

Sarah

British Friendly
member since 2013



The Newton Family

British Friendly
members since 1992



Report and Financial Statements

for year ended 31 December 2016

BRITISH FRIENDLY

It feels good to be covered
Where members come first



Ali and Ian

British Friendly
members since 1989

Antonio

British Friendly
member since 1982



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CHAIRMAN'S WELCOME STATEMENT



Chris Radford
Chairman, British Friendly

CHAIRMAN'S WELCOME STATEMENT

Introduction

Membership increases nearly 20% to just over 20,000.

I would like to start this year's welcome statement by saying how honoured I am to have taken over as the Society's Chairman in 2016. It is a real privilege to take on the Chairman role during this exciting time of great change and I would like to thank Nick Bayley for the excellent job he has done as our previous Chairman, successfully leading us through some challenging times.

The last twelve months has seen enormous change, both within the Society and in the wider marketplace, and I am delighted to say that I believe we have come through all these changes stronger and better placed to face the challenges of the future. Whilst we clearly can't control the external environment, the changes made within the business have been carefully thought

through. We have managed to further strengthen the Society and this helps to mitigate the uncertainties created by external factors.

2016 saw the advent of a new Chairman and Chief Executive and in addition, an update to our strategy which included a complete re-branding of the Society and a move to a new head office. Right in the middle of this was the Brexit vote and in November we saw the election of Donald Trump as president of the USA which added further to economic uncertainty around the globe. Unexpectedly equity markets, after an initial fall following the Brexit vote, saw strong growth during the second half of 2016.

Against this backdrop 2016 was a record year for British Friendly Society with membership growing 19.5% to 20,440 and

bonuses paid to members of £3.4m. Over the last five years we have returned £23.4m in benefits and bonuses to our members. We believe in total transparency and so once again, we were the first income protection insurer to publish our claims rates which showed a market leading 96.1% compared to the market which varies from 85% to 94%.

Our capital position continues to strengthen with the key measure of Own Funds, which is the capital remaining after deducting our liabilities from our assets, increasing from £33.3m to £36.8m. Our Solvency Ratio has increased from 231% to 290% over the course of the year meaning that the Society is extremely well capitalised providing reassurance to members that we will comfortably be able to pay all valid claims.

Culture and Values

The Society's culture and values are central to everything we do, underpinning our strategy of membership growth and value, excellent service and of protecting our members against financial uncertainty.

The strategic report provides more details of our work in 2016 on culture and values and I would like to state my personal commitment in leading this crucial aspect of your Society to ensure that we meet the commitments and promises we make to members.

CHAIRMAN'S WELCOME STATEMENT

Member engagement

As a mutual Society we exist to serve you our members and so we place significant importance on engaging with you and listening to feedback on a regular basis. In 2016 we made great strides towards increasing member engagement with a comprehensive quarterly programme of different initiatives and communication methods which included face to face meetings, postal and email questionnaires, text messages, telephone calls, social media and our website.

In quarter one we contacted a group of our members to gather case studies on their claims experience. We added a new glossary of terms to the apportionment statements we

send to members each year, we announced our new Death Benefit and we also asked members to volunteer to attend our first member photoshoot.

During the second quarter the Board held a face to face question and answer session with members in Birmingham. We invited members who volunteered for our photoshoot to join us for our brand launch event and we asked our members to get involved with our Annual General Meeting through voting, surveys, and AGM attendance.

In quarter three we sent out a newsletter to our members, we announced Care Assistance Benefit and we implemented our new text message surveys to members which replaced after

sales calls.

Finally, in the final quarter of the year, we sent our members their end of year statements, we invited members to volunteer for our 2017 photoshoot and we encouraged members to pre-register for our new Mutual Benefits programme.

We are delighted with contact we have had with members over the last twelve months but there is still much to do to improve our engagement with members. Our various initiatives provided a wealth of useful feedback during 2016 and we will continue to be very active in this important area going forward.

Board Changes

2016 saw a further strengthening of the Board and executive team with the appointments of Barbara Merry and Audrey McNair as non-executive directors and Iain Clark as Distribution and Marketing Director. All three bring a wealth of experience and have already made a substantial impact on the Society.

At the end of the year Mark Myers stepped down from the position as Chief Executive. Mark joined the Society in 2010 when the business had been experiencing many years of declining membership. He helped the Board develop a new growth strategy resulting in membership growing by 43%, from 14,319 to 20,440, which has been a fantastic achievement. I would like to thank Mark for his enormous contribution to the Society over the past six years and wish him every success for the future.

We also saw Roy McLoughlin step down from the Board in 2016 and I would like to thank him for his excellent contribution.

At the end of the year the Board took the decision to appoint Iain Clark as the Society's Chief Executive commencing on 1st January 2017.

CHAIRMAN'S WELCOME STATEMENT

Outlook

I expect that economic and political uncertainty will continue in 2017 with the triggering of Article 50 signalling our departure from the EU together with presidential elections in France and Germany. Added to this will be the impact of Donald

Trump's presidency of the USA where it is not yet clear how his economic policies will impact world markets.

Despite the economic and political uncertainty these events will undoubtedly create I am confident that with a strong

Board and executive team, a highly skilled team working within the business, a clear strategy for the future and a strong capital base underpinning the Society we will continue to grow and prosper.

Summary

2016 was an excellent year for your Society and 2017 is expected to continue with this success. I would like to thank all our members for their continued support and also the staff at the Society for their unstinting efforts to ensure the Society delivers on all its promises to our members.



Chris Radford

Chairman

02

MEET THE TEAM

Members of Staff
British Friendly



MEET THE TEAM

Board of Directors

CHRIS RADFORD

Chris was elected Chairman in May 2016. He joined the Board in June 2010 and has over 35 years of experience in the Financial Services sector most recently as CEO of Lambeth Building Society, Legal & General's unit trust business and specialist investment firm TIS Group. He has worked in a wide variety of business environments including major global and small local, plc and mutuals and across all areas of Financial Services including insurance, investments, savings, banking and lending. Chris has considerable experience of helping organisations to develop new strategies and achieve wide scale changes. He is married, has twin boys aged 26, and is an experienced alpine skier, a keen sailor, enjoys golf and plays in a blues band.

The skills and experience Chris brings to the Board include strategy development and implementation, change management, business planning and organisation, executive development, operational efficiency and understanding the responsibilities to members of a mutual organisation.



AUDREY MCNAIR

Audrey was appointed as a Non-Executive Director in April 2016. She chairs the Risk Committee and is also a member of the Audit & Compliance and Investment Committees. She has been in Financial Services for 33 years primarily in the City of London working for a number of banks and latterly for Europe's largest independent asset manager where she was Global Head of Business Risk. In that role she was responsible for the implementation of the group's risk management framework and system, the production of the Internal Capital Adequacy Assessment Report (ICAAP) and directly accountable to the PLC board for the Operational Risk and IT risk teams. She chaired a number of committees including the Outsourcing, Information Security, Business Continuity, Crisis management and Pricing Committees.

She is a graduate of St Andrews University where she studied French and a Fellow of the Institute of Bankers. In 2015 she was appointed to the Board of the Earl Shilton Building Society based in Leicestershire. Outside work Audrey enjoys arts, travelling, French conversation and running. Audrey brings to the Board significant experience in risk management and governance together with a deep understanding of the changing regulatory landscape.



NICK BAYLEY

After serving as Chairman, Nick was elected Senior Independent Director in May 2016. He 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 an Executive 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.

The skills and experience Nick brings to the Board include a deep understanding of the IFA and wealth management community, with a particular bias towards sales and marketing.



MEET THE TEAM

Board of Directors

JEFF HAYES

Jeff joined the Board of British Friendly in April 2010 following a 40 year career in the UK fund management industry. During his period in the City Jeff was a dealer on the London Stock Exchange, managed Fixed Income portfolios, 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 a clear insight into the British Friendly operations. In addition to his role with British Friendly Society Jeff has a limited number of Non-Executive and Trustee roles for UK based pension funds and Charitable organisations. Jeff brings extensive investment and financial experience to the British Friendly Society and chairs the Investment Committee.

Jeff has been married to Rene for 43 years and has two children. He enjoys running, golf and photography.



BARBARA MERRY

Barbara joined the Board in March 2016 as the chair of the Audit and Compliance Committee. She also chairs the Remuneration & Nomination Committee. She is a Chartered Accountant and has over 30 years experience in the insurance industry. Until early 2014, she was the CEO of Hardy Underwriting Group (listed on the London Stock Exchange until 2012). Barbara has served two terms on the Lloyd's Market Association Board and was a member of the Council of Lloyd's from 2007 to 2009. She is a Court member of the Worshipful Company of Insurers (WCI) and a Vice President of the Insurance Institute of London.

Currently, Barbara devotes time to the talent management and diversity and inclusion agenda through a variety of insurance related networks; she has a number of charitable interests, including as a Trustee for the Barbican Arts Centre and the Fight for Sight charity; Women for Women International; she is a business angel investor and a Non-Executive Director for Domestic and General Insurance Limited and Lloyd's Broking group and Chairman of Age UK Enterprises UK Ltd. Barbara brings to the Board a deep understanding of the financial performance metrics associated with an insurance business, including detailed knowledge of Solvency II, together with a strong sense of strategic direction and a keen interest in people management.



MEET THE TEAM

Board of Directors

IAIN CLARK

Iain was appointed Chief Executive Officer following Mark Myers's retirement from the Society in December 2016. Iain joined the Society as the Distribution & Marketing Director in September 2015 from his previous role of Managing Director of Protection at LV=. He was appointed to the Society's Board in April 2016.

Iain brings over 25 years of experience in the insurance and protection industry to British Friendly and his primary focus for 2016 was to lead and enhance the business's existing product and distribution strategy whilst reviewing and developing the medium to long-term sales and marketing strategy. Iain is married with one grown up son who is currently studying English at Warwick University and is a keen runner and cook.



LEE SCHOPP

Lee was appointed Finance Director and joined the Board in July 2010. He recently received the New Chartered Director of the year 2015 award from the Institute of Directors. He brings more than 18 years' of strategic planning and executive experience to the Society and currently has executive responsibility for Finance, IT and Operations within 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 is married to Eilish and has two boys Ben and Oscar. In addition to his role at British Friendly, Lee also founded a successful micro brewery operating in Bedfordshire.



Management Team

DEBBIE ELMS (HEAD OF RISK AND UNDERWRITING)

Debbie joined the Society in October 1982. Having completed various roles within the business, in 1996 Debbie became the Society's first full-time underwriter whilst still remaining very much involved with the processing and payment of claims. Debbie now leads the Society's Underwriting and Claims teams as part of her role as Head of Risk and Underwriting.

Debbie is married to George and they have 7 children between them. Outside work she is very much involved in family life and enjoys babysitting and spending time with her small grandchildren, nephews and nieces. Debbie enjoys reading and travelling abroad.



LORRAINE DONALD (HEAD OF OPERATIONS)

Lorraine joined the Society in June 1983. During her career with the Society Lorraine has held a number of roles which has allowed her to gain an extensive knowledge of the business and the membership. With this wealth of experience Lorraine became Head of Operations in 2011.

Lorraine is married to Ian and has three children. Outside work she enjoys playing netball, watching her children participate in a number of sports and travelling abroad.



MEET THE TEAM

Management Team



ANDY BARRETT (HEAD OF IT)

Andy joined the Society as a freelance IT consultant in October 2009 to manage the implementation of the Protect range of products and their distribution through the Independent Financial Adviser (IFA) market. He joined the Society on a permanent basis in October 2013 to oversee the delivery of all of the Society's projects, having previously worked extensively in the Insurance sector in IT and Project Management.

Andy is a keen long distance walker and in June 2016 completed a 53 mile walk for charity in just over 17 hours.

JULIE GREENWOOD (DISTRIBUTION DIRECTOR)

Julie is a highly skilled and influential senior relationship director with 20 years' experience in Financial Services, across IFA and tied distribution. Julie joined British Friendly as Distribution Director from Vitality where she helped to build their single-tie distribution channel.

With a strong track record of delivery, her career spans key distribution roles across Legal and General where she managed the relationship with Nationwide Building Society, Aegon and Standard Life.

Julie loves playing tennis, long walks in the country and spending any spare time with family and friends. She lives in Lancashire with her partner Martyn, son James and their four dogs.



NICK TELFER (HEAD OF PRODUCTS AND PROPOSITIONS)

Nick joined British Friendly in 2016 and looks after the development of the Society's products and propositions. He is a big advocate of mutuality and has over 35 years' experience in the financial services industry working in a number of roles including sales, marketing, product research and development. This experience has given Nick a comprehensive knowledge of the protection market and a real passion for protection, particularly income protection.

When he isn't working, he enjoys playing golf and watching sport, particularly cricket and baby-sitting a growing number of grandchildren.



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STRATEGIC REPORT



Mark Myers
CEO, British Friendly
(until December 2016)

STRATEGIC REPORT

Business Model

The Society was founded in 1902 to provide sickness benefits for Commercial Travellers and their families. We are located in Bedford, with members throughout the UK and are one of the larger UK Friendly Societies with just over £87m in assets. The principal activity of the Society is to provide sickness cover for its members in times of illness or accident. After paying sick pay and expenses any surplus is invested for the benefit of the members and the BFS investment policy is determined by the Board of the Society with input from the Investment Committee and our Actuary. As a mutual we exist solely for the benefit of our members and have no shareholders to whom we need to pay dividends.

Until 2011, the income protection insurance offered by the Society was mainly of a 'Holloway' type with a capital element building up over time through the allocation of interest and other apportionments (effectively distributing annual surpluses to members). This business had been in decline for a number of years and in 2011 a pure income protection product, BFS Protect, was launched. This is sold via intermediaries and is now the core business product of the Society.

In recent years we have also introduced Breathing Space, a policy which does not require financial underwriting and is designed for the self-employed market.

The focus in the last 5 years has been to continually improve the product offering to maintain our competitive position and to widen our distribution.

All the Society's products are based on reviewable premiums. While these have not been changed since the launch in 2011, the ability to amend these to reflect adverse variances in sickness or expense experience reduces the capital required and increases the Society's resilience.

BFS Protect continues to grow and currently accounts for more than 50% of premium income and is the largest cohort of members.

In addition to the insured Holloway and Protect members, the Society has some 3,000 former Holloway members who have commuted their sickness benefits at age 60, but retain their balances with the Society earning an annual bonus. They will also receive a terminal bonus on withdrawing their funds from the Society (including on death).

“ In recent years we have also introduced **Breathing Space**, a policy which **does not require financial underwriting** and is designed for the self-employed market. ”

STRATEGIC REPORT

Business Strategy

The formulation of our strategy has been built upon a deep alignment with the British Friendly's principles and brand:

We remain a mutual Society so identifying, articulating and then delivering the advantages of this status to members, potential members and business partners must be at the heart of our strategic objectives and competitiveness.

Many financial mutual societies are struggling to achieve this goal but we intend to be different by offering a relevant, tangible

and valuable expression of mutuality which is difficult to replicate.

We aim to deliver a 'high class service' and to give a reason for members to stay with us for as long as possible. This in turn will

maximise value created from the new business we win.

Our Principles

In 2016 we have reviewed and redefined the principles upon which our business is built. These principles encompass our organisational culture, values and beliefs. They also form the foundations of our brand and the way we engage with our key stakeholders.

We developed our principles by engaging with our members, advisers and staff and asking for their feedback. We also asked our staff to provide real life examples of how they uphold each principle in their role to ensure our principles accurately represent the business.

Our principles underly a significant aspect of our staff training and development to help us measure and successfully deliver our strategy and our 'high class service'.



STRATEGIC REPORT

The Principles Behind the Smile

Purpose

To be a trusted and relevant provider of financial support in times of need

When it comes to putting a protection plan in place that safeguards against serious financial loss, everyone wants to know that they're dealing with a trusted provider who pays out when they say they will. At British Friendly, our purpose is to ensure that everyone who deals with us feels confident that they are getting reliable cover that's right for them and serves their financial needs.

Aim

Easy to deal with us

We are different from most insurance providers because we are a mutual society which means we have no shareholders to pay and we exist to serve our members. Our mutual status means we welcome everyone, including individuals other providers may consider to be too risky to insure. We are also different from other mutuals because we offer Mutual Benefits, a programme of practical lifestyle benefits for all our members giving them valuable use of their membership on an everyday basis. We pride ourselves on our friendly personal approach and strive to keep everyone smiling when dealing with us.

Promise

To do the right thing

We believe there's little point in having insurance if it doesn't pay out which is why we aim to provide the best possible cover that does what it says on the tin. We also empower our people so they can make decisions themselves and provide answers quickly. At British Friendly, everyone works together for the greater good ensuring we consistently do the right thing.

Commitment

To put members at the heart of all we do

Being a true mutual means existing purely for the benefit of our members and we measure everything we do against this pledge. That's why we consistently pay as many claims as possible as well as providing products and services that add more value to our members' policies in order to serve their best interests.

The Donald Family

British Friendly members since 1984



STRATEGIC REPORT

Returning Value to our Members

Central to our strategy is the creation and distribution of value to all our members. We have concluded that it is not sufficient to rely on good intentions or vague statements such as delivering superior service.

Neither is it enough to have a very high paid claims ratio. You should expect this as a matter of right.

We believe that if our commitment to value creation is to have real meaning it must be tangible and ongoing.

Value is created by and for our members by retaining you as a member for as long as possible. We have therefore increased our efforts to retain our existing members by offering demonstrably superior value.

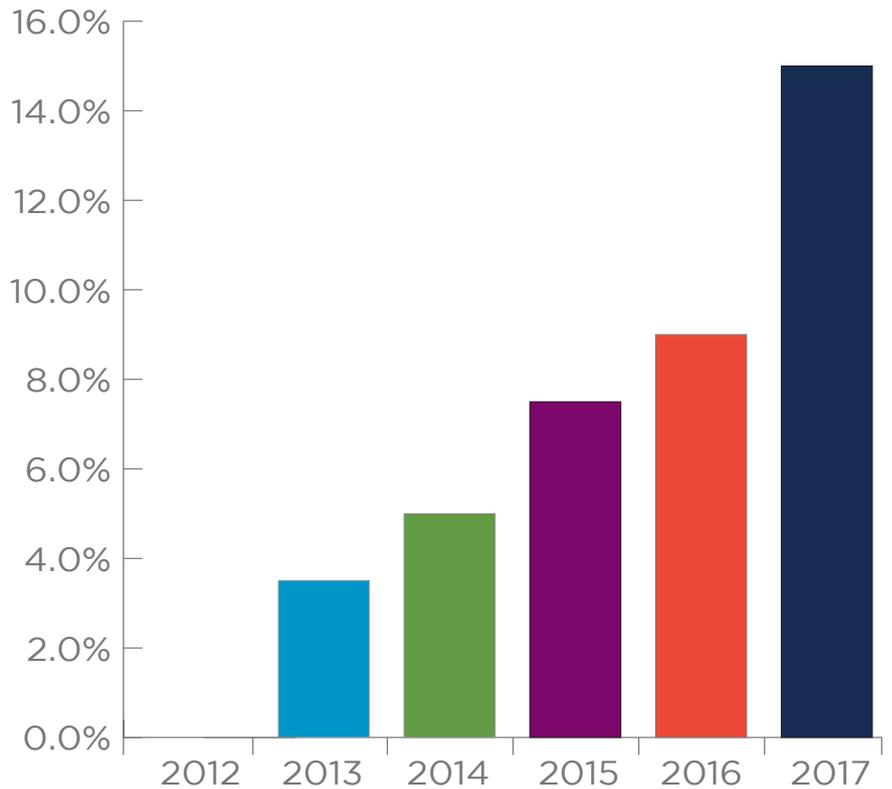
In recent years the principal way in which the Society has been returning value to its Holloway and Century members has been by paying apportionment (profit share on trading surpluses) at stable rates, paying a competitive rate of annual interest on member balances and reintroducing and increasing final bonuses year on year over a 5 year period.

In 2016 we began to return value to members by the introduction of policy enhancements which apply to all our policyholders (including Protect members).

The discretionary benefits introduced included 6 months of benefits paid if you died within your policy term and Care Assistance Benefit which allows you to claim £125 per week for up to 26 weeks should your partner or child need full-time care.

In 2017 these benefits were further enhanced by the introduction of our 'Mutual Benefits' programme.

Percentage of Final Bonus Payable



STRATEGIC REPORT

Business Environment

ECONOMIC AND SOCIAL

The impact of the UK's Brexit referendum result has been less impactful in the short term than anticipated. While growth is lagging, the long-term trend rate, the anticipated slowdown has not materialised. The fall in sterling has boosted economic activity, particularly for exporters, however it has caused a rise in the cost of imports and this is already flowing through into higher inflation which is likely to be in the range of 2-3% by the end of 2017. This in turn will fuel demands for wage increases, which may act as a brake on growth in 2018 and beyond. The impact of potentially lower living standards and reduced disposable income on the Society are obvious and could lead to fewer new policy purchases and higher policy lapses.

POLITICAL

2016 has been a year of shocks across the globe, with a series of unpredicted electoral results which have a common theme of a demand for change from the existing political elites. Politicians with a more extreme viewpoint are being elected on specific mandates for change and a clearer expectation of delivery to a nation-centric agenda. Support for broader international organisations is falling and there is the potential for increased fragmentation and conflict.

On the domestic front, the main trend which is likely to impact the Society's business (and to do so positively) is the increasing interplay between the current welfare model and the potential for the Insurance industry and Income Protection in particular to play a role in reducing the burden on the state. This has moved beyond general statements to a series of government publications and co-operative discussions with the industry and this bodes well for the future.

REGULATORY

Following the implementation of Solvency II and the Senior Insurance Managers' Regime, the attention of the regulator has been centred on ensuring that these developments are properly implemented.

While the impact on the Society is to increase costs in the short term, the Board is firmly of the belief that these developments are positive for the Society and for the industry as a whole in supporting better governance and management. They will also serve to identify mutual organisations which are not creating value for their members.

TECHNOLOGY

The pace of technological change continues to accelerate and the attendant costs represent a significant challenge to the Society. The existing platform introduced in 2011 to support the launch of Protect requires replacement and a programme to do this is underway for completion in 2018.

The traditional owned/leased hardware and licenced software models are being replaced by outsourced Cloud software and an open source development environment.

In addition we are having to raise our standards on information security to maintain extreme vigilance to protect members' interests and data against the potential for malicious cyber attacks.

The impact on the Society of these changes is to require greater investment, both in our in-house team and external support. The price of not keeping pace with our competition is to become marginalised and weighed down with legacy systems which do not respond to ever increasing market expectations.

STRATEGIC REPORT

Protection Market

Indications are that 2016 was an encouraging year, particularly for income protection. Reinsurer Gen Re reports that overall protection new business premiums were up 3.9% on 2015 with income protection new business premiums up 17.0%.

New business premium

	£000s	Change
Mortality (Life Assurance)	344,927	+1.5%
Critical Illness*	253,305	+5.2%
Income Protection	43,276	+17.0%

Source: UK Protection Market - GenRe Protection Pulse 2016 Review. * Accelerated and stand-alone Critical illness combined.

Focus on Income Protection

Income Protection saw the biggest increase in 2016.

This has been influenced mainly by the work the industry has done to raise the profile of this undersold product through initiatives such as the 7Families campaign. We believe another factor driving higher sales is the increasing availability of short term options which makes cover more affordable

for customers concerned about the immediate impact of incapacity.

In the latter part of 2016 and early months of 2017 competitive pressures have increased further, with many organisations improving the quality of their products as they recognise the untapped potential of the income protection market. This is a positive indicator for

continued growth in 2017. If this focus leads to a larger market with better quality products, both insurers and consumers will be the winners. With welfare reform high on the agenda, this should provide further momentum.

STRATEGIC REPORT

Business Performance

2016 was an outstanding year for the Society where the investment in people, products and processes over the last two years bore fruit. This is reflected in a strong set of results.

The key highlights against our key performance indicators were:

	Target	Achieved
Membership	17,596	20,440
Solvency	20%	28%
Claims Ratio	95%	96.1%
Surplus	£2m	£4m

Key Performance Indicators

NEW BUSINESS

- We achieved record levels of new business in 2016, and an increasingly wide range of intermediary partners began to identify with our different approach and in particular our focus on delivering added value to all our members. In addition to high new business volumes, we increased our attention on retaining existing members, which together contributed to a near 20% increase in membership.
- We were nominated for a number of prestigious industry awards and in October won Best Income Protection Provider and Best New Product at the Cover Excellence Awards.



- These positive trends are continuing in 2017, although we have seen a further marked increase in competitor activity.

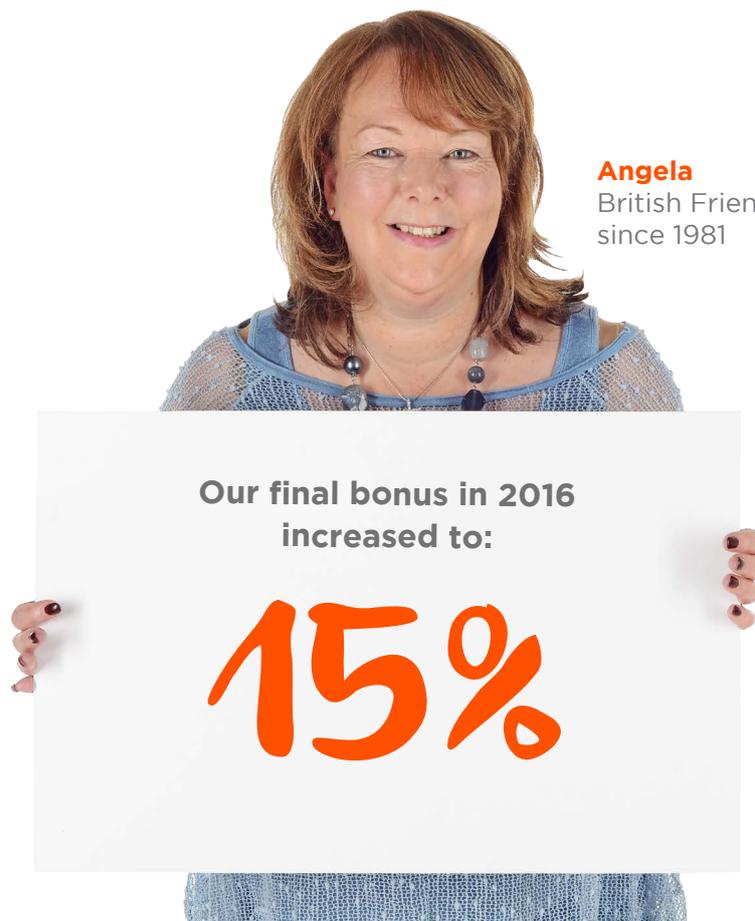
CAPITAL POSITION

- Our capital position is strengthening and the new business being written is reflected positively under the Solvency II regulatory regime.
- The continued replacement of our maturing Holloway and Century membership with Protect and Breathing Space members, who do not have capital accounts, also contributes to the improving capital position.
- The strong investment performance in 2016 had a positive impact on our closing capital position.
- Over the last 5 years we have made great strides in strengthening the Society's capital position and this allows us far greater flexibility in pursuing strategic options which we believe will generate further value for distribution to our members.

STRATEGIC REPORT

INVESTMENT RETURNS

- We invest our assets in order to provide a stable return to our members whilst putting capital preservation at the heart of any investment decisions made.
- Investment returns for 2016 exceeded our budget and expectations; this was despite the backdrop of market and political uncertainty.
- We did not expect the further falls in government and corporate bond interest rates which occurred, nor the rally in equities in the second half of the year. Nevertheless, our portfolio was positioned to benefit from both these events whilst still being carefully matched to our liabilities.
- We remain in a low interest environment despite inflation beginning to rise in the UK. There may be a modest rise in the Bank of England interest rate this year but our belief is it will stay well below long-term averages.
- It is this long-term trend in interest rates that we consider when trying to set a stable sustainable interest rate for our members. Despite the fall in gilt yields we were pleased to be able to keep our annual bonus rate unchanged at 1.5% for the year.
- We have however, been able to increase our final bonus substantially this year from 9% to 15% reflecting the longer term value being created in the Society.
- The creation and distribution of value to members is central to our strategy and we hope to be able to continue to raise the final bonus rate in future years to reflect the loyalty of our long standing Holloway and Century members.



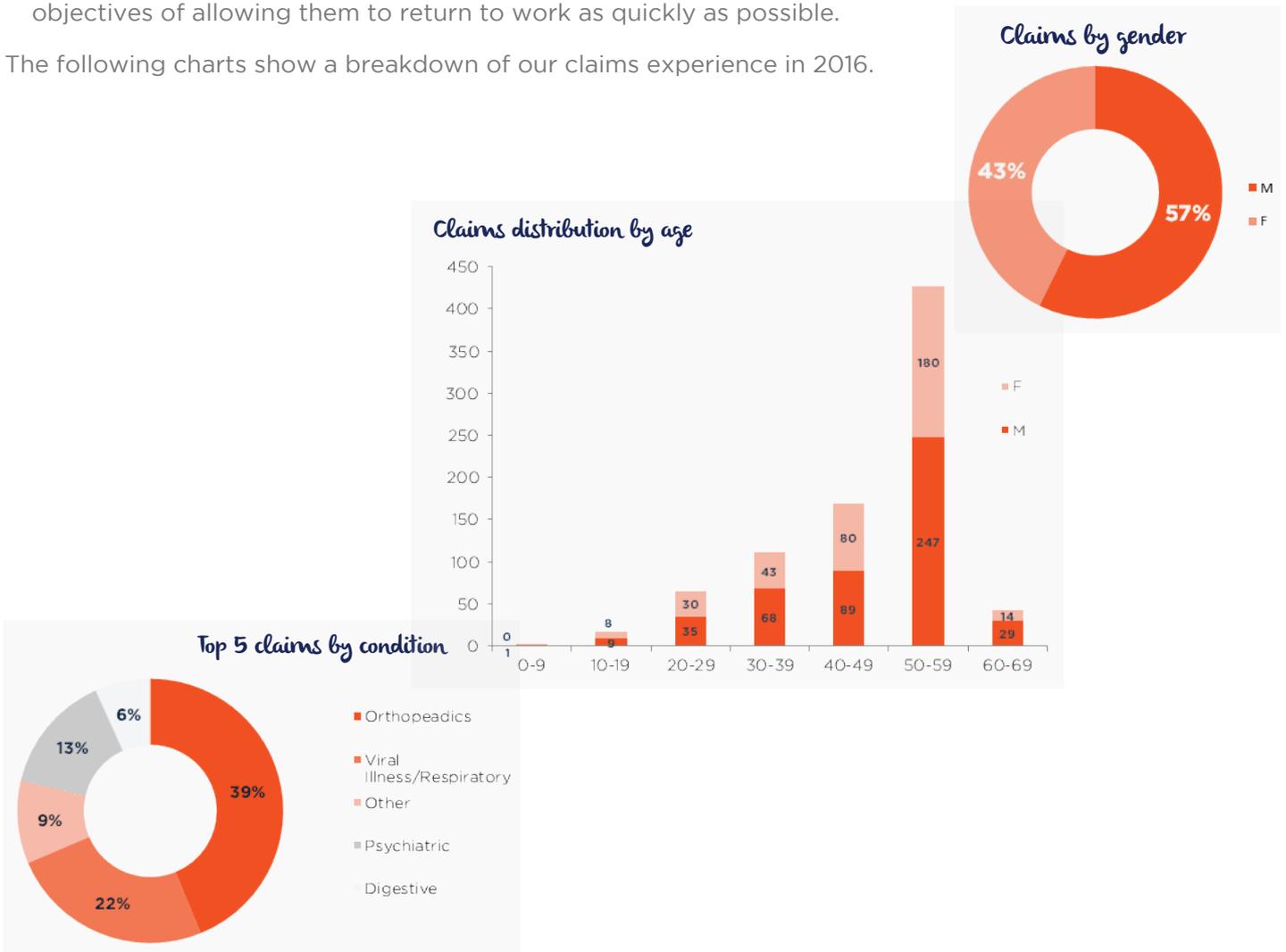
Angela
British Friendly member
since 1981

STRATEGIC REPORT

UNDERWRITING AND CLAIMS

- Our purpose is to be ‘a trusted and relevant provider of financial support in time of need’. It is therefore critical that we maintain our market leading reputation for paying as many claims as possible. We are pleased to report that we exceeded 96% of claims paid in 2016. We also lead the market by once again being the first to publish our statistics for the year and this year we announced that more than half our claims were agreed within 24 hours.
- Given the high claim rate, we are also pleased that our overall claims experience is well below budget and we achieve this by working in partnership with our members to support them in our shared objectives of allowing them to return to work as quickly as possible.

The following charts show a breakdown of our claims experience in 2016.



OPERATIONAL FITNESS

- Our expenses rose in 2016 but this was an inevitable consequence of managing very high levels of new business. We have made significant investments in recruiting high calibre people and in updating our technology platform.
- We also invested in a new workload management tool which has allowed us to measure and manage the service we provide to members and intermediaries and it has also enabled us to manage the higher volumes much more effectively.

STRATEGIC REPORT

Member Engagement

Despite having one of the highest levels of voting at our AGM, we are not completely content with the level of engagement we have with our members. While we are committed to delivering value to you, we need to work even harder to ensure that in doing so we understand what matters to you.

We have continued our programme of meeting with members and seeking feedback through a range of mechanisms. 2017 will also see the launch of our new Mutual Benefits programme which we see both as a key mechanism for returning value to members, but importantly a great opportunity to increase the dialogue we are able to have with you.

Board and Staff Diversity

The Board operates a clear diversity policy which seeks to attract candidates with a diverse range of backgrounds and approaches at all levels.

As a result of recruitment in 2016, 40% of our Non-Executive Directors are

female. With further executive appointments due in 2017 we anticipate the make-up of our Executive and Senior Management team will be 50/50 male/female.

While this is a strong position to be in, we would wish to

stress that this reflects the excellent calibre of the candidates we are increasingly able to attract, rather than any artificially imposed quotas.

Outlook

2016 was an outstanding year for the Society, both in short term performance, but more importantly in the setting of a new strategic path and the investment in great people to take us on that journey.

2017 has started very strongly and despite increased competitor activity we believe we are carving out a proposition which is distinctive and difficult to replicate.

We have done this by staying true to the values that lay behind our founding in 1902 and I believe we will continue to thrive if we hang on to these values while seeking to deploy them in a way which is relevant to today.

This is the final report I will write as CEO. It has been a privilege to be involved with the Society for the last seven years and to have contributed towards the latest chapter in our proud history.

The Society is in a much stronger position with an enhanced market reputation, and I leave in the knowledge that the team in place are well positioned to build an even better Society for all our members.

I wish Iain Clark, my successor, every success for the future.



Mark Myers

Chief Executive Officer

STRATEGIC REPORT

Christopher's Smile

As a mutual, we understand the importance of helping people in times of need which is why we decided to partner with the charity Christopher's Smile in 2016. Our charity partnership has enabled us to give back to local communities and support a cause that looks after future generations nationwide.

Last year we successfully raised a total of £3,100 for Christopher's Smile through your AGM votes, photos sent in and posted on our website to create the 'UK's biggest smile for charity', donations at our brand launch event, staff participation in various charity events as well as adviser and member participation in our feedback surveys.

Christopher's Smile was established in October 2008 after Karen and Kevin Capel lost their son Christopher in June the same year to an aggressive medulloblastoma brain tumour. Following a 21 month battle with the disease he passed away 9 days before his 6th birthday. The Capels wanted to find something positive in their tragedy and thought long and hard about the direction they should take.

Christopher's Smile provides funding for projects that will benefit the largest number of children possible across the childhood cancer community. The charity has awarded 6 project grants and raised over £1million.

The current research funding focus of Christopher's Smile is the development of tumour DNA sequencing for the analysis of tissue and fluid samples. Christopher's Smile's vision is for every child diagnosed with childhood cancer to not only survive, but to reach adulthood enjoying a good quality of life. To find out more about Christopher's Smile visit www.christopherssmile.org.uk.



Christopher's Smile

coz kids get cancer too



STRATEGIC REPORT

Risk Management

The Board is responsible for the delivery of risk management and controls. Detailed below is the Board's existing risk management framework.

Strategic

RISK DESCRIPTION

1. The nature of the Society's business model and its vulnerability to competitor and technological innovation remains a significant risk.
2. A failure to develop the Society's product proposition in line with changing market dynamics and expectations could erode and significantly impact the achievement of our strategic objectives.
3. The economic and political environment is currently uncertain with several factors apparent which might affect the Society's ability to fulfil its strategic objectives.



MITIGATION

1. The Society continues to invest in efforts to diversify the approach away from being a mono product provider and extend our distribution channels. Significant progress has been made this year in diversifying our distribution base. In addition plans are in place to update our technological infrastructure over the coming year.
2. The Society continues to develop its product and member propositions and the introduction of the Mutual Benefits programme is an example of this.
3. The Board monitors this and the potentially adverse impact of the political and economic environment on the Society's strategy is kept constantly under review.

Insurance

RISK DESCRIPTION

1. The Society is required to make assumptions as to the likelihood of an insured event occurring. The Society's solvency and operational ability will be adversely affected if these, particularly Claims and Lapses are inaccurate.



MITIGATION

1. Defined controls against KPIs and KRIs are regularly reported to the Board to identify adverse trends and are accommodated within our agreed risk appetite. The Society uses actuarial models to determine the pricing of our products. This is carried out by the Actuarial Function Holder. The Society complies with specified risk models under Solvency II Regulations which are designed to facilitate oversight and understanding of the risks facing the Society and to ensure adequate capital reserves to meet liabilities.

STRATEGIC REPORT

Credit

RISK DESCRIPTION

1. This is the risk that the Society suffers financial loss as a result of another party's failure to meet their financial obligations in a timely manner.



MITIGATION

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

Market

RISK DESCRIPTION

1. The limitations of the Society's capital base remain and our exposure to investment shocks is a vulnerability of the current strategy.



MITIGATION

1. 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 Society's 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.



Ella and Abigail

British Friendly
members since 1999

STRATEGIC REPORT

Operational

RISK DESCRIPTION

MITIGATION

- | | | |
|--|---|--|
| 1. The limited resource available to an organisation of our size increases the level of challenge to remain both competitive and compliant. | ➔ | 1. The Society has actively recruited to key posts during the year which will facilitate scalability and support future developments as well as compliance controls. |
| 2. The Society is required to ensure that it has personnel with the appropriate competencies and behaviours. | ➔ | 2. A formal Training, Competency and Development initiative has been commissioned to be implemented in 2017. |
| 3. The government's Universal Credit programme presents a challenge for the Society. If implemented in the current form it could have an impact on the attraction of new business. | ➔ | 3. The Society, along with the wider income protection sector is monitoring early feedback from the Universal Credit rollout, seeking to understand the impact on our business. We will continually review our products to ensure that they are of real value to members. |
| 4. A significant breach of our Information Security arrangements leading to loss of member and the Society's data, could impact our ability to operate and achieve our strategic objectives. | ➔ | 4. The Society constantly reviews its information security arrangements including internal audit of our outsourced IT partner. A comprehensive review of the Society's Information Security controls has been commissioned and any recommendations for strengthening these will be implemented in 2017. |
| 5. The Society is subject to a number of regulatory and legislative obligations. A failure to anticipate regulatory change or respond effectively to such changes could impact on our ability to operate and achieve our strategic objectives and damage our relationships with members. | ➔ | 5. The Society manages its regulatory risks through active engagement with the various regulatory regimes, including Conduct of Business, Data Protection and Solvency that affect the Society's business. The Society seeks to identify and meet its regulatory obligations and to respond to emerging requirements. Operational controls, training and reporting processes are in place to ensure compliance with the requirements of our regulators. Objective oversight is effected by means of a risk based monitoring programme approved by the Audit and Compliance Committee of the Board. Additional Compliance support and oversight is provided by an external consultancy. |
| 6. A number of critical functions are outsourced to third parties. | ➔ | 6. Due Diligence is carried out on potential suppliers and robust contractual and oversight controls and management reporting operate once in place. |
| 7. The Society has commissioned a major IT re-engineering programme that carries embedded operational risks as well as the opportunity to modernise and streamline its operational capability. | ➔ | 7. A robust supplier selection process has been carried out to ensure supplier competency and ability to deliver to specification. This is supported by strong contractual protection, and real time management and oversight by an internal project team reporting to senior management and the Board. |
| 8. The Society needs to keep up with current technology practices in order to deliver its products in a relevant way to its customers and members. | ➔ | 8. Significant efforts go into ensuring our systems meet the needs of our customers and members. Any major IT change goes through a thorough risk analysis process before it is implemented. |

04

CORPORATE GOVERNANCE

Siobhan and Sue
British Friendly members
since 1991



CORPORATE GOVERNANCE

Matters Reserved for the Board

- Setting the strategic direction of the Society
- Approval of changes to the Society's corporate and capital structure
- Maintaining the Society's accounting records
- Monitoring performance of the business and the executives
- Establishing a 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

Highlights for 2016

During the year, we:

- Fully met the requirements of the Solvency II regulations and the Senior Insurance Managers Regime
- Met all of the applicable requirements of the UK Corporate Governance Code (as annotated for mutual insurers)
- Improved the skills and experience of the Board and its committees through recruitment of two new non-executive directors
- Conducted an internally facilitated Board appraisal
- Further developed our leadership succession planning process
- Redefined our values and mission to provide clearer mission and value statements
- Refreshed our approach to strategic planning with the approval of a new 5 year strategy and plan

Lindsay
British Friendly member
since 1983



CORPORATE GOVERNANCE

Board activities and priorities

FEBRUARY 2016:

- Agreed our strategic plan and strategy building blocks
- Reviewed the Society's new brand proposal
- Reviewed and signed off the Society's annual actuarial valuation
- Reviewed the Society's key risks

MARCH 2016:

- Reviewed our investment policy
- Approved the Society's Financial Statements and Report
- Reviewed and approved the Society's annual PRA insurance returns

MAY 2016:

- Approved the Society's Day 1 Solvency II valuation
- Reviewed proposal for the Care Assistance Benefit
- Reviewed feedback from the April member forum event
- Reviewed the Society's key risks

JULY 2016:

- Agreed the CEO recruitment process
- Reviewed output from the Board strategy day held in June
- Agreed the framework for the Society's 2016 ORSA process
- Approved the Care Assistance Benefit
- Reviewed the Society's IT strategy

SEPTEMBER 2016:

- Reviewed the Mutual Benefits proposal
- Approved the Society's ORSA 2016
- Reviewed the Board Risk Appetite statement
- Reviewed the IT supplier shortlist

OCTOBER 2016:

- Reviewed the budget and business plan
- Reviewed the Remuneration and Nomination Committee Terms of Reference
- Conducted a deep dive on information security
- Approved the IT supplier

DECEMBER 2016:

- Approved the apportionment and interest rates for 2016/2017
- Approved the budget and business plan
- Approved the Mutual Benefits programme
- Reviewed the FCA/PRA Threshold Conditions compliance
- Reviewed the regulatory compliance programme
- Approved the Remuneration and Nomination Committee Terms of Reference
- Deep dive on member retention strategy

CORPORATE GOVERNANCE

Board Governance

Governance is about how the Board carries out its duties and responsibilities. The Board is committed to delivering high standards of Corporate Governance and the Directors consider that the Society has complied with the Code (The UK Corporate Governance Code - An Annotated Version for Mutual Insurers) throughout the year subject to comments in this report. The Society adheres to the policy of 'Comply or Explain'. The main principles of the Code are outlined below with a comment on the Society's compliance.

Leadership

Every company should be headed by an effective Board, which is collectively responsible for the long-term success of the company.

There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business.

BOARD'S RESPONSE:

The Board's role is set out in the Memorandum and Rules of the Society. The Board has four main sub-committees being:

- Audit and Compliance
- Risk
- Investments
- Remuneration and Nomination

During 2016 the Board of Directors met on seven occasions. There is a clear division of responsibilities between the roles of Chairman and Chief Executive and they are

held by different individuals. Each has a specific role and responsibilities which are set out in written statements of responsibilities.

The Chairman is primarily responsible for the effective running of the Board and for ensuring 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.

The Board of Directors comprises the Chairman, who is an independent non-executive, five other independent non-executives and three executive members, being the Chief Executive, Finance Director and Marketing and Distribution Director.

CORPORATE GOVERNANCE

The attendance record at meetings during 2016 was as follows:

2016	Chris Radford	Nick Bayley	Jeff Hayes	Roy McLoughlin*	Audrey McNair*	Barbara Merry *	Mark Myers	Lee Schopp	Iain Clark*
Board	7/7	7/7	7/7	3/4	5/5	4/5	7/7	7/7	5/5
Remuneration & Nomination	2/2	1/1	2/2	2/2	0/0	1/1	2/2	0/0	0/0
Audit and Compliance	1/1	0/0	2/2	0/0	1/1	1/1	2/2	2/2	0/0
Risk	2/2	0/0	3/3	2/2	1/1	1/1	2/2	2/2	0/0
Investment	0/0	0/0	4/4	2/2	2/2	0/0	4/4	4/4	0/0

*Barbara Merry, Audrey McNair and Iain Clark joined the Board in April 2016. *Roy McLoughlin left the Board in September 2016.

Effectiveness

The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities. There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.

BOARD'S RESPONSE:

The Board is satisfied that it has the appropriate range of skills, experience, independence and knowledge to provide strategic leadership to the Society. Board members come from diverse and varied professional backgrounds and bring with them a wealth of commercial experience. During 2016, the Board welcomed three new Directors following a rigorous process of analysing the mix of skills available to the Board and the future strategy of the business. The Board

regularly reviews the induction plan for new Directors. During the year, the Board continued to work through the further recommendations of the external evaluation carried out in January 2014 and in particular to continuously improve the strategic emphasis at Board meetings. 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. Members of the Board do not have any outside financial interest in the Society and there were no conflicts of interest disclosed during any Board discussions. All members of the Board submit themselves for re-election annually.

CORPORATE GOVERNANCE

Accountability

The Board should present a fair, balanced and understandable assessment of the company's position and prospects. The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

BOARD'S RESPONSE:

The Board is satisfied that it has appropriate systems of controls in place to manage the risks the Society faces. Ultimate responsibility for risk management rests with the Board, with risk management responsibilities delegated to relevant committees who provide regular updates to the Board on those areas that fall within their remit. The Board has defined its appetite for risk in

key areas of the business and receives updates from executives on day to day risk management activities. The Board, under guidance of its committees regularly review the Society's risk management policies and procedures. The Board used the opportunity of the implementation of Solvency II in January 2016 to thoroughly review its approach to risk management and

considers that the proper management of risks has allowed the Society to allocate its resources more effectively and use its capital intelligently. The Board through its committees approves the audit strategy for the internal audit function, allowing it to obtain assurance that there is a robust system of internal controls that safeguard members' interests and the Society's assets.

Remuneration

Executive Directors' remuneration should be designed to promote the long-term success of the company. Performance related elements should be transparent, stretching and rigorously applied.

BOARD'S RESPONSE:

The Board is satisfied that the remuneration arrangements for executives are aligned to the long-term success of the Society. Further details can be found in the Board's Remuneration Report on page 39.

CORPORATE GOVERNANCE

Relations with members

There should be a dialogue with members based on the mutual understanding of objectives.

BOARD'S RESPONSE:

The Board is committed to ensuring that there is a dialogue with all members of the Society. The Board communicates with members via letters, website, e-mail, text message, telephone, various questionnaires, annual apportionment statements, 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 either in person or by

appointing a proxy.

Feedback received from members has helped shape the Society's strategy and approach to returning value to members. An example being the Mutual Benefits programme launched in early 2017. The Society will continue to seek out opportunities to engage with members further in 2017.

Compliance with the Annotated Corporate Governance Code for Mutual Insurers

The Board considers that, throughout 2016, it applied the relevant principles and complied with the relevant provisions of the Code.

The following are exceptions to our compliance with the Code for the stated reasons:

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. In answer to the above question, the Board held a member forum event during 2016. The Board is committed to engaging widely with members and will continue to seek opportunities for members to share their views on the future of their Society. There were no substantive changes to the executive remuneration scheme during 2016 and the Board's remuneration report was approved by 97% of members at the 2016 Annual General Meeting. There are no members with significant membership rights in the Society as every member has an equal vote on Society resolutions.

CORPORATE GOVERNANCE

Statutory, Regulatory and Other Information

RESPONSIBILITIES OF THE BOARD

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.
- 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.

The following individuals served as Directors of the Society during 2016:

- Chris Radford (Chairman from May 2016)
- Nick Bayley (Senior Independent Director from May 2016)
- Jeff Hayes
- Roy McLoughlin (until September 2016)
- Audrey McNair (from April 2016)
- Barbara Merry (from April 2016)
- Iain Clark (from April 2016)
- Mark Myers
- Lee Schopp

PRINCIPAL ACTIVITIES

The principal activity of the Society continued to be the provision of income protection insurance 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 provision of loan facilities to members continued, with loans being provided through the subsidiary company, BFS Member Services Limited – a firm regulated by the Financial Conduct Authority for consumer credit activities.

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.

Details of any future activities can be found in the Society's Strategic Report on page 12.

SUBSIDIARY COMPANY

The results of the subsidiary company are disclosed in Note 10 to the full Financial Statements. As at 31 December 2016 the Directors were Nick Bayley, Mark Myers and Lee Schopp. The Company has no employees and no remuneration was paid to the Directors.

BONUSES AND APPORTIONMENT

The Board announced the 2017 bonus rates as follows: interest rate at 1.5%. Apportionment rates at £1.20 for non-commuted members and £1.80 for commuted members. Final bonus was set at 15%.

STATEMENT OF DISCLOSURE TO AUDITORS

The Directors of the Society have taken reasonable steps to ensure that they are aware of any relevant audit information and that such information has been disclosed to the Society's auditors.

CORPORATE GOVERNANCE

CHARITABLE DONATIONS

In 2016 the Society partnered with Christopher's Smile and made donations to the sum of £3,100 to the charity.

SOLVENCY

The Society has maintained the required margin of solvency throughout 2016 in accordance with the Prudential Regulation Authority (PRA) regulations.

VIABILITY STATEMENT

The Board has carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency and liquidity. The Society's principal risks are summarised in section 3 of this report.

Taking into account the Society's current position and subject to comments already made in this report, the Board's expectation is that the Society will be able to continue in operation and meet its liabilities as they fall due over the five year strategy period.

GOING CONCERN STATEMENT

The Society's business activities, together with principal risks and uncertainties are set out in the Strategic Report on pages 24 to 26. In addition, Notes to the Financial Statements include the Society's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit and liquidity risks. The Board of the Society believes that the Society is well placed to achieve its strategic objectives. As a consequence, the Board believe that the Society is well placed to manage its business risks successfully despite the current uncertain economic outlook.

On behalf of the Board of Directors



Chris Radford

Chairman

The Board have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future.

CONDUCT RISK

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.

As with most financial services firms, the Society continues to review its understanding of conduct risk to ensure that its products and services do not unintentionally result in poor outcomes for members and customers.

SIGNIFICANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

The Board appointed Iain Clark as Chief Executive Officer in January 2017 following Mark Myers retirement.

The Board will publish the Solvency and Financial Condition Report in May 2017. This is a key public disclosure document under the Solvency II regulations and is available on the website.

AUDITORS

It is the Society's intention to tender for auditors in 2017 to which we will invite our existing auditors Moore Stephens LLP to tender for this appointment.

05

BOARD OF DIRECTORS REPORT



Iain Clark
CEO, British Friendly
(from January 2017)

BOARD OF DIRECTORS REPORT

Remuneration and Nomination Committee Report

The Committee is chaired by an independent non-executive director and includes two further independent non-executive directors.

The Chief Executive is a member of the Committee but attends in relation to nomination matters only.

The members who served on the Committee during 2016 were:

- Chris Radford (Chairman until August 2016)
- Barbara Merry (Chairman from September 2016)
- Jeff Hayes
- Nick Bayley
- Roy McLoughlin (until September 2016)
- Mark Myers (Nomination only)

Committee Responsibilities

The Committee has a broad sphere of interest on remuneration and nomination matters. Key elements of its terms of reference include responsibilities to:

- Review the ongoing appropriateness and relevance of the Society's remuneration policy
- Approve the design of, and determine targets for, any performance related pay schemes operated by the Society and approve the total annual payments made under such schemes
- Identify the mix of skills and level of overall competence of the Board annually
- Ensure the continuing relevant personal development of Board members in conformity with the Strategic aims of the Society
- Appoint executives and new non-executive directors

Committee Deliberations in 2016

The Committee met on three occasions in 2016. Key items considered in 2016:

JANUARY 2016:

- Review of succession planning
- Review of Board appraisal process
- Approval of executive and staff pay and bonus awards
- Review of Committee Terms of Reference

AUGUST 2016:

- Agreement of CEO recruitment process

DECEMBER 2016:

- Review of current team structure and skill sets
- Review of Board composition and future needs
- Review of future management structure
- Agreement of 2017 pay and bonus awards
- Review of executive director contracts

BOARD OF DIRECTORS REPORT

Outline of Remuneration Policy

The remuneration of the chairman and the executive directors is determined by the Remuneration Committee while that of the non-executive directors is assessed by the Chairman and executive directors. The Chairman and non-executive directors received fees and a reimbursement of appropriate travel expenses. They received no other benefits. The executive directors (the Chief Executive, Marketing & Distribution Director and Finance Director) received a salary and a package of other benefits including pension, car and healthcare allowance. In addition, they are eligible for the executive bonus scheme.

The executive bonus scheme is designed to reflect both executive performance and benefits to members. It is based on the three year targets which ensure:

- Improving solvency levels
- Growing the membership base
- Ensuring the long-term profitability of the Society

To ensure fairness and transparency, the remuneration paid to both executive and non-executive directors is externally validated using benchmarking surveys which assess national and local pay and specifically refer to the mutual sector peer group salary levels. Relevant information regarding the financial services sector more broadly is also used.

Executive Directors' Remuneration

The Chief Executive, Marketing & Distribution Director and Finance Director's terms of engagement allow for termination by either party at six months' written notice, with the exception of a Transfer of Engagements (outwards) when the notice is increased to twelve months from the Society.

BOARD OF DIRECTORS REPORT

REMUNERATION FOR THE YEAR TO 31 DECEMBER 2016

Name	Fee/Salary 2016	Bonus 2016	Benefits 2016	2016	2015
	(£000's)	(£000's)	(£000's)	Total (£000's)	Total (£000's)
Chris Radford (Chairman from May 2016)	24			24	18
Nick Bayley (Chairman to Senior Independent Director from May 2016)	24			24	21
Jeff Hayes	20			20	16
Roy McLoughlin (resigned September 2016)	12			12	16
Audrey McNair (appointed April 2016)	15			15	0
Barbara Merry (appointed April 2016)	17			17	0
Julie Remington (left the Board 31 July 2015)	0			0	9
Iain Clark (appointed April 2016 Marketing & Distribution Director)	105*	18**	2	125	0
Mark Myers (CEO resigned January 2017)	150*	19**	12	181	186
Lee Schopp (Finance Director)	98	15**	24	137	139
Total	465	52	38	555	405

* Payment includes allowance in lieu of pension contributions.

**The maximum payable under the executive bonus scheme in 2016 was 15% of salary. All targets were achieved and the full 15% was paid in January 2017.

BOARD OF DIRECTORS REPORT

Audit and Compliance Committee Report

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

- Chris Radford (Chairman until May 2016)
- Barbara Merry (Chairman from June 2016)
- Audrey McNair (from November 2016)
- Jeff Hayes

The Chief Executive, Risk and Compliance Director and Finance Director also attend all meetings.

The role of the Audit and Compliance Committee is to assist the Board on matters of financial reporting and internal controls including regulatory 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.

Barbara Merry, the Committee's Chair is a chartered accountant and brings with her a wealth of experience of accounting and audit matters.

Committee Responsibilities

The Committee has a broad sphere of interest on audit and compliance matters. Key elements of its terms of reference include responsibilities for:

- 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

Committee Deliberations in 2016

The Committee met on two occasions in 2016. Key items considered in 2016:

MARCH 2016:

- Receiving and reviewing the audit summary report
- Approval of the report and Financial Statements 2015
- Receiving and reviewing the compliance monitoring reports
- Review of Terms of Reference

NOVEMBER 2016:

- Reviewing the audit planning letter
- Receiving and reviewing the compliance reports
- Receiving and reviewing the internal audit reports
- Agreeing the framework for the Society's Solvency and Financial Conditions Report
- Review of internal audit reports
- Review of the financial regulations
- Review of internal auditor performance

BOARD OF DIRECTORS REPORT

The key areas of internal systems and controls considered during the year and how they were addressed were as follows:

MEMBER SYSTEMS

The membership systems control collection of premiums, payment of claims and hold all the relevant personal data of members. Both internal and external audit functions tested the controls in place during the 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 the Society's investment portfolio is a key risk due to the size of the investments it holds. The Committee sought independent confirmation of both ownership and valuation from the external auditors during the year.

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. The Committee reviewed all correspondence with the regulators along with a review of both the current and projected solvency positions in the future.

RISK OF MANAGEMENT OVERRIDE

There is an inherent risk in any organisation but more so in firms with fewer staff like the Society, of management override perpetrating fraud. Both internal and external audit reviewed and tested the internal controls in place to ensure they are robust and working.

REVENUE RECOGNITION

The risk of misstatement of revenue by recording income which relates to future periods was tested during the year and also at year end. Monthly and annual reconciliations of revenue in the membership and accounting systems were carried out and tested during audit.

The Committee is satisfied that the work carried out by the compliance audits, internal and external audits was sufficient to address these key areas of risk and no significant issues were identified. 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.

The Committee remains satisfied that the external auditor's Moore Stephens remain independent. A tender process is envisaged in 2017 to ensure that the Society is assessing best advice and best value.

BOARD OF DIRECTORS REPORT

Risk Committee Report

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

- Chris Radford (Chairman until May 2016. Replaced by Audrey McNair.)
- Audrey McNair (Chair from August 2016)
- Roy McLoughlin (until September 2016)
- Jeff Hayes
- Barbara Merry (from September 2016)

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

Committee Responsibilities

- Recommending to the Board the strategy and policy for risk management and monitoring its ongoing implementation throughout the Society
- Recommending annually that the Board approves the Society's stated risk appetite and risk limits / budgets / tolerances across the full range of risks to which the Society is exposed
- Reviewing the processes and procedures for ensuring that all risks are properly identified, assessed, mitigated, monitored and reported in a timely, consistent and effective manner
- Reviewing the procedures for risk evaluation in relation to existing and future business and the related capital requirements

The Society undertook a number of comprehensive reviews of its information security arrangements in 2016 recognising the importance of this. These included internal management reviews, a deep dive for consideration by the Board and the hiring of an information security consultancy firm to provide specific expertise in this area. The Society continues to assess all recommendations and will strengthen controls as appropriate.

Committee Deliberations in 2016

During 2016 the Committee met on three occasions. Key items considered in 2016:

JANUARY 2016:

- Review of the risk appetite statement
- Receiving and reviewing the underwriting audit report
- Receiving and reviewing the Conduct Risk Report

APRIL 2016:

- Deep dive of reputational risk management
- Review of the 2016 Own Risk and Solvency Assessment (ORSA) process
- Approval of the conduct risk framework
- Agreement of 2016 deep dive priorities

AUGUST 2016:

- Review of the risk appetite statement
- Approval of the 2016 ORSA
- Risk management strategy review

BOARD OF DIRECTORS REPORT

Investment Committee Report

The role of the Investment Committee is to support the Board and its other Committees in reviewing, monitoring and recommending the investment strategy of the Society.

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

- Jeff Hayes (Chairman)
- Audrey McNair (from July 2016)
- Roy McLoughlin (until August 2016)
- Mark Myers
- Lee Schopp

Committee Responsibilities

- Appointing investment managers and undertaking a formal review every three years
- Reviewing and recommending to the Board appropriate asset allocation of investments, having taken advice from the actuary
- Determining whether to authorise investment managers to deviate from strategic asset allocation ranges set by the Board, should investment managers request such deviation

Committee Deliberations in 2016

During 2016 the Committee met on two occasions. Key items considered in 2016:

MARCH 2016:

- Review of property strategy and investment opportunities
- Review of Terms of reference

NOVEMBER 2016:

- Approval of investment strategy
- Agreement of investment returns for budget planning
- Review of investment manager performance

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INDEPENDENT AUDITOR'S REPORT

The Jackson Family
British Friendly members
since 1989



INDEPENDENT AUDITOR'S REPORT

Introduction

We have audited the Financial Statements of The British Friendly Society Limited for the year ended 31 December 2016 which comprise the Society's Income and Expenditure Account, the Society's Balance Sheet and the related notes on pages 49 to 72. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standards 102 and 103, 'The Financial Reporting Standards applicable in the UK and

Republic of Ireland', having regard to the statutory requirement to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2016, 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 the notes to these Financial Statements.

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 assume 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 Report set out on page 34, 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.

INDEPENDENT AUDITOR'S 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
- The Society's compliance with applicable regulations
- The application of revenue recognition accounting
- The risk of fraud arising from management override of internal controls

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. When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the Financial Statements. We determined materiality for the Society to be £170,000 for items impacting the income and expenditure account, which is approximately 1.5% of income.

We determined materiality of £1,300,000 for items which require reclassification on the Balance Sheet, which is approximately 1.4% of gross assets.

We agreed that we would report to the Board all audit differences in excess of £8,500, as well as differences below that threshold that in our view warranted reporting on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT

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; 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.

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

- In order to address the risk around the operation of the Society's member's system during the year we have tested the operation 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 the 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 custodian. 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 investments 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 2016.
- In order to address the risk associated with the recording of investment transactions throughout the year ended 31 December 2016 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 managements 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 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.
- In order to address the risk relating to management override of controls we have reviewed all significant or unusual entries to ensure they are appropriate and reasonable. We have also reviewed key estimates and judgements for bias.

INDEPENDENT AUDITOR'S REPORT

Opinion on financial Statements

In our opinion the Financial Statements:

- Give a true and fair view, in accordance with UK Generally Accepted Accounting Practice of the state of the Society's affairs as at 31 December 2016 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 Board of Directors Report 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.

Opinion on Corporate Governance Statement

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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- Materially inconsistent with the information in the audited Financial Statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- Otherwise misleading

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

Under the Friendly Societies Act 1992, we are required 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

D T Slocombe

Senior Statutory Auditor

For and on behalf of Moore Stephens

Chartered Accountants & Statutory Auditor

26th April 2017

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FINANCIAL STATEMENTS

Eddie and Carol

British Friendly members
since 1970



FINANCIAL STATEMENTS

Statement of Comprehensive Income

for the year ended 31 December 2016

TECHNICAL ACCOUNT -LONG-TERM BUSINESS	Note	Total 2016 £'000	Total 2015 (restated) £'000
Net earned premium income	5	6,344	5,854
Investment income	6	2,665	2,980
Unrealised gains on investments	7	2,402	-
Other technical income		44	35
Total technical income		11,455	8,869
Claims - sickness benefits to members (net of reinsurance)		(1,516)	(1,419)
Change in long-term business provision	17	4,731	2,875
Member withdrawals	17	(5,262)	(4,936)
Net operating expenses	8	(5,831)	(4,488)
Investment expense and charges		(87)	(99)
Unrealised losses on investments	7	-	(403)
Net surplus for the year		3,490	399
Transfer to Fund for Future Appropriations	16	(3,490)	(399)
Balance on Technical Account - Long-term Business		-	-

The prior years results have been restated following the introduction of the Solvency II reporting regime. Further details are given in Note 15 to the Financial Statements.

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.

The Society is a mutual organisation and has no equity shareholders, as a result a Statement of Changes in Equity has not been presented.

FINANCIAL STATEMENTS

Statement of financial position

for the year ending 31 December 2016

ASSETS	Note	Total 2016 £'000	Total 2015 (restated) £'000
Investments	10		
Investment in subsidiary undertaking		-	-
Land and buildings		7,474	7,275
Other financial investments		77,350	80,033
		84,824	87,308
Debtors	11	52	77
Other assets			
Intangible fixed assets	12	725	586
Intangible fixed assets	13	84	83
Cash at bank and in hand		274	93
Prepayments and accrued income			
Accrued investment income		514	562
Deferred Acquisition costs	14	2,695	1,498
Other prepayments		195	142
Total assets		89,363	90,349
LIABILITIES	Note	Total 2016 £'000	Total 2015 (restated) £'000
Fund for Future Appropriations	16	37,475	33,985
Technical Provisions	17	50,317	55,048
Creditors	18	1,571	1,316
Total Liabilities		89,363	90,349

The prior years results have been restated following the introduction of the Solvency II reporting regime. Further details are given in Note 15 to the Financial Statements. These Financial Statements were approved by the Board at their meeting held on 30th March 2017 and were signed on their behalf by:



Chairman



Chief Executive

FINANCIAL STATEMENTS

Notes to the financial Statements

for the year ending 31 December 2016

During the year the Society sold its office property at 1 Trevor Street, Bedford, and moved offices to 45 Bromham Road, Bedford.

1. SIGNIFICANT ACCOUNTING POLICIES

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

1.1 Basis of preparation

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

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

The Financial Statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments.

The preparation of Financial Statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies selected for use by the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in note 2. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates. After making enquiries, the directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its Financial Statements.

1.2 Accounting for net earned premiums

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

1.3 Accounting for investment income

Investment income includes dividends, interest from investments at fair value and rents. Dividends are included on an ex-dividend basis. Other investment income is included on an accruals basis.

1.4 Accounting for net gains/(losses) on investments

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

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

FINANCIAL STATEMENTS

1.5 Accounting for other income

Other income primarily relates to forfeitures where members have withdrawn money or cancelled contracts before their maturity date.

1.6 Accounting for claims and benefits

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

Death claims and claims for sickness are accounted for when the Society is notified. The value of claims on participating contracts includes bonuses paid or payable. Claims values include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of recoveries. However, it is likely that the final outcome will prove to be different from the original liability established.

Provisions are adjusted at the Statement of Financial Position date to represent an estimate of the expected outcome.

1.7 Accounting for long-term insurance liabilities

The long-term business provision is determined by the Board on the advice of the Chief Actuary as part of the annual actuarial valuation of the Society's long-term business. The provision is initially determined in accordance with the requirements of the Prudential Sourcebook for Insurers. In accordance with normal insurance practice, certain reserves required for the statutory valuation returns are not required to be included in these accounts that are designed to present a true and fair view. This adjusted basis is referred to as the modified statutory solvency basis. This makes sufficient provision for future expenses of fulfilling the long-term contracts and includes a provision for existing reversionary bonuses and current reversionary bonuses declared as a result of the valuation. Future bonuses are allowed for within the valuation assuming future rates of allocation bonus and final bonuses continue at current rates and annual bonuses continue to be paid in line with prevailing risk free investment returns. These liabilities are calculated using historic Society experience and include reserves for claims which have occurred but not reported, a reserve for unexpired risks and a reserve for claims already in payment.

1.8 Accounting for mutual bonuses and interest

Payments to policyholders in the form of interest and bonuses are recognised in the Technical Account Long-Term Business when declared. Payments of terminal bonuses are recognised when paid.

1.9 Accounting for property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Society and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period if there are indicators of change. The carrying amount

FINANCIAL STATEMENTS

of an asset is written down immediately to its recoverable amount if the asset's carrying amount is assessed as greater than its estimated recoverable amount.

Land is not depreciated as it is deemed to have an indefinite useful life. Depreciation is charged on other assets so as to write off the cost or valuation of assets, over their estimated useful lives, less estimated residual value, using the straight-line method on the following bases:

Fixtures, Fittings and Furniture	10%
Computer Equipment	33%

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

1.10 Accounting for investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An external independent valuer, having appropriate recognised professional qualifications and current experience of the location and type of property being valued, values the Society's investment property triennially. Fair values are based on market values. Market values are the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing.

Where current prices cannot be established by reference to an active market, valuations are prepared by considering the aggregate of the estimated net cash flows to be received from renting the property. A yield that recognises the specific risks inherent in the net cash flows is then applied to the net annual rental cash flows to determine the value.

1.11 Accounting for impairments of non-financial assets

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

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

FINANCIAL STATEMENTS

1.12 Accounting for cash and cash equivalents

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

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at the reporting date.

1.13 Accounting for leases

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

Assets held under finance leases are recognised as assets of the Society at the lower of the assets fair value at the date of acquisition and the present value of the minimum lease payments. The related liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitment and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

1.14 Accounting for retirement benefits

The Society operates a defined contribution pension plan under which the Society pays fixed contributions into a separate entity. The Society has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

1.15 Accounting for deferred acquisition costs

In respect of insurance contracts, acquisition costs comprise all direct and indirect costs incurred in writing new contracts. The Society defers only the commission paid to agents and expenses this over 36 months which is the clawback period within agency contracts. All other direct and indirect acquisition costs are expensed in the period in which they are incurred.

1.16 Accounting for foreign currencies

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

1.17 Accounting for the fund for future appropriations

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

FINANCIAL STATEMENTS

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Fair value of financial assets

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

Long-term business provision

The valuation of liabilities is based on assumptions reflecting the best estimate at the time allowing for a margin of risk.

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

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

The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs.

Allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix are also made in arriving at the estimated ultimate cost of claims in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to gross benefits and claims within the Statement of Comprehensive Income in future years.

Taxation

There is no corporation tax charged on any surpluses generated from the main business of the society due to the special exemption granted under section 461C(1) of the Income and Corporation Taxes Act of 1970. All such amounts are either allocated to members or reinvested in the development of the business.

The society's main activity is writing insurance business: either the sale of insurance contracts with an investment element or more recently, sales of a pure sickness insurance product.

These principle activities mean the society makes exempt supplies for the purposes of Value Added Taxation and hence VAT is not levied on the premiums written whilst input VAT cannot be recovered on expenses incurred. The society does pay employment taxes and in the year under review these amounted to £655,910 in respect of PAYE and national insurance payments. (2015: £493,523)

FINANCIAL STATEMENTS

3. CAPITAL MANAGEMENT

The Society's key capital management objectives are:

1. To ensure the Society's strategy can be implemented and is sustainable;
2. To sustain the Society's financial strength as to support the risks it takes on as part of its business;
3. To give confidence to policyholders and other stakeholders who have relationships with the Society; and
4. To comply with capital requirements imposed by its UK regulator, the PRA.

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

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

The capital requirement in the annual PRA return is the statutory minimum capital requirement plus an additional component for each with-profits fund. The statutory minimum capital requirement is based on EU directive requirements.

Management intends to maintain surplus capital in excess of its solvency capital requirement and to maintain an appropriate additional margin over this to absorb changes in both capital maintained and capital requirements.

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

Capital Statement (as restated following prior year adjustment)

Life Business UK non-participating	2016	2015
	£000s	£000s
Total capital resources before deductions	37,475	33,985
Adjustments to assets	(746)	(586)
Total available capital resources	36,729	33,399

Measurement and monitoring of capital

The capital position of the Society is monitored on a regular basis and reviewed formally on a monthly basis by the Board. The capital objectives are reviewed and benchmarks are set by which to judge the adequacy of the Society's capital and ensure that sufficient capital is available.

The Society's capital requirements are forecast on a regular basis and compared against the available capital and the Society's minimum internal rate of return. The internal rate of return forecast to be achieved on potential investments is also measured against minimum required benchmarks taking into account the risks associated with the investment.

In the event that sufficient capital is not available, actions would be taken either to reduce the level of profit allocation and bonus paid to members, raise additional capital or to reduce the amount of risk accepted thereby reducing the capital requirement through, for example, reinsurance, reducing business volumes or a change in investment strategy.

FINANCIAL STATEMENTS

Available capital - long-term insurance contracts

The liabilities in respect of the Society's participating (with-profits) business are determined in accordance with the regulations of the PRA.

An allowance is made for actions that management would take in adverse conditions, such as reducing bonus rates. The assets are taken at market value, estimated where required, with an allowance for the future surplus expected to arise on the non-participating business written in the participating fund. The whole of the available capital resources within each participating fund is available to meet the regulatory and other solvency requirements of the fund.

Sensitivity of long-term insurance contract liabilities

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

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

Changes in the mortality, morbidity, expense or persistency experienced by the business may result in the need to change the demographic assumptions used to value the liabilities. This may increase or reduce the value placed on the liabilities. The sensitivity of the liabilities to changes in the assumptions varies according to the type of business. For example, a change in mortality rates has a different impact for annuity liabilities than for term assurance liabilities.

FINANCIAL STATEMENTS

4. RISK MANAGEMENT AND CONTROL

Risk management

In addition to the Risk Committee, The Board and senior management review risks on a regular basis. The primary risks the Society faces are as follows:

Insurance risk

This is the risk associated with writing insurance contracts. Each contract has an inherent risk that claims experience will be higher than estimated.

Lower growth volumes

The Society allocates resources based on growth assumptions. If these are not met then the income generated may not support the cost base of the Society.

Higher lapses

Future profits on contracts assume a certain contract longevity. If lapses increase then that profit may be reduced.

Expense risk

The risk that expense inflation exceeds expectations.

Market risk

The inherent risk in investing in financial assets.

Credit risk

The risk that counterparties will default on debts owed to the Society.

The Society uses its Own Risk and Solvency Assessment (ORSA), Risk Appetite Statement and Risk Register to monitor current and potential risks that could affect its solvency adversely. An overall risk tolerance is established which is expressed as a minimum level of solvency above the PRA minimum threshold.

Individual risk appetites are then established for each of the primary risks the Society faces. If these appetite limits are breached then management actions would have to be taken which may include:

- Reducing annual bonuses and/or terminal bonuses
- Reducing annual interest rate
- Reducing costs
- Raising premiums

No breach of our risk tolerance or risk appetite has occurred in the year ended 31 December 2016.

FINANCIAL STATEMENTS

Sensitivity analysis

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

Variable	Change in Variable £000s	Change in Available Capital
Change in morbidity (%CMIR12) inceptions/recoveries	+10%	(3,338)
Change in morbidity (%CMIR12) inceptions/recoveries	-10%	3,067
Expense allowances	+10%	(1,468)
Expense allowances	-10%	1,468
Change in interest rates used to discount cashflows	+1%	1,457
Change in interest rates used to discount cashflows	-10%	(4,080)
Interest Rate Up Stress as defined by EIOPA Solvency II Standard Formula		(2,740)
Fall in equity values	-10%	(1,615)
Fall in property values	-10%	(747)

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.

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

FINANCIAL STATEMENTS

5. Premium Income	2016	2015
	£'000	£'000
Income Protection business - regular premiums	6,345	5,856
Reinsurance premiums	(1)	(2)
Net earned premium income	6,344	5,854

6. Investment Income	2016	2015
	£'000	£'000
Income from land and buildings	491	473
Income from investments through income:		
Income from loans with subsidiary	29	37
Income from listed investments	2,008	1,929
Income from other investments	123	135
Gains on the realisation of investment assets	14	406
	2,665	2,980

7. Unrealised Gain On Investments	2016	2015
	£'000	£'000
Investment Properties	-	(167)
Gains /(losses) on revaluing investment assets to fair value:		
Debt securities	814	(740)
Equity Securities	1,588	504
Net gain/(loss) on investments	2,402	(403)

FINANCIAL STATEMENTS

8. Operating Costs

	2016	2015
a) Acquisition costs:	£'000	£'000
Staff costs	1,286	1,051
System development	95	6
Marketing & Promotions	298	201
Underwriting & Medical reports	130	107
Commissions	1,240	949
	3,049	2,314
	2016	2015
b) Administration costs:	£'000	£'000
Staff costs	893	535
Board fees and expenses	195	141
Actuarial Function Holder's fees	133	115
Legal and professional fees	81	64
Depreciation of fixed assets	418	591
Maintenance of software and equipment	621	454
Other administration costs	441	274
	2,781	2,174
	2016	2015
Net operating costs	£'000	£'000
	5,831	4,488

Mark Myers retired as Chief Executive in January 2017 and was replaced by Iain Clark. To ensure that there will be an adequate handover of responsibilities Mark Myers will remain an employee of the Society until December 2017, though salary payments due to be made to him during 2017 have been accrued into the results for the 2016 year.

Net operating expenses include the following:	2016	2015
	£'000	£'000
Is stated after charging:		
Depreciation charge for the year	418	591
Auditors remuneration (inclusive of VAT):		
Audit	31	25
In respect of costs of Reviewing Actuary	21	7
In respect of other services provided	2	2
Actuaries remuneration (inclusive of VAT):		
Actuarial Function Holder & With Profits Actuary	106	96
Other fees	27	19

FINANCIAL STATEMENTS

9. Employee Benefits Expense

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

	2016	2015
Non-executive Board members	5	5
Staff - Administration	12	8
Staff - Acquisition	17	14
	34	27

The aggregate staff payroll costs were as follows:

	£'000	£'000
Wages and salaries	1,777	1,135
Social Security costs	169	128
Other pension costs	103	101
	2,049	1,363

The aggregate remuneration of key management personnel, being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, were as follows:

	£'000	£'000
Wages and salaries	447	378
Social Security costs	57	51
Other pension costs	25	24
	529	453

Full details of directors' emoluments are contained in the Directors Remuneration report on page 39.

FINANCIAL STATEMENTS

10. Investments

a) Subsidiary undertaking

	2016	2015
	£	£
Shares at cost	100	100

The Financial Statements of that company show a profit of £nil for the year to 31 December 2016 (2015 - profit of £nil). The net liabilities of the subsidiary amounted to £nil at the year end (2015 - £nil).

b) Freehold Land and Buildings

	Investment Property	Office Property	Total 2016	Total 2015
	£'000	£'000	£'000	£'000
Valuation				
At 1 January 2016	6,950	325	7,275	5,800
Additions	399	30	429	1,641
Disposals	-	(230)	(230)	-
Change of use	(320)	320	-	(166)
At 31 December 2016	7,029	445	7,474	7,275

The Society's land and buildings were valued at 31 October 2015 by Mr D J Tillison FRICS, MCI.Arb of Kirkby & Diamond, Chartered Surveyors, Bedford. All other investment assets are stated at market value. During the year the Society sold its office property at 1 Trevor Street, Bedford and moved its offices to 45 Bromham Road, Bedford, a property which had previously been classified as an investment property. The latest valuation of that property was at 31 December 2015, the office property being valued at £320,000 and a car park used by the Society at £125,000.

c) Other financial investments

	2016	2015
	£'000	£'000
Dated		
Government Securities	11,555	7,570
Corporate Bonds	28,756	31,264
Bank deposits	2,000	2,000
Undated		
Money Market Fund Deposits	-	6,500
Unit Trusts/ OEICs	3,331	3,345
Equities	16,393	18,251
Secured mortgages	72	173
Loan to Subsidiary	587	533
Cash awaiting reinvestment	14,656	10,397
	77,350	80,033
Total of listed investments included above:	60,035	60,431

FINANCIAL STATEMENTS

11. Debtors Arising Out Of Direct Insurance Operations

	2016 £'000	2015 £'000
Members	37	17
Other debtors	15	60
	52	77

12. Intangible Assets

	Computer Software £'000	Software under development £'000	2016 Total £'000
Cost:			
At 1 January 2016	3,441		3,441
Additions	351	182	533
Disposals	(217)		(217)
	3,575	182	3,757
Depreciation:			
At 1 January 2016	2,855	-	2,855
Charge for the year	381	-	381
Disposals	(204)	-	(204)
	3,032	-	3,032
Net book value:			
At 31 December 2016	543	182	725
At 31 December 2015	586	-	586

In line with FRS 102, software has been reclassified as an intangible asset and the 2015 balance sheet restated.

FINANCIAL STATEMENTS

13. Tangible Assets

	Fixtures and Fittings £'000	Computer Equipment £'000	2016 Total £'000
Cost:			
At 1 January 2016	128	190	318
Additions	51	9	60
Disposals	(95)	(164)	(259)
At 31 December 2016	<u>84</u>	<u>35</u>	<u>119</u>
Depreciation			
At 1 January 2016	103	132	235
Charge for the year	8	29	37
Disposals	(90)	(147)	(237)
At 31 December 2016	<u>21</u>	<u>14</u>	<u>35</u>
Net book value:			
At 31 December 2016	<u>63</u>	<u>21</u>	<u>84</u>
At 31 December 2015	<u>25</u>	<u>58</u>	<u>83</u>

14. Deferred Acquisition Costs

	2016 £'000	2015 £'000
At 1 January 2016	1,498	1,702
Acquisition costs deferred	2,424	739
Amortisation	(1,117)	(931)
Increase in provision for non recoverable costs	(110)	(12)
At 31 December 2016	<u>2,695</u>	<u>1,498</u>

Deferred acquisition costs relate to commission paid to agents on the sale of income protection insurance contracts. At 31 December 2016 the amount of acquisition costs due in greater than one year was £1,255,467 (2015: £829,835)

FINANCIAL STATEMENTS

15. Prior Year Adjustment

From 1st January 2016 the Society fell within the scope of Solvency II regulations. Due to this certain accounting policies previously adopted have been changed to comply with the new regulations. The actuarial calculation of the technical provisions now changes to a probability-weighted average of future cash flows, discounted at the risk free rate and also includes a risk free margin that provides for the cost of supporting the capital required for non-hedgeable risks over the remaining life of the contract.

	2016	2015
	£'000	£'000
Fund for Future Appropriation 1 January 2016 as previously reported	16,762	17,327
Prior year adjustment	17,223	16,259
Fund for Future Appropriation as restated	33,985	33,586
Transfer to Fund for Future Appropriation	3,490	399
Fund for Future Appropriation 31 December 2016	37,475	33,985
Technical Provisions as previously reported:	2016	2015
Long Term Business Provision	10,535	10,936
Member Funds	61,736	63,246
Technical Provisions	72,271	74,182
Prior year adjustment	(17,223)	(16,259)
Technical Provisions as restated	55,048	57,923
Transfer to Technical provisions	(4,731)	(2,875)
Technical Provisions 31 December 2016	50,317	55,048

FINANCIAL STATEMENTS

16. FUND FOR FUTURE APPROPRIATIONS (restated following prior year adjustment)

	2016	2015
	£'000	£'000
Balance at 1 January	33,985	33,586
Transfer to / (from)		
technical account - long-term business	3,490	399
Balance at 31 December	37,475	33,985

17. TECHNICAL PROVISIONS (restated following prior year adjustment)

	2016	2015
	£'000	£'000
Balance at 1 January 2016	55,048	57,923
Transfer from/(to)		
technical account - long-term business	(4,731)	(2,875)
Balance at 31 December 2016	50,317	55,048

As part of the changes to adopt Solvency II regulations, members funds are now included within technical provisions above using a discount factor to reflect the expected future cash flows.

The analysis below shows the movement to members balances and their undiscounted value as at 31 December 2016.

	2016	2015
	£'000	£'000
Bonuses and rebates		
Interest on members' balances	854	880
Apportionment	2,072	2,173
Interest and apportionment paid to withdrawn members:	442	371
	3,368	3,424
Withdrawals during the year		
Death	805	1,072
Retirements	1,345	681
Resignations and lapses	2,526	2,287
Other withdrawals	542	860
Apportionments forfeited - taken to income	44	36
	5,262	4,936
Net decrease in member funds during the year	(1,894)	(1,510)
Balance at 1 January 2016	61,736	63,246
Balance at 31 December 2016	59,842	61,736

FINANCIAL STATEMENTS

18. CREDITORS AND ACCRUALS

	2016	2015
	£'000	£'000
Creditors arising out of direct insurance operation	459	480
Unearned premiums	11	16
Other creditors including taxation and social security	219	203
Accruals and deferred income	882	617
	1,571	1,316

19. PENSION COSTS

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

20. CAPITAL COMMITMENTS

At 31 December 2016 the Society had no capital commitments (2015 - nil).

21. BOARD MEMBERS' LOANS AND TRANSACTIONS

There were no amounts outstanding at either 31 December 2016 or 31 December 2015 in relation to loans to members of the Board or related parties.

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

FINANCIAL STATEMENTS

22. 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 2016 to 31 December 2016 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 £122,974 (2015 - £94,350) exclusive of Value Added Tax.

d. The With-Profits Actuary did not receive, nor will receive, any other pecuniary benefit.

23. LONG TERM INSURANCE LIABILITY VALUATION ASSUMPTIONS

LONG TERM INSURANCE LIABILITY VALUATION ASSUMPTIONS

The following sets out the assumptions underlying the valuation of the Society's long-term insurance liabilities. The section also details the analysis of change in the Society's capital resources over the year. This may be used for the relevant section of the notes to the Report and Accounts.

A gross premium method of valuation is used for calculating the Society's liabilities.

DISCOUNT RATE OF INTEREST

Discount rates are set having regard to risk free rates of return (without volatility adjustment) as specified by EIOPA as at 31 December 2016.

EXPENSES

Maintenance expenses have been allowed for in the valuation of the Society's liabilities allowing for new business in accordance with the Society's business plans for the period 2017 to 2019. Thereafter expenses are assumed to increase in line with an expense inflation assumption of 3.80%pa.

FINANCIAL STATEMENTS

MORBIDITY

For sickness products, an inception and recovery approach is used based on CMIR12 rates. The rates assumed for inceptions and recoveries were as set out in the following tables.

TABLE OF INCEPTIONS RATES BY REFERENCE TO CMIR12 DP1 RATES

Contract type and date	Holloway		Protect	
	31-Dec		31-Dec	
Age range	2016	2015	2016	2015
Up to 20	10%	10%	35%	35%
20-24	20%	20%		
25-29	30%	30%		
30-34	40%	40%		
35-39	50%	50%		
40-44	65%	65%		
45-49	65%	65%		
50-54	65%	65%		
55-59	65%	65%		
Female load	30%	30%	Nil	Nil

TABLE OF RECOVERIES RATES BY REFERENCE TO CMIR12 DP1 RATES

Contract type and date	Holloway		Protect and Breathing Space	
	31-Dec		31-Dec	
Week of sickness	2016	2015	2016	2015
0-4	80%	80%	35%	35%
4-8	90%	90%	65%	65%
8-13	125%	125%	65%	165%
13+	190%	190%	165%	165%

FINANCIAL STATEMENTS

PERSISTENCY

Lapses are assumed at 5.0% per annum for the Society's non-commuted Holloway members, 6.0% per annum for the Society's commuted Holloway members. Protect and Breathing Space lapse rates are assumed to be 15%pa in policy years 1-3, 12.5% pa in policy years 4-5 and 10%pa thereafter.

MORTALITY

Mortality rates are set by reference to standard actuarial tables. At the end of 2016 mortality in line with 45% of AMCO0 Ultimate was assumed (2015 - 45% of AMCO0 Ultimate) for non-commuted Holloway, Protect and Breathing Space contracts, and at a rate of 60% of AMCO0 Ultimate (2015 - 60% of AMCO0 Ultimate) for commuted Holloway contracts.

OPTIONS AND GUARANTEES

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

ANALYSIS OF CHANGE

There has been an increase in the Society's available capital resources from 31 December 2015 to 31 December 2016. This is predominantly because of the favourable new business volumes written over the year. An analysis of change is set out below:

	Change in available capital £000s	Available capital £000s
2015 available capital		33,399
New business	2,943	
Investment gains	4,676	
Trading surplus	-1,183	
Final bonuses	-3,683	
Model and assumption changes	450	
Other	127	
2016 available capital		36,729

08

GENERAL INFORMATION

The Boulter Family
British Friendly members
since 1981



GENERAL INFORMATION

Dear member

You are cordially invited to the 2017 Annual General Meeting (AGM) of the British Friendly Society Limited which will be held on Friday 9 June at **LGT Vestra LLP, 14 Cornhill, London, EC3V 3NR** commencing at 1.45pm.

If you are unable to attend the meeting in person, you may appoint a proxy to exercise all or any of your rights at the meeting, including attendance, speaking and voting on your behalf. A proxy need not be a Member of the Society.

Agenda

Introductions and Chairman's welcome statement	
Resolution 1	To approve the Minutes of the Annual General Meeting held on 27 May 2016.
Resolution 2	To receive and if approved, adopt the Board Report and Financial Statements for the year ended 31 December 2016.
Resolution 3	To note the Board Remuneration Report.
Resolution 4	To elect members of the Board.
Resolution 5	To re-appoint auditors- Moore Stephens.
Resolution 6	To approve certain proposed changes to the Society's Memorandum and Rules.
Any other business.	

Copies of the Annual Report & Accounts will be available at the meeting, or on request to the Society. They will also be displayed on the website after the AGM.

To Elect Members Of The Board

Biographies for all candidates standing for re-election are listed on pages 8 and 10 of the Report and Summary Financial Statement. The following Directors are eligible for re-election and are proposed until the AGM 2018:

- Nick Bayley
- Chris Radford
- Jeff Hayes
- Barbara Merry
- Audrey McNair
- Iain Clark
- Lee Schopp

The Board considers that all these candidates, following formal performance evaluation, continue to be effective and demonstrate commitment to the role.

GENERAL INFORMATION

Society Information

At 31st December 2016

BRITISH FRIENDLY SOCIETY LIMITED

Registered Office: **45 Bromham Road, Bedford MK40 2AA**

Telephone: **01234 358344**

Fax: **01234 327879**

E-mail: **enquiries@britishfriendly.com**

Website: **www.britishfriendly.com**

Independent Advisers and Consultants 2016

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

Gateway Assure Ltd, MCH House, Bailey Drive, Gillingham, Kent, ME8 0PZ

Bankers

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

Compliance Consultants

Haven Risk Management, PO Box 19, Chipping Campden, GL55 6YX

Investment Managers

LGT Vestra, 14 Cornhill, London, EC3V 3NR

Chief Medical Officer

Capita, The Grange, Bishops Cleeve, Cheltenham, GL52 8XX

Solicitors

Taylor Walton Solicitors, 28-44 Alma Street, Luton, Bedfordshire, LU1 2PL

Friendly Society Law Consultants

John Gilbert, M&G Advisory Services, 3 Northolme Road, London N5 2UZ

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.

Member of the Association of Financial Mutuals

British Friendly Society Limited

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01234 358344

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01234 327879

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britishfriendly.com

Facebook:

British-Friendly

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**BRITISH
FRIENDLY**

It feels good to be covered