



Foresters Friendly Society

# Report & Accounts 2011

Straightforward financial solutions with a human touch



## BOARD OF DIRECTORS

### Non-Executive Directors

Chairman **Carl Genese**

Deputy Chairman **Graham Berville**

Senior Independent Director **Anthony Lovell**

Non-Executive Directors **Glyn Carpenter**

**Cheryl Eagleson**

**John Levett**

**Penny O’Nions**

**Andrew Pooley**

**Kathryn Vagneur**

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### Executive Directors

Chief Executive **Kevin Dann**

Finance **Paul Osborn**

Marketing **Neil Armitage**

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### Company Secretary

**Alan Futter**

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## ADVISORS

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Actuarial Function Holder and With-Profits Actuary  
**Gavin Lock, Towers Watson Limited**

Independent Auditors  
**BDO LLP**

Bankers  
**Royal Bank of Scotland PLC**

Investment  
**Quilter and Co Limited**

Legal  
**Hogan Lovells International LLP**

## The Ancient Order of Foresters Friendly Society Limited

### Society Information

*Registered Office*

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The Ancient Order of Foresters Friendly Society Limited. Authorised and regulated by The Financial Services Authority. Incorporated Friendly Society No.511F. FSA Registration No.110029



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## Chairman's Report

*Dear Member*

### Board Structure

In the Chairman's Report last year, I announced that, having served nine years on the Board, two Non-Executive Directors would be retiring at High Court 2011 but, as those who were at the

event will know, these retirements did not take place and the Board continued in 2011 with the same composition as before. Following on from the events at High Court, the Society engaged an independent corporate governance specialist to conduct a review of the Board and its operations and the resultant report was received in January 2012. Further information appears on page 11. Following consideration of the report, the Board compiled an action plan designed to implement the recommendations that it contained and work has commenced on executing those actions. Some of these will necessitate changes to the Society's Rules and so propositions seeking to effect these will be presented to High Court in June.

### New Business

Despite a challenging economic climate and other events including the government's withdrawal of their funding for Child Trust Funds, the Society continued to invest in new business initiatives in 2011, which saw new business volumes maintained over the year. A number of new affinity relationships were established and although it is still a small unit, the IFA relationship team made a very positive contribution to new business, particularly in attracting new ISA sales with higher levels of subscriptions. The Society's Group business team and business partners performed well in securing all expected scheme renewals during the year.

Significant work was also undertaken on the Society's brand during 2011 and the new brand will be rolled out during 2012, both in our literature and on the website. The freshly created approach is designed to encapsulate the essence of the Society's offer to members and is positioned by the statement "it is what a friend would do". The new brand received positive endorsement in consumer testing and will occupy a unique position in an increasingly competitive landscape.

### Membership Satisfaction

During the year, a specialist external consultancy was used to undertake an independent review of member satisfaction and the results served to evidence the Society's ongoing commitment to treating customers fairly and customer service, with 99% of those surveyed expressing satisfaction with their membership experience, with 75% very satisfied and 24% satisfied. We also took action designed to improve the way in which the Society communicates with its members, by undertaking a project aimed at introducing more clarity to the bonus statements and thereby assist members in understanding some of the more complex details.

### Potential Transfers of Engagements

The Society's current strategic position is such that it seeks to achieve growth in order to reduce unit costs for policyholders and to grow membership to ensure a sustainable future for the Society. Organic growth is one option to deliver this, but a transfer of engagements - such as the purchase of, or a merger with, another financial services firm - would have the potential to provide cost savings through economies of scale that would be difficult to achieve organically in the short term. It could also provide access to products, distribution and capabilities that would otherwise also require significant time to develop. Foresters has undertaken transfers of engagements in the past, but generally in response to opportunities that presented themselves. However, during 2011, the Society took a more proactive approach, with the result that a small number of possible opportunities were considered. As yet, there is nothing to report to members, but this proactive approach will be continued in 2012.

### With Profits Committee

In my report last year, I mentioned that the Board had resolved to create a new Committee, the With Profits Committee, to safeguard the interests of the Society's with profits policyholders. Although the operation of such a Committee is a regulatory requirement for some proprietary firms and mutuals, the Society's size is such that it is not captured by the regulations in this area; however, the Board considers that the operation of a With Profits Committee resonates with the Society's aim of treating its policyholders and members fairly. The new Committee, which met four times in 2011, is comprised of two independent Non-Executive Directors together with an external specialist, Paul Engers, as its Chairman. Paul is an experienced practitioner who, until recently, was the Director of Finance & Actuarial Services for Police Mutual and those who attended High Court 2011 in Southport would have seen his presentation on the new Committee's operation.

### Funds Clarification

The Chairman's Report for 2009 referred to the project that the Society had just commenced in response to the FSA's requirement for each mutual insurer to consider and quantify the interests of the with profits policyholders within its inherited estate. The work involved was considerable and the project continued throughout 2010 and was finally completed in late 2011 after receiving confirmation from the FSA that it had accepted the position put forward by the Society as to the structure of its funds.

## **Investment Funds**

Although the FSA recently announced that the implementation of the new European Solvency II capital management regime has been postponed until January 2014, work on the Society's Solvency II project continued throughout 2011. One of the significant project initiatives during the year sought to reduce the Society's required regulatory capital by ensuring that there is a closer matching of its assets to its liabilities; i.e. ensuring that the investments held are the most appropriate with regard to risk, return and duration given the timeframe and value of policy maturities over the short, medium and long term. As in the previous years, 2011 saw considerable turmoil in the financial markets and so, in addition to its scheduled meetings, the Investment Committee met on a number of occasions - either in person or by telephone conference call - to assess the markets and consider whether any action was required.

## **Funding of Membership Benefits**

During the year, the Society considered possible solutions for ensuring that benevolence benefits are made more accessible to all members. The legacy of a wide variation in the levels of members funds across the Society's branches serves to perpetuate the situation where those branches with substantial balances generate significant annual surpluses, particularly where member numbers are low. Many other branches face real challenges in funding even the most basic of discretionary benefits for their members. To address this, a new tiered approach to the distribution of income earned on branch funds is being adopted which is intended to enable all branches to deliver the same minimum level of discretionary benefits to their members.

## **Archery GB**

At High Court last year, it was announced that the Society would be sponsoring Archery GB and, during the year, this provided several opportunities to increase the Society's brand exposure, included a number of appearances on the BBC News Channel and in the press. The Society is looking forward to supporting the Archery GB team as they make their preparations for the Olympic Games in 2012.

## **Carl Genese**

Chairman  
28 March 2012

## Board of Directors

### Non-Executive Directors



#### **Carl Genese**

##### **Chairman**

Carl was elected to the Board in September 2007 and has held a variety of roles within the Society. He was appointed as the Society's Chairman in September 2010 and thereafter relinquished all other external interests in order to concentrate on this role.



#### **Glyn Carpenter**

Glyn was elected to the Board in 2002, appointed Deputy Chairman in 2004 and served as Chairman from September 2007 to September 2010. He followed a career in the civil service and local government and, until recently, was an Inspector with the Audit Commission, examining local government services and the NHS. Glyn is a member of the Institute of Directors and a qualified company director, achieving Chartered Director status in 2007.



#### **Graham Berville**

##### **Deputy Chairman**

After working in a variety of roles at the Automobile Association and Norwich and Peterborough Building Society, Graham joined CU Life in 1994 and was a Board Director of CU and CGU Life. He joined Police Mutual as CEO in 2001 a role that he held until 2008. Since then he has developed a portfolio of roles including management consultancy and is a founding partner of a construction company specialising in the use of recycled materials. He is also the Chairman of the With Profits Committee at Liverpool Victoria Friendly Society. Appointed to the Board in 2009, Graham became Deputy Chairman in September 2010.



#### **Cheryl Eagleson**

Cheryl joined the Board in 2008. She has been a Forester all her adult life and acts as a Trustee and Court Secretary. Cheryl, who spent her professional life in the paper textile industry, was the first director to take advantage of the Bursary Scheme prior to her election.



#### **Tony Lovell**

##### **Senior Independent Director**

Tony was elected to the Board in September 2007, he was a Non-Executive Director of Tunstall Assurance when it transferred to the Society in 2004. He was appointed to the role of Senior Independent Director in December 2008. He is currently an independent health and safety advisor.



#### **John Levett**

John was elected to the Board in 2003 after a career in human resources with British Rail. He has been a member of the Society since 1954, he served as High Chief Ranger in 2006-2007 and is a Court Secretary.

## Executive Directors



### Penny O'Nions

Elected to the Board in 2007, Penny has broad experience of the financial services sector gained through her work as an independent financial adviser. She regularly contributes to the financial press and is currently studying for her Bar examination.



### Kevin Dann

#### Chief Executive

Kevin joined the Society in August 2008 and has over 18 years experience within the financial services sector. Prior to joining Foresters, he held a number of senior roles with Alliance Trust PLC, including periods as Managing Director of Alliance Trust Savings and Chief Operating Officer of Alliance Trust Pensions.



### Andrew Pooley

Andrew joined the Board in 2002. He has served periods as Deputy Chairman and Senior Independent Director. He has worked at the Royal Courts of Justice for over 30 years and, within the Society, has held a range of Court roles during his membership.



### Paul Osborn

#### Finance Director

Paul joined Foresters as Finance Director in June 2006 and was the first Executive Director to be elected to the Board. He is a qualified Chartered Accountant with over 15 years experience within the friendly society sector, most notably in his previous employment at Teachers Provident Society. Paul also has the Diploma in Company Direction as approved by the IOD.



### Kathryn Vagneur

Kathryn joined the Board in April 2008. She is the director of a private investment fund, and two listed investment funds, and consults on strategy implementation and business turnarounds. Previously she was a director in the financial service practice of PricewaterhouseCoopers. A qualified accountant, she has a PhD from London Business School and previously co-managed her family's cattle business in Colorado.



### Neil Armitage

#### Marketing Director

Neil joined the Society as Marketing Director in 2008. He is a member of the Chartered Institute of Marketing where he has achieved the status of Chartered Marketer and also has an MBA from Exeter University. He has served on the Board of several organisations as marketing director developing brands and markets both at home and overseas. More recently, Neil worked for Exeter Friendly Society, where he was Group Marketing Director.

*Directors are elected at High Court, but are not formally appointed until approval is received from the FSA.*

*Those Directors appointed between High Courts are also subject to FSA approval prior to confirmation by delegates at the next High Court.*

### Company Secretary

Alan Futter was appointed as the Society's Company Secretary from 1 January 2011. He previously held the same position with the Marine & General Mutual Life Assurance Society from 2002 until 2010, where he was also Director of Compliance from 1995 to 2008.

# Directors' Report

## Introduction

The Society's Board of Directors present their report together with the audited accounts of The Ancient Order of Foresters Friendly Society Limited (the Society) for the year ended 31 December 2011. This report is the statutory report required by 'The Friendly Societies (Accounts and Related Provisions) Regulations 1994'. This report is presented and discussed by the delegates at the Society's Annual General Meeting (High Court) that is being held in June 2012.

## Business Review

### Objectives

The Society is a friendly society, which incorporated under the 1992 Friendly Societies Act on 1 January 2003. Its core business objective is to provide financial services products to its members in addition to discretionary financial, social and benevolent benefits.

The Board has set a strategy for the Society that is focused upon growth through investment in new business and activities that strengthen membership, including accepting transfers of engagements from other mutuals, set against a background of continuing to drive improvements in the overall effectiveness of the Society's business.

### New Business

The year was a challenging one with the UK Consumer Confidence index at an all time low with slowing economic activity and reducing consumer demand. Against this background, the Society's new business performance was mixed; on a like for like basis (excluding Child Trust Funds, which were discontinued by the Government in 2010) individual policy sales annual growth was relatively flat. On the plus side, despite the UK's economic circumstances, the Society experienced growth in premium income in the Order Insurance with-profits fund of over 19% in the year.

The Society's affinity programme made good progress during the year, with the Telegraph Media Group selecting the Society as their official partner for children's savings products. The Society's independent financial adviser channel performed particularly well and the Society plans further investment in this route to market during 2012. Group business continued to deliver good results with the Society securing the renewal of all schemes scheduled for review during the year and saw increased annual premium with the extension of cover in two key Police Federation schemes. Further details of gross premium income can be found in note 3 set out on page 31.

### Investments

As in previous years, 2011 saw high levels of volatility in financial markets with uncertainty over the Eurozone persisting and continuing concerns over sovereign debt. The Society invests its funds in UK markets in equities, fixed interest, property and cash assets. Over the year the FTSE All-Share returned a negative 3.7%, 5-15 year gilts returned 15.6% and the IPD property index showed a total return of 8.1%. Overall the Society's investment portfolio returned 5.6% in 2011.

The Society's equity portfolio is invested in the Legal and General UK Index Trust, a passive fund that aims to track the FTSE All-Share index. During the year the index reached a high of 3160 in May and a low point of 2557 in early October. As part of its capital protection strategy the Society responded to this significant fall in the equity markets by reducing its equity holdings by one third during the year with the aim of reinvesting as markets improve and the high levels of volatility diminish.

As a result of further work on matching assets with its insurance liabilities, the Society took steps to implement a more active and closely matched approach to the management of its fixed interest investments from the beginning of 2012 with the appointment of Quilter & Co to undertake this.



## Expenses

Continued downward pressure and firm control saw further reductions in costs delivered across the many areas of Society's operations. The reduction in staff numbers implemented in late 2010 helped deliver an 11% saving in employee costs in the year (excluding a one-off payment to the final salary pension scheme that is explained further in note 21). This contributed to an overall reduction in insurance business costs of 6% and even with the addition of project and other one-off costs such as the contribution to the Society's final salary pension scheme, overall expenses were 3% lower than in 2010. In addition to its long term insurance business the Society incurs costs in engaging in its other activities as a branch friendly society, and as part of work completed in 2011 to further clarify the structure of the Society's funds, the allocation of these non-insurance costs between the Society's head office and its branches was updated. Details of expenses are set out on pages 30 and 31.

## Capital Resources

The Society's capital position is set out in note 19 of the financial statements. At 31 December 2011 the capital resources for both long term and general insurance business exceeded the statutory capital resource requirements prescribed by the Financial Services Authority by £20.0m (2010: £26.3m). The Fund for Future Appropriations (FFA) represents the capital available to support the current business and future growth, and at the end of 2011 it stood at £32.8m, a decrease of £4.6m on 2010. The main reasons for the fall in the FFA and the FSA surplus assets is a strengthening of the valuation assumptions at the year end resulting mainly from lower bond yields and a transfer to the Court Reserve Fund of £2.2m, explained further in note 16. Set out on page 35.

## Membership

Over the course of the year the Society continued efforts on updating its records, paying particular attention to those members holding lifetime membership granted to them on the incorporation of the Society and those other members who had not had recent contact with the Society. A significant number of membership records were closed as a result and when combined with the growth from new business, overall membership numbers reduced by 8% by the end of the year. As at 31 December 2011 the Society had 65,884 members.

## Treating Customers Fairly

A key responsibility of the Board is to ensure that the Society treats all members fairly and upholds all aspects of the FSA's Treating Customers Fairly (TCF) principles. The Society aims to provide a consistent high quality of service to its members and has embedded treating members fairly principles in all aspects of its activities. In order that the Board can be confident that the Society continues to provide members with a high level of service and meets its Treating Members Fairly aims, a specialist external consultancy was used in 2011 to undertake an independent review of Member satisfaction. The results helped demonstrate the Society's ongoing commitment to treating customers fairly and customer service, with 99% of those surveyed expressing satisfaction with their membership experience, with 75% very satisfied and 24% satisfied.

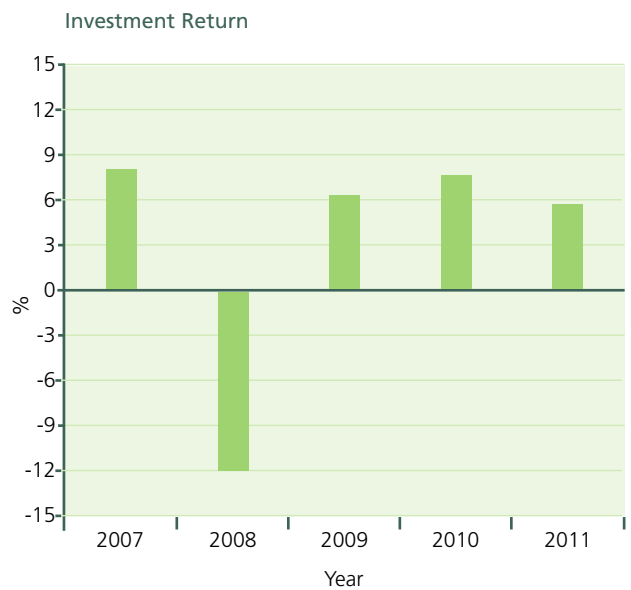
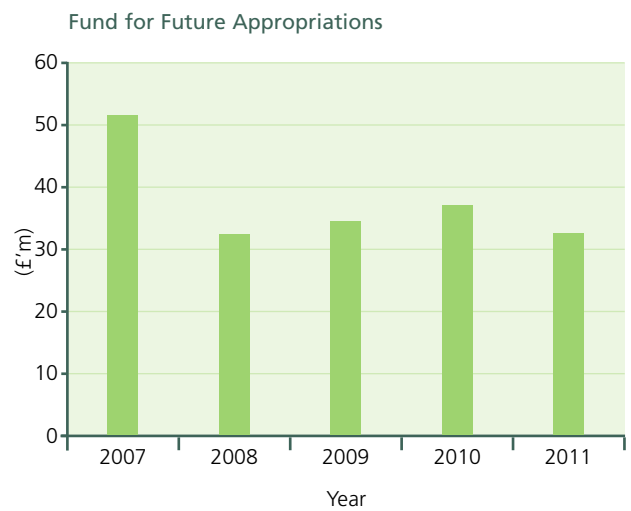
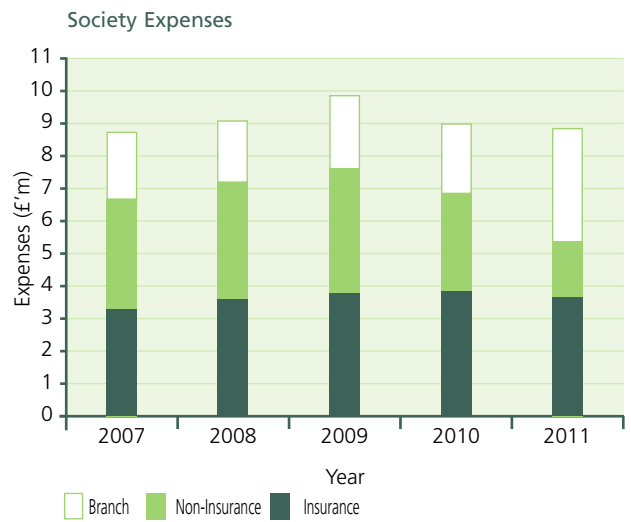
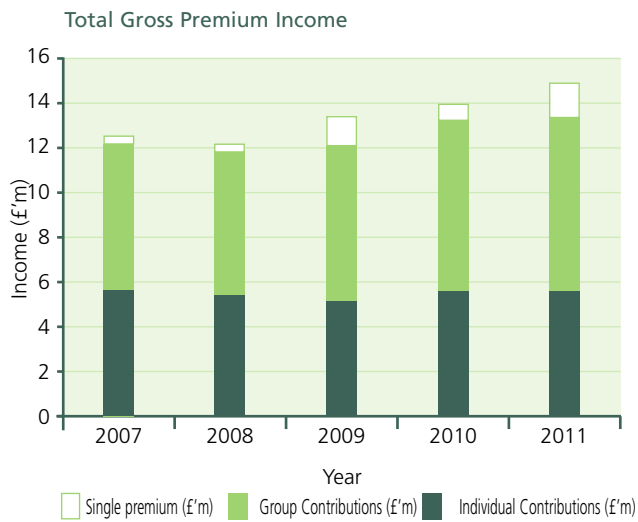
As a mutual, engagement with members as owners of the Society is a key component of TCF and to enable member views to be better represented to the Board on Society activities, particularly member interests in membership funds, benevolence benefits, and other member activities, a Membership Committee was established during 2011 as an advisory committee to the Board. Membership of the Committee is drawn from interested members, honorary post holders and the Society's branches, with the Board being represented by the Society's Chairman and an Executive Director. In 2011 complaint levels, overall, and numbers upheld, remained low and well within expected levels given the nature and scale of the Society's business. Only one complaint was referred to the Financial Ombudsman Service during the year.

# Directors' Report

## Business Review *(continued)*

### Key Performance Indicators

The Society uses a number of key performance indicators to manage and monitor its business performance:



During 2011 one complaint was referred to the Financial Ombudsman Service.

## Key Risks and Uncertainties

The principal risks facing the Society are grouped as: Market, Operational, Strategic and Regulatory risk.

### Market Risk

Market risk represents the loss from a change in the value of, or income from, the assets of the Society. The Society manages this risk through its investment strategy, which aims to support the objectives set out in the Society's Principles and Practices of Financial Management. This strategy seeks to ensure that the Society maintains a diversified portfolio of assets and sets benchmarks for each asset class.

The Investment Committee meets regularly to monitor the performance of all asset classes and consider investment policy against changes in market conditions. As a result of this review, in 2010 the Board made the decision to change the investment strategy for equities in all of its funds from an active to a passive management basis. All other asset classes are actively managed.

### Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems. The Society has in place a risk management and internal control framework that seeks to ensure that risks are identified and necessary controls are in place or mitigating actions have been taken.

A fully comprehensive internal audit programme reports on the risk management and internal control framework to the Audit and Risk Committee (A&R). Operational risk registers are in place and are regularly reviewed by Risk Management Executive Committee (RMEC). These are monitored and challenged by the A&R Committee.

### Strategic Risk

Strategic risks are those risks the Society faces which might affect our ability to meet our core objectives. These risks are managed by the Board and senior management through the development of annual and medium term business plans and the setting of key performance indicators and targets, which are monitored throughout the year.

### Regulatory Risk

Regulatory risk represents the risk associated with a failure to comply with an increasing array of regulatory requirements and governance expectations. The Society has a comprehensive governance framework led by the Board and its Committees. In 2011 the Society commissioned an independent external review of the Board and its operations and this identified areas where enhancements would be of benefit in reducing such risks. The Board has agreed an action plan designed to reduce these. The day to day monitoring and managing of regulatory risk has been delegated to management through the RMEC and monitored by the A&R Committee.

# Directors' Report

## Governance Arrangements

### The Board of Directors

The Board is the governing body of the Society. Each Director on the Board is an FSA "Approved Person". During 2011 the Board, excluding the Chairman, had a majority of independent Non-Executive Directors. The Non-Executive Directors on the Board consisted of the Chairman, Deputy Chairman, Senior Independent Director and six other Directors. The Executive Directors were the Chief Executive, Finance Director and Marketing Director. The names and profiles of those who held office during the year is shown on pages 5 and 6. Relevant transactions between the Society and the Directors are set out in Notes 8 and 23. The Board meets at least eight times a year. It is responsible for the strategic direction of the Society. Day to day management and the implementation of the strategy is delegated by the Board to the Chief Executive and the Senior Management Team. The Board has the support of a professional Company Secretary both during and between meetings.

### Terms of Reference

The Board has Terms of Reference that define how it operates and its responsibilities. The Board has established Committees to consider certain specialist areas in more detail than would be possible at a Board meeting. Each Committee operates within defined Terms of Reference. The Terms of Reference for the Board and its Committees are available on the Society's website at [www.forestersfriendlysociety.co.uk/company-reports-and-governance.aspx](http://www.forestersfriendlysociety.co.uk/company-reports-and-governance.aspx). Further details of the role and membership of each Committee is shown on pages 13 and 14.

### Governance

The Board fully supports the principle of best practice in the governance of friendly societies, given that good governance must clearly be in the best interests of members. The Board continuously monitors the evolution of best practice in corporate governance and considers where developments can be made to the governance arrangements within the Society in order to best incorporate it. To this end, earlier in the year, the Board requested the Nominations Committee to consider the size, composition and required skills of the Board, as the Society's governing body, in order to ensure that it remained appropriate for the increasing governance demands placed upon a regulated long-term insurance business. The Nominations Committee made some recommendations designed to enhance the Board's effectiveness but, in seeking to implement these, a number of challenges emerged; such as a lack of alignment between several of the Society's Rules and current governance standards. As a result, in October 2011, the Society commissioned an independent external specialist to undertake a review of the effectiveness of the Board and its supporting governance framework. The report emanating from this independent review included a number of recommendations, with the key ones relating to a reduction in

Board size, the need to recruit additional Non-Executive Directors having specific knowledge and experience of long-term insurance business and the amendment of the Society's rules to align them with latest corporate governance standards. The Board has agreed an action plan to implement these recommendations in the first half of 2012.

### Independence

The Board has determined that Carl Genese, Graham Berville, Tony Lovell, Cheryl Eagleson, Kathryn Vagneur, John Levett and Penny O'Nions are independent Non-Executive Directors as defined by the UK Corporate Governance Code: An Annotated Version for Mutual Insurers ("the Code"). Both Cheryl Eagleson and John Levett are Court Secretaries and therefore receive remuneration from the Society in addition to their Director fees. Therefore, they do not fully meet the requirements for independence set out in the Code but, as provided for in the Code, the Board has nevertheless determined that they are independent. This is because the level of their other Society remuneration is not considered to be sufficient to adversely affect their independence. Both Glyn Carpenter and Andrew Pooley have served more than nine years on the Board and, as such, do not fully meet the criteria for independence set out in the Code. The Board has not determined that they are independent.

### Appraisal and Evaluation

A process of annual appraisal exists for the Board with a view to improving both individual contributions and group achievement. The review of the Board's performance in 2011 was facilitated by the Company Secretary and was conducted on a self-assessment basis, with each Director completing a comprehensive questionnaire designed to ascertain the Board's collective view of its performance in each area of its operation. Identified areas for improvement were then incorporated into a development plan for the Board and into the action plan emanating from the independent external review discussed above. The Board did not undertake a formal review of the performance of its Committees.

The appraisal process for the Directors was conducted by the Chairman and involved consultation and individual interviews with the Non-Executive. The Senior Independent Director led the appraisal of the Chairman. The Board is satisfied that each of the Directors committed the time required to properly discharge their role. Each Director was required to undertake a programme of continued professional development designed to expand and update their skills and knowledge, both within the Society and outside. The Chairman met with the Non-Executive Directors from time to time without the Executive Directors present.

## Statement of the Directors' Responsibilities

The Friendly Societies Act 1992 ('the Act') requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Society at the end of the year and of its income and expenditure for that year. In preparing those accounts the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to assume that the Society will continue in business.

The Directors are responsible for keeping proper accounting records, which must show and explain the transactions of the Society and disclose the financial position of the Society with reasonable accuracy at any time, and enable them to ensure that the accounts comply with the Act and the regulations under it. They are also responsible for the system of internal control, for safeguarding the assets of the Society and hence taking reasonable steps for the prevention and the detection of fraud and other irregularities.

## Attendance at Meetings

Directors' attendance at Board meetings, and meetings of the Committees of which they were members, in 2011 was as follows:

	Board*	Nominations Committee	Remuneration Committee	Audit & Risk Committee	Investment Committee**	With Profits Committee
Number of meetings	10	5	5	4	4	4
Carl Genese	10	5	5			
Graham Berville	10				4	4
Tony Lovell	10	5		4		
Neil Armitage	10					
Glyn Carpenter	10			4		
Kevin Dann	10				3	
Cheryl Eagleson	10			4	4	
John Levett	10	5	5		4	
Penny O'Nions	10		5			4
Paul Osborn	10				4	
Andrew Pooley	10	4			3 (of 3)	
Kathryn Vagneur	10		1 (of 2)	4	1 (of 1)	
Paul Engers ***						4

\* There were 8 scheduled meetings and 2 special meetings.

\*\* The Investment Committee also held a number of ad hoc meetings to consider financial market conditions.

\*\*\* Paul Engers is the external Chairman to the With Profits Committee.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. The Directors' responsibility also extends to the ongoing integrity of the accounts contained therein. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions. The Directors confirm that the Society did not carry out any activities outside its powers during the year.

## Directors and Officers' Liability Insurance

The Society has maintained liability insurance cover for members of the Board and Senior Management of the Society as permitted by Section 106 of the Friendly Societies Act 1992.

## Senior Independent Director

The UK Corporate Governance Code: An Annotated Version for Mutual Insurers recommends that mutual insurers maintain a dialogue with their members and have a Senior Independent Director available to handle issues and concerns raised by members. Tony Lovell is the Society's nominated Senior Independent Director and he may be contacted through the Head Office Secretariat on 02380 213828.

# Directors' Report

## Governance Arrangements (*continued*)

### Nominations Committee

**Carl Genese** (*Chairman*)

**John Levett**

**Tony Lovell**

**Andrew Pooley**

The main responsibilities of the Nominations Committee are to:

- encourage suitable candidates from the membership to serve on the Board;
- ensure that nominees for election or re-election to the Board meet the Society's criteria and the requirements of the FSA's Approved Person regime and provide a report to the Annual General Meeting on the suitability of the nominees;
- consider suitable candidates for the role of High Chief Ranger and High Sub-Chief Ranger;
- review the Skills Matrix for Directors;
- consider succession planning for the Board and its Committees;
- consider and make recommendations for appointment to Committees.

The Board has adopted the Institute of Chartered Secretaries and Administrators (ICSA) Guidance Note on the Terms of Reference for the Nominations Committee of a mutual insurer. These Terms of Reference require the Nominations Committee to be proactive in considering the balance of knowledge, skills, qualifications and experience of the Board as a whole. The Nominations Committee formally interviews candidates for vacancies and uses external specialist resources to verify the process followed and the suitability of candidates where necessary. No Director appointments were made in 2011, but the Society's policy for such appointments is to use either open advertising in suitable media or specialist recruitment agencies.

### Audit & Risk Committee

**Glyn Carpenter** (*Chairman from 27 July 2011*)

**Tony Lovell**

**Cheryl Eagleson**

**Kathryn Vagneur** (*Chairman to 27 July 2011*)

The Audit & Risk Committee assists the Board to fulfil its responsibilities in relation to risk management and financial reporting. The main responsibilities of the Audit & Risk Committee are to:

- monitor the integrity of the report and accounts of the Society;
- monitor any formal announcements in relation to the Society's performance;
- review significant judgements that may affect financial reporting;

- review the Society's internal control, risk and capital management systems;
- monitor and review the effectiveness of the Society's internal audit processes;
- make recommendations to the Board on the appointment, reappointment and remuneration of the external auditors;
- approve the remuneration of the external auditors with regard to non-audit services;
- monitor the independence and objectivity of the external auditors and the effectiveness of the audit processes;
- consider the recommendations of the external and internal auditors and management's responses to these;
- report to the Board on risk and audit matters of importance, and
- identify and report to the Board on any other matters for which the Committee considers that action or improvement is required.

The Chief Executive, Finance Director and the internal and external auditors usually attend meetings of the Committee. The internal and external auditors also meet with the Committee regularly without the Executive Directors or any other members of staff present. Internal audits of the regulated business are conducted by an independent external firm that reports to the Audit & Risk Committee. The audit of Courts is conducted by a member of the Society's staff. The Society currently has a risk management framework and there are two further Committees that focus on risk and report to the Audit & Risk Committee:

- *The Risk Management Executive Committee (RMEC)* sets the principles and standards with respect to internal controls, defines risk policies and appetites, has input into the nature, scope, objectives and functions of internal audit and oversees the management of business risk and regulatory compliance and Society policy.
- *The Risk and Internal Control Committee (RICC)* ensures the efficient management of known business risks, compliance with relevant legal and Society policy requirements and the adequacy of internal controls and documented procedures to deliver the management of business risks and provide assurance to the RMEC.

## Remuneration Committee

**John Levett** (*Chairman*)  
**Carl Genese**  
**Penny O’Nions**  
**Kathryn Vagneur** (*until 27 July 2011*)

The Remuneration Committee determines the remuneration of the Executive Directors and senior management and approves the policy of remuneration for other staff. In doing so, it considers the trends in competitor and local employment markets. It also makes recommendations to the Board regarding the basis of the remuneration of the Non-Executive Directors for confirmation at the Annual General Meeting. Further information on the remuneration policy is shown on pages 17 and 18.

## Investment Committee

**Graham Berville** (*Chairman*)  
**Kevin Dann**  
**Cheryl Eagleson**  
**John Levett**  
**Paul Osborn**  
**Andrew Pooley** (*until 27 July 2011*)  
**Kathryn Vagneur** (*from 27 July 2011*)

The main responsibilities of the Investment Committee are to:

- review and approve the investment management agreements and the appointment of external investment managers;
- monitor the fund performance of all asset classes, and the total portfolio, against performance measurement targets;
- review the performance and fees of all external investment managers; and
- review the investment risk management policy in consultation with the risk committees.

## With Profits Committee

**Paul Engers** (*Chairman from 14 September 2011*)  
**Graham Berville** (*Chairman 22 March 2011 to 14 September 2011*)  
**Penny O’Nions**

The Society introduced a separate With Profits Committee in March 2011, which is an advisory Committee to the Board. Prior to that, the Board had acted as the Society’s With Profits Committee. The role of the With Profits Committee is to consider the interests of with profits policyholders and exercise independent judgement in advising the Society’s Board on the achievement of fair treatment for them in the management of their policies, the with profits funds and any proposed actions affecting them. The main responsibilities of the With Profits Committee are to consider:

- whether the Society has complied fully with the Principals and Practices set out in the Principals and Practices of Financial Management (“the PPFM”) as currently drafted;
- whether the manner in which the with profits funds are managed is properly reflected within the PPFM;
- any proposed amendments to the PPFM;
- how conflicts of interest, including inter-generational issues, have been identified and managed or, where applicable, how it is proposed they should be managed;
- consider the way in which the Society has exercised, or proposes to exercise, its discretion in the management of the with profits business including, but not limited to, matters relating to asset shares, smoothing, bonus declarations, MVRs, the valuation process, the ICA and the use of with profits policyholder capital;
- the identification of surplus, and excess surplus, and the merits of its distribution as against retention;
- any significant changes, or proposed changes, to the risk and investment profile of the with profits funds, including the management of material illiquid investments and strategic investments;
- the Society’s strategy for future new business written in the with profits fund; and
- the Society’s customer communications, including annual bonus notices and product literature.

# Directors' Report

## Governance Arrangements *(continued)*

### Compliance with Annotated UK Corporate Governance Code Recommendations

The Board is committed to following best practice as regards corporate governance wherever appropriate for the Society. The recommendations with the UK Corporate Governance Code: An Annotated Version for Mutual Insurers are applied on a "comply or explain" basis. This recognises that best practice should be followed in most circumstances but that firms also have the opportunity to explain why certain recommendations were not applied.

As previously stated, during 2011, the Society commissioned an independent external review of the effectiveness of the Board and its supporting governance framework, recommendations from which will be implemented during the first half of 2012. In consideration of this report and its own observations, the Board considers that the Society has complied with the provisions of the UK Corporate Governance Code: An Annotated Version for Mutual Insurers ("the Code") with the exception of the following:

Code Ref	Provision	Explanation
B.1	Did the Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively?	The Board has identified that there is a need for additional long-term insurance skills and experience on the Board and this was confirmed by the independent external review. Therefore, the Society is currently seeking to recruit Non-Executive Directors meeting these requirements.
B.1.1	The Board should state its reasons if it determines that a Director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the Director ... has served on the board for more than nine years from the date of their first election.	Two Non-Executive Directors have each now served more than nine years on the Board. The Board has not considered the independence of those directors who reached nine years service in 2011. This will be reviewed in 2012.
B.2.3	Non-Executive Directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a Director. Any term beyond six years for a Non-Executive Director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the Board.	Although the Society undertakes performance reviews in respect of its Non-Executive Directors, these are currently not more rigorous in respect of those who have served more than six years. This will be addressed in 2012.
B6	The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.	The planned review of the performance of the Board Committees in 2011 was postponed pending the completion of the external review. Reviews for all Committees will take place in 2012.
B.7.1	All Directors of FTSE 350 companies should be subject to annual election by shareholders. <i>(For mutual insurers 'FTSE 350 companies' should be read as mutual insurers with gross premium income of more than £20 million per annum on average over the preceding three financial years or assets of more than £100 million on average at the end of the last three financial years.)</i>	The Board has determined that annual re-elections would not be appropriate. However, the matter will be kept under review and periodically reconsidered.
C.3.1	The Board should establish an Audit Committee of at least three independent Non-Executive Directors.	Prior to the 2011 AGM, the Audit & Risk Committee comprised four independent Non-Executive Directors. However, as a consequence of the matter referred to in B.1.1 above, one of the members of the Committee has not been determined to be independent. The composition of the Committee will be reviewed once the above mentioned additional Non-Executive Director appointments have been made.
E.2.1	For each AGM resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote.	The Society operates a delegate system and its rules do not permit the use of proxy voting. However, the external review recommended that the Society should review the operation of the delegate system and this will be undertaken in the first half of 2012.



## Statement of Internal Control

The Board and the Audit & Risk Committee have reviewed the effectiveness of the Society's internal control system, including financial, operational and compliance controls and risk management, in accordance with the UK Corporate Governance Code: An Annotated Version for Mutual Insurers for the period from 1 January 2011 to the date of approval of this Annual Report. No significant failings or weaknesses were identified during this review.

## Society's Relationship with Members

As a branch friendly society, members are allocated to branches (known as "Courts") which are represented through a delegate system at the Society's Annual General Meeting (known as "High Court"). High Court takes place over a number of days and includes detailed discussions between the Board and members' delegates on the performance of the Society and discussion on strategic issues. In order to assist the Board in considering matters of direct interest to its members during the year the Society established a new Membership Committee. This Committee comprises Society members, the High Chief Ranger and High Sub-Chief Ranger (Society President and Vice President respectively), the Chairman and an Executive Director. Both the Executive Directors and the Non-Executive Directors also attend many meetings with members during the year.

## Going Concern

The Board is of the opinion that the Society has adequate capital resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis for the Society's accounts.

## Foresters General Insurance Services Limited

This is a wholly owned subsidiary of The Ancient Order of Foresters Friendly Society Limited that exists to enable a broader range of financial services products to be provided to its members. It is hoped that further opportunities to increase the services available to members through this subsidiary are identified in the coming years. Its governance arrangements are entirely separate and its Board of Directors are not a committee of the Board. The company's Chairman receives a minimal amount of remuneration based on the number of meetings attended, but all other Directors receive no remuneration. The Directors in place at 31 December 2011 were:

**John Levett** - *Chairman*

**Kevin Dann** - *Director*

**Neil Armitage** - *Director*

**Paul Osborn** - *Director*

## Donations

The Society donated £1,550 (2010: £1,250) to various charities during the year. Each year the Society makes a donation to the Mayor's charity in the town that hosts High Court. In 2011 Southport received £500 and in 2010 Torquay received £500. The Society also donated £3,000 (2010: £3,000) to the Police Federation of Northern Ireland. No political donations were made in either year. Courts carry out charitable fundraising work as part of their social activities and in 2011 £71,572 was raised. An additional £213,138 was paid out from branch held membership funds to various local and national charities.

## Independence of External Auditors

As well as acting as external auditors to the Society, BDO LLP has provided other professional services to the Society during the year. Acknowledging that the firm has provided non-audit services as shown in note 7c, BDO LLP has confirmed their independence to the members of the Audit and Risk Committee.

## Statement of Disclosure of Information to Auditors

Each of the persons who is a Director at the date of this report confirms that so far as each of them is aware, there is no information relevant to the audit of the Society's financial statements for the year ended 31 December 2011 of which the auditors are unaware; and the Director has taken all steps that he/she ought to have taken in his/her duty as a Director to make him/herself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

## By Order of the Board

**Alan Futter**

Company Secretary

28 March 2012

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# Directors' Remuneration Report

This report sets out the remuneration policy for the members of the Society's Board and is submitted to the delegates for approval at the forthcoming High Court. It details the various elements of their remuneration in 2011, and explains how the Society has applied the UK Corporate Governance Code: An annotated version for Mutual Insurers', with respect to Directors' remuneration.

## Remuneration Committee

The role and list of Non-Executive Directors who sit on the Remuneration Committee is shown on page 14. The Chief Executive is invited to attend the meetings to participate in the consideration of Executives remuneration and associated matters, but he is excluded from detailed discussions relating to his own remuneration. From time to time, the Remuneration Committee will make use of external specialists to provide independent expert advice and in 2011 an independent review of the current executive remuneration was commissioned.

## Remuneration Policy

The Society's remuneration policy aims to attract, motivate, support and retain good quality staff and executives with the necessary skills to achieve the Society's strategic objectives. Remuneration is considered within the financial services sector for the geographical location the Society occupies. The policy is to provide a mid market level of salary that is fair to the Society and reflects the contribution made by the employee. These salaries are reviewed annually and become effective from 1 October for Non-Executive Directors, or 1 January for all other staff, including Executive Directors. Salary is the only pensionable remuneration the Society offers.

## Remuneration Policy for Non-Executive Directors

Non-Executive Directors are elected for a three year period by the members at High Court, subject to FSA approval. This appointment can be extended for two further periods of three years at which point the Non-Executive Director has to stand down. The full Board will determine any notice period that is convenient to both the Society and the Director under other circumstances.

The remuneration of all Non-Executive Directors, including the Chairman, is reviewed on an annual basis by the Remuneration Committee using expert advice and guidance from both internal and external sources. A recommendation is made to the Board who will put a proposition to the delegates at High Court to approve any remuneration changes.

The Non-Executive Directors are only entitled to fees and expenses, and do not participate in any performance pay schemes, or receive any pension arrangements or other benefits.

## Remuneration Policy for Executive Directors

The remuneration policy of the Executive Directors comprises of basic salary, annual cash based bonus, a contributory pension and other benefits. The remuneration is approved by the Board based upon recommendation by the Remuneration Committee, which includes all salary amendments. The non-pensionable annual cash bonus is linked to individual contribution towards the Society fulfilling its strategic objectives, payable in the first quarter following the year in question. Executive Directors are also entitled to benefits in kind that include a company car (or an equivalent allowance) and private medical insurance. A relocation allowance is offered to new Executive Directors where they are required to relocate under the terms of the appointment. In exceptional cases where the relocation allowance is not taken Executive Directors may be offered a travel and accommodation allowance.

Executive Directors do not currently have service contracts as Directors. The employment contract of the Executive Directors, including the Chief Executive, is for a contractual notice period of 6 months by either party. Unless notice to terminate the contract has been given, all Executive Director contracts continue automatically until the age of 65.

In setting salary levels for 2011, the Remuneration Committee considered current market conditions, the Society's performance in 2010, the financial services sector along the south coast and the general salary reviews applying across the Society. After freezing Executive salaries in 2010 an inflationary rise was considered sufficient for 2011.

In late 2011, the Remuneration Committee commissioned an independent review of the current executive remuneration by an external specialist advisor. The objective of the review is to ascertain whether or not the Society's levels of remuneration are appropriate when compared to those of other mutual societies and other long term insurers of a comparable size.

## Remuneration in 2011

	Salary/ Fees	Salary as Court Official	Bonuses	Benefits	Pension Contributions	Total	2010
Non Executives	£	£	£	£	£	£	£
C Genese	21,000	-	-	-	-	21,000	17,875
G Berville	18,900	-	-	-	-	18,900	18,900
A Lovell	12,600	-	-	-	-	12,600	12,600
G Carpenter	12,600	-	-	-	-	12,600	18,900
C Eagleson	12,600	5,850	-	-	-	18,450	18,450
J Levett	12,600	1,680	-	-	-	14,280	14,280
P O'Nions	18,900	-	-	-	-	18,900	18,900
A Pooley	12,600	3,076	-	-	-	15,676	15,996
K Vagneur	18,900	-	-	-	-	18,900	18,900
<b>Executives</b>							
K Dann	120,750	-	12,500	31,663	12,075	176,988	193,191
P Osborn	89,250	-	10,000	11,748	8,925	119,923	114,861
N Armitage	78,458	-	8,000	24,205	7,875	118,538	128,811
	<b>429,158</b>	<b>10,606</b>	<b>30,500</b>	<b>67,616</b>	<b>28,875</b>	<b>566,755</b>	<b>591,664</b>

Included within the benefits of K Dann is a relocation payment of £18,610 (2010: £38,824). The relocation allowance was approved by the Board within the overall terms of appointment. Included within the benefits for N Armitage is a travel and accommodation allowance of £15,000 (2010: £31,181).

### Directors' Pension Benefits

Non-Executive Directors do not receive any pensionable benefits from the Society.

P Osborn is a member of the Society's Group Personal Pension Scheme, which is a money purchase stakeholder pension scheme with Scottish Widows plc. The Society has made contributions as shown in the remuneration table above to this scheme.

K Dann and N Armitage have had their pension contributions, shown above, paid into their respective personal pension schemes.

### J Levett

Chairman Remuneration Committee

28 March 2012

# Independent Auditor's Report to the Members of The Ancient Order of Foresters Friendly Society Limited

We have audited the financial statements of the Ancient Order of Foresters Friendly Society Limited for the year ended 31 December 2011, which comprise the Consolidated and Society Income and Expenditure Accounts, the Consolidated and Society Balance Sheets and the Consolidated and Society Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Society's members, as a body, in accordance with the requirements of Section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an 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 and Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of the Directors and Auditors

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

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## 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 and the Group's affairs as at 31 December 2011 and of the Society's and Group's income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

## 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.

## Matters on which we are required to report by exception

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

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

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the UK Corporate Governance Code: An Annotated Version for Mutual Insurers, specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.

## Kim Hayward

Senior Statutory Auditor

29 March 2012

for and on behalf of BDO LLP, Statutory Auditor  
Southampton, United Kingdom

*BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).*

# Consolidated and Society's Income and Expenditure Account for the year ended 31 December 2011

## Technical Account - Long Term Business

	Notes	2011 £'000	2010 £'000
<b>Earned premiums, net of reinsurance</b>			
Gross premium written		12,971	12,277
Outward reinsurance premiums		(30)	(22)
	3	<u>12,941</u>	<u>12,255</u>
Investment income	4	6,837	4,596
Unrealised losses on investments	4	(3,219)	(194)
<b>Total Technical Income</b>		<u>16,559</u>	<u>16,657</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid: Gross amount		(11,360)	(11,193)
Reinsurers' share		-	-
		<u>(11,360)</u>	<u>(11,193)</u>
Change in provision for claims: Gross amount		(332)	(247)
Net claims incurred	5	<u>(11,692)</u>	<u>(11,440)</u>
<b>Long term business provision</b>			
Gross amount		(4,056)	(295)
Reinsurers' share		-	-
	6	<u>(4,056)</u>	<u>(295)</u>
<b>Other Expenditure</b>			
Net operating expenses	7	(3,176)	(3,430)
Investment expenses and charges	4	(109)	(75)
Taxation attributable to Long Term Business	9	-	-
Discretionary fund transfer to Court Reserve Fund	16	(2,216)	-
		<u>(5,501)</u>	<u>(3,505)</u>
<b>Total Technical Charges</b>		<u>(21,249)</u>	<u>(15,240)</u>
<b>(Deficit)/surplus of technical income over technical charges</b>		<b>(4,690)</b>	<b>1,417</b>
Transfer (to)/from Non-Technical Account		391	(3)
Transfer (to)/from Guernsey	17	(10)	-
Transfer (to)/from Fund for Future Appropriations	18	4,309	(1,414)
<b>Balance on Technical Account</b>		<u>-</u>	<u>-</u>

## Technical Account - General Business

<b>Technical Income</b>			
Gross premium written		1,823	1,713
Investment income		81	80
<b>Total Technical Income</b>		<u>1,904</u>	<u>1,793</u>
<b>Technical charges</b>			
Claims incurred gross		(1,759)	(1,614)
Transferred to general business provision	19	(17)	(58)
Net operating expenses		(128)	(121)
<b>Total Technical Charges</b>		<u>(1,904)</u>	<u>(1,793)</u>
<b>Balance on Technical Account</b>		<u>-</u>	<u>-</u>

All long term business is written in the United Kingdom, is in respect of continuing operations and relates to direct insurance contracts. The Branch in Guernsey conducts general business, which is classified as overseas.

The notes on pages 25 to 44 form an integral part of these accounts.

## Consolidated Income and Expenditure Account for the year ended 31 December 2011

Non-Technical Account	Notes	2011 £'000	2010 £'000
<b>Income</b>			
Investment income	10	7,929	10,418
Unrealised gains/(losses) on investments	10	1,059	(1,614)
Unrealised (losses)/gains on Court investments	10	(2,567)	87
Discretionary fund donations and levies		96	105
Discretionary fund transfer from Sick and Death Fund	16	2,216	-
<b>Total Income</b>		<u>8,733</u>	<u>8,996</u>
<b>Expenditure</b>			
Net operating expenses		(934)	(2,780)
Court operating expenses		(3,356)	(2,040)
Investment expenses and charges	10	(379)	(415)
Discretionary benefits paid and approved Court distributions		(957)	(1,201)
<b>Total Expenditure</b>		<u>(5,626)</u>	<u>(6,436)</u>
<b>Excess of income over expenditure for the financial year</b>		<b>3,107</b>	<b>2,560</b>
(To)/from Discretionary Fund	16	(2,688)	156
(To)/from Long Term Business Technical Account		(391)	3
(To)/from mainland Court funds	17	(334)	(669)
(To)/from Court funds - Guernsey	17	(107)	(94)
(To)/from Fund for Future Appropriations	18	413	(1,956)
<b>Balance on the Non-Technical Account</b>		<u>-</u>	<u>-</u>

## Consolidated and Society's Statement of Total Recognised Gains and Losses for the year ended 31 December 2011

	2011 £'000	2010 £'000
(Deficit)/surplus on Technical Account	(4,309)	1,414
(Deficit)/surplus on Non-Technical Account	(413)	1,956
Pension schemes actuarial gain/(loss)	117	40
<b>Total Recognised Gains and Losses</b>	<u>(4,605)</u>	<u>3,410</u>

The notes on pages 25 to 44 form an integral part of these accounts.

## Society Income and Expenditure Account for the year ended 31 December 2011

### Non-Technical Account

	Notes	2011 £'000	2010 £'000
<b>Income</b>			
Investment income	10	6,150	11,074
Unrealised gains/(losses) on investments	10	1,059	(1,614)
Unrealised gains on Court investments	10	158	98
Discretionary fund donations and levies		96	105
Discretionary fund transfer from Sick and Death Fund	16	2,216	-
<b>Total Income</b>		<b>9,679</b>	<b>9,663</b>
<b>Expenditure</b>			
Net operating expenses	7b	(775)	(2,583)
Court operating expenses	7b	(3,356)	(2,040)
Investment expenses and charges	10	(379)	(415)
Discretionary benefits paid and approved Court distributions		(957)	(1,201)
<b>Total Expenditure</b>		<b>(5,467)</b>	<b>(6,239)</b>
<b>Excess of income over expenditure for the financial year</b>		<b>4,212</b>	<b>3,424</b>
(To)/from Discretionary Fund	16	(2,534)	327
(To)/from Long Term Business Technical Account		(391)	3
(To)/from mainland Court funds	17	(1,593)	(1,704)
(To)/from Court funds - Guernsey	17	(107)	(94)
(To)/from Fund for Future Appropriations	18	413	(1,956)
<b>Balance on the Non-Technical Account</b>		<b>-</b>	<b>-</b>

The notes on pages 25 to 44 form an integral part of these accounts.

## Consolidated Balance Sheet as at 31 December 2011

<b>Assets</b>	<b>Notes</b>	<b>2011</b>	<b>2010</b>
		<b>£'000</b>	<b>£'000</b>
<b>Investments</b>			
Land and buildings	11	75,071	79,334
Investment in subsidiary	12	10	10
Other financial investments	12	72,908	73,763
		<u>147,989</u>	<u>153,107</u>
<b>Debtors</b>			
Debtors arising out of insurance operations		805	904
Other debtors	13	796	1,146
		<u>1,601</u>	<u>2,050</u>
<b>Other assets</b>			
Tangible assets	14	239	258
Stocks of goods for resale		48	49
Certificates of deposit		8,122	8,443
Cash at bank and in hand		18,570	11,343
		<u>26,979</u>	<u>20,093</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		1,083	407
Deferred acquisition costs	15	367	368
Other prepayments and accrued income		234	207
		<u>1,684</u>	<u>982</u>
<b>Pension asset</b>	21&22	<u>429</u>	<u>-</u>
<b>Total Assets</b>		<u>178,682</u>	<u>176,232</u>

## Liabilities

<b>Reserves</b>			
Discretionary Funds	16	4,768	2,080
Court Funds	17	73,013	72,562
		<u>77,781</u>	<u>74,642</u>
<b>Fund for future appropriations</b>	18	<u>32,789</u>	<u>37,394</u>
<b>Technical provisions</b>			
Long term business provision		61,660	57,604
Claims outstanding		1,601	1,269
General business provision (Guernsey)		2,526	2,509
	19	<u>65,787</u>	<u>61,382</u>
<b>Creditors</b>			
Other creditors including taxation and social security		822	1,235
<b>Accruals and deferred income</b>		<u>1,503</u>	<u>1,450</u>
<b>Pension liability</b>	21&22	<u>-</u>	<u>129</u>
<b>Total Liabilities</b>		<u>178,682</u>	<u>176,232</u>

The notes on pages 25 to 44 form an integral part of these accounts.



## Society Balance Sheet as at 31 December 2011

Assets	Notes	2011 £'000	2010 £'000
<b>Investments</b>			
Land and buildings	11	68,153	69,552
Investment in subsidiary	12	10	10
Other financial investments	12	76,883	77,406
		<u>145,046</u>	<u>146,96</u>
<b>Debtors</b>			
Debtors arising out of insurance operations		805	904
Other debtors	13	447	836
		<u>1,252</u>	<u>1,740</u>
<b>Other Assets</b>			
Tangible assets	14	239	258
Stocks of goods for resale		48	49
Certificates of deposit		2,200	2,200
Cash at bank and in hand		11,837	6,997
		<u>14,324</u>	<u>9,504</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		1,083	407
Deferred acquisition costs	15	367	368
Other prepayments and accrued income		234	207
		<u>1,684</u>	<u>982</u>
<b>Pension asset</b>	21&22	<u>429</u>	<u>-</u>
<b>Total Assets</b>		<u>162,735</u>	<u>159,194</u>

## Liabilities

<b>Reserves</b>			
Discretionary Funds	16	(3,573)	(6,107)
Court Funds	17	65,456	63,746
		<u>61,883</u>	<u>57,639</u>
<b>Fund for future appropriations</b>	18	<u>32,789</u>	<u>37,394</u>
<b>Technical provisions</b>			
Long term business provision		61,660	57,604
Claims outstanding		1,601	1,269
General business provision (Guernsey)		2,526	2,509
	19	<u>65,787</u>	<u>61,382</u>
<b>Creditors</b>			
Other creditors including taxation and social security		773	1,200
<b>Accruals and deferred income</b>		<u>1,503</u>	<u>1,450</u>
<b>Pension liability</b>	21&22	<u>-</u>	<u>129</u>
<b>Total liabilities</b>		<u>162,735</u>	<u>159,194</u>

The notes on pages 25 to 44 form an integral part of these accounts.

The accounts were approved by the Board on 28 March 2012 and signed on its behalf by:

C Genese - Chairman

K Dann - Chief Executive

P Osborn - Finance Director

# Notes to the Accounts

## 1. Accounting Policies

### a) Basis of Presentation

The Society prepares its annual accounts on the current value basis of accounting, excluding tangible fixed assets, in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 and with the applicable United Kingdom accounting standards and generally accepted accounting principles. In addition the recommendations of the Association of British Insurers Statement of Recommended Practice 'Accounting for Insurance Business' issued in December 2005, and revised in December 2006, have been adopted.

The Court assets are not available to back the long term business of the Society but the Courts remain as branches of the incorporated Society. Their assets and activities are therefore shown separately within the notes to the accounts.

The consolidated income and expenditure accounts, the consolidated statement of total recognised gains and losses and the consolidated balance sheet are the financial statements of the whole Group. Internal transactions and balances between the various components of the Society have been eliminated.

### b) Premium Income

Regular premium income is accounted for on a receivable basis, single premium income is accounted for when received. Outward reinsurance premiums are accounted for in accordance with the contract terms when due, reflecting the period when risk is transferred.

### c) Claims

Death claims are recorded on the basis of notifications received, maturity claims are recorded when due, and surrenders are recorded at the earlier of the date when paid or when the policy ceases to be included in the long term business provision. Claims on with profit business include bonuses payable. In addition the cost of administering the claims has been included in the claims amount, as shown in note 5.

### d) Long Term Business Provision

The long term business provision is determined by the Board on the advice of the Actuarial Function Holder as part of the annual actuarial valuation of the Society's long term business. The provision is initially determined in accordance with the requirements of the Prudential Sourcebook for Insurers on a net premium basis for all types of business. However, 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. The provision for current bonuses is shown separately in note 19. Future reversionary bonuses are implicitly provided for by use of valuation rates of interest below those expected. No provision is made for terminal bonuses, which can be varied at any time depending on investment conditions.

### e) Deferred Acquisition Costs

The costs associated with acquiring new insurance contracts are deferred to the extent that they are recoverable out of margins contained in future premiums. Such costs are disclosed as an asset on the balance and more information is shown in note 15. Deferred acquisition costs are amortised over the term the policies are written.

### f) Tax Attributable to the Long Term Business

Only part of the business is subject to taxation. No provision is required in these accounts as the benefit of accumulated tax losses brought forward exceeds net taxable income and capital gains on the taxable business.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. This includes timing differences arising on revalued investments, as required by FRS19, since unrealised gains are recognised in the income and expenditure accounts. The recognition of deferred tax assets is limited to the extent that the Board anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are discounted to take into account the time value of the amount of tax deferred to future periods.

#### **g) Investments**

Investments comprise listed investments, units in authorised unit trusts, loans, mortgages, deposits with credit institutions and deposits with investment associations. Listed investments and units held in authorised unit trusts are measured at their bid market value at the balance sheet date. Amounts receivable in respect of loans and mortgages are shown at the lower of the amounts advanced or the amount expected to be recovered where there is evidence of impairment. Deposits with credit institutions are carried at their historical cost. The Society does not invest in derivative investments.

Investment Associations are specially authorised societies under the Friendly Societies Act 1896. The objective of these associations is to receive the funds of registered friendly societies and to invest the same for their benefit. These associations have their own rules and are governed by a committee of management that is independent of the Society's Board of Directors. Where the Society has the legal ability to control or exercise dominant influence over an investment association the results, assets and liabilities of the association are consolidated using the equity accounting method.

#### **h) Investment Income and Expenses**

Investment income includes dividends, property rent, interest, together with realised gains and losses on investments less their related expenses. Dividends are taken into account on a cash basis, which is not considered materially different to an accruals basis. Interest on fixed interest securities, deposits and rental income is recognised on an accruals basis.

#### **i) Gains and Losses on Investments**

Unrealised gains and losses on investments represent the difference between the market value of investments held at the end of the year and their market value at the beginning of the year, or their cost when acquired during the year. Realised gains and losses on investments and land and buildings are calculated as the difference between purchase costs and net sales proceeds. An adjustment is made to unrealised gains and losses for the prior year's unrealised element included in the current year's realised gains and losses.

Both realised and unrealised gains/(losses) of investments and land and buildings are credited/(charged) to the Income and Expenditure Account.

#### **j) General Business Provision**

The general business provision represents the accumulated general business fund balance held to provide against future payments of the business.

#### **k) Land and Buildings**

Land and Buildings, which include properties that are held by the Society for operational purposes, are freehold and leasehold investment properties held for long term rental yields and capital growth. Changes in fair value are recorded as unrealised gains or losses in the Income and Expenditure account.

Land and buildings, other than those held by the Society for operational purposes, are valued annually at open market value and determined by reference to the indicative selling price. Head Office managed properties were valued as at 31 December 2011, by qualified professional valuers working for the Society, Aston Rose Limited, Chartered Surveyors. Court and Investment Association managed properties were valued at 31 December 2011 by appointed professional independent valuers. Land and buildings held for operational purposes are valued annually at market value with existing use basis by Aston Rose Limited.

Land and buildings occupied by the Society are required to be depreciated over their expected useful economic lives under the requirements of the Friendly Societies Act 1992. In respect of investment properties, this requirement conflicts with the accounting standard for Investment Properties (SSAP 19), that no depreciation should be provided on such investments. The Board consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations, and the amount which might otherwise have been shown, cannot reasonably be separately identified or quantified.

Freehold land is not subject to depreciation. No depreciation is charged on freehold buildings as, in the Directors' opinion, it is considered that their estimated useful economic lives and residual values are such that the required depreciation charge is immaterial.

# Notes to the Accounts (*continued*)

## 1. Accounting Policies (*continued*)

### l) Operating Leases

Rentals payable under operating leases are charged to the technical and non-technical accounts as incurred over the lease term.

### m) Stocks

Stocks have been valued at the lower of cost and net realisable value.

### n) Pension Schemes

The Society operates two contributory defined benefit pension schemes covering some of its permanent employees. Both schemes are closed to new members. The first defined benefit scheme was open for Foresters' employees and the second defined benefit scheme was open for Tunstall employees, prior to the merger of the Tunstall funds into the Foresters funds. Both schemes are administered by Trustees and are independent of the Society's finances. More information is given in Note 21 for the Foresters scheme and note 22 for the Tunstall scheme.

As required by the provisions of Financial Reporting Standard 17 'Retirement Benefits', the difference between the pension schemes' assets and their liabilities, including the long term liabilities to pay pension benefits to the schemes' members, are recognised as an obligation of the Society. Accordingly, the aggregate surplus or deficit appears in either the asset or liabilities section of the balance sheet. Movements in the year are reflected in the Non-Technical Income and Expenditure Account or in the Statement of Total Recognised Gains and Losses.

The pension cost for the scheme is analysed between current service cost, past service cost and the net return on pension scheme assets. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of, or improvement to, retirement benefits, are recognised in the technical or non technical account on a straight-line basis over the period in which the increase in benefits vest. Net expected return on the pension asset comprises the expected return on the pension scheme assets less interest on the pension scheme liabilities. The Society recognises surpluses arising on defined benefit pension schemes only when they have the ability to receive a refund or reduce future contributions to the scheme, and the Trustees have agreed to such refunds or reduced future contributions at the balance sheet date.

The Society also contributes to a stakeholder group personal pension scheme covering most permanent employees who are not eligible to join the two defined benefit schemes. This scheme is a defined contribution scheme and contributions are charged to the consolidated income and expenditure account in the year in which they relate.

### o) Fixed Assets and Depreciation

Fixed assets are valued at cost less depreciation or provision for impairment.

Depreciation is calculated to write off the cost of tangible fixed assets over their expected useful lives by equal annual instalments as follows:

**Fixture and fittings** - 4 to 10 years

**Motor vehicles** - 4 to 5 years

### p) Fund for Future Appropriations

The balance on this account consists of funds that have not been allocated to specific policyholders or non insurance funds. Transfers to and from the fund reflect the excess or deficiency of income over outgoings in each accounting period arising from participating business. The fund for future appropriations represents membership funds, working capital and the value of discretionary future bonuses to policyholders.

### q) Cash Flow Statement

The Society, being a mutual life assurance company, is exempt from the requirement under Financial Reporting Standard 1 'Cash Flow Statements' to produce a cash flow statement.

## 2. Investment Associations

The Society has a number of Court fund deposits invested in three organisations known as 'Investment Associations'. These associations are all registered as Specially Authorised Societies under the Friendly Society Act 1974. The associations have their own constitutions or rules and are governed by a Committee of Management that is independent to the Society's Board of Directors. The objective of these associations is to receive deposits of registered friendly societies and their branches and to invest the same for their benefit. All investment associations are unincorporated associations and are registered in England and Wales with the Financial Services Authority. In all cases they do not have issued share capital and their principal country of operation is Great Britain. The Society is currently in a position where it can exert dominant influence over two of the Investment Associations, namely The Leeds District of the Ancient Order of Foresters' Investment Association and The Sheffield and Hallamshire District of the Ancient Order of Foresters' Investment Associations. In the event of a liquidation of these two associations, all final proceeds will revert to the depositing Courts, and therefore back with the Society. Furthermore, the Society's rules clearly allow for exercising dominant influence through their ability to ask Courts to withdraw their deposits in these associations. These two associations have been consolidated using the equity accounting method in line with the requirements of FRS 2.

The Investment Association deposits are investments of the Court and Discretionary funds and consequently have no impact on the insurance results shown in the Technical Account.

### Financial information for the year ended 31 December 2011

The Leeds District of the Ancient Order of Foresters' Investment Association

The Sheffield & Hallamshire District of the Ancient Order of Foresters Investment Association

	2011		2010	
	Profit/(loss) for the year £'000	Net Assets £'000	Profit/(loss) the year £'000	Net Assets £'000
The Leeds District of the Ancient Order of Foresters' Investment Association	102	15,498	96	15,396
The Sheffield & Hallamshire District of the Ancient Order of Foresters Investment Association	(347)	401	(173)	1,619

At a specially arranged Extraordinary General Meeting on 27th January 2010, the Court depositors of the Sheffield & Hallamshire District of the Ancient Order of Foresters' Investment Association voted to dissolve the Association with immediate effect. Professional advisors have been appointed by the Association's Committee of Management to support the Committee through the dissolution process. As at 31 December 2011 the dissolution process had not been completed but it is expected to conclude in the near future. In 2011 an amount of £864k (2010: £782k) was distributed to the depositing branches in advance of their final dissolution settlement.

The third Investment Association, The Derby and Derbyshire Foresters' Investment Association, states within its rules that the members of the association consist of those individuals who are members of depositing Courts, and not the Courts themselves. The ownership of the association and controlling voting rights therefore rest with those individual members and not the Courts. Deposits by Courts in The Derby and Derbyshire Foresters' Investment Association are shown at the deposit value (cost), which represents cash invested along with cumulative interest and bonuses paid. At the 31 December 2011 these deposits totalled £2,657k (2010: £2,468k) as shown in note 12, Other Financial Investments.

## Notes to the Accounts (*continued*)

### 3. Earned Premiums - Long Term Business

	2011 £'000	2010 £'000
Gross premiums written	12,971	12,277
Outward reinsurance premiums	(30)	(22)
<b>Total Earned Premiums</b>	<b>12,941</b>	<b>12,255</b>
<b>Gross premiums written:</b>		
Life cover business - regular premiums	3,001	2,801
Pensions business - regular premiums	84	80
Investment and savings		
Single premiums	1,476	805
Regular premiums	614	902
Industrial business - regular premiums	155	176
Group business - regular premiums	7,641	7,513
	<b>12,971</b>	<b>12,277</b>
The above includes premiums in respect of participating business	<b>4,736</b>	<b>4,302</b>
<b>Gross new business premiums (annualised)</b>		
Life cover business - regular premiums	328	318
Group business - regular premiums	50	165
Investment and savings		
Single premiums	1,476	805
Regular premiums	614	902
	<b>2,468</b>	<b>2,190</b>

Single premiums relate to products issued by the Society which allow for one premium only or allow for recurrent single premiums. Regular premiums contractually allow for payments on a regular basis and have been annualised in the gross new business premiums.

### 4. Investment Returns

	2011 £'000	2010 £'000
<b>a) Investment Income - Long Term Business</b>		
Income from land and buildings	449	436
Income from listed investments	2,045	1,083
Income from other investments	29	87
Gains on the realisation of listed investments	4,314	3,017
Losses on the realisation of property investments	-	(27)
	<b>6,837</b>	<b>4,596</b>
<b>b) Unrealised (losses)/gains on Investments</b>		
Unrealised gains/(losses) from land and buildings	96	(26)
Unrealised (losses)/gains from investments	(825)	2,028
Reversal of previously recognised unrealised gains	(2,490)	(2,196)
	<b>(3,219)</b>	<b>(194)</b>
<b>c) Investment Expenses and Charges - Long Term Business</b>		
Investment management expenses and charges	109	75

In December 2011 The Society changed the fund managers for its fixed interest investments. The transfer of assets generated an unrealised loss on the investments transferred and required an adjustment to be made to unrealised gains of £2,490k (2010: £2,196k).

## 5. Claims Incurred - Long Term Business

Gross claims payable  
Cost of administration

2011 £'000	2010 £'000
11,318	11,118
374	322
<u>11,692</u>	<u>11,440</u>

## 6. Change in Technical Provisions - Long Term Business

Gross change in long term business provision  
Bonuses  
Pension annuity guarantee

2011 £'000	2010 £'000
3,566	257
98	41
392	(3)
<u>4,056</u>	<u>295</u>

## 7. Net Operating Expenses

### a) Long Term Business

Acquisition costs  
Change in deferred acquisition costs  
Administrative expenses

2011 £'000	2010 £'000
1,594	1,514
1	(9)
<u>1,581</u>	<u>1,925</u>
<u>3,176</u>	<u>3,430</u>

### b) Net operating expenses and Court operating expenses:

As part of the work completed in 2011 to clarify the structure of the Society's funds, the allocation of the central non-insurance costs was reviewed and updated. This has resulted in Court operating expenses being charged a fairer share of the central Court non-insurance costs, which were charged to net operating expenses in 2010.

### c) Net operating expenses includes:

Fees payable to the Society's auditor for the audit of the annual accounts  
Other services supplied pursuant to legislation - FSA Returns  
Total audit fees  
Auditors remuneration for non-audit services - taxation  
Total fees paid to BDO LLP

2011 £'000	2010 £'000
105	110
30	30
<u>135</u>	<u>140</u>
15	25
<u>150</u>	<u>165</u>

Commission paid  
Depreciation on tangible fixed assets  
Operating lease rental charges

467	435
92	120
25	29

### d) Operating leases

Annual commitments under operating leases for motor vehicles which expire between one and five years

<u>14</u>	<u>26</u>
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## Notes to the Accounts (*continued*)

### 8. Staff Costs

#### a) Employees

##### i) Staff Costs

	2011 £'000	2010 £'000
Wages and salaries	1,713	1,963
Social security costs	185	212
Other pension costs	691	202
	<u>2,589</u>	<u>2,377</u>

Included in other pension costs for 2011 is a one-off payment of £485k into the Ancient Order of Foresters Pension scheme (see note 21).

##### ii) Average number of persons employed:

	Number	Number
Board and Senior Management	12	12
Administration and other	41	56
Area Co-ordinators	15	16
	<u>68</u>	<u>84</u>

#### b) Board emoluments

	£	£
Remuneration	470,264	458,459
Benefits in kind	67,616	104,881
Pension scheme contribution	28,875	28,324
	<u>566,755</u>	<u>591,664</u>

Included in the above amounts are the emoluments (including benefits in kind but excluding pension contributions) of:

	£	£
The Chairman	<u>21,000</u>	<u>21,000</u>
The Chief Executive	<u>164,913</u>	<u>180,733</u>

The emoluments of the other Board members (including benefits in kind but excluding pension contributions) were in the following scale:

	Number	Number
£10,001-£15,000	3	2
£15,001-£20,000	5	6
£105,001-£110,000	-	1
£110,001-£115,000	2	-
£120,001-£125,000	-	1
	<u>-</u>	<u>1</u>

### 9. Taxation

There was no current tax charge in either 2011 or 2010 due to the losses the Society is carrying forward. At 31 December 2011, these losses stood at £4,385k (2010: £5,601k) in respect of excess management expenses. In addition, as at 31 December 2011 there are realised and unrealised capital losses totalling £491k (2010: £523k). Future tax charges are likely to be minimal due to the availability of the tax losses being carried forward.



## 10. Non-Technical Investment Returns

	2011 Group £'000	2011 Society £'000	2010 Group £'000	2010 Society £'000
<b>a) Investment Income</b>				
Income from land and buildings	4,025	3,781	4,628	4,378
Income from listed investments	168	168	645	645
Income from other investments	357	357	336	336
Gains/(losses) on the realisation of listed investments	448	448	3,848	3,848
Gains/(losses) on the realisation of property investments	1,791	(832)	(249)	(249)
Income from land and buildings - Courts	161	161	174	174
Gains/(losses) on realisation of investments - Courts	16	16	40	40
Income from mainland Court investments	190	-	157	-
Other income - Courts	773	2,051	839	1,902
	<b>7,929</b>	<b>6,150</b>	<b>10,418</b>	<b>11,074</b>
<b>b) Unrealised (losses)/gains on Investments</b>				
Unrealised gains/(losses) on investments	553	553	1,264	1,264
Reversal of previously recognised unrealised (Gains)/losses on listed investments	(441)	(441)	(3,166)	(3,166)
Reversal of previously recognised unrealised (Gains)/losses on property investments	947	947	288	288
	<b>1,059</b>	<b>1,059</b>	<b>(1,614)</b>	<b>(1,614)</b>
<b>c) Unrealised (losses)/gains on Court Investments</b>				
Unrealised gains on court investments	230	158	87	98
Reversal of previously recognised unrealised gains on court investments	(2,797)	-	-	-
	<b>(2,567)</b>	<b>158</b>	<b>87</b>	<b>98</b>
<b>d) Investment Management Expenses and Charges</b>				
Investment expenses and charges	379	379	415	415

In 2011 The Society changed the fund managers for its fixed interest investments and The Sheffield & Hallamshire District of the Ancient Order of Foresters' Investment Association sold the majority of its investment portfolio as it moved towards dissolution. Both of these events have generated an unrealised loss on investments and have required an adjustment to be made to unrealised gains of £2,291k (2010: £2,878k).

## Notes to the Accounts (*continued*)

### 11. Land and Buildings

Group	Freehold £'000	Long Leasehold £'000	Ground Rent £'000	Occupied by Society £'000	Court Properties £'000	Total £'000
<b>Market Value</b>						
At 1 January 2011	55,841	5,843	13	1,050	16,587	79,334
Additions	-	-	-	-	25	25
Disposals	(2,380)	(250)	-	-	(3,027)	(5,657)
Revaluation	1,359	(103)	-	(5)	118	1,369
<b>At 31 December 2011</b>	<b>54,820</b>	<b>5,490</b>	<b>13</b>	<b>1,045</b>	<b>13,703</b>	<b>75,071</b>
<b>Cost</b>						
At 1 January 2011	59,965	8,662	13	1,500	3,705	73,845
Additions	-	-	-	-	25	25
Disposals	(3,385)	(317)	-	-	(207)	(3,909)
<b>At 31 December 2011</b>	<b>56,580</b>	<b>8,345</b>	<b>13</b>	<b>1,500</b>	<b>3,523</b>	<b>69,961</b>

Society	Freehold £'000	Long Leasehold £'000	Ground Rent £'000	Occupied by Society £'000	Court Properties £'000	Total £'000
<b>Market Value</b>						
At 1 January 2011	55,841	5,843	13	1,050	6,805	69,552
Disposals	(2,380)	(250)	-	-	(213)	(2,843)
Revaluation	1,359	(103)	-	(5)	193	1,444
<b>At 31 December 2011</b>	<b>54,820</b>	<b>5,490</b>	<b>13</b>	<b>1,045</b>	<b>6,785</b>	<b>68,153</b>
<b>Cost</b>						
At 1 January 2011	59,965	8,662	13	1,500	1,002	71,142
Disposals	(3,385)	(317)	-	-	(170)	(3,872)
<b>At 31 December 2011</b>	<b>56,580</b>	<b>8,345</b>	<b>13</b>	<b>1,500</b>	<b>832</b>	<b>67,270</b>

All investment properties, except the Court and Investment Association properties, were valued by Aston Rose Limited as at 31 December 2011 on a Market Value basis, taking into account the remaining periods of leases granted to tenants. The property occupied by the Society, Foresters House, was valued at the same date by Aston Rose Limited on an Existing Use Value basis. No allowance has been made for the costs of realisation. Court and Investment Association properties have been valued by a number of professional independent valuers on a Market Value basis as at 31 December 2011, taking into account the remaining periods of leases granted to tenants.

In order for these accounts to show a true and fair view it is appropriate not to provide depreciation on land and buildings as it is considered that their useful economic lives and residual values are such that their depreciation is immaterial.

## 12. Other Financial Investments

	2011		2010	
	Group £'000	Society £'000	Group £'000	Society £'000
<b>At Market Value</b>				
Shares and other variable yield securities and units in unit trusts	20,766	18,243	29,616	27,556
Debt securities and other fixed income securities	48,299	46,036	40,341	37,943
Investments listed on UK recognised investment exchange	69,065	64,279	69,957	65,499
Loans secured by mortgages	417	335	527	414
Other investments	60	60	80	80
Deposits in Investment Associations	2,657	11,700	2,468	10,882
Court held other investments - mainland	229	29	227	27
Court held other investments - Guernsey	480	480	504	504
	<b>72,908</b>	<b>76,883</b>	<b>73,763</b>	<b>77,406</b>

	2011		2010	
	Group £'000	Society £'000	Group £'000	Society £'000
<b>At Cost</b>				
Shares and other variable yield securities and units in unit trusts	21,187	18,538	25,210	23,180
Debt securities and other fixed income securities	47,259	45,353	37,695	35,410
Investments listed on UK recognised investment exchange	68,446	63,891	62,905	58,590
Loans secured by mortgages	417	335	527	414
Other investments	60	60	80	80
Deposits in Investment Associations	2,657	11,700	2,468	10,882
Court held other investments - mainland	229	29	227	27
Court held other investments - Guernsey	430	430	504	504
	<b>72,239</b>	<b>76,445</b>	<b>66,711</b>	<b>70,497</b>

Listed investments were valued at their bid value at 31 December 2011. Mortgages and other investments are included at their book cost. Investment Association investments were valued at market value by the Associations professional advisors. The balance sheet also includes the cost of £10,000 for all the shares in Foresters General Insurance Services Limited, which is incorporated in the United Kingdom. In view of the immaterial amounts involved, it has not been consolidated.

## 13. Other Debtors

	2011		2010	
	Group £'000	Society £'000	Group £'000	Society £'000
Trade debtors	220	220	209	209
Other debtors including taxation recoverable	576	227	937	627
	<b>796</b>	<b>447</b>	<b>1,146</b>	<b>836</b>

## Notes to the Accounts (*continued*)

### 14. Tangible Fixed Assets (*Group and Society*)

	Motor Vehicles £'000	Fixtures & Fittings £'000	Total £'000
<b>Cost</b>			
As at 1 January 2011	-	1,676	1,676
Additions	41	32	73
As at 31 December 2011	<u>41</u>	<u>1,708</u>	<u>1,749</u>
<b>Depreciation</b>			
As at January 2011	-	1,418	1,418
Charge for the year	5	87	92
As at 31 December 2011	<u>5</u>	<u>1,505</u>	<u>1,510</u>
<b>Net Book Value</b>			
31 December 2011	<u>36</u>	<u>203</u>	<u>239</u>
31 December 2010	<u>-</u>	<u>258</u>	<u>258</u>

### 15. Deferred Acquisition Costs (*Group and Society*)

	2011 £'000	2010 £'000
Deferred Acquisition Costs	<u>367</u>	<u>368</u>

There were no recoverable deferred acquisition costs with the margin in the policy premiums having been fully used to off-set future expense provisions. The figure of £367k (2010: £368k) on the balance sheet represents the Zillmer asset as at 31 December 2011. This figure has been added back so as to gross up the long term business provision and the deferred acquisition costs.

### 16. Discretionary Funds

	2011		2010	
	Group £'000	Society £'000	Group £'000	Society £'000
These comprise those funds with specific purposes as determined by The Society.				
<b>At 1 January</b>	<b>2,080</b>	<b>(6,107)</b>	2,236	(5,780)
Transfer from/(to) non-technical account	2,688	2,534	(156)	(327)
<b>At 31 December</b>	<b><u>4,768</u></b>	<b><u>(3,573)</u></b>	<u>2,080</u>	<u>(6,107)</u>
These Funds are comprised as follows:				
Court Reserve Fund	3,798	(4,543)	1,072	(7,115)
Convalescent Home Benefit Fund	86	86	74	74
War Memorial Benevolent Fund	400	400	390	390
Foresters Lifeboat Fund	-	-	21	21
150th Anniversary Educational Awards Fund	289	289	313	313
High Court Relief Fund	19	19	23	23
Police Benevolent Fund	84	84	89	89
Subsidiary Benefit Funds	92	92	98	98
<b>At 31 December</b>	<b><u>4,768</u></b>	<b><u>(3,573)</u></b>	<u>2,080</u>	<u>(6,107)</u>

In the Society's Balance Sheet, the Court Reserve Fund (CRF) has an overdrawn balance. The CRF is under the direct control of the Board and is credited with income arising from the Court Funds (note 17) not otherwise allocated to Courts. The fund is not generally available to support The Society's with profits business unless it is necessary and appropriate to do so.

The Board has discretion to transfer into the fund such monies as it sees fit in accordance with the Principles and Practices of Financial Management. In 2011 the surplus on the Sick and Death Fund at incorporation of £2,216k was transferred into the CRF. This is included in the Group (£2,688k) and Society (£2,534k) transfers from the non-technical account in 2011, shown above.

## 17. Court Funds

### Group

At 1 January 2011	71,813	749	72,562
Transfer from non-technical account	334	107	441
Transfer from technical account	-	10	10

### At 31 December 2011

<b>72,147</b>	<b>866</b>	<b>73,013</b>
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### Society

At 1 January 2011	62,997	749	63,746
Transfer from non-technical account	1,593	107	1,700
Transfer from technical account	-	10	10

### At 31 December 2011

<b>64,590</b>	<b>866</b>	<b>65,456</b>
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## 18. Fund for Future Appropriations (Group and Society)

At 1 January	37,394	33,984
Transfer from/(to) technical account	(4,309)	1,414
Transfer from/(to) non-technical account	(413)	1,956
Pension schemes actuarial gain/(loss)	117	40

### At 31 December

<b>32,789</b>	<b>37,394</b>
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## 19. Technical Provisions (Group and Society)

	Long Term Business £'000	Pension Annuity Guarantee £'000	Bonus £'000	Long Term Business Provision £'000	Guernsey General £'000	Claims £'000	Total £'000
At 1 January 2011	56,193	876	535	57,604	2,509	1,269	61,382
To technical account	3,566	392	98	4,056	17	332	4,405
At 31 December 2011	<b>59,759</b>	<b>1,268</b>	<b>633</b>	<b>61,660</b>	<b>2,526</b>	<b>1,601</b>	<b>65,787</b>

### Introduction

The Society has four UK with-profits funds; the Order Insurance Fund (OIF), the Pure Endowment Fund (PEF), the Tunstall Fund (TF) and the Leek Fund (LF). The capital position of these funds has been calculated on the existing regulatory basis as the funds size is significantly below the £500m level the FSA has determined should be applied for calculating liabilities under the realistic reporting methodology. The Society also operates two non-participating funds, the Sick and Death Fund (SDF) and the Group Business Fund (GBF).

### Capital Statement

The Capital Statement illustrates the financial strength of the Society's life business at 31 December 2011 and is set out below. This statement shows an analysis of the available capital resources calculated on a regulatory basis for the Society's with-profits funds as a whole. It also shows the margins over and above the regulatory requirements and the overall surplus capital within the funds under these bases. Further, the technical liabilities of the Society (i.e. those directly attributable to members policies), is split between with profit plans and non-participating plans.

## Notes to the Accounts (continued)

### 19. Technical Provisions (continued)

Capital Statement Table	2011			2010
	Non-Participating £'000	With-Profits £'000	Total £'000	Total £'000
<b>Qualifying capital</b>				
Fund for Future Appropriations (FFA)	5,852	26,937	32,789	37,394
Regulatory adjustments - assets	-	(666)	(666)	(286)
Regulatory adjustments - liabilities	-	(1,609)	(1,609)	(848)
<b>Total available capital resources</b>	<b>5,852</b>	<b>24,662</b>	<b>30,514</b>	<b>36,260</b>
Capital requirement			(10,474)	(9,962)
<b>Overall surplus capital</b>			<b>20,040</b>	<b>26,298</b>
<b>Analysis of members' liabilities</b>				
With-profits	-	40,230	40,230	38,237
Non participating	21,430	-	21,430	19,367
	<b>21,430</b>	<b>40,230</b>	<b>61,660</b>	<b>57,604</b>
Claims outstanding	1,601	-	1,601	1,269
General business provision (outside the UK)	2,526	-	2,526	2,509
<b>Total technical liabilities</b>	<b>25,557</b>	<b>40,230</b>	<b>65,787</b>	<b>61,382</b>
Total technical liabilities 2010	23,145	38,237	61,382	

#### Basis for calculating available capital resources in life business

The available capital of the with-profits funds has been determined in accordance with FSA regulations and includes the Fund for Future Appropriations (FFA). The FFA represents the estimated surplus in the funds that has not been allocated and is available to meet the regulatory and other solvency requirements.

#### Basis of calculating capital requirements for life business

The Society's Resilience Capital Requirements (RCR) as at 31 December 2011 amount to £3.0m (2010: £2.7m). The RCR is the additional capital required when a prescribed set of stress tests as set by the FSA are applied simultaneously to the value of the assets and liabilities. In particular, for the Society this involves the following three tests as at 31 December 2011:

- a fall in property prices of 20%,
- a fall in equity of 10%, and
- the more onerous of an increase or decrease of 0.50% on fixed interest yields.

All three tests are applied at 31 December 2011. The total regulatory capital requirements for the Society amount to £10.5m (2010: £10.0m) of which the RCR comprises £3.0m (2010: £2.7m) and the Long Term Insurance Capital Requirement (LTICR) comprises £7.5m (2010: £7.3m).

#### Restrictions on available capital resources in life business

The Society is required to hold sufficient capital to meet the FSA's minimum capital requirements. Account is also taken of the Individual Capital Assessment (ICA), which considers certain business risks not covered by the statutory basis. Some of the funds have their assets ring-fenced; this means that the associated assets cannot be used to support other areas of the business. This is particularly relevant to funds that have been transferred in through mergers and acquisitions. Full details of these restrictions are publicly available within the Society's Principle and Practices of Financial Management. The Society's total available capital resources are £31m (2010: £36m).

#### Options and guarantees

Options and guarantees are features of life assurance and pensions contracts that confer potentially valuable benefits to members. The Society does not fall within the FSA's realistic reporting regime and is not required to measure liabilities on a market consistent basis, which values options and guarantees at fair value. The Society maintains two types of guarantee in the with-profits funds, Maturity Guarantees and Guaranteed Annuity Options (GAOs). Maturity guarantees are in respect of conventional with profit business and represent the sum assured and reversionary bonuses declared to date. GAO's apply to some personal pensions on retirement.

## 19. Technical Provisions (continued)

### Capital resource sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect any change in investment conditions would have on the basis for calculating policy liabilities. The capital position is also sensitive to assumptions and actual experience relating to mortality, expenses and policy lapse rates. For conventional with-profits business the key sensitivity is to future investment returns. The mix of assets is kept under review taking into account the level of capital required and the anticipated returns for members.

### Technical provisions

An internal review of the Society's mortality experience supported the basis used in 2011. Our mortality assumptions remain unchanged from last year. A review of morbidity experience led to no changes to inception or recovery rates. The key assumptions used in the technical provisions calculated on a regulatory basis were:

Class of Business		Mortality Tables Used		Valuation Interest	
		2011	2010	Rate pa %	
		2011	2010	2011	2010
<b>Order Insurance Fund</b>					
With profit contracts (Taxable)	Males Females	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	1.75	2.50
With profit contracts (Non-taxable) and Non profit contracts	Males Females	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	2.00	3.00
Pension business S1/S2	Males Females	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	2.25/ 2.00	3.25/ 2.00
<b>Pure Endowment Fund</b>					
With profit contracts (Non-taxable) and Non profit contracts	Males Females	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	2.25	3.25
<b>Sick and death fund</b>					
Non profit contracts (Non-taxable)	Males Females	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	2.40	3.25
<b>Tunstall fund</b>					
Industrial business With profit (Non-taxable)	Males Females	ELTM 14 ELTM 14	ELTM 14 ELTM 14	1.50	2.00
Industrial business Non profit (Non-taxable)	Males Females	ELTM 14 ELTM 14	ELTM 14 ELTM 14	1.75	2.25
With profit contracts (Taxable)	Males Females	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	1.00	1.50
Non profit contracts	Males Females	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	1.25	1.75
With profit contracts (Non-taxable)	Males Females	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	1.75	2.25
<b>Leek fund</b>					
Industrial business	Males & females	ELT14M	ELT14M	2.40	2.90
Ordinary business	Males & females	AM80	AM80	2.40	2.90

## Notes to the Accounts (*continued*)

### 19. Technical Provisions (*continued*)

#### Asset mix at the valuation date

	2011	2010
	%	%
Cash and other	15	11
Fixed interest	31	27
Equities	12	19
Property	42	43
	<u>100</u>	<u>100</u>

#### Movement in available capital

	2011	2010
	£'000	£'000
Total available capital at 1 January	36,260	32,553
Change in long term business assets	2,531	3,877
Change in non-insurance liabilities	(3,554)	(4)
Change in insurance liabilities	(4,723)	(166)
	<u>30,514</u>	<u>36,260</u>

### 20. Provisions for Other Risks and Charges (*Group and Society*)

#### Deferred Taxation

	2011	2010
	£'000	£'000
Movements in provision		
At 1 January	-	-
Change in technical account	-	-
	<u>-</u>	<u>-</u>
At 31 December	-	-
Provision for deferred tax is made up as follows:		
Realised and unrealised (losses)/gains on Investments	(123)	105
Acquisition costs	(256)	(175)
Company losses	(840)	(946)
Deferred tax asset not recognised in the balance sheet	<u>(1,219)</u>	<u>(1,016)</u>

In accordance with Financial Reporting Standard 19 Deferred Taxation, the Society is required to disclose that it has an unprovided deferred tax asset of £1,219k (2010: £1,016k). No deferred tax asset has been provided for, due to the uncertainty of taxable profits arising in the foreseeable future.



## 21. Pension Scheme - Ancient Order of Foresters

The Society operates a defined benefit scheme, the Ancient Order of Foresters 1978 Retirement and Death Benefit Scheme. The scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the scheme in accordance with the recommendations of an independent actuarial advisor. The scheme is closed to new entrants.

Details in respect of the scheme are provided below in accordance with Financial Reporting Standard 17 (FRS 17). A full actuarial valuation was carried out at 6 April 2010 that showed a deficit in the scheme of £485k using the funding method. The Society agreed a funding basis with the scheme trustees that made a one-off payment into the fund of £485k in 2011 (see note 9(i)).

The actuarial valuation at 6 April 2010 was updated to the accounting date by an independent qualified actuary in accordance with FRS 17. As required by FRS 17, the value of the defined benefit liabilities has been measured using the projected unit method and both the assets and liabilities include the value of those pensions in payment that are secured with insured annuities. The scheme rules allow for future pension increases to be valued based on the Consumer Price Index (CPI). The 2010 actuarial valuation has used the CPI for pension increases, but earlier valuations have used the Retail Price Index (RPI).

The following tables set out the key FRS 17 assumptions used for the scheme:

Assumptions	31 December		
	2011	2010	2009
Price Inflation	2.8%	3.6%	3.6%
Discount rate	4.7%	5.4%	5.3%
Pension increases (LPI)	0.0-3.0%	3.0%	3.0%
Salary growth	3.0%	3.8%	4.6%
Life expectancy of member aged 65	22.1 years	21.8 years	23.9 years

The following tables set out as at the accounting dates the fair value of the assets, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the deficit of assets below the FRS 17 liabilities (which equals the gross pension liability).

Asset distribution and expected return	31 December					
	2011		2010		2009	
	Expected return	Fair value £'000	Expected return	Fair value £'000	Expected return	Fair value £'000
Equities	6.2%	1,428	7.3%	664	7.6%	1,358
Bonds	3.6%	1,206	4.7%	333	4.7%	604
Annuity policies	4.7%	1,810	5.4%	2,720	5.3%	2,117
Other	2.8%	979	6.2%	364	6.4%	335
Total		5,423		4,081		4,414
<b>Balance Sheet</b>						
Total fair value of assets		5,423		4,081		4,414
Present value of liabilities		(4,647)		(4,510)		(4,736)
Gross pension liability		776		(429)		(322)
Asset not recoverable		(446)		-		-
		330		(429)		(322)
Deferred tax		(45)		58		44
<b>Net pension asset/(liability)</b>		<b>285</b>		<b>(371)</b>		<b>(278)</b>

None of the assets of the scheme are invested in the Society's own financial instruments or in any property occupied by the Company.

Over the year to 31 December 2011, contributions were made to the scheme by the Society of £546,000 (2010: £36,000) including a one-off amount of £485,000 to pay off the deficit, in addition to the PPF levy of £2,127 (2010: £12,874). The Society has agreed to increase the annual contributions to 21.1% pa (2010: 16.4% pa) of total pensionable salaries in respect of accruing benefits into the scheme.

## Notes to the Accounts (*continued*)

### 21. Pension Scheme - Ancient Order of Foresters (*continued*)

#### Movement in scheme assets during the period:

	Year to 31 December	
	2011 £'000	2010 £'000
Assets in scheme at start of year	4,081	4,414
Expected return on scheme assets	242	269
Actuarial gain/(loss)	758	(388)
Employer contributions	546	36
Employee contributions	5	5
Benefits paid	(209)	(255)
Assets in scheme at end of year	5,423	4,081
Actual return on assets	1,000	(119)

#### Movement in scheme liabilities during the period:

Liabilities in scheme at start of year	4,510	4,736
Current service cost	64	59
Interest cost on scheme liabilities	239	268
Actuarial loss/(gain)	38	(303)
Employee contributions	5	5
Benefits paid	(209)	(255)
Liabilities in scheme at end of year	4,647	4,510

#### Analysis of the amount charged to operating profit:

Current service cost and total operating charge	64	59
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The scheme is closed to new entrants and, under the method used to calculate pension costs in accordance with FRS 17, the service cost as a percentage of pensionable payroll will tend to increase as the average age of the membership increases.

#### Analysis of the amount credited to other finance income:

Expected return on pension scheme assets	242	269
Interest on post retirement liabilities	(239)	(268)
Net return to credit to finance income	3	1

#### Total amount recognised in statement of total recognised gain and losses (STRGL):

Actual return less expected return on scheme assets	758	(388)
Experience (losses) and gains arising on scheme liabilities	(96)	(166)
Gain or (loss) due to changes in assumptions underlying the present value of scheme liabilities	58	469
Change in asset not recoverable through reduced future contributions	(446)	-
Actuarial loss recognised in the STRGL	274	(85)
Cumulative actuarial gain/(loss) recognised in STRGL	72	(202)

#### History of experience gains and losses is:

	31 December				
	2011	2010	2009	2008	2007
Actual less expected return - £'000's	758	(388)	(355)	(440)	(144)
as a percentage of assets	14%	(10%)	(8%)	(10%)	(3%)
Experience gain (losses) on the liabilities - £'000's	(96)	(166)	72	(234)	-
as a percentage of liabilities	(2%)	(4%)	2%	(5%)	-%
Total amount recognised in STRGL - £'000's	274	(85)	(138)	(34)	(237)
as a percentage of liabilities	6%	(2%)	(3%)	(1%)	(5%)

## 22. Pension Scheme - Tunstall

The Society operates a defined benefit scheme, The Tunstall and District Assurance Collecting Society Staff Superannuation Fund Scheme. The scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the scheme in accordance with the recommendations of an independent actuarial advisor. A full actuarial valuation was carried out at 31 December 2010 and updated to the accounting date by a qualified independent actuary. The scheme is closed to new entrants. Future pension increases have been calculated within the actuarial valuation based on the RPI in accordance with the scheme rules. The scheme is now closed to new entrants and under the method used to calculate pension costs in accordance with FRS17, the current service cost will tend to increase as the average age of Membership increases.

### Assumptions

	31 December		
	2011	2010	2009
Price inflation	2.7%	3.5%	3.6%
Discount rate	4.6%	5.4%	5.8%
Pension increases	2.7%	3.2%	3.5%
Salary growth	3.1%	4.1%	4.6%
Life expectancy of a current male aged 65	23.0yrs	24.0yrs	23.9yrs

### Asset distribution and expected return

	31 December					
	2011		2010		2009	
	Expected Return	Fair Value £'000	Expected Return	Fair Value £'000	Expected Return	Fair Value £'000
Equities	6.0%	831	7.5%	820	7.6%	742
Gilts	2.5%	919	4.0%	777	4.1%	682
Other/Cash	1.5%	5	4.0%	11	2.1%	18
		<u>1,755</u>		<u>1,608</u>		<u>1,442</u>

### Balance sheet

Total fair value of assets	1,755	1,608	1,442
Present value of liability	(1,540)	(1,328)	(1,316)
Gross pension asset	215	280	126
Asset not recoverable	(49)	-	-
Deferred tax	166	280	126
	(22)	(38)	(17)
<b>Net pension asset</b>	<u>144</u>	<u>242</u>	<u>109</u>

None of the assets of the scheme are invested in the Society's own financial instruments or in any property occupied by the Company.

### Movement in scheme assets during the period:

	Year to 31 December	
	2011 £'000	2010 £'000
Assets in scheme at start of year	1,608	1,442
Expected return on scheme assets	93	85
Actuarial gain	53	81
Employer contributions	35	39
Benefits paid	(34)	(39)
Assets in scheme at end of year	<u>1,755</u>	<u>1,608</u>

## Notes to the Accounts (*continued*)

### 22. Pension Scheme - Tunstall (*continued*)

#### Movement in scheme liabilities during the period:

	Year to 31 December	
	2011 £'000	2010 £'000
Liabilities in scheme at start of year	1,328	1,316
Current service cost	14	20
Interest cost on scheme liabilities	71	75
Actuarial (gain)/loss	161	(44)
Benefits paid	(34)	(39)
Liabilities in scheme at end of year	<u>1,540</u>	<u>1,328</u>

The full actuarial valuation at 31 December 2010 showed a reduction in surplus from £56,000 to £9,000 on a funding basis. It has been agreed with the employer that there would be no change to the funding rate of 26.8% of pensionable salaries. In addition an amount of £626 (2010: £564) was paid for the PPF levy. It is expected that the current service cost will increase as a proportion of the salary roll as the members of the scheme approach retirement.

#### Analysis of the amount charged to operating profit

Current service cost and total operating charge

Year to 31 December	
2011 £'000	2010 £'000
<u>14</u>	<u>20</u>

#### Analysis of the amount credited to other finance income

Expected return on pension scheme assets

Interest on pension scheme assets

Net return

93	85
(71)	(75)
<u>22</u>	<u>10</u>

#### Total amount recognised in statement of total recognised gain and losses (STRGL)

Actual return less expected return on scheme assets

Change in asset not recoverable through reduced future contributions

Changes in assumptions underlying present value of the Scheme liabilities

Actuarial gain/(loss) recognised in STRGL

Cumulative actuarial gain/(loss) recognised in STRGL

53	81
(49)	-
(161)	44
<u>(157)</u>	<u>125</u>
<u>49</u>	<u>206</u>

#### History of experience gains and losses is:

	31 December				
	2011	2010	2009	2008	2007
Actual less expected return - £'000's	53	81	113	(237)	3
as a percentage of assets	3%	5%	8%	(19%)	-%
Experience gain/(losses) on the liabilities - £'000's	(1)	61	-	(19)	-
as a percentage of liabilities	0%	5%	-%	(2%)	-%
Total amount recognised in STRGL - £'000's	(157)	125	(72)	167	(14)
as a percentage of liabilities	(10%)	9%	(5%)	15%	(1%)

## 23. Related Party Disclosures

### Control

The Society is controlled by its members, in particular through the Annual Meeting of delegates at the High Court.

### Transactions

The Board, the Chief Executive or their immediate family held various policies on standard terms (including the right to bonuses where appropriate) throughout the year. The aggregate premiums payable for the year by the Directors amounted to £16,790 (2010: £15,240) in respect of the Society's products.

The Court in Guernsey conducts general business that is shown in a separate Technical Account at the bottom of page 20. The Court had the following transactions and contracts with Court Committee of Management members, their relatives or businesses:

	2011 £'000	2010 £'000
Management fee to Orion Insurance Management Limited	133,873	132,876
Rent to Orion Insurance Management Limited	17,939	16,300

The Society has taken advantage of the exemption conferred by Financial Reporting Standard 8 'Related party disclosures' not to disclose transactions with members of the group headed by The Ancient Order of Foresters Friendly Society Limited on the grounds that those entities are controlled within that group, and the entities are included in consolidated financial statements. The exemption only applies to wholly owned subsidiaries.

## 24. Creditor Payment Policy

The Society's policy is to settle creditors within the credit terms specified, unless the transaction is subject to dispute.

## 25. Contingent Liability

On 7 November 2008, an accident occurred in one of the Society's Court held properties that resulted in the death of one of the tenants. As at 28 March 2012, the Directors understand that the Health and Safety Executive (HSE) are still conducting enquiries into this regrettable occurrence, from which legal action might ensue under Health and Safety legislation. The Directors are not able at this time to determine the quantum of any liability that might arise from such an action, but it is considered unlikely that the cost of this would be covered by any insurance policies held. In 2010 a civil claim was concluded with the Society paying £41,106, and the Police and the CPS confirmed that no criminal prosecution would ensue. No provision has been made against any possible HSE action.

## 26. With-Profits Actuary and Actuarial Function Holder

Mr Gavin Lock of Towers Watson LLP (formerly Watson Wyatt Ltd) held the Actuarial Function Holder and With-Profits Actuary roles throughout 2011. In accordance with section 77 of the Friendly Societies Act 1992 the Society has requested Mr Lock to provide certain particulars and he has confirmed the following information:

- That neither he or his family were members of the Society throughout the year;
- Neither Mr Lock, or his family, have any pecuniary interests in the Society; and
- The aggregate amount of fees paid to Towers Watson Limited in 2011 were £229,835 (2010: £279,996) exclusive of Value Added tax.

## 27. Approval of Financial Statements

These financial statements were approved by the Board on 28 March 2012.







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