investment strategy in the year as it continued to deliver consistent returns to members.

During the year the Society's property strategy was revised with clear criteria for any new purchases. Wyvern House in Bedford, one of the Society's larger properties was sold, and the proceeds are due to be reinvested in non-office property outside of the Bedford area.

BOARD OF DIRECTORS' REMUNERATION REPORT for the year ended 31 December 2013

Introduction

The Society has a Remuneration and Nomination Committee. It has not formed two separate committees as the Board does not believe the Society is of a size which would justify this.

Committee Membership

The Committee consists of three non-executive directors and, only when sitting as the Nomination Committee, the Chief Executive. The members who served on the Committee during 2013 were:

Chris Radford (Chairman)
Tony Dormer (until 8 October)
Jeff Hayes
Julie Remmington (from 8 October)

The Committee met in May and although a further meeting was scheduled for November 2013 it was decided to hold this early in 2014 when the figures for the whole of 2013 would be available. The meeting was held on 9 January 2014.

The Board undertakes an annual skills analysis in respect of the non-executive directors and this was used for recruitment in 2013 to fill the identified additional skills required. National newspaper advertising was used and Julie Remmington was successfully recruited.

The Society has adopted a transparent and independently managed process when making appointments to the Board of Directors.

The process to appoint non-executive directors contains the following elements:

- An open market search involving professional search agents and/or national newspaper advertising.
- Initial interview by independent search agent.
- Final interview by Nomination Committee.

When considering applicants for a position on the Board, whilst taking into account the skills the applicant possesses, consideration is given as to how that individual will complement and expand the knowledge and experience of the Board as a whole. This is achieved through the Society's Board Diversity policy which considers the applicants race, disability, gender, sexual orientation, religion, belief, age and culture. These differences determine the optimum composition of the Board and are balanced appropriately whenever possible.

Remuneration Policy

The Society has a documented remuneration policy. The Committee recommends remuneration packages to the Board for all directors. It does so by reference to what levels of remuneration are necessary to attract the right calibre of individual in the context of the financial services market place. None of the executive directors hold non-executive director positions elsewhere.

A process of annual appraisal is in place for the Board of Directors with a view to maintaining a high standard of individual and collective performance. This normally takes the form of peer appraisal whereby all directors appraise each other and the Chairman then collates and summarises their views and undertakes individual interviews with the members of the Board. The Senior Independent Director undertakes the interview and appraisal of the Chairman. For 2013 it was decided that, in line with recommendations in the Corporate Governance Code, the Board agreed that an external, independent and rigorous, appraisal of the Board should take place and this was performed in February 2014. The non-executive directors do not receive bonus payments or have service contracts. Their remuneration consists of payment for attending meetings, seminars and training sessions, and for other work related to the Society. Details of the remuneration are shown overleaf:

Name	Fee/Salary £000's	Bonus £000's	Benefits £000's	2013 Total £000's	2012 Total £000's
Nick Bayley (Chairman from 24 May 2013)	18			18	13
Tony Dormer	15			15	12
Richard English (Senior Director, retired 15 June 2012)					12
Fiona Gregory (Chairman until 24 May 2013 and retired from the Board 8 October 2013)	13			13	17
Michael Harding (Company Secretary)	47	4	17	68	69
Jeff Hayes	15			15	12
Mark Myers (Chief Executive)	139*	10	12	161	175*
Chris Radford (Senior Independent Director)	17			17	13
Julie Remington (From 8 October 2013)	4			4	
Lee Schopp (Finance Director)	89	7	23	119	123
Total	357	21	52	430	437

*Payment includes allowance in lieu of pension contributions.

A new bonus scheme for 2013 and onwards was agreed by the Board, following a recommendation from the Remuneration and Nomination Committee. This requires performance over a longer term. It is designed to reflect both executive performance and benefits for the membership. It is based on three year targets such as reducing costs per member, growing the membership base and producing competitive returns for members.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRITISH FRIENDLY SOCIETY LIMITED

We have audited the financial statements of The British Friendly Society Limited for the year ended 31 December 2013 which comprise the Income and Expenditure Account, Balance sheet and the related notes 1 to 17. 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), having regard to the statutory requirement to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2013, and the effect of the movement in those provisions during the year on the fund for future appropriations, the balance on the general business technical account and on excess of income over expenditure before tax are disclosed in notes 9-11.

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

Respective responsibilities of the Board of Directors and auditor

As explained more fully in the Board of Directors's Responsibilities Statement set out on page 12, the Board of Directors is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements 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.

Our assessment of risks of material misstatement

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- the operation and effectiveness of the Society's Member's system during the year and specifically the operation of the system over premium income and claims paid to members;
- the valuation and ownership of the Society's investments at the year end and the recording of transactions throughout the year; and
- the Society's compliance with applicable regulations.

Revenue recognition and the risk of fraud arising from management override of internal control have been addressed.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

We also determine a lower level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Society to be £160,000, which is approximately 2% of premiums earned and investment income; for misstatements that only affect balance sheet classification a higher amount of £900,000 is used, which is approximately 1% of gross assets. We use these measures to ensure the level of uncorrected misstatements does not materially impact the society's solvency calculations.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement is that performance materiality should be 70% of materiality, namely £112,000 and £630,000 for misstatements that only affect balance sheet classification. Our approach is designed to have a reasonable probability of ensuring that the total of uncorrected and undetected audit differences does not exceed our materiality of £160,000 for the financial statements as a whole.

An overview of the scope of the audit of the financial statements

The way in which we scoped our response to the risks identified above was as follows:

- In order to address risk around the operation of the Society's Member's system during the year we have tested the operating effectiveness of the controls over membership records, premium income and claims paid to members. The controls were tested on a sample basis, and the extent of testing varied depending on the frequency with which the control is operated.
- In order to address risk around ownership of the Society's investments held at the year end, we confirmed the entirety of the holdings to independent third party confirmations provided by the Society's custodians. These statements were compared to known movements in the investments holdings in the year through comparison to contract notes and testing of the management's monthly investment reconciliations.
- In order to address the risk around the valuation of the Society's investment we obtained from independent third parties confirmations of the prices for the purpose of subscription or redemption of interest in the underlying investments in investee funds as at 31 December 2013.
- In order to address the risk of associated with the recording of investment transactions through the year ended 31 December 2013 we have tested a sample of transactions to independent documentation.
- In order to address the risk over the Society's compliance with its regulatory environment we updated our understanding of the regulatory requirements and reviewed the Society's correspondence with its regulators, statutory filings and management's records of compliance with appropriate regulations.
- As part of our testing of the member's system we performed testing relating to controls over the recognition of premium income and the process for the ensuring the accuracy of changes to member's records, including new members. We also performed substantive testing on a sample of premium income and analytical procedures to validate whether revenue recognition procedures complied with UK Generally Accepted Accounting Practice.
- Finally we performed analytical procedures and journal entry testing in order to identify and test the risk of fraud arising from management override of controls.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the society's affairs as at 31 December 2013 and of the income and expenditure of the society for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Opinion on other matters prescribed by the Friendly Societies Act 1992

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

Matters on which we are required to report by exception

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

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

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

M P Burnett
Senior Statutory Auditor

For and on behalf of Moore Stephens
Chartered Accountants & Statutory Auditor

31 March 2014

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 December 2013

	Note	Total 2013 £'000	Total 2012 £'000
TECHNICAL ACCOUNT - LONG-TERM BUSINESS			
Earned premiums, net of reinsurance:			
Gross premiums written		5,067	4,543
Investment income:	1	3,094	2,746
Gains on investments:			
Realised gains on investments		1,331	1,212
Unrealised losses on investments		(712)	(1,282)
Other technical income - forfeitures		87	98
Exchange gains		-	2
Total technical income		8,867	7,319
Claims incurred, net of reinsurance			
Sickness benefits to members		(958)	(774)
Change in Long-term Business Provision		1,818	968
Bonuses and rebates		(3,554)	(3,671)
Net operating expenses	2		
Acquisition		(1,923)	(2,014)
Administration		(1,902)	(1,159)
Investment Management		(204)	(88)
Net surplus for the year		2,144	581
Transfer to Fund for Future Appropriations		(2,144)	(581)
Balance on Technical Account - Long-term Business		-	-

The above results relate wholly to continuing activities.

The Society had no recognised gains or losses other than those included in the movements on the Technical Account and therefore no separate statement of recognised gains and losses has been presented.

BALANCE SHEET

at 31 December 2013

	Note	Total 2013 £'000	Total 2012 £'000
ASSETS			
Investments	6		
Investment in subsidiary undertaking		-	-
Land and buildings		6,090	7,265
Other financial investments		80,956	81,556
		<hr/> 87,046	88,821
Other assets			
Tangible fixed assets	7	1,246	1,702
Debtors	8	32	67
Deferred Acquisition costs		1,830	1,231
Cash at bank and in hand		1,024	131
Prepayments and accrued income			
Accrued investment income		581	576
Other prepayments		137	178
		<hr/> 91,896	92,706
Total assets		<hr/> <hr/> 91,896	<hr/> <hr/> 92,706
LIABILITIES			
Fund for Future Appropriations	9	14,794	12,650
Members' Funds	10	64,016	65,262
Technical Provisions	11	11,930	13,748
Creditors	12	1,156	1,046
		<hr/> 91,896	92,706
		<hr/> <hr/> 91,896	<hr/> <hr/> 92,706

These financial statements were approved by the Board of Directors at their meeting held on 21 March 2014 and were signed on their behalf by:

Nick Bayley
Chairman
21 March 2014

Mark Myers
Chief Executive
21 March 2014

The accompanying accounting policies and notes form an integral part of these financial statements.

Principal Accounting Policies

The financial statements have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations') made under the Friendly Societies Act 1992 and with applicable accounting standards in the United Kingdom and with all material provisions of the Statement of Recommended Practice (SORP) on 'Accounting for Insurance Business' issued by the Association of British Insurers in 2003. A summary of the more important accounting policies, which have remained unchanged from the previous year, is set out below:

Basis of accounting

The accounts have been prepared under the historical cost convention, modified by the revaluation of certain assets as required by the Regulations.

The Society has taken advantage of the exemption not to produce consolidated financial statements on the grounds that its subsidiary, BFS Member Services Limited, is not material.

Premiums

Premiums are accounted for on a receivable basis and originate wholly within the United Kingdom. New business premiums are recognised when the policy liability is set up and the premium is due for payment.

Investment income

Income from investments is included, together with the related tax credit, in the Technical Account - Long Term Business. Account is taken of dividend income when the related investment goes "ex dividend", other investment income is included on an accruals basis.

Claims and benefits

Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the long-term business provision. Where claims are payable and the contract remains in force, the claim or instalment is accounted for when due for payment.

Realised and unrealised gains and losses

Realised gains and losses, being the difference between the net sale proceeds and the valuation at the previous Balance Sheet date or cost of acquisition if later, are included within Gains or Losses on investments in the Technical Account - Long Term Business. Unrealised gains and losses are reported in the Technical Account - Long Term Business.

Acquisition costs

Agents commissions are expensed over the first 36 months following a policy sale in line with the period in which the commission can be clawed back in the event of cancellation. All other direct and indirect acquisition costs are expensed in the period in which they are incurred.

Bonuses

Reversionary bonuses are recognised in the Technical Account - Long-term Business when declared.

Pension scheme arrangements

The Society operates a defined contribution scheme, the assets of which are held separately from those of the Society in an independently administered fund.

Taxation

The Society is not subject to Corporation Tax on the business it transacts.

Investments

Investments are stated in the accounts as follows:

Investment property - at the latest independent valuation. Valuations are carried out triennially by an independent surveyor. Office premises occupied by the Society and included in investments are valued assuming vacant possession. In accordance with SSAP 19 'Accounting for investment properties' no depreciation is charged on freehold investment properties.

Quoted fixed interest and equity investments - closing year-end mid-market values.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its estimated useful life. The rates in force are as follows:-

Computer software	3-5 years
Computer hardware	3-5 years
Office equipment	3-10 years
Motor vehicles	4 years

Fund for Future Appropriations

The Fund for Future Appropriations represents amounts which have yet to be allocated to policyholders. Transfers to and from the Fund reflect the excess or deficiency of revenues (including premiums and investment gains and losses) over expenses (including claims) in each accounting period.

Long-term Business Provision

The Long-term Business Provision is computed by the Society's Actuary, having due regard to the actuarial principles laid down in the Life Framework Directive (Council Directive 92/96/EC).

Cashflow statement

Under Financial Reporting Standard 1 the Society is exempt from the requirements to prepare a cashflow statement on the grounds that all major cash flows arise from long-term insurance business and are for the benefit of the long-term fund.

Notes forming part of the Financial Statements as at 31 December 2013

1. INVESTMENT INCOME	2013	2012
	£'000	£'000
Income from loans with subsidiary	71	63
Income from land and buildings	608	639
Income from listed investments	2,294	1,831
Income from other investments	121	213
	3,094	2,746
2. OPERATING COSTS		
a) Acquisition costs:	2013	2012
	£'000	£'000
Staff costs	755	515
System development	51	228
Software depreciation	-	429
Marketing and Promotions	198	201
Underwriting and Medical reports	136	135
Commissions	783	410
IT support	-	96
	1,923	2,014
b) Administration costs:	2013	2012
	£'000	£'000
Staff costs	491	545
Board fees and expenses	97	85
Actuarial Function Holder's fees	96	108
Legal and professional fees	12	30
Depreciation of fixed assets	519	74
Maintenance of software and equipment	324	74
Other administration costs	363	220
	1,902	1,159
c) Investment Management:	204	88
Net operating costs	4,029	3,261

All software depreciation and IT support is now considered part of ongoing administration and maintenance costs. The 2012 comparatives using this methodology would have been (Acquisition costs £1,488,666; Maintenance costs £1,684,985)

3. NET SURPLUS FOR THE FINANCIAL YEAR	2013	2012
	£'000	£'000
Is stated after charging:		
Depreciation charge for the year	2	74
Auditors remuneration (inclusive of VAT):		
Audit	25	25
In respect of costs of Reviewing Actuary	7	7
In respect of other services provided	2	3
Actuaries remuneration (inclusive of VAT)		
Actuarial Function Holder & With Profits actuary	79	75
Other fees	18	32

4. STAFF NUMBERS AND COSTS

The average monthly number of persons employed by the Society in the year was as follows:

	2013	2012
Board	5	6
Staff - Administration	10	9
Staff - Acquisition	11	10
	26	25

The aggregate payroll costs were as follows:

	2013	2012
	£'000	£'000
Wages and salaries	1,011	854
Social Security costs	114	93
Other pension costs	89	75
	1,214	1,022

5. BOARD EMOLUMENTS

	2013	2012
	£'000	£'000
Total emoluments	430	437

The emoluments of the Chairman were £17,917 (2012 - £17,000), and the highest paid member of the Board received £161,416 (2012 - £175,304). The emoluments of the other members of the Board fell into the following bands:

£0 - £5,000	1	1
£10,001 - £15,000	3	4
£65,001 - £70,000	1	-
£70,001 - £75,000	1	1
£100,001 - £105,000	1	-
£120,001 - £125,000	-	1

The Chief Executive, Finance Director and Company Secretary are members of the Board, as such their remuneration is included above as well as in Note 4.

6. INVESTMENTS**a) Subsidiary undertaking**

The Society owns 100% of the ordinary share capital of BFS Member Services Limited, a company registered in England and Wales, which are stated at a cost of £100.

The financial statements of that company show a profit of £nil for the year to 31 December 2013 (2012 - profit of £14,569). The net liabilities of the subsidiary amounted to £nil at the year end (2012 - £nil).

In the opinion of the Board the aggregate value of the investment in the subsidiary is not less than the amount at which the investment is stated in the Society's Balance sheet.

b) Freehold Land and Buildings

	Investment Property £'000	Office Property £'000	Total 2013 £'000	Total 2012 £'000
Valuation				
At 1 January 2013	7,015	250	7,265	8,389
Additions	-	-	-	746
Disposals	(1,175)	-	(1,175)	-
Unrealised (loss) / gain	-	-	-	(1,870)
At 31 December 2013	5,840	250	6,090	7,265

The Society's land and buildings were valued at 31 October 2012 by Mr D J Tillison FRICS, MCI.Arb of Kirkby & Diamond, Chartered Surveyors, Bedford. Other investment assets are stated at market value.

The Society occupied property valued at £250,000 as at 31 December 2013.

c) Other Financial investments	2013	2012
	£'000	£'000
Dated		
Government Securities	9,153	12,599
Corporate Bonds	29,007	25,311
Bank deposits	4,000	4,000
Undated		
Money Market Fund Deposits	10,500	17,000
Unit Trusts/ OEICs	3,616	3,135
Equities	8,116	12,094
Secured mortgages	323	373
Loan to Subsidiary	772	985
Cash awaiting reinvestment	15,469	6,059
	80,956	81,556
	49,893	53,140
Total of listed investments included above		

7. TANGIBLE ASSETS

	Fixtures and Fittings	Computer Equipment and Software	Motor Cars	2013 Total £'000
Cost:				
At 1 January 2013	120	3,136	26	3,282
Additions	3	60	-	63
At 31 December 2013	123	3,196	26	3,345
Depreciation				
At 1 January 2013	82	1,472	26	1,580
Charge for the year	7	512	-	519
At 31 December 2013	89	1,984	26	1,580
Net book value:				
At 31 December 2013	34	1,212	-	1,246
At 31 December 2012	38	1,664	-	1,702

8. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2013	2012
	£'000	£'000
Members	21	13
Other debtors	11	54
	32	67

9. FUND FOR FUTURE APPROPRIATIONS

	2013	2012
	£'000	£'000
Balance at 1 January 2013	12,650	12,069
Transfer from technical account		
Long term business	2,144	581
Balance at 31 December 2013	14,794	12,650

10. MEMBERS' FUNDS

	2013 £'000	2012 £'000
Bonuses and rebates		
Interest on members' balances	1,062	1,235
Apportionment	2,263	2,327
Interest and apportionment paid to withdrawn members	228	109
	3,553	3,671
Withdrawals during the year		
Death	876	1,041
Retirements	345	373
Resignations and lapses	2,600	2,653
Other withdrawals	891	916
Apportionments forfeited - taken to income	87	97
	4,799	5,080
Net decrease in member funds during the year	(1,246)	(1,409)
Balance at 1 January 2013	65,262	66,671
Balance at 31 December 2013	64,016	65,262

11. LONG TERM BUSINESS PROVISIONS

	2013 £'000	2012 £'000
Balance at 1 January 2013	13,748	14,716
Transfer to technical account - long term business	(1,818)	(968)
Balance at 31 December 2013	11,930	13,748

12. CREDITORS AND ACCRUALS

	2013 £'000	2012 £'000
Creditors arising out of direct insurance operation	472	490
Unearned premiums	124	15
Other creditors including taxation and social security	80	170
Accruals and deferred income	480	371
	1,156	1,046

13. PENSION COSTS

The Society operates a staff pension scheme based on defined contributions whereby the Society contributes between 7.5% and 15% of the basic salary of qualifying members.

14. CAPITAL COMMITMENTS

At 31 December 2013 the Society had no capital commitments (2012 - nil).

15. BOARD MEMBERS' LOANS AND TRANSACTIONS

There were no amounts outstanding at either 31 December 2013 or 31 December 2012 in relation to loans to members of the Board of Directors and related parties.

The register of loans to members of the Board of Directors is available for inspection at the registered office of the Society.

16. WITH-PROFITS ACTUARY**Statement in accordance with Rule 9.36 of the Accounts and Statements Rules**

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 and the particulars furnished pursuant to the request are identified below:

- a) The With-Profits Actuary of the Society for the period 1 January 2013 to 31 December 2013 was C Critchlow FIA, an employee of OAC plc.
He was not a member of the Society or the subsidiary of the Society at any time during the year.
- b) He had no pecuniary interest in any transactions with the Society subsisting at any time during the period.
- c) The only remuneration was the fees for professional services paid to OAC plc for the services provided by the firm, and the sum payable in this respect amounted to £80,114 (2012 - £89,632) exclusive of Value Added Tax.
- d) The With-Profits Actuary did not receive, nor will receive, any other pecuniary benefit.

17. CAPITAL STATEMENT

The following summarises the capital resources and requirements of the British Friendly Society as determined for UK regulatory purposes:

The Society does not write with-profits business to the scale required to calculate a realistic balance sheet. Therefore the capital statement below covers all their life assurance business. There are no specific constraints on the capital of the Society.

As the Society has no shareholders, all capital belongs to its members.

Life Business UK non-participating	2013	2012
	£'000	£'000
Total capital resources before deductions	14,786	12,650
Adjustments to assets	(2,918)	(2,136)
Total available capital resources	11,868	10,514

Risk Management

Risk Management has a regular place on agendas for the Board and Senior Management Team meetings. Additionally, the Society uses its Financial Condition Report and Individual Capital Assessment to monitor current and potential risks that could affect its solvency adversely.

Capital Management

The Society's Free Asset position is regularly reviewed to ensure it maintains an acceptable level of solvency.

As the capital belongs to its members, if the Society sees a large change in its available capital due to the morbidity experience of the members, it will amend the level of profit allocation and bonus payable to its members accordingly.

Basis for setting technical provisions

A gross premium method of valuation is used for calculating the Society's liabilities, aside from the capital accounts which are valued at face value. No allowance has been made to treat any individual policy as an asset other than those arising on the BFS Protect and Breathing Space contracts where credit is limited to no more than 50% of those contracts' deferred acquisition costs.

Interest Rate		2013 2.40%	2012 2.0%
Mortality Rates	Non commuted members	30% AMF92	60%AMF92
	Commuted members	55% AMF92	60%AMF92

The valuation of the Society's sickness benefits were made assuming the sickness inceptions are at a variable percentage of CMIR12 (1 week deferred period) rates by age and by contract type as follows:

Table of inception rates by age

Age	Holloway		BFS Protect		Breathing Space	
	2013	2012	2013	2012	2013	2012
15-19	20%	20%	45%			
20-24	30%	25%	45%			
25-29	40%	30%	45%			
30-34	50%	35%	45%			
35-39	60%	40%	45%			
40-44	70%	45%	45%			
45-49	70%	50%	45%	As Holloway		
50-54	70%	55%	45%		As BFS Protect	
55-59	70%	60%	45%			As Breathing Space
60+	70%	60%	45%			
Female loading	+40%	+30%	Nil			

Recoveries are set by reference to CMIR12 as follows:

Age	Holloway		BFS Protect		Breathing Space	
	2013	2012	2013	2012	2013	2012
0-4	70%	70%	40%			
4-8	100%	100%	70%			
8-13	130%	100%	100%			
13-26	130%	100%	110%			
26-52	130%	100%	110%			
52-156	130%	100%	110%	As Holloway	As BFS Protect	As Breathing Space
156+	85%	100%	85%			

Lapses are assumed at 3.0% per annum within the valuation.

The Society's expenses were analysed between acquisition and maintenance expenses, and the valuation expense assumed includes a prudent allowance for future years' expenses.

The Society has no options or guarantees and accordingly holds no reserves for them.

Analysis of change

There has been an increase in the available capital resources from 31 December 2012 to 31 December 2013.

	Change in Available Capital £'000	Available Capital £'000
2012 available capital		10,514
Investment gains	2,764	13,278
Trading surplus	3,000	16,278
Change in methodology and basis	1,077	17,355
Cost of new business	(1,996)	15,359
Impact of lapses and maturities	812	16,171
Cost of bonus	(3,325)	12,846
Change in asset admissibility	(782)	12,064
Other	(196)	11,868
2013 available capital		11,868

Sensitivity analysis

The table presented below demonstrates the sensitivity of available capital to movements in assumptions.

Variable	Change in Variable	Change in Available Capital £'000
Change in morbidity (%CMIR12) inceptions/recoveries	+10%/-10%	(2,473)
Change in morbidity (%CMIR12) inceptions/recoveries	-10%/+10%	576
Change in maintenance expense allowances	+10%	(1,340)
Change in maintenance expense allowances	-10%	1,315
Change in interest rate used to discount cashflows	+1% per annum	1,280
Change in interest rate used to discount cashflows	-1% per annum	(1,616)
Change in fixed interest yields	+20%	(2,202)
Change in equity values	-10%	(812)
Change in property values	-20%	(1,941)

In a situation where morbidity increased by the levels in the table above, the Society would review its allocation of profits accordingly.

When interest rates change, any movement in the available capital is partially offset by an opposite change in the value of assets. This has not been reflected in the value of change above.

Past Chairmen of the Society

1902/3 R.A. Matthews; 1904 E. Parry Jones; 1905 Geo. R. Mason; 1906 W.T. Banks; 1907 J. Colton Hall; 1908 C.E. Watson; 1909 E.S. Summer; 1910 B. Percy; 1911 C.E. Shroeder; 1912 F. Harrison; 1913 T. Mcllwrick; 1914 R.H. Ellis; 1915 A.H. Walton; 1916 A.W. Green; 1917 W.F. Brooks; 1918 T. Hammersley; 1919 J.J. Hanson; 1920 E. Penny; 1921 C.E. Dazell; 1922 W.H. Tomlin; 1923 E.J. Towler; 1924 Fred W. Chalker; 1925 J. Pollitt; 1926 A.E. Allin; 1927 H.W. Harrie; 1928 J.G. Sinton; 1929 H.E. Crocker; 1930 B.O. Jones; 1931 H.E. Penny; 1932 A. Booer; 1933 H.M. Johnson; 1934 R.C. Ashworth; 1935 A. Gooderidge; 1936 J. McIntyre; 1937 F. Clarke; 1938 F. J. Tilley; 1939 Chas. Ashton; 1940 B. Bevington; 1941 J.H. Richards; 1942 A. Lamb; 1943 F. Powell; 1944 J. Stephens; 1945 T. Taylor; 1946 T.H. Shearer; 1947 A.F. Reuter; 1948 R.I. Davies; 1949 J.I. Eadie; 1950 F.C. Stone; 1951 Frank Taylor; 1952 G. Stanley Atkinson; 1953 Percy Jones; 1954 C.H. R. Williamson; 1955 L. Tracey; 1956 T.E. Sargent; 1957 A.A. Griffiths; 1958 W.H. Weston; 1959 H. Young; 1960 C. Irvine; 1961 H. Berry; 1962 S.E. Moore; 1963 R. Murray; 1964 F. Leslie Ellis.

YEAR	NAME	BRANCH	ELECTED AT
1965	H. Haworth	Nottingham	Jersey
1966	P. Notman	Bristol	Buxton
1967	L. Norman Wilson	Dudley & District	Blackpool
1968	G. Robinson	Blackpool	Gt Yarmouth
1969	D.A.V. Willis	Weston-super-Mare	Jersey
1970	W.J.L. Twomey	Bromley	Bournemouth
1971	A.G. Marsh	Enfield & Barnet	Harrogate
1972	R. Parker	Jersey	Brighton
1973	R. Chambers	Cardiff	Jersey
1974	C.H. Lister	Maidstone	Blackpool
1975	A.D. Alden	Norwich	Plymouth
1976	F.C. Bradley	York	Scarborough
1977	W. Mallinson	Leeds	Nottingham
1978	Derick C. Smith	Basingstoke	Brighton
1979	J.B. Luccock	Bradford	Bournemouth
1980	S.T. Paskins	Birmingham	Jersey
1981	P.F. Ward	Hull	Blackpool
1982	N.F. Hanson	Eccles	Buxton
1983	S.J. Marks	Metropolitan Furniture	London
1984	A.L. Attack	Wakefield	Bristol
1985	D.A. Snoad	Harrow	Blackpool
1986	R.J. English	Norwich	Solihull
1987	Miss P. Kirkwood	Belfast	Coventry
1988	R. Luke	Leicester	Dunblane
1989	R. Luke	Leicester	Plymouth
1990	Llewellyn Garner	Warrington	Solihull
1991	D.A. Cullington	Colchester	Dunblane
1992	J.W. Shea	Bromley	Solihull
1993	T. Creighton	Belfast East	Plymouth
1994	T. Creighton	Belfast East	Solihull
1995	T. Creighton	Belfast East	Llandrindod Wells
1996	A. L. Attack	Wakefield	Portsmouth
1997	A. L. Attack	Wakefield	Solihull
1998	A. L. Attack	Wakefield	Plymouth
1999	A. L. Attack	Wakefield	Solihull
2000	A. L. Attack	Wakefield	Daventry
2001	R. J. English	Norwich	Solihull
2002	R. J. English	Norwich	Daventry
2003	R. J. English		Hinckley
2004 - 2008	R. J. English		Bedford
2009 - 2013	Fiona Gregory		Bedford
2013 -	Nick Bayley		Bedford

Past Presidents of the British Commercial Travellers Sick Benefit and Thrift Society

1922 H.G. Bouch; 1923 S.L. Jordan; 1924 F.S. Ingham; 1925 A. Leon Forseter; 1926/27 Wm. E Tickle; 1928 Thos. Young; 1929 A.E. Hodgson; 1930 W.H. Mursell; 1931 M.R. Wilson; 1932 J.S. Taylor; 1933 G.C. Hamilin; 1934 S.L. Jordan; 1935 J.F. Pyrah; 1936/37 H.G. Bouch; 1938 F.J. Seward; 1939/43 J.S. Taylor; 1944 Wm. Tickle; 1945 H.W. Jaggard; 1946 F.C. Reynolds; 1947 G. Parker; 1948 F.E. Constant; 1949 G. Jones; 1950 H.H. Thomas; 1951 R.T. Griffiths; 1952 P.L. Browning; 1953 H.A. Pippett; 1954 H.E. Clark; 1955 W. Bycroft; 1956 G.E. Corney; 1957 F.W. Mills; 1958 F.E. Constant; 1959 D.A. Weaver; 1960 P.M. Bennett; 1961 W.E. Tickle; 1962 E.B. Scott; 1963 W. Cleland; 1964/65 H.E. Brown; 1966 E. Emens; 1967/68 J.W. Walkinshaw; 1969 F.W. Mills.



British Friendly Society Ltd
1 Trevor Street
Bedford
MK40 2AB

Tel: 01234 358344 (mainline)
Tel: 0800 975 6565
Fax: 01234 327879
Email: enquiries@britishfriendly.com
Website: www.britishfriendly.com

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Reg. no: 110013. A member of the Association of Financial Mutuals. The Society is incorporated under the Friendly Societies Act 1992. Reg. no: 392F.

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